

ABSTRACT

The impact of budget deficit policy has been debated for economist, This issue shows up in Ricardian Equivalence Hypothesis in 1989, suggested by Barro. Based on the theory of Ricardian Equivalence Hypothesis, increasing government spending and tax cuts, will not affect the consumption. This seems to be important for an analysis in Indonesia, to give the deficit budget of Indonesia that occurs at any years. The aim of this research is to find out whether Ricardian Equivalence phenomenon in Indonesia by estimating budget deficit, government expenditure, government debt, income (GDP), domestic savings to consumption, And also how Ricardian Equivalence occurs/not occurs in Indonesia. Since the data used is time series with 31 years interval, hence for estimating the model using Error Correction Model (ECM). The analysis result shows that RE is not happen to Indonesia.

Keywords: Ricardian Equivalence, consumption, and budget deficit.