CHAPTER II
LITERATURE REVIEW

A. Theoretical Basis

1. Money

a. Definition of Money

Money in its sense is divided into two, according to traditional economy and according to modern economics. The definition of money in traditional economics, is a form of exchange rate. In traditional economics the requirements of money are objects whose existence is acceptable to all local people. So not only is tangible money like money in general now, but objects such as gold, silver, even basic necessities can be considered as good money. Besides the definition of traditional economics, modern economics also has a broader definition of money. In the viewpoint of modern economics, money is defined not only as a means of payment for transactions of goods or services but as a means of payment of debt. Some economists say that the definition of money is a tool for delaying payments. So in general money is a tool that can be used in a certain area to be used when transacting goods and services and also as a debt payment tool.

According to Samuelson and Nordhaus, 2001, the definition of money is a tool that is generally accepted in society. In the research of Septi Wulan Sari, 2016 the definitions mentioned by Samuelson and Nordhaus are the real definitions based

on the nature and usefulness of money. But with the development of times and times it has an impact on economic development which results in money being a

commodity that has a price through interest rates, therefore, according to Septi Wulan Sari, 2016 the true nature of money has shifted away from the true nature.

The definition of money is distinguished according to several types that have been categorized as where the level of use is:

1. Currency, coins, and deposits in the form of newspaper accounts commonly known as demand deposits in commercial banks are categories M1.
2. M1 and time deposits contained in commercial banks are included in the M2 category.

However, over time, the categorical statements regarding M1 and M2, which have been very commonly used have developed into additional categories because there is an important role developed by Non-Bank Financial Institutions (LKBB) and Bank Financial Institutions (LKB) which are referred to as M3 categories.

3. M3 is a combination of M2 and time deposits in non-bank financial institutions.

In the opinion of Prof. H. Johnson (1972) in his book entitled Macroeconomics and Monetary Theory there are 4 streams that distinguish the definition of money, namely:

1. Opinions in the first stream state that money is only M1. Money is everything that is used as a transaction tool, namely exchange. So, the money in question is only currency and newspaper accounts.

2. Opinions in the second stream state that money is M2. Where the money in question is currency, newspaper accounts, and time deposits that are in commercial banks.
3. Opinions in the third stream state that money is M3. What is meant by M3 is currency, Newspaper accounts, time deposits in commercial banks and additional financial assets that can increase public liquidity.
4. The opinion on the fourth stream states that money is all forms that have been categorized in M1 and M2 plus the existence of all outstanding credit at financial institutions of banks and non-bank financial institutions.

From previous research, money has several conditions that apply to being accepted that the money serves to make a transaction legal, including the following:

a. Recognized as a legitimate transaction tool by the public.

As a tool for transactions used by the public, money must position where its use can be accepted by the public to be used as a means of payment, hoarders of wealth, and as a means of paying debt.

b. Easy to store.

Money must be easily stored in small places or in goods (for example, bags and wallets) that make it possible to carry around even though there are large amounts of money.

c. Easy to carry.

Even with large amounts, money must be easy to carry anywhere.

d. Can be divided into smaller units.

What is meant by the division of the smaller units is the distribution of smaller money values if there are transactions in small amounts of money. An example is money with the largest value in Indonesia is Rp 100,000 can be divided into smaller values with a fraction of Rp 50,000; Rp. 20,000; IDR 10,000; IDR 5,000; Rp. 2,000; IDR 1,000; Rp. 500; Rp. 200; Rp. 100. So, Bank Indonesia has released money in the smallest fraction in order to make it easier for people to transact both large transactions and small transactions.

e. Not easily broken.

Money is a tool for daily transactions that will always be used by people from any group. So it should be made of materials that are not easily damaged and can last a long time, even if used continuously and from one person to another.

f. The value is stable.

By requiring money as a tool that cannot be damaged quickly, it does not mean that the value contained in the money must be based on material made from money. The value of money must be stable even though there are often fluctuations in the economy. If the value of money easily changes along with economic conditions, it will make it difficult for its function as a transaction tool, store value, and also as a monetary standard.

g. Used in a relatively long period of time.

The money circulated must have a long expired limit and not in a short time to change the shape of the money because it will reduce the efficiency of the cost of making new money.

h. The offer is elastic.

To balance business activities and also facilitate trade transactions in supporting economic activities, the amount of money must be able to meet economic needs.

i. Not easy to track.

Money is the main tool for transacting to support all the needs in the community, for that by transacting the economy will move. If there is counterfeit money in circulation, the economy will become very chaotic, it is necessary to create money that is not easy to imitate in order to maintain economic stability. In Indonesia, anyone who imitates, falsifies banknotes or intentionally saves and distributes counterfeit banknotes or fake banknotes are threatened with a prison sentence.

b. Function of Money

Based on the theory contained in conventional there are two sides to seeing money. Both legal and functional. On the legal side, according to the law formulated for money is money. On the functional side, money is everything that functions as money.

In general, the function of money is:

a. Medium of exchange
b. Unit of account

c. Store of value

d. Standard of different payment

But the theory is different from the perspective of looking at money between the capitalist system and Islamic perspective. Using a capitalist system, money is a commodity that is not only a medium of change. According to the perspective of money capitalists can be traded and can even be leased.

