

**INFLATION AS AN ECONOMIC MIRROR: THE INFLUENCE OF
MACROECONOMIC VARIABLES IN THE INDONESIAN ECONOMY**



THESIS

**SUBMITTED TO THE FACULTY OF ISLAMIC ECONOMICS AND
BUSINESS**

**SUNAN KALIJAGA STATE ISLAMIC UNIVERSITY YOGYAKARTA
AS ONE OF THE REQUIREMENTS FOR OBTAINING A BACHELOR'S
DEGREE SHARIA ECONOMICS**

BY:

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**SHARIA ECONOMICS STUDY PROGRAM
FACULTY OF ISLAMIC ECONOMICS AND BUSINESS
SUNAN KALIJAGA STATE ISLAMIC UNIVERSITY
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YOGYAKARTA**

2024

FINAL ASSIGNMENT APPROVAL PAGE



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Tugas Akhir dengan judul : INFLATION AS AN ECONOMIC MIRROR: THE INFLUENCE OF
MACROECONOMIC VARIABLES IN THE INDONESIAN ECONOMY

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THESIS APPROVAL PAGE

Subject: Thesis of Rilla Fadhilatun Naziah

To

Dear Dean of the Faculty of Islamic Economics and Business

UIN Sunan Kalijaga Yogyakarta

In – Yogyakarta

Assalamu'alaikum Wr. Wb.

After reading, researching, giving instructions and correcting and making improvements as necessary, we as supervisors are of the opinion that your thesis:

Nama : Rilla Fadhilatun Naziah

NIM : 21108010068

Thesis Title : **"Inflation as a Mirror of the Economic: The Influence of Variables Macroeconomics in the Indonesian Economy"**

It can be submitted to the Faculty of Islamic Economics and Business, Sharia Economics Study Program, Sunan Kalijaga State Islamic University, Yogyakarta as one of the requirements to obtain a Bachelor of Science in Islamic Economics.

With this, we hope that your thesis can be immediately submitted. We thank you for your attention.

Wassalamu'alaikum Wr. Wb.

Yogyakarta, December 4th, 2024

Supervisor

Anggari Marya Kresnowati, SE., ME
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STATEMENT OF AUTHENTICITY

I am the one who is marked below:

Name : Rilla Fadhilatun Naziah

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Stating that my thesis entitled "**Inflation as an Economic Mirror: The Influence of Macroeconomic Variables in the Indonesian Economy**" is really a work of my own preparation, not a duplication or a copy of other people's works except for the parts that have been referred to and mentioned in the body notes and bibliography. If at another time it is proven that there are irregularities in this work, then the responsibility lies entirely with the compiler.

Thus, I make this statement so that it can be understood.

Yogyakarta, December 4th, 2024

Writer

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YOGYAKARTA



Rilla Fadhilatun Naziah

ACADEMIC IMPORTANCE

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Name : Rilla Fadhilatun Naziah

NIM : 21108010068

Department/Study Program : Sharia Economics

Faculty : Islamic Economics and Business

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Yogyakarta, December 4th, 2024



Rilla Fadhilatun Naziah

MOTTO PAGE

"You may hate something but it is very good for you and it may be that you like something but it is very bad for you. Allah knows when you do not know."

(Q.S Al Baqarah 2:216)

"A drop of my mother's sweat coming out, there are a thousand steps for me to move forward"

"I have given up all that has been lost, all that has been damaged I have been willing to give, everything that is burdensome I have let go, everything that I want to leave I can never take anymore, so which fate should I debate?"



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YOGYAKARTA

PRESENTATION PAGE

Bismillahirrahmanirrahim

Praise be to Allah Subhanahu wa ta'ala for all the things that He has bestowed upon him. I dedicate this thesis to myself, my two beloved parents, Mr. Warudi and Mrs. Sunarti and my dear sister Maslahatun Nazi'ah



ARABIC-LATIN TRANSLITERATION GUIDELINES

In this study, Arabic-Latin transliteration is based on the Joint Decree of the Minister of Religion and the Minister of Education and Culture of the Republic of Indonesia Number: 158/1987 and 0543B/U/1987.

