

## **ABSTRACT**

*Regional autonomy in Indonesia, every region must have ability to manage the regional finances. The differences in potential between regions generate inequality of regional income sources. General allocation funds from central government which the function is eliminate fiscal gaps are more bigger than regional original income of districts and cities in Central Java. Therefore this study aims to analyze the effect of Regional Original Income (PAD) and General Allocation Funds (DAU) on local government expenditure.*

*This research uses multiple linear regression with a fixed effect model approach. The data that used are quantitative data with panel data types consisting of 35 district / cities in Central Java Province from 2013 to 2017.*

*The result of this research indicated that PAD and DAU have a significant impact on local government expenditure. The different role of PAD and DAU on regional expenditure between districts and cities. DAU has a big role in district's expenditure, meanwhile cities expenditure in Central Java be affected by PAD.*

*Keywords: Regional autonomy, regional original income, general allocation fund, local government expenditure*