Unlike the Islamic perspective which considers that money is only a money of medium of change. It is not permissible for money as a form of commodity and something that can be traded is a difference found in the Islamic perspective on money. The phenomenon that arises due to the assumption that money is used as a commodity arises what is called the money market. With the formation and development of the invention of the money market, it created a unique dynamic in the conventional economy, moreover the impact it had on the monetary sector. By bringing up the surface money market, the derivative market is published, which is the market, which of course uses the interest rate system to give bid prices for its products. With the interest system created by the money market and derivative markets emerging, this is no longer referred to as the motif of real transactions, but these transactions can be categorized as transactions that contain speculative elements. (Septi Wulan Sari, 2016)

2. Different Prespective about the Concept of Demand for Money

a. Classical Money Demand Theory

The emergence of the classical money demand theory is due to the theory of the amount of money circulating in society, better known as the quantity theory of money. Theory aims to explain how money is spent in the economy.

Money Quantity Theory: Irving Fisher

A clear framework for systematic direct relations between the money supply and information is a picture of the quantity theory. Fisher analyzed that this theory refers to the equation of exchange equation where the formula is:

$$MV=PT \qquad (1.1)$$

Information :

M = Money supply

V = Turnover of money from one hand to another in one period

P = Price of goods

T = Volume of goods traded / transactions

According to Fisher, based on the quantity theory, stating that the money supply in circulation multiplied by the velocity of money will be equal to the transaction value.

So, there are two assumptions that get the quantity theory as follows:

$$\mathbf{Md = (1/V)PT} \qquad \mathbf{(1.2)}$$

In his statement, in the short term money demand is a fixed proportion of transaction value, in other words money demand is a constant proportion of income

There is a balance condition D = S

$$\mathbf{Ms = Md = (1/V)PT} \qquad \mathbf{(1.3)}$$

In the state of the economy that is full employment, V and T are considered to be fixed in the short term and M is an exogenous variable and the price level P is an endogenous variable, namely a change in the price level that is proportional to the change in money circulating M.

The review in equation (1.1) which is reformulated by changing the volume of goods traded T with real output O then equation (1.1) can be changed to:

$$\mathbf{MV = PO = Y} \qquad \mathbf{(1.4)}$$

Information :

Y = PO = nominal GNP

V = Income Velocity of money

b. Keynes Demand for Money Theory

The theory of money demand, which has been explained previously by classics and then developed more with the emergence of a theory that was

outlined by Keynes, namely Keynes stated that the demand for money arose based on the motive of people holding money.

In Keynes's theory, there are three motives that trigger the demand for money, namely:

1. Transaction motives

2. Just in case

3. Speculation

Based on the theory of Keynes money demand mentioned in his book entitled The General Theory of Employment, Interest, and Money, this theory is also called the Liquidity of Preferance.

1. Transaction motives.

Money whose function is as a transaction tool is very necessary and needed. The amount of money needed for transactions (Lt) which is a function of income

(Y): Lt = f (Y)

Relationship Lt and Y = Positive (+)

2. Just in case Motives.

Just keep an eye on the motives that trigger the demand for money whose function is to anticipate future and unexpected needs. In the precautionary motive, the existence of cash (Lj) is a function of income

(Y): Lj = f (Y)

Relationship between Lj and Y = Positive (+)

Request L1 = Lt + Lj = f (Y) Request for Cash

3. Speculation motives.

The motive for speculation that arises with the aim of providing benefits to the community, there are 2 alternative choices in obtaining wealth, namely cash and bonds.

The money needed for classification is called (L2) which is a function of the interest rate (r):

L2 = f (r)

Relationship L2 and r = negative (-)

The Keynes Money Demand Model

The model formulated in the theory of Keynes money demand is as follows:

$$\mathbf{Md / p = [kY + \lambda (r, W)]}$$

Description: k = a certain proportion of Y

Y = national income

W = amount of wealth

r = interest rate

λ = a certain proportion of wealth and interest rate

The formulation that has been formulated above shows that the demand for real money is determined by the amount of a certain proportion (k) of national income (Y) to show the amount of money demanded for transactions and money demand is determined proportionally (λ) by the interest rate (r) and also by wealth (W).

There are formulations that are changed nominally based on the above theory into:

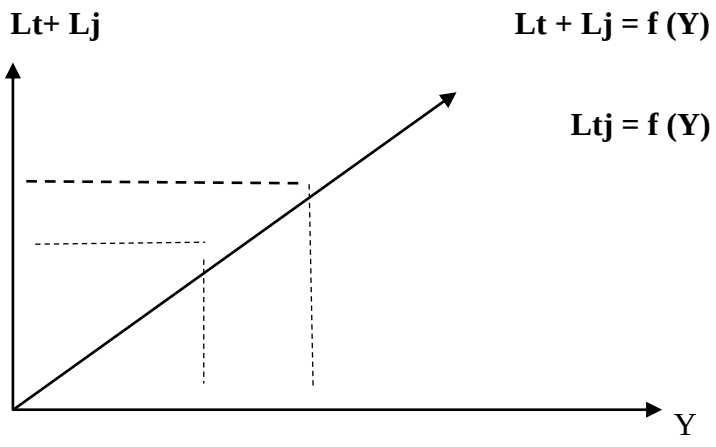
$$\mathbf{Md = [kY + \lambda(r,W)] P}$$

- Transaction motives and precautions trigger money requests.

