

ABSTRACT

Inflation disaggregation across all provinces in Java is persistent. Mapping results show that all provinces fall into the category of low inflation and high persistence. This study aims to analyze inflation persistence and sources of inflationary pressure in Java Island. The sample includes six provinces, observed from 2015 to 2019. The variables are inflation, consumer price index, money supply, and government spending. The method used is Autoregressive dan Davidson-Mackinnon Panel Data Regression. This study finds that inflation in Java Island is persistent in terms of general inflation, disaggregation of inflation, inflation in expenditure groups by COICOP, and inflation in the 5 volatile food commodities that have the largest weight. In general, inflation in Java falls into the category of low inflation and high persistence. This study also finds that the source of inflationary pressure in Java Island was monetary behavior. The results of this study are in accordance with the quantity theory which states that the money supply has a role in the process of increasing prices. Theoretically, if the money supply increases, while the aggregate supply is considered constant, then inflation will occur. An increase in the money supply reflects an increase in aggregate demand, but because the stock of goods and services remains constant, producers will increase prices. In general, the contribution of government spending to GDP in Java is indeed far below consumption and investment, so government spending cannot explain inflationary behavior in Java.

Keywords: Inflation Persistence, Sources of Inflationary Pressure, Autoregressive and Davidson-Mackinnon Panel Data Regression