

ABSTRACT

The research aims to assess how the effect of investment in production function of Indonesia manufacturing sector in period 2003.Q1 – 2014.Q4. The establishment of Indonesia Gross Domestic Product, manufacturing sector has a considerable role which can be seen from the increase in the number of GDP in the manufacturing sector, which has increased annually. Therefore, manufacturing sector needs to be kept stable, that is way the efficient of process production is needed. In order to establish an efficient production process required investment. Furthermore, Investment is one of the input variables that hold the key to the improvement of efficient production processes that have been in control of the factors of production. For seeing how big the role of investment in production function of manufacturing sector, the method is using Error Correction Model (ECM). This study has four variables consisting of one dependent variable, namely Gross Domestic Product (GDP) of Indonesia manufacturing industry sector and three independent variables namely Foreign Direct Investment (FDI), Domestic Investment (DI) and Labor of industrial manufacturing sector.

The results show that only Foreign Direct Investment (FDI) has a positive and significant influence both in the short and long terms. While Domestic Investment (DI) has a positive and significant influence only in the short term where's in long range of Domestic Investment (DI) positive but not significant. Labor has a positive effect is insignificant in the short term but has a positive and significant influence over the long term.

Keywords: Investment, Production Function, Manufacturing Sector, Error Correction Model