With the transaction motives and also being on guard, the demand for money is also influenced by the amount of national income which is formulated as follows:

$$\mathbf{Lt + Lj = f(Y)}$$

Where the higher the level of income, the greater the community's needs that trigger to make transactions also just in case. Shown with the following curve:



- Speculation Motivation triggers Money Demand.

Speculation intended as a motive for the emergence of demand for money is found in securities or more commonly known as bonds. People who speculate usually buy bonds at a time when the price offered for the bonds is cheap. Then there is a relationship between the Bungan rate and bonds. The relationship is in the increasing interest rates that tend to decrease resulting in lower bond prices (Pob) and conversely the decline in the interest rate will tendencies result in an increase in bond prices.

Formulated speculative motives for money demand:

$$\mathbf{LL = Li}$$

What is meant by the need for speculation depends on the interest rate (i)

From the formulation, it can be concluded that at the motive of speculation issued by Keynes, when the interest rate increase, the demand for money will reduce speculative interest in the community, while when interest rates are declining, the demand for the public will speculate.

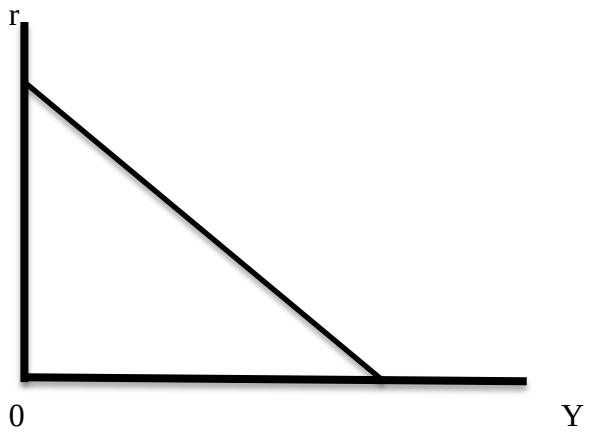
This has an inverse relationship between interest rates and speculation. Formulated as follows:

$$\mathbf{Ms = f(r)}$$

Description: Ms = number of requests in the interest of speculation

r = interest rate

With the following curve:



$$M_s = f(r)$$

c. Money Demand Theory Milton Friedman

The development of the theory of money demand made by Milton Friedman to spearhead renewal in existing theories, namely Classical Theory and Keynesian Theory can be said as the development of aspects of "Uncertainty" and "Expectations" from Cambridge theory which resulted in the emergence of speculative theories triggering demand for money. So the existence of the modern quantity theory of Milton Friedman can be interpreted as a further development of other aspects contained in the previous theory (Cembridge theory), which has the concept that the money demand theory is only a general theory of demand in microeconomics, with the same principle of using elections between various alternatives by consumers in other words in terms of money demand, wealth owners. (Komarullah, 2013).

In the theory released by Friedman which states that the theory of money demand is the application of demand theory in general. Because the principle used is based on the theory of demand for money, which is the same as the theory of demand for goods where the behavior of the act of choosing from an individual or owner of wealth. Friedman states that the analysis used is not by talking about the motives or goals of people holding money, the argument is more about why people are willing to hold money. Milton argues that the motive of people holding money is because money is a form of ownership of wealth and also benefits the owner of the money. There is what is called a return (return) is a form of assets which is a factor that is considered by wealth owners in making decisions regarding the size of each asset held. (Insukindro, 1993).

The concept given by Friedman in economic analysis is about wealth. According to Friedman, wealth consists of human wealth and in human wealth. What is meant by human wealth is where a person's future labor has the potential to generate income, while nonhuman wealth is all assets owned by a person, better known as a form of wealth. Of the two types of wealth generated will determine the contrains budget to the owner of the property, and will automatically determine the amount of money that can be held. In this analysis, in discussing budgetary issues, Friedman emphasized wealth, wealth more than income. But the problem, he faced was determining the size of wealth in the demand for money. Then Frieman's thought arose concerning the capital theory. Friedman assumes that wealth can be realized in the form of:

- Money (M)

- Bond (B)
- Equity (E)
- In human physical goods (G)
- Physical non-human goods, and human capital (H)

From the above, all these assets will have an impact on the increase in benefits for their owners. The rate of return of each asset will affect the behavior of the wealthy owner in choosing the many assets owned by the holder. The owner of the asset will get the maximum total benefit if the level of the marginal benefits of an asset is equal to the level of the marginal benefits of other assets. (Komarulloh, 2013).

d. Buffer Stock Theory

According to Coki Ahmad Syahwier, 2014 a stable variable will always be used to establish an economic model because it will be easy to predict. So the easiest form to arrange a monetary economy is to use transaction activities as a motive for money demand. Insukinrdro, 2003 also states that the concept used to observe money demand is based on a buffer stock approach that has an impact on monetary phenomena. Davidson and Ireland, 1989 argue that what underlies the existence of a stock buffer money demand approach is a restatement of traditional concepts regarding the motives for requesting money for the purpose of transacting and also just in case. Furthermore, in Laidler's statement, 1997: 1215-1215 states that with the buffer stock approach, it can analyze the motif of economic agents in holding money aimed at transactions, just in case to speculate.

