CHAPTER VI

CONCLUSION AND RECOMMENDATION

A. Conclusion

Using Error Correction Model, the analysis results in long-run and short-run estimation of how export, Jakarta Composite Index, money supply, and BI rate influencing exchange rate. Below are the conclusions:

1. Export negatively influenced exchange rate only in long-run, higher export made exchange rate appreciation.
2. Jakarta Composite Index (JCI) negatively influenced exchange rate both in long-run and short-run, higher JCI made exchange rate appreciation.
3. Money supply positively influenced exchange rate both in long-run and short-run, higher money supply made exchange rate depreciation.
4. BI rate positively influenced exchange rate both in long-run and short-run, higher BI rate made exchange rate depreciation.

B. Recommendation

Based on research conclusion above, there are some recommendations for government as follows:

1. In analysis result, all independent variables significantly controlled the value of exchange rate in long run. Government should pay attention on the effect of export, JCI, money supply, and Bank Indonesia rate toward stability of exchange rate in long run.

2. While in short-run, JCI, money supply, and BI rate had significant effect on exchange rate. Government may make policy which changes those three variables to adjust exchange rate as expected in short run.
3. In long-run, higher export leaded to IDR appreciation (positive relationship). Thus, government should support the development of domestic producer to encourage export in order maintaining IDR strength.
4. BI rate had positive influence on exchange rate (higher rate makes currency depreciation). Besides as an instrument in managing monetary system, BI rate influences inflation rate positively. Government should consider the inflation impact caused by BI rate level policy, especially if BI rate is high.

For Academics, below are some recommendations for the next corresponding research:

1. Consider to include import or balance of trade as an independent variable in the research. This are domestic variables that have relationship with exchange rate.
2. Because exchange rate is related with another country currency, adding related variables of other corresponding countries, for example: export of US, may give better estimation when analyzing currency exchange rate toward US dollar.

B. Research Limitation

Currency exchange rate is certainly affected by many factors from other countries. Since exchange rate value always involves 2 currencies at once, the exchange rate of IDR on USD is not only affected by, i.e. the inflation rate in Indonesia, but also the inflation rate in US. The same case for money supply, the money supply of USD also affects its value against other currencies. Some other foreign macroeconomics variables like trade of balance, foreign exchange, international capital flow, and interest rate may influence to which country the foreign capital will flow, i.e. which country is preferable to invest or to import from. Such variables of United State or other countries which economically connected with Indonesia may have effect which influence IDR exchange rate. However, due to limited time and lack of information source, this research didn't include such related abroad variable. This limited variable may lead to omitted variable bias and less accurate estimation.