

ABSTRACT

This research aims to analyze the role of money in production function of manufacturing sector in Indonesia's Gross Domestic Product, that can be seen from its enhancement each year. Nevertheless, the increase of GDP is relatively low that more efficient production function is needed. In order to create an efficient production, money is an omitted input variable that roles in production function. This research using Error Correction Model method and has one dependent variable which is Indonesia's Gross Domestic Product (GDP) manufacturing sector and three independent variables which are money supply ($m1$), pembentukan modal tetap bruto (PMTB), and manufacturing sector labor.

The result shows that only money supply ($m1$) positive and significant to Indonesia's GDP manufacturing sector both in short and long term. In contrary, capital accumulation (PMTB) and manufacturing sector labor only have positive and significant in long term.

Keywords: Money Supply (M_1), Production Function, Manufacturing Industry Sector, Error Correction Model