So the conclusion of these opinions is the concept of the buffer stock approach related to the demand for money equal to the concept of inventory.

Furthermore, the motives for requesting money are used as motives for transactions. Baumol (1952) and Tobin (1956) provided a theoretical basis and reason for the problem of why not only income and interest rates that could affect the demand for money. This case assumes that in the purpose of transactions, money demand is a form of inventory. Their assumption regarding the case is that holding money to carry out transactions is related to opportunity costs because economic actors do not realize wealth in the form of investments or bonds that provide income in the future. What will happen is that economic actors will continue to strive to minimize the opportunity costs of regulating the assets.

The statement made by Baumol in analyzing the behavior of economic agents in holding money for business activities was later developed by Miller and Orr (1966, 1968). Their opinion of the analysis carried out by Baumol is very appropriate for the household sector, but not for the business sector. Then Akerlof (1979) used the Miller and Orr model in his analysis of money demand as a matter of general balance. The behavior of economic actors in holding the desired money is not a simple selection function, but based on a limit of holding acceptable money and classified into two, namely threshold and lower threshold is the presumption issued by Miller, Orr, and Arkeof.

The dynamic model of money demand Laidler (1984,1987) states that the effort carried out in the buffer stock approach to solve the question "why the

variable is not free from slackness is needed in an empirical study of the demand function of aggregate money". In this case it is considered that after the monetary shock, the economic actor will experience the difference in the amount of their actual money with the money they want because of the gap in adjustments to the main variables that influence the demand for money.

3.Inflation Theory and Purchasing Power Parity (PPP)

a. Inflation

Inflation is a condition where there is an increase in national income compared to an increase in goods and services found in an economy. The impact is due to excessive demand for goods.

There are several aspects that cover the definition of inflation, as follows:

1. Tendency, is the tendency of prices on goods that increase means that in certain conditions prices may decline but overall have a tendency to increase.
2. Sustained, which is an increase that occurs, but not only takes place under certain conditions, but in the long term and occurs continuously.
3. The General level of price, meaning that in inflation the price increase is intended not only on one or two items but occurs in other goods as a whole. (Agus Budi Santosa, 2008)

The underlying basis for the emergence of an explanation of Inflation originated from the quantity theory proposed by Irving Fisher by describing the formula:

M V = P T

Where M is the money supply, P is the price level, V is the velocity of velocity of money and T is the trading volume. Then the conclusions that can be taken are:

- What triggers inflation is when there is an increase in the money supply, both currency and demand deposits without being followed by significant changes in the amount of production of goods
- Another thing that triggers inflation is because there is a public expectation of the price of goods that will occur in the future and raises three possibilities that can occur, namely 1) By expecting the prices of goods to rise, the money supply in the community will also increase to add liquidity. 2) Based on previous people's experience, they will realize that there is inflation, which causes the prices of goods to rise so that with the increasing money supply it is no longer used to increase liquidity (cash) but to buy goods whose impact will increase assets goods. 3) Excessive inflation is also referred to as Hyperinflation, in this condition people have no longer believed in the existence of a currency, the impact of people's expectations is to expect conditions that are far worse in the future. (Boediono, 1995)

b. Purchasing Power Parity (PPP)

In the Purchasing Power Parity Theory introduced by Gutav Cassel explained that this theory connects the price of commodities in the domestic

(local) currency with the exchange rate. The opinion expressed is that the exchange rate will automatically adjust from time to time to reflect the difference in inflation between the two countries, which results in consumer purchasing power in local products being the same as foreign products. So research often appeared on the relationship of Inflation and Purchasing Power Parity as did Agus Budi Santosa in 2008.

A very basic assumption in the theory of Purchasing Power Parity (PPP) according to Tucker, 1991 is the determination of efficiency seen from the allocation, operation, pricing and information contained in the commodity market. Therefore according to (Baillie and McMahon, 1990) if the price index in both countries is identical to the law of one price in the sense that if the same product is sold in a different market then there will be no obstacles in sales and also transportation costs, then the price the products produced will tend to be the same even if sold in different markets. If the market is in a different country, the price of the product will be stated in a different type of currency but still at the same price. What can be done is to do a price comparison by converting one currency to another.

There are two forms of PPP theory that are distinguished, namely: Absolute and Relative. In Absolute theory states that the price of homogeneous products in different countries will be the same if the measurement is in the same currency. Foreign exchange rates are expressed in the price values of the two countries:

$$S_t = P_t / P_t^*$$

Where Pt and Pt* shows the most balanced average prices of commodities in two countries and * denotes foreign countries.