A. Single Consonant

Letter Arabic	Name	Latin Letters	Information
ا	Alif	not denoted	not denoted
ب	Ba	B	Be
ت	Ta	T	T
ث	ṣa	ṣ	es dot above
ج	Jim	J	Je
ح	ḥa	ḥ	ha dot below
خ	Kha	Kh	ka and ha
د	Dal	D	De
ذ	Zal	Ẓ	zet dot above
ر	Ra	R	Er
ز	Zai	Z	Zet
س	Sin	S	Es
ش	Syin	Sy	es dan ye
ص	ṣad	ṣ	es dot below
ض	ḍad	ḍ	de dot below
ط	ṭa	ṭ	te dot below
ظ	ẓa	ẓ	zet dot below
ع	Ain	... ‘ ...	Inverted comma above
غ	Gain	G	Ge
ف	Fa	F	Ef

B. Double Consonants because *Creed* is Written in Duplicate

مُتَعَقِّدِينَ	Written	<i>Muta`aqqidīn</i>
عِدَّة	Written	<i>`iddah</i>

C. Ta Marbutah at the End of Words

1. When turned off h

هَبَّة	Written	<i>Hibbah</i>
جَزِيَّة	Written	<i>Jizyah</i>

2. If ta marbutah lives or with harakat, fathah, kasrah and dammah it is written t

زَكَاةُ الْفِطْرِ	Written	<i>zakātul fiṭri</i>
-------------------	---------	----------------------

D. Short Vowals

اَ	Fathah	Written	A
اِ	Kasrah	Written	I
اُ	Dammah	Written	U

E. Long Vowels

fathah + alif جَاهِلِيَّة	Written	A <i>Jāhiliyyah</i>
fathah + ya mati يَسْعَى	Written	A <i>yas'ā</i>
kasrah + ya mati كَرِيم	Written	I <i>Karīm</i>

dammah + wawu mati فروض	Written	In the <i>furūd</i>
----------------------------	---------	------------------------

F. Double Vowels

fathah + ya' mati بينكم	Written	To <i>Bainakum</i>
fathah + wawu mati قول	Written	At <i>Qaul</i>

G. Sequential Short Vowels in One Word Separated by Apostrof

أنتم	Written	<i>a'antum</i>
أعدت	Written	<i>u'iddat</i>
لئن شكرتم	Written	<i>la'in syakartum</i>

H. Said Sandang Alif + Lam

1. When followed by the letter Qamariyah

القرآن	Written	<i>al-Qur'ān</i>
القياس	Written	<i>al-Qiyās</i>

2. When followed by the letter Syamsiyah is written by duplicating the letter Syamsiyah that follows it, and removing the letter (el).

السماء	Written	<i>as-samā</i>
الشمس	Written	<i>Ash-Shams</i>

I. Writing Words in a Series of Sentences

ذوي الفروض	Written	<i>ẓawī al-furūd</i>
أهل السنة	Written	<i>ahl as-sunnah</i>



FOREWORD

Bismillahirrahmanirrahim

Praise be to Allah SWT who has given His grace so that the compiler can complete the thesis well. Prayers and greetings are always poured out to the prophet Muhammad SAW. The process of preparing this thesis is a long journey full of challenges and learnings. With the blessing of God Almighty, the author managed to complete the thesis entitled "**Inflation as an Economic Mirror: The Influence of Macroeconomic Variables in the Indonesian Economy**" well and smoothly. This success does not come from the author personally, but also with the help, prayers, and support of various parties who sincerely contribute to the process of preparing this thesis. Therefore, the author would like to express his gratitude to:

