ABSTRACT

The development and increasing volume of international trade and an open economy have made the exchange rate as a transaction tool take an important role in determining the price of goods on the international market. Often differences in exchange rates between countries become an obstacle in an open economy which can trigger phenomenon of Exchange Rate Pass-Through (ERPT). This research aim to analyze the long-term and short-term impacts of exchange rate pass-through against imported input prices in Indonesia as one of the countries implements tha Inflation Targeting Framework (ITF) regime during the period 2001 – 2022. Apart from that, this research also aims to prove the existence of an asymmetric effect on imported input prices when the domestik exchange rate experiences appreciation and depreciation. To answer the objectives, this research uses Autoregressive Distributed Lag (ARDL) and Non-Linear Autoregressive Distributed Lag (NARDL) methods to separate asymmetric effects. In determining degree of pass-through, this research also adopts Vector Autoregressive (VAR) to produce an Impulse Response Function (IRF). This research finds that exchange rate pass-through effect imported input prices reacts differently when domestic currency experiences appreciation and depreciation, so it can be concluded that the effect is asymmetric. Apart from that, in the long term and short term, exchange rate pass-through is greater when the domestik currency experiences depreciation rather than appreciation, especially depreciation in the short term.

Keywords : asymmetric, exchange rate pass-through, imported input prices, NARDL, trade openness