In other words, the relative price of the same number of goods as indicated by the price index will determine the spot rate as explained in the absolute PPP theory and its relation to inflation, which concludes from this theory that in a country with a high inflation rate, it should reduce the value currency relative to other currencies that have a lower inflation rate.

In PPP theory, it is relatively stated that the percentage change in the nominal exchange rate will be the same as the difference in inflation between the two countries. If stated in the context of the future, the expectation of changes in the foreign exchange rate is the same as the expectation of the difference in inflation:

$$\Delta Set = \Delta Pet - \Delta Pe^*t$$

Where, ΔSet is the price of exchange rate changes. In this theory which recognizes that there is a market failure, the price of the same product, but sold in a different country may not be the same if the measurement is through the same currency. But the rate of change in product prices should not differ too far if measured using the same currency, as long as transportation costs and trade protection do not change. (Agus Budi Santosa, 2008).

c. Relationship between Inflation and PPP to Demand for Money

With the price increase in general and happening continuously is a phenomenon of inflation. According to Boediono (1998), the increase in the price of just one item or two items cannot be said as inflation unless the impact caused by the increase in prices can spread or trigger an increase in prices for other goods. The increase in the items that cause a change in prices causes the money supply to increase, thus it is equal to the increase in the amount of cash demand.

The exchange rate and also inflation can be reviewed through the theory of purchasing power parity (ppp) which states that in theory the exchange rate between countries is equal to the ratio and price level found in that country. This theory predicts that a decrease in purchasing power from a currency will be related to the appreciation of the currency in a professional manner. (Komarulloh, 2013). Noprin, 1996 in his research stated that if there is a difference in price after the use of the same currency, it will trigger a change in demand so that the price of one will approach the price of the other. The risk is that the actual prices in each country can change or the exchange value may change. Of these, two forces will drive the price of the same product will be assessed the same if using the same currency. But, in fact the existence of transportation, tariffs, quotas might prevent the form of abosolut from Purchasing Power Parity (PPP).

4.Interest Rate Parity

a. Interest Rate

This theory explains that the interest rate free foreign exchange system found in a country, usually tends to be the same as the interest rate in other

countries by calculating estimates of the rate of depreciation of one country's currency to another. The thing that needs to be prioritized is the existence of transaction fees to move costs from abroad and also abroad. So, according to Boediono, 1998 states that the theory of interest rate parity will be more appropriate if the interest rates between two countries tend to be the same, after being corrected to estimate the depreciation rate of one country's currency to another country's currency and the cost of moving funds are also called transaction costs. In the free foreign exchange system, the transaction costs are low, but there is a possibility that foreign exchange that is less free will be high. The risk that occurs at domestic interest rates is very variable with interest rates outside the country, although it has been corrected by the rate of depreciation that has occurred in the foreign exchange system which is not free.

According to Dr. Ferry Syarifuddin (2015) in the IRP approach to determining exchange rates is divided into two, namely:

1. Uncovered Interest Rate Parity (UIP)

It is the concept that the future exchange rate will be determined based on the difference in interest rates between comparable currency countries. In general, this formula is used if there are no other risks that are likely to arise. If there is a potential risk that arises in the future, then this formula does not apply. The formula is intended:

$$\mathbf{id - if = E(e)}$$

Where, id, is a domestic interest rate (risk free), if is the foreign interest rate (risk free), E (e) = expectation of changes in exchange rates (appreciation / depreciation).

2. Covered Interest Rate Parity (CIP)

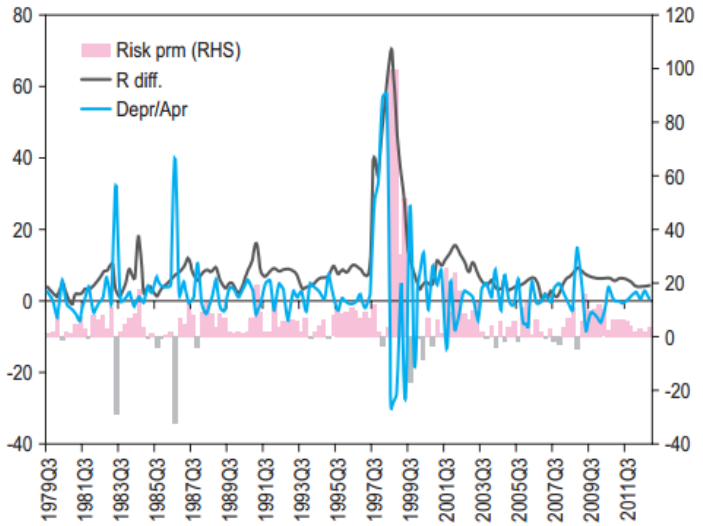
CIP has the concept that the factors that affect exchange rates are not only the differences in open rates between countries that are compared, but the magnitude of the risk can also affect.

id - if = E(e) + risk premium

In its assumption, apply several approaches as follows:

- Financial assets between countries are homogeneous
- Efficient forex market
- Not only is there control over capital
- The risk of sticking is relatively small

By fulfilling the assumptions that underlie the theory, it is very difficult to prove the IRP. In the chart below shows the relationship of exchange rates, movements in interest rates and risk premiums in Indonesia as examples in explaining the CIP concept.