1. Prof. Noorhaidi, M.A, M.Phil., Ph. D. as the Rector of Sunan Kalijaga State Islamic University Yogyakarta.
2. Prof. Dr. Misnen Ardiansyah, SE, M. Si., Ak., CA., ACPA, as the Dean of the Faculty of Islamic Economics and Business.
3. Dr. Miftakhul Choiri, S.Sos. L, M. SI, as the Head of the Sharia Economics Study Program.
4. Drs. Slamet Khilmi, M.SI. as an Academic Advisor Lecturer who has provided valuable direction and advice during the lecture process.
5. Anggari Marya Kresnowati, SE., ME as the Thesis Supervisor for the guidance, patience, sincerity and knowledge provided so that the thesis can be completed properly.
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7. All Administrative Employees of the Faculty of Islamic Economics and Business for administrative assistance that facilitates the academic process.
8. Beloved parents, Mr. Warudi and Mrs. Sunarti who always accompany every step and journey as well as prayers that always accompany the writer.

9. Maslahatun Nazi'ah who has become the best brother. Even though they often quarrel, thank you for giving good prayers so far. Thank you for your support and help in whatever the author has done so far.
10. The deceased Rehan Muhammad Ardiansyah, who has been present in the writer's life story for 12 years, finally closed his eyes on June 20, 2024. Time passed so quickly that even in your last breath the author was not there. Thank you for motivating the author that this world is only temporary and changing the author's fear of death. Rest in heaven Allah, my brother.
11. Muhammad Aydan Atthallah who is the youngest brother of the writer, is grateful for entertaining the writer. Always be healthy and proud of both parents as if they were the first child.
12. The entire writer's extended family for all the support and motivation given so far.
13. Friends who have been part of the writer's journey who always provide support and motivation.
14. Friends of the Sharia Economics Program students of the class of 2021 for all their cooperation and support.
15. Friends of KKN conversion to nirmala market schools Nasir, Asna, Falah, Lilis, Syifa, Tiwi, Wahyuni, Dion, Fikri, Faiza, Shanggyta, and Milan.
16. A comrade in comradeship in compiling Aminatus Sifa' Al Asna's thesis, who is always there to accompany the writer to guide, seminar proposals, provide criticism and suggestions, help everything when the writer needs it.
17. And the last one for myself, Rilla Fadhilatun Naziah. Thank you for still choosing to try and celebrate yourself to this point, even though you often feel hopeless about what you are trying to do and have not succeeded, but thank you for being a human being who always tries and never gets tired of trying. Thank you for being strong until the end. Thank you for being sure that you are able to complete this thesis and achieve the degree that you have been working on so far. Thank you for deciding not to give up no matter how difficult the process you have gone through in the preparation of this thesis and thank you for completing this thesis as well and as much

as possible, this is an achievement that should be celebrated for yourself. Be happy wherever and whenever you are.

Thus, with the prayers and support from various parties directly or indirectly, hopefully this thesis will be the first step for further research in the future. I realize that this thesis is still far from perfect. Therefore, I really hope that criticism and constructive criticism will be used for future improvements. Finally, hopefully this simple work can provide benefits and contribute to the development of science. Hopefully this journey will be a good start for a brighter future. Aaamiin.

Yogyakarta, December 4th, 2024

Writer



Rilla Fadhilatun Naziah

STATE ISLAMIC UNIVERSITY
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YOGYAKARTA

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ABSTRACT

Inflation is one of the most important economic indicators in assessing the health of a country's economy. Inflation is an economic phenomenon characterized by a general and continuous increase in the price level of goods and services. This research analyzes the influence of macroeconomic variables including money supply, interest rates, exchange rates and world oil prices on inflation in Indonesia for the period 1986–2023. The data used is time series data obtained from the World Bank. The method used in this research is multiple linear regression assisted by the R-studio analysis tool. The research results show that the money supply has a significant positive effect, interest rates have a significant negative effect, the exchange rate has no effect, world oil prices have a significant negative effect. Overall, the variables of money supply, interest rates, exchange rates and world oil prices influence inflation in Indonesia. This can be seen from the results of the determination test where all independent variables have an influence of 67.67% on inflation in Indonesia.

