

## ABSTRACT

This study aims to analyze the factors that influence money demand in Indonesia. The research develops a dynamic model of *Insukindro-Error Correction Model* (I-ECM) with the dependent variable of real currency (CTRL) and real demand deposits (GRRL). The model built was based on the development of *Keynesian* and *Monetarist* models. The study conducted was based on *theory gap*, *empirical gap* and data phenomenon. The significant of this research is to observe people's behavior changes in short term to long term, to formulate a model of money demand, including the variable of wealth (TW), entering the variable shock (SBI) so that it can be known the effectiveness of monetary policy affecting to the demand for money. The study also evaluates the impact of income (GDP), domestic interest rates (RD1), foreign interest rates (RLN), the consumer price index (CPI), exchange rate (ER), composite stock price index (CSPI), and the red letter religious day (DUMHB1), the impact of monetary crisis (DUMK). The *Keynesian* and *Moneterist* models are getting testing of the best model selection and testing of the stability of model.

The results showed that the models choosen are the demand for Currency of Monetarist model (model II CTRL) and the demand for demand deposits of Keynesian model (model I GRRL). Estimation of Model II CTRL indicates that the demand for real currency in the short term is influenced by the total wealth, consumer price index, the red letter religious day, and monetary crisis variable, and in the long term is influenced by domestic interest rates, foreign interest rates, consumer price index, and stock price index. Then for the estimation of model I GRRL it shows that the demand for real demand deposits in the short term is influenced by domestic interest rates, exchange rate, consumer price index, and in the long term is influenced by domestic interest rates, interest rates abroad, the exchange rate, and consumer price index. In the other findings, the effectiveness of monetary policy in particular Certificate of Bank Indonesia is not giving an impact on the demand for currency, but in the long term, it impacts on demand for real demand deposits.

Keywords: Demand for money, the Keynesian and Monetarist model, I-ECM