Source : Bank Indonesia

Figure 2.1
Behavior of Exchange Rate and Inflation in Indonesia

b. Relationship between Interest Rates to Demand for Money

Keynes stated in his theory that the demand for money intended to speculate is important because the demand for money is sensitive to changes in interest rates. That is, in the occurrence of changes in interest rates will lead to a demand for money for speculation. In addition, Friedman also stated that what drives people to choose to invest in bonds and equities also holds money because of interest rates.

5. Theory of *Riba*

In previous theories of many economists who analyzed the existence of factors that influence the demand for money one of them leads *to INTEREST RATE*. In the monetary system adopted by Indonesia, where in addition to using

conventional systems, Indonesia also uses the Shari'ah system. Then it is necessary to take action to avoid interest rates, which will be explained as follows.

Before discussing what is usury, what needs to be understood is about the Syari'ah system, which is where the formation of this system is based on Islamic law. In the Syaria'ah system, both the bank and non-bank financial institutions that are made to establish a sharia system are prohibited from collecting any loans-borrowing by adding an element of "interest rates" in it because Islam views that this is part of usury. In addition to usury on a system that uses sharia principles also prohibits the opening of businesses related to food production and illicit drinks where conventional systems certainly will not guarantee that these things do not happen.

Research conducted by Mei Santi (2015). Given the phenomenon of the monetary crisis that occurred in 1997 in Indonesia, the sharia system has proven to many people by providing benefits. In that year there was an economic crisis which could be said to be quite large because lending rates soared to tens of percent. The phenomenon of the crisis has resulted in many business actors being involved who cannot pay it. Of course with the same phenomenon, but the differences experienced by actors using the sharia system do not experience a period like this because the perpetrators do not need to pay interest rates up to tens of percent, but enough to pay the profit share whose percentage has been agreed in advance between the parties -stakeholders.

Legal basis related to the prohibition of usury on the sharia system in Indonesia, which is based on:

Allah justifies buying and selling and forbids riba (QS 2: 275)

ٱلَّذِينَ يَأۡكُلُونَ ٱلرِّبَوٰاْ لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ ٱلَّذِي يَتَخَبَّطُهُ
ٱلشَّيۡطَٰنُ مِنَ ٱلۡمَسِّۚ ذَٰلِكَ بِأَنَّهُمۡ قَالُوٓاْ إِنَّمَا ٱلۡبَيۡعُ مِثۡلُ ٱلرِّبَوٰاْۗ
وَأَحَلَّ ٱللَّهُ ٱلۡبَيۡعَ وَحَرَّمَ ٱلرِّبَوٰاْۚ فَمَن جَآءَهُۥ مَوۡعِظَةٞ مِّن رَّبِّهِۦ فَٱنتَهَىٰ
فَلَهُۥ مَا سَلَفَ وَأَمۡرُهُۥٓ إِلَى ٱللَّهِۖ وَمَنۡ عَادَ فَأُوْلَٰٓئِكَ أَصۡحَٰبُ ٱلنَّارِۖ
هُمۡ فِيهَا خَٰلِدُونَ ٢٧٥

As stated in the Qur'an, "People who eat (take) usury cannot stand, but like the establishment of people who are possessed by satan because of (pressure) insane illness".

It has been explained that there are two kinds of usury, namely: nasiah and fadhl. What is referred to as riba nasiah is more payments required by the person who lends, in multiplying usury nasiah which is common in the Arab society of the ignorance era. While usury fadhl is the exchange of an item with a similar price, but more in number because the person exchanging requires it, such as exchanging gold with gold, rice with rice, and so forth.

1. **Sharia systems are better than conventional systems**

According to research conducted by Nur Aksin in 2013. The mechanism found in Islamic banks is a mechanism that applies the principle of efficiency, justice and togetherness. The profit sharing intended by the sharia system is a calculation of the results of the bank's efforts in managing customer money. There is an agreement made between the bank and the customer which is known by the term contract to divide the ratio or yield to be divided into a percentage. With the system implemented using this Shari'ah principle, the customer and the bank cannot know the exact results to be obtained. Because new results will be known after the distribution if the results of the business are available and are usually determined at the end of the period. Although both do not know and are uncertain, but by implementing this profit sharing system, it will provide a fairer advantage compared to using the interest system, because whatever the results obtained have been determined according to the initial agreement between the customer and the bank.

B. Previous Study

Tabel 2.1
Previous Study

No.	Author and Title	Variables and Reseach Method	Conclusion
1	Ascarya, Heni Hasanah, Noer Azam Achsani (2008). "Perilaku Permintaan Uang Dalam Sistem Moneter Ganda di Indoneisa.	The variables in this study are ***Dependent Variables*** are: M1 = Currency + demand deposit (Conventional); M2 = M1 + Save + Time deposit (Conventional); M1ISL = Currency + demand deposit (Giro Wadi'ah); M2ISL = M1ISL + Savings + Investment (Mudharabah). ***Independent Variables*** are: GDP Rill; Inflation; Interest rate; Return Shari'ah. ***Method Regression:*** VAR and VECM regression	The results of the study found that the demand for Islamic money is more stable than the conventional money demand in response to shocks from other variables. The demand for conventional money interest rates has a large influence compared to the demand for Islamic money.

