CHAPTER VI

CONCLUSION

A. Conclusion.

Using error correction model, here is the conclusion of analysis results in the long-run and short-run estimation of each independent variables towards the dependent variable:

1) The money supply has no significant influence in the long-run equilibrium but it has a positive and significant influence towards inflation in the short-run with coefficient 2.979706 points will increase inflation rate in every one point increase in the money supply.
2) The exchange rate has no significant influence in the long-run equilibrium but it has a negative and significant influence towards inflation in the short-run with estimation when the exchange rate increase by one point the inflation will decrease by 7.532157 points.
3) The BI rate has no significant effect on inflation neither in long-run nor short-run
4) The gross domestics product has no significant effect towards inflation both in long-run and short-run equilibrium.
5) From the R-squared in the short-run estimation shows that the model only can explain around 77 percent of the Inflation volatility while the other 23 percent diversity is influenced by other independent variables outside the model.

B. Recommendation.

According to the research conclusion above, there are some recommendations purposed as follows:

1) The Central Bank and Government should pay attention to the effect of money supply in order to keep the stability of inflation in the short-run.
2) The Central Bank and Government should pay attention to the effect of exchange rate in order to keep the stability of inflation in the short-run.
3) For the future researcher it would be better to consider using the BI 7-Day (Reverse) Repo Rate in line with the latest Central Bank policies on using it as the interest rate as the reference rate. Even though in this study the result is not significant but we still should control and watch the volatility of the interest rate to keep the inflation stability.
4) Although the gross domestics product has no significant influence towards inflation in this study but we still should watch the movement of gross domestics product value to keep the inflation stability.
5) For the future researcher who might be interested in Inflation analysis, it is advisable to reconsider adding other variables which might have the other 23 percent of influence to the change of inflation rate in order to improve and strengthen the model's estimation, including adding more references related.

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C. Research Limitation.

Inflation volatility is an inevitable phenomenon and common. The rate of inflation is certainly affected by many factors both from domestically phenomenon or phenomenon in another country that has international trade relations with (global phenomenon) which might necessary to be concerned about. However, due to limited time and limited data source, this research did not include very broad variable and only analyze 4 variables within 8 years only an may lead to omitted variable bias and less accurate estimation.