Keywords: Inflation, Money Supply, Interest Rates, Exchange Rates and World Oil Prices



CHAPTER 1

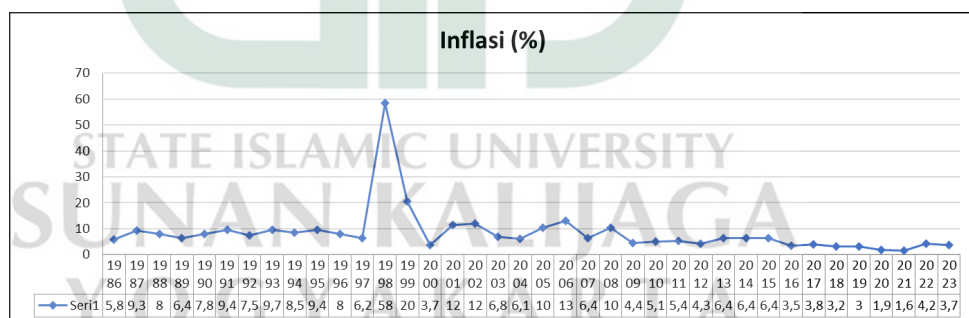
INTRODUCTION

A. Background

Inflation is one of the most important economic indicators in assessing the health of a country's economy. Inflation is an economic phenomenon characterized by a general and continuous increase in the price level of goods and services. Very high inflation will reduce people's purchasing power and result in economic instability. Conversely, inflation that is too low could indicate a problem in economic growth (Rahma & Soebagio, 2023).

The inflation data in Indonesia over a period of 38 years can be seen as follows:

Figure 1.1 Chart of Indonesia's Inflation Development



Source: data.worldbank.org (2024)

Based on the graph of inflation developments from 1986 to 2023 above, it can be seen that from 1986 to 1997 inflation in Indonesia fluctuated and there was a very sharp spike in inflation in 1998 reaching 60%.

Then it experienced a very drastic decline in 1999 to around 20%. Inflation began to rise the following year and began to stabilize in the range

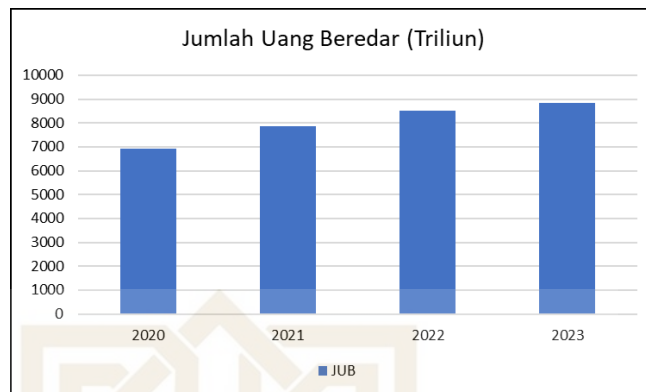
of 6-12% until the mid-2000. From 2006 to 2023, inflation in Indonesia was stable and controlled in the range of 3-6% per year.

From the experience of the monetary crisis that occurred, Indonesia made a monetary policy, namely *inflation targeting*. The implementation of *inflation targeting* began with the issuance of Bank Indonesia Law No. 3 of 2004 which made Bank Indonesia an Independent Institution (Liputan 6, 2024).

Indonesia experienced very high inflation in 2022 reaching 4.2%. Cases that make inflation in Indonesia high throughout 2022 include the scarcity of cooking oil, the increase in avtur prices which encourages an increase in air freight rates, soaring demand when entering the months of Ramadan and Eid day, school holidays, Christmas and New Year celebrations that trigger an increase in food prices, weather anomalies in various regions that result in crop failures of several horticultural commodities that trigger price increases, The government increased the price of pertalite fuel by 30.72%, diesel by 32.04%, and Pertamax by 16% (Bisnis.com, 2023).

Meanwhile, money supply has also increased. In May 2024, the total money supply reached IDR 8,965 trillion, growing by 7.6% on an annual basis (infobanknews.com).

