ABSTRACT

Indonesia's economy tends to be unstable since the monetary crisis in 1997-1998. The stability of a country's economy can be seen from the national income and the exchange rate of domestic currency. The condition of Indonesia's national income has increased and decreased, in addition to the exchange rate of the domestic currency also decreased over time. Conceptually, the national income and the exchange rate can be stabilized by performing macroeconomic policies such as fiscal and monetary policy. This study aimed to analyze the effects of fiscal policy represented by government spending and monetary policy represented by the interest rate on national income and the exchange rate. In addition, this study also uses several variables that are included in the scope of macroeconomics, such as: inflation, money supply and capital flows. The approach used is a simultaneous approach Two-Stage Least Square (TSLS) with time series data 1990Q1-2015Q3.

The results showed that the variable exchange rates positively affect national income significantly. Meanwhile, the variable interest rate negatively affects national income significantly. Variable GDP and exchange rate has a significant positive effect on the exchange rate. It can be concluded that the fiscal policy represented by the ratio of government expenditure to GDP has no significant effect on national income and also the exchange rate , while monetary policy is represented by interest rates negatively significantly to national income and positively significant to the exchange rate .

Keywords: National Income, Exchange Rate, Fiscal Policy, Monetary Policy, Simultaneous TSLS