

ABSTRACT

The importance of the role of capital for economic development process in a developing country and the province of Central Java in particular becomes an interesting problem to be investigated. The problem studied is to develop a model to look at the factors include a good investment from the private sector (foreign and domestic) and government (capital expenditure) has a significant impact on GDP of Central Java, in both the short and long term by using the data in the period years 1978-2008. The purpose of this study is to analyze the influence penanaman foreign capital, domestic investment and development spending to Gross Domestic Product of Central Java province either simultaneously or partial.

Analytical methods to be used in this study is the econometric model with cointegration approach and a dynamic model approach to ECM (Error Correction Model) using E-Views program version 5. Use of this model aims to analyze theoretically and empirically whether the resulting model is consistent with the theory or not.

Regression results shows that we can know the Foreign Investment (PMA), the Domestic Investment (PMDN) and Capital Expenditures with an estimated ECM influence on the GDP in Central Java. In the short term PMA found that variables and Capital Expenditures having a positive but not significant effect on the value of GDP of Central Java. In the long term if the variable Foreign Investment increased by 1%, ceteris paribus, it will increase the value of GDP in Central Java at 77%. In the long term relationship between domestic investment to GDP value is positive, Central Java, where every increase in value of domestic investment amounted to 1%, ceteris paribus, will cause an increase in the value of GDP amounted to 80% of Central Java. Long-term relationship between Capital Expenditures of Central Java, GRDP value is positive but not significant with each increase in value of Capital Expenditure amounted to 1%, ceteris paribus, will cause an increase in the value of GDP amounted to 29% of Central Java.

Keywords: Gross Value of Central Java, Foreign Investment, Domestic Investment, Capital Expenditures.