Figure 1.2 Chart of the Money Supply for the last 4 years

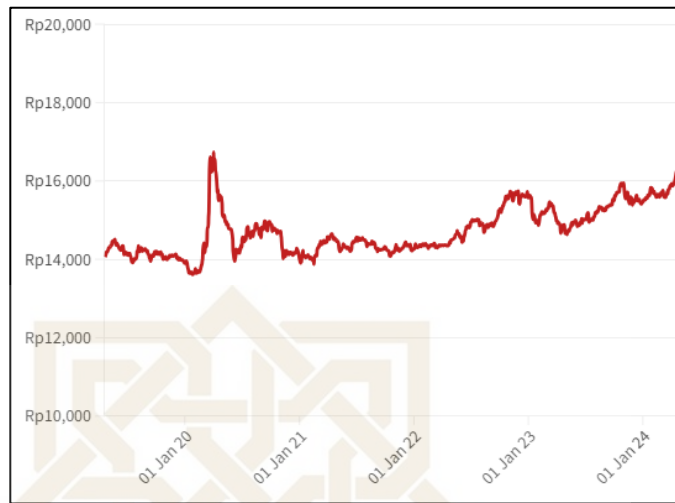


Source: data.worldbank.org (2024)

Based on the graphic image above, in 2023, precisely in November, the money supply in Indonesia reached IDR 8,573.6 trillion, this is due to the development of credit distribution and net bills to the central government (Antara, 2023). The more money supply, the lower the value of the currency will be.

A few months ago, starting from 2023 to 2024, the value of the rupiah weakened against the value of the dollar. The Indonesian rupiah for the first time in the last four years rose to Rp16,000.00 and reached Rp16,280.00 in January 2024 and its value continues to move constantly in 2024. Based on exchange rate information from Bank Indonesia's JISDOR, the upward movement of the rupiah is not too significant but does not decline and continues to move upwards even though it is constant as seen from the following chart movements:

Figure 1.3 Chart of the Exchange Rate for the last 4 years



Source: Bank Indonesia JISDOR Exchange Rate Information (2024)

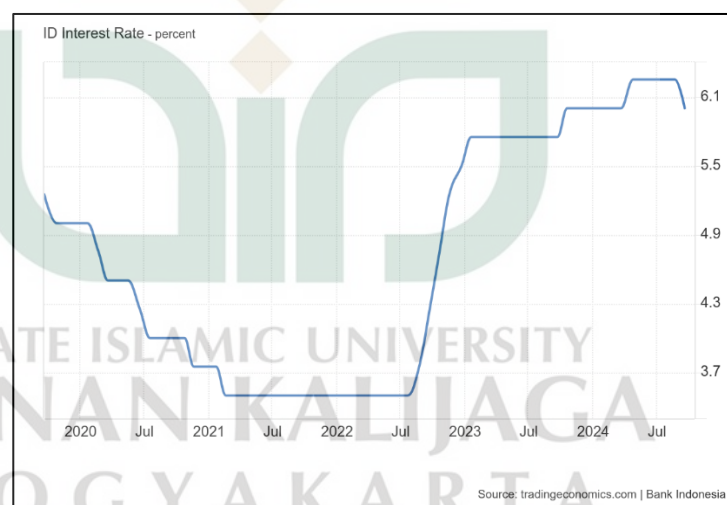
Based on the graphic image, in 2020 precisely in April the Indonesian exchange rate reached Rp16,741, which means that for 1 USD = Rp16,741. This has happened since the beginning of the year until the end of August, the rupiah exchange rate against the US dollar weakened by 4.74 percent. The rupiah exchange rate on January 2nd, 2020 was recorded at Rp13,895 per US dollar. The movement tends to weaken until it reaches the peak of weakness on April 2nd, 2020. The rupiah exchange rate against the United States dollar on that day was recorded at Rp 16,741, down 20.48% compared to the exchange rate at the beginning of the year (Kompas, 2024).

