

ABSTRACT

Inflation is define as the increase in prices of goods and services in general and occurs continuously. Inflation is a serious problem all countries because the impact that very broadly to the overall macroeconomic conditions so that the rate of change to keep at a moderate level. Nowadays, the greater concern about inflation in most countries with make inflation as the goal of monetary policy. In the case in Indonesia ITF use as a monetary policy framework with instruments BI Rate. BI Rate is useful as control of inflation without ignore other macroeconomic objectives as exchange rate and economic growth.

This research aims to prove empirically the causal relationship between Inflation (measured by CPI headline inflation rate), BI Rate, Exchange Rate and Economic Growth (measured by GDP Riil growth rate) in Indonesia after the implementation of the ITF. The analysis is purely base on the theories of Inflation, Purchasing Power Parity, Interest Rate Parity and Transmission Mechanism of Exchange Rate Channel. This study uses a monthly time series data over the period 2005.7 – 2015.6 source from Bank of Indonesia and the Central Bureau of Statistics. To answer the purpose of the research, the method is Toda - Yamamoto causality built on the augmented VAR.

The estimation results shows that : 1) there is a two-way causality between Inflation with BI Rate; 2) there is no causal relationship between Inflation with Exchange Rates; 3) there is no causal relationship between Inflation with Economic Growth; 4) there is no causal relationship between BI Rate with Exchange Rates; 5) there is no causal relationship between BI Rate with Economic Growth; 6) and there is no causal relationship between Exchange Rates with Economic Growth.

Keywords :

ITF, Inflation, BI Rate, Exchange Rate, Economic Growth, Toda - Yamamoto Causality, Augmented VAR.