Continued Table 2.1

No.	Author and Title	Variables and Research Method	Conclusion
2	Qurroh ' Ayuniyyah, Noer Azam Achsani, Ascarya (2010). "Analisis Pengaruh Instrumen Moneter Syariah dan Konvensional Terhadap Pertumbuhan Sektor Rill di Indonesia	The variables used are ***Dependent Variable:*** Real Sector, Independent ***variables:*** Deposits (DPK) at conventional banks and Deposit (DPK) Shari'ah bank. ***Method Regression*** : VAR and VECM regression	The results of the study found that the instrument of negative interest rates fell on the real sector growth in Indonesia, while the Shari'ah system was positive. In addition, conventional SBI does not have a significant impact on real sector growth. The Syari'ah SBI should not have benchmarked SBIS.
3	Nur Aksin, (2013). "Perbandingan Sistem Bagi Hasil dan Buka di Bank Muamalat Indonesia dan CIMB Niaga"	The variable used is Profit Sharing, Interest Rate. ***Method Regression*** : Model used is comparative analysis and descriptive content analysis.	The results show that the Shari'ah bank mechanism is based on the principles of efficiency, fairness and togetherness. With the implementation of the profit sharing system, the system used is far more fair than using conventional systems. In addition, Islamic banks are more independent in determining profit sharing ratios because they are not based on interest rates that occur in the market, so customers at the Shari'ah bank will be more calm if there is an increase in interest rates in the future because they do not depend on interest.

Continued Table 2.1

No.	Author and Title	Variables and Research Method	Conclusion
4	Arif Widodo, (2015). "Faktor-Faktor Makroekonomi Yang Mempengaruhi Permintaan Uang di Indonesia".	The variables used in this study are ***Dependent variable:*** M1, ***Independent variable :*** Real GDP, Exchange Rate, Inflation, Interest rates. ***Method Regression :*** The model used is the Error Correction Model (ECM)	The results found in this study are GDP does not affect the demand for money. Exchange rates have a positive and significant effect on the demand for money. The deposit rate has a negative and significant effect on the demand for money, and inflation affects the demand for money both short and long term.
5	Halia Butra Aini, Syamsurijal Tan, Arman Delis, (2016). "Analisis Permintaan Uang Rill di Indonesia".	The variables used in this study are ***Dependent variable*** : Real Money Demand, ***Independent variables:*** Inflation, GDP, Exchange Rates, and Interest Rates. ***Method Regression :*** VECM and VAR.	The results found in this study are the condition of the amount of money circulating in the Indonesian economy dominated by interest rates and inflation. So, according to the transmission rate theory, the role of monetary is still quite important in controlling the money supply.

Continued Table 2.1

No.	Author and Title	Variables and Research Method	Conclusion
6	Aam Slamet Rusydiana, (2009). "Mekanisme Transmisis Syariah Pada Sistem Moneter Ganda di Indonesia"	Variables used in this study are variable ***Dependent variable***: Islamic banking, financing (LNFINCG), ***Independent variables***: SWBI, SBI, Interbank Money Market (PUAB), Inter-Islamic Money Market (PUAS) and Inflation. ***Method Regression***: VAR and VECM.	The results of the research found were PUAB, PAUS, Inflation, and SWBI contributing to Islamic banking financing (LNFINCG). In his research, it was stated that when monetary authorities conduct policies to raise interest rates, conventional banks will also increase interest rates and have an impact on the competitiveness of Islamic banking. Then the Islamic rents given are not competitive when compared to the interest on savings and deposits in conventional banks.
7	Fahrurrazi Polontalo, Tri Oldy Rotinsulu, Mauna Th.B Maramis, (2018). "Analisis Faktor-Faktor Yang Mempengaruhi Permintaan Uang di Indonesia Periode 2010.1-2017.4".	The variables used in this study are M1 and M2 (***Dependent Variable***) and GDP, Inflation, and Interest Rates (***Independent Variables***). ***Method regression*** : Error Corretion Model (ECM).	The results found in this study are that in the short and long term GDP, inflation, and interest rates significantly influence the demand for money. However, in the short term interest rates are only subject to the amount of money demand, and in the long term period only the GDP influences.