The weakening of the rupiah in Indonesia, which does not decrease, has the potential to cause inflation. So it is feared that the price of imported goods will soar, against industrial raw materials, and trigger inflation which will ultimately kill people's purchasing power. A weakening rupiah can also cause the price of imported goods to soar. The rupiah exchange rate against

the United States dollar (US) continues to weaken in line with the increasing tension between Israel and Iran in the Middle East. If this conflict continues, a number of experts are worried that there will be a sustainable impact that could shake the Indonesian economy (BBC News Indonesia, 2024).

Exchange rate movements and interest rates affect economic stability interchangeably. When the rupiah weakens, Bank Indonesia usually raises interest rates to attract foreign investment and stabilize the exchange rate. This also aims to control inflation due to the increase in import prices. On the contrary, a stable exchange rate provides room for interest rate cuts to encourage economic growth (Bank Indonesia, 2024).

Figure 1.4 Interest Rates Chart for the last 4 years



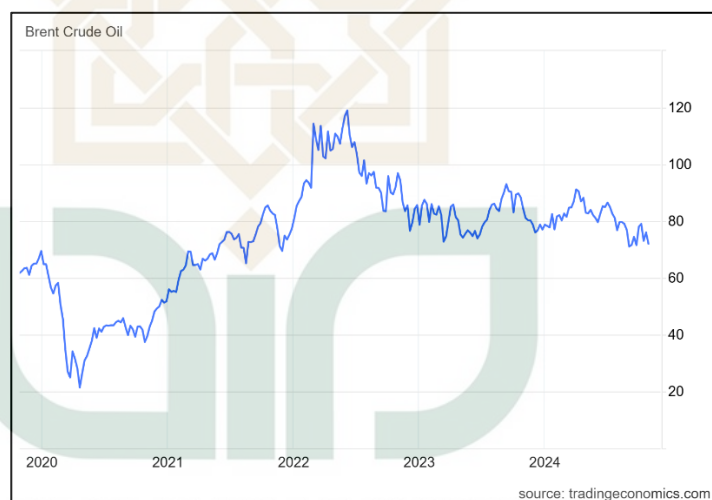
Source: Tradingeconomics.com (2024)

Indonesia's interest rate graph from 2020 to 2024 reflects Bank Indonesia's response to global and domestic economic dynamics. Interest rates fell drastically in 2020-2021 to support the economy affected by the COVID-19 pandemic. Then, it rose sharply in 2022 due to global inflation and a surge in energy prices. Bank Indonesia raised interest rates to control

inflation and maintain rupiah stability. In 2023, interest rates will peak at around 6%, then stabilize in 2024 as inflation begins to be controlled (tradingeconomics, 2024).

When foreign currencies increase resulting in expensive world oil prices, oil-importing countries such as Indonesia have to pay more to get oil supplies (Apriliano dkk, 2024). The following is a chart of world oil prices for the last 5 years that have always fluctuated.

Figure 1.5 World Oil Price Chart for the last 5 years



Source: tradingeconomics.com, 2024

The graph above explains world oil prices over the past 5 years. It can be seen that world oil prices fluctuate every year, even every month. On June 6th, 2022, the world oil price reached US\$/bbl 119.42, which means that the price of 1 barrel of oil is US\$ 119.42.

On May 13rd, 2024, the world price of Brent crude oil increased by 0.46% at US\$ 83.17 per barrel compared to the previous day. The impact of the increase in world oil prices also affects the increase in oil prices in

Indonesia, especially the increase in bulk cooking oil prices which increased throughout the first quarter of 2024. Bulk cooking oil experienced a surge in price increases from the beginning of 2024 to March 2024 with an average price of IDR 15,710.00 per liter, an increase of 3.1% compared to the previous months. The implications of this oil price can encourage inflation, and nationally it will also have an impact on the Indonesian economy (Databooks, 2024).

Based on previous research conducted by Setyawati et al. (2024) in their journal explained that world oil prices and interest rates have a positive and significant effect on inflation in Indonesia for the 2015-2022 period. According to Kevin et al. (2023) explained that money supply has a positive and significant effect, interest rates have a negative and significant effect on inflation in Indonesia for the 2010-2020 period. According to Chandra et al. (2021) explained that interest rates and exchange rates have a positive and significant effect, money supply has a negative and significant effect on inflation in Indonesia for the 2011-2019 period.

