

Chapter V

CONCLUSIONS AND RECOMENDATIONS

5.1. Conclusions

From the research that had been done, it can be concluded that:

- a. Income had positive effect on consumption, and the theory of income of Keynes (1936) had been proven and had significant effect on this research. Some of hypothesis in the previous research had shown the same effect, if the income changed the consumption as long as the income increase it could push the consumption of the entire people in Indonesia.
- b. Exchange rate in the short run did not have an effect on consumption because in this research the researcher did not include purchasing power parity index and consumer price index. Thus, this result did not affect it, because people still bought goods even the price increased in a periodic time. But in long run, exchange rate it has an effect on consumption and the result was positive, because the habit of Indonesian people tended to spend money by consuming either domestic or foreign goods. As we know, Indonesia is a country with many tourism destination, and 3 % of Indonesian people worked abroad according to BNP2TKI (2016). The remittance or money inflow from foreigners was around \$8.9 million or about 119 trillion Rupiah and it increased annually, and it indicated that exchange rate of rupiah on United Stated (U.S) Dollar increased every year.

- c. The exchange rate volatility did not have significant effect on consumption, in the short and long run. This was because the volatility was still controlled by the government and the change of exchange rate in Indonesia was not really significant, and the result of volatility did not affect consumption.
- d. Interest rate did not have significant effect on consumption, because there were some possibilities, that one of them was caused by people that tend to spend money rather than save their money, and some of the people used their money to get their return by putting it on capital market or open business.
- e. The most significant variable on Consumption for both the Long and Short run in Economics was Income.

5.2. Limitations

The limitations of this research were as follow:

1. This research did not cover the whole thing in the test and the variable, for example the data only showed the nominal exchange rate.
2. The Source of main data was not counted perfectly and only taken from one source. Therefore there were possibilities that the data had error range (deviation).
3. There were many possibilities that the result would change due to the new development of theory and data analysis, because this research had limitation in the data analysis and theory.

5.3. Recommendations

The government should maintain the stability of exchange rate, even though it has a positive benefit since our country has many tourism destination, but in the long run we should be aware to foreign debt. If we cannot stabilize the exchange rate, the debt will increase. This exchange rate will occur numerous inflation caused by the increase of consumer price index.

Besides that, we should be concerned on the purchasing parity, meanwhile, the purchasing power is important to economic data, and the government should educate people more information about saving, exchange rate effect, purpose of economic data.

Another variable should be able added in the next research. These variables are purchasing power parity, consumer price index and add some data source or the latest theory and also data analysis.