Continued Table 2.1

No.	Author and Title	Variables and Research Method	Conclusion
8	Ahmad Berlian, Liliana, Syaipan Djambak, Sri Andaiyani, Zulkarnain Ishak, M.Syrod Saleh, (2017). "Pattern of Demand for Money"	Variables used in this study are Total expenditure (Education, Wealth, Tourism, and Insurance), Public Social Spending, Religious expenditure, Income respondents, ***Methods regression :*** quantitative and qualitative descriptive analysis.	The results found in this study are that the variables used by researchers such as income differences, educational differences, ethnic differences, professional differences, and even religious differences can lead to differences that arise for the demand for money.
9	Ebrahim Bahrami Nia, Sayed Hosein Izadi, Fariba Chavoshzadeh Tafti, (2014). "The Effect of Inflation on Money Demand in Islamic Republic of Iran".	The variables used in this study are ***Dependent variables :*** M1, M2, ***Independent variable :*** GDP, Interest Rate, and Real Income. ***Method regression :*** VAR and VECM.	The results found in this study are that of the variables used such as real income, interest rates, and inflation, which influence the demand for money is inflation because it is in accordance with the lower price estimates in the future.
10	Ilhan Ozturk, Ali Acaravci, (2008). "The Demand For Money In Transaction Economies"	The variables used in this study are M2 (***Dependent variables),*** ***Independent variables:*** GDP, Inflation, and Exchange rate. ***Method regression :*** VAR and VECM.	The results found in this study are real income positively influences the amount of money demanded while inflation and the exchange rate negatively affect the amount of money demand.

C. Hypothesis

Based on the description above, the writer makes the hypothesis as follows:

1. Inflation, Exchange Rate and Interest Rate have a negative and significant impact of the Money Demand (using Conventional's component) in Indonesia.
2. Inflation, Exchange Rate and Return, Syriah have the positive impact of the Money Demand (using Syariah's component) in Indonesia.

D. Framework of the Research

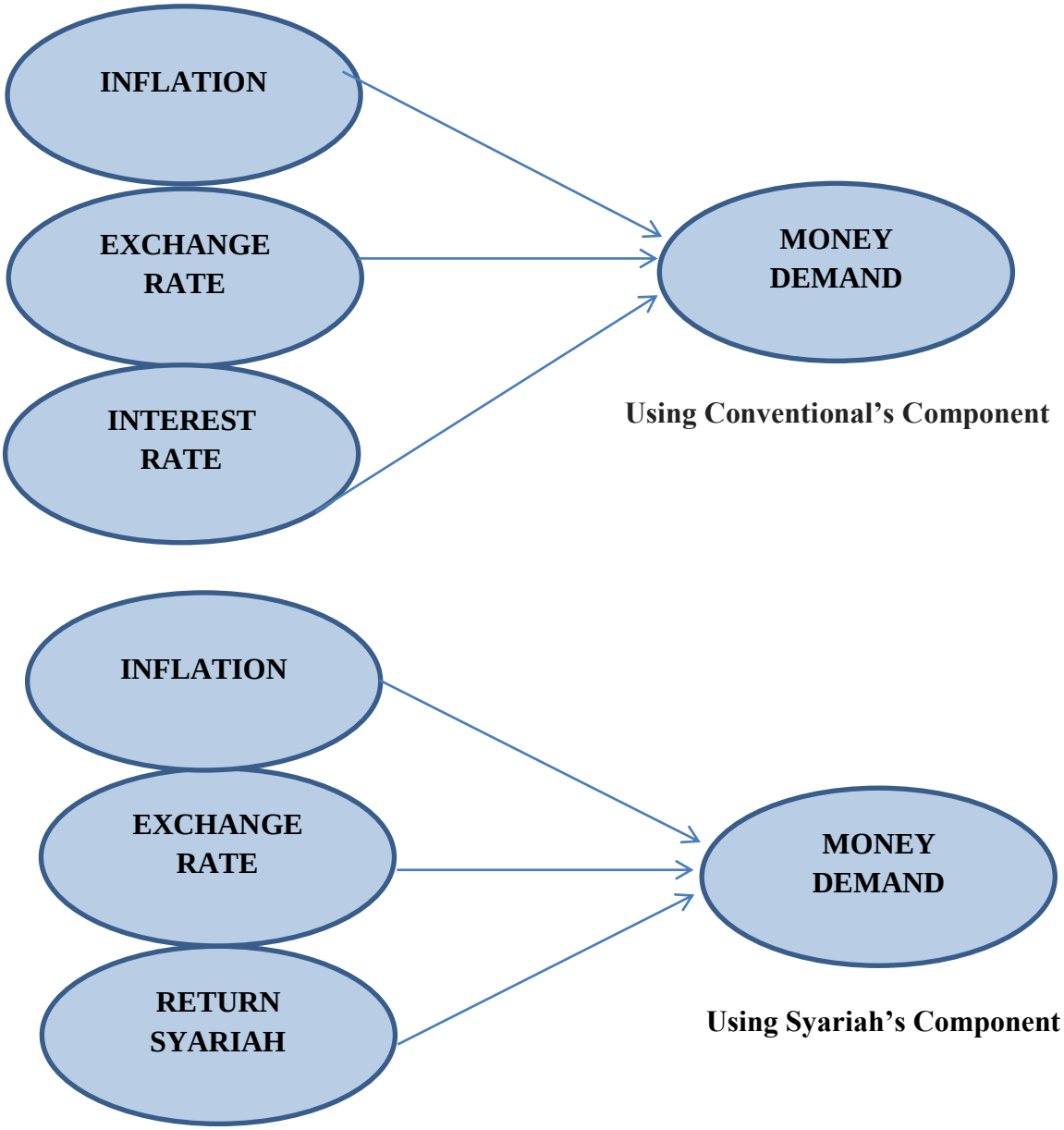


Figure 2.2
Framework of the Research