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THE IMPACT OF FUEL PRICES, MONEY SUPPLY (M2), AND GROSS DOMESTIC PRODUCT ON INFLATION: THE CASE OF INDONESIA

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ABSTRACT

This research empirically analyzes the impact of fuel prices, money supply (M2), and gross domestic product on inflotion: the case of Indonesia by using annual time series data from 1981-2010. Ordinary Least Square (OLS) is the method used in this research. The result show that fuel prices and money supply (M2) are significantly and positively impact on inflation in Indonesia, meanwhile gross domestic product is significantly and negatively impact on inflation in Indonesia. The finding in this research suggests fuel prices, money supply (M2), and gross domestic product give dominant impact on inflation in Indonesia. Government as policy maker must be carefully understood with those variables in order that they can control inflation rate variables.

Keywords: Inflation, Fuel Prices, Money Supply (M2), and Gross Domestic Product

This thesis has been presented in the thesis examination and successfully passed the thesis examination on April 21th, 2014. The abstract has been approved by the advisor and examiners:

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