

## ***ABSTRACT***

*This study aims to determine the effect of fiscal policy on investment in Indonesia during 1990-2013. According to the flow of Keynesian, government spending will be a positive influence on the investment, while the flow of Neoclassical considers increase in government spending which resulted in a budget deficit will negatively affect investment. Therefore, this study will prove the effect of government spending and the budget deficit financed from domestic loans to investment by building two models (Neoclassical and Keynesian) as developed previously by Kustepeli (2005). The analysis was performed by using test Cointegration and OLS (Ordinary Least Square). The result showed that government spending has significantly positive affect to investment, while the budget deficit has a insignificant negative affect to investment.*

*Keywords : government spending, budget deficits, investment, cointegration, OLS (Ordinary Least Square).*