

TABLE OF CONTENTS

1. Introduction.....	1
1.1 Background	1
1.2 Problems	10
1.3 The Benefits	10
1.4 Systematic writing.....	11
2. Literature review.....	12
2.1 Literature Theory.....	12
2.1.1 Central Bank	12
2.1.2 Monetary Policy	13
2.1.3 Monetary Policy Framework	16
2.1.4 Inflation Targeting Framework.....	22
2.1.5 Inflation Expectation.....	27
2.1.6 Inflation	28
2.1.7 Monetary Policy Instruments	30
2.1.8 Policy Rate	32
2.1.9 Monetary Policy Transmission Mechanism.....	33
2.1.10 Taylor Rule	39
2.1.11 Phillips Curve.....	39
2.1.12 New Keynesian Phillips Curve	41
2.1.13 Central Bank Loss Function.....	42
2.1.14 Central Bank Credibility	43
2.2 Empirical Literature.....	44
2.3 Theoretical Framework	51
2.3.1 Relationship Between Frequency of Policy Rate Adjustment to the Inflation Rate.	51
2.3.2 Relationship between the Credibility of the Central Bank to the Inflation Rate.	52
2.3.3 Relationship between Inflation Expectation to the Inflation Rate. .	54
2.3.4 Relationship between Output Gap to the Inflation Rate.	54

2.4	Hypothesis	55
3.	Research Methods.....	58
3.1	Empirical Model.....	58
3.2	Data and Indicators.....	60
3.2.1	Inflation Rate.....	61
3.2.2	Frequency of Policy Rate Adjustment	61
3.2.3	Credibility of Central Bank.....	62
3.2.4	Inflation Expectation.....	63
3.2.5	Output Gap.....	64
3.3	Methods	65
3.3.1	Stationary vs Non-Stationary Data	65
3.3.2	Cointegration Test.....	67
3.3.3	Error Correction Model.....	69
3.3.4	Classical Assumption Test	71
3.4	Hypothesis	74
4.	Result and Discussion.....	76
4.1	The Stationary Data.....	76
4.2	The Cointegrated Test	77
4.3	The Error Correction Model Results	78
4.3.1	Indonesia Long-run Estimation.....	78
4.3.2	Philippines Long-run Estimation	79
4.3.3	South Korea Long-run Estimation	80
4.3.4	Indonesia Short-run Estimation.....	80
4.3.5	Philippines Short-run estimation.....	81
4.3.6	South Korea Short-run estimation.....	82
4.4	Classic Assumption Test	83
4.4.1	Normality Test	83
4.4.2	Serial Correlation Test	84
4.4.3	Heteroscedasticity Test	85
4.5	Discussion	86
4.5.1	Indonesia	86

4.5.2	Philippines.....	87
4.5.3	South Korea.....	89
4.5.4	The Comparison: Indonesia vs Philippines vs South Korea	90
5.	Conclusion	97
5.1	Conclusion.....	97
5.2	Suggestion	98

LIST OF FIGURES

Figure 1 Central Banks' Policy Rate.....	7
Figure 2 Expectation Channel.....	38
Figure 3 Phillips Curve	40

LIST OF TABLES

Figure 1 Central Banks' Policy Rate.....	7
Figure 2 Expectation Channel.....	38
Figure 3 Phillips Curve	40
Table 4-1 Indonesia Stationary Data.....	76
Table 4-2 Philippines Stationary Data	77
Table 4-3 South Korea Stationary Data	77
Table 4-4 1 st Model Unit Root Test	77
Table 4-5 2 nd Model Unit Root Test	78
Table 4-6 Indonesia Long-run Estimation	78
Table 4-7 Philippines Long-run Estimation.....	79
Table 4-8 South Korea Long-run Estimation.....	80
Table 4-9 Indonesia Short-run Estimation	81
Table 4-10 Philippines Short-run Estimation.....	81
Table 4-11 South Korea Short-run Estimation.....	82
Table 4-12 Indonesia Normality test.....	83
Table 4-13 Philippines Normality test	83
Table 4-14 South Korea Normality test	84
Table 4-15 Indonesia Serial Correlation test.....	84
Table 4-16 Philippines Serial Correlation test	85
Table 4-17 South Korea Serial Correlation test	85
Table 4-18 Indonesia Heteroscedasticity test.....	85
Table 4-19 Philippines Heteroscedasticity test	85
Table 4-20 South Korea Heteroscedasticity test	85
Table 4-21 Variables that Influence Inflation Rate in the Long Run.....	91
Table 4-22 Variables that Influence Inflation Rate in the Short-run	91