ISSN 2088-7418

Conference proceeding of IRSA 2014

The 12th IRSA International Conference

Political Economy of Regional Development in Indonesia

2-3 June, 2014, Makassar
South Sulawesi-Indonesia

ISSN 2088-7418

12th IRSA INTERNATIONAL CONFERENCE PROCEEDING

editor: Djibril Tajibu

Setting & Layout: Djibril Tajibu

Published by Economic Faculty

Hasanuddin University

Jln. Perintis Kemerdekaan Km. 10,

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Cover Design: Wahyudin Machmud

empirical support to the monetary approach vis-à-vis other approach to external adjustments.

The methodology involves testing first the two assumptions of the monetary model, namely, the price and interest rate arbitrage (unified goods market and unified bond market) and the existence of stable money demand function. Having these assumptions held, the estimation of Indonesia's external adjustments (fluctuation in the balance of payments and exchange rate in 2000-2012) will estimate using the monetary model develop for this purpose. The estimation procedures used included two stage least square and Cochrane-Orcutt transformation.

The results of the estimation will confirmed that in the case of Indonesia's balance of payments, there is one-to-one substation of domestic asset for foreign asset, giving support to the hypothesis that in the balance of payments is a monetary phenomenon. Estimation of fluctuation in exchange rate suggest that the actual behavior of exchange rate in the period 2000-2012 is highly consistent with prediction of the monetary model. Fluctuation in exchange rate of Indonesia are largely explained by such variables as domestic money demand, domestic income and expected inflation, consistent with the hypothesis of the monetary approach.

The study, therefore, provides empirical evidence to the relevance and usefulness of the monetary approach to account changes in the balance of payments and exchange rate in Indonesia.

PAR F2 Regional / International Trade, Finance and Inflation - Session 3

Time: Monday, 2 June 2014 : 16.15-16.45 *CIT* *Location*: Room F

Economic Growth, Regional Revenue (PAD),General Allocation Fund (DAU), and Performance-Based Budgeting of Allocation of Capital Expenditure (Empirical Studies on the Government of Gowa The Period 2009-2013)

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Economic growth can be measured in many ways one of them is to see the increase in the amount of production of goods or services within a community, which supports the improvement of the welfare of the local community. Since the Law no.22 of 1999 was published which was revised by Law no.32 of 2004, the regional autonomy in Indonesia has been applied. The local revenue is to be one of the measurements of Local budget preparation in each town or district in Indonesia. Local budget in each region is different; this is due to the differences in needs and many sources of income in the area. Capital expenditure is the expenditure that is made by the local government for the purchase of fixed assets that benefit more than one period. Performance-based budgeting that has been done in Indonesia requires each local area to draw up a budget based on activities and produce outputs that are useful for the local community. The capital expenditure is expected to improve the public service of that area. This study aim is to provide empirical evidence regarding the effect of Economic Growth, Regional Revenue (PAD), and the General Allocation Fund (DAU) to allocation of capital expenditure.

The research was conducted using empirical studies in Gowa district government in the period of 2004 - 2013. Collecting data is secondary data sourced from the budget realization report documents obtained from the Director General of the site through the Local Government Fiscal Balance www.depkeu.djk.go.id. This study uses multiple regression analysis method to process and analyze the data obtained. Before using the multiple regression method, some classical assumptions assessments were conducted on the data obtained, and then the hypothesis assessment was conducted by using the method of multiple regression.

The results of the analysis partially the relationship of the Economic Growth, and The General Allocation Fund (DAU) of Allocation of Capital Expenditures was not significant but the relationship of the Regional Revenue (PAD) of Allocation of Capital Expenditures was significant. And result of the analysis simultaneously relations of the Economic Growth, the Regional Revenue (PAD), and The General Allocation Fund (DAU) of Allocation of Capital Expenditures was significant.

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Time: Monday, 2 June 2014 : 16.15-16.45 *CIT* *Location*: Room G

The Effects of Commodity Export Prices on The Real Exchange Rate in Indonesia, 2000-2012.

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This study tries to show empirically the short-run monetary effects of commodity exports price changes on the nominal exchange rate adjustment in Indonesia via money supply creation and domestic inflation rate for the period 1999 to 2012. It is concentrated on commodity oil and an average of the rate of change in the world price of three and four main commodity exports (oil, rubber, palm oil, plywood). This study examines the extent to which the rate of depreciation or appreciation of the Indonesia's currency, rupiah, have responded to the world price changes of these commodities.

Based on the monetary approach to nominal exchange rate adjustments, the study makes us of the analytical model of Edwards (1986) as well as Indraswati (1992) which looks at interactions among commodity export prices, money creation, inflation, and the nominal exchange rate adjustment.

In case for oil commodity, this study finds that the changes in the world price of oil has positive effect to the money growth only, but has not influenced the nominal exchange rate adjustment directly and indirectly through money creation and the domestic inflation. However, in case of three commodities (rubber, palm oil, plywood), this study finds that the changes in the world price of these commodities has positive effect to the money growth, and negative effect to the nominal exchange rate adjustment directly and indirectly through money creation and the domestic inflation. Finally, in case of four commodities (oil, rubber, palm oil, plywood) this study finds that changes in the average of the world price of rubber, palm oil and plywood together with oil price changes have negative effect only to the nominal exchange rate adjustment.

The implication of this study is that, for Indonesia, the world price of oil is no longer plays a dominant role on their nominal exchange rate adjustment. On the other hand,