

ABSTRACT

Short run full cost pricing of PDAM in Surakarta Regency is done by raising water price once in-between the price increase in a given period of time. It is a behavior for exploiting market position and fulfilling creditor aspiration.

This research exercised short run full cost pricing in PDAM using a neoclassic theory of the firm stating that a firm with an owner's aspiration had an orientation to exploit market position and behavioral theory stating that a firm with a non-owners aspirations had an orientation to fulfill the most dominant aspiration. Including to the neoclassic theory of the firm was the theory of natural monopoly and monopoly, cost, price, and production. Including to behavioral theory was the Attainment Discrepancy Model (ADM).

This research used monthly and yearly data. The Monthly data from 2004 to 2005 of PDAM in Surakarta city, Klaten, Sragen and Wonogiri municipality was used with five fixed effect panel data regression equation to analyse the neoclassic theory of the firm. The yearly data from 2000 to 2005 of PDAM in Surakarta regency was used with fixed effect panel data regression equations based on ADM to analyse the behavioral theory.

The findings of the research showed that 1) PDAM differed from the neoclassic theory of firm and the behavioral theory because it was in natural monopoly market position but fixed a short run full cost pricing as a creditor aspiration. 2) There are many managerial reforms in PDAM 3) There is a road map that can be used to improve performance of PDAM.

This research recommended that short run full cost pricing as an aspiration of creditor can be used to improve deteriorating profits or a financial losses along with others managerial reforms like inputs productivity increasing, water losses decreasing, moving to more competitive market position, or merger.

Key words : Short run full cost pricing, monopoly, attainment discrepancy model, PDAM, and Surakarta