However, on the contrary, research conducted by Widyaningrum et al. (2024) explained that interest rates have a positive and insignificant effect and exchange rates have a negative and insignificant effect on inflation in Indonesia for the 2014-2023 period. According to Rahardjo (2024), the rupiah exchange rate does not have a significant influence on inflation in Indonesia for the 2018-2022 period. According to Mufarrikah, et al. (2021) stated that money supply does not have a significant effect and the increase

in world crude oil prices can also affect inflation from the supply side, but from the results of the research, world crude oil prices do not have a significant effect on inflation in Indonesia for the period 1988-2019.

Based on previous research that researched inflation in Indonesia. Therefore, the author conducted further research to discuss in more detail the inflation rate in Indonesia for the period 1986-2023. The authors chose a period of 38 years from 1986 to 2023, because the answer can explain the answer to the problem that occurred in the research. While the difference between this study and the previous study lies in the independent variables, in this study the independent variables are money supply, interest rates, exchange rates and world oil prices. Meanwhile, the analysis method used in this study is multiple linear regression with the aim of studying the relationship between one bound variable (dependent variable) and two or more independent variables (independent variables) that affect it. And the main goal is to measure how strong the relationship between these variables is (Irrawati & Mukaramah, 2024).

Based on the above description and the inconsistency of the results of several previous researchers and not many have used these variables at the same time, this study aims to re-examine the factors that affect inflation movements in Indonesia. And add some matching variables. With these considerations, the title of this study is **"Inflation as an Economic Mirror: The Influence of Macroeconomic Variables in the Indonesian Economy"**

B. Problem Formulation

Based on the description of the research background above, the formulation of the problem in this study is as follows:

1. Does the money supply affect inflation in Indonesia over a period of 38 years?
2. Does interest rates affect inflation in Indonesia over a period of 38 years?
3. Has the exchange rate affected inflation in Indonesia over a period of 38 years?
4. Does world oil prices affect inflation in Indonesia in a period of 38 years?

C. Research Objectives and Benefits

1. Research Objectives

Based on the formulation of the problems that have been mentioned, the objectives in this study can be formulated as follows:

- a. To find out how much the money supply affects inflation in Indonesia
- b. To find out how much interest rates affect inflation in Indonesia
- c. To find out how much the exchange rate affects inflation in Indonesia
- d. To find out how much the world oil price affects inflation in Indonesia

2. Research Benefits

Based on the objectives of the research, the benefits that can be taken in this study include:

a. Theoretical Benefits

The benefits of this research are as information, knowledge and reference materials for further research related to the problem of inflation in Indonesia.

b. Practical Benefits

The benefit of this research is as a source of reference for future studies related to the money supply, interest rates, exchange rates and world oil prices relative to inflation.

c. Policy Benefits

In this study, it is hoped that it can provide benefits for the government in policy making.

D. Systematics of Writing

The writing systematics used in this study are described in five chapters, which are as follows:

Chapter I Introduction, in this chapter consists of the background of the problem which contains the issue and a brief explanation of inflation in Indonesia and briefly explains the variables that affect it. This background is a reference for the formation of problem formulations, objectives, research benefits, and discussion systematics to provide research direction.

Chapter II Theoretical foundations, in this chapter and contains theoretical foundations that explain the relationship between variables and research objects. This chapter also contains a literature review containing

the results of relevant previous research, research framework, and hypothesis development.

Chapter III Methodology This study describes the types of research used, variables and operational definitions of research variables, data and data sources, data collection techniques, and hypothesis testing methods (statistical tools).

Chapter IV Research Results and Discussion, the research method describes the type of research used, variables and operational definitions of research variables, population and samples, data and data sources, and data collection techniques, as well as hypothesis testing methods (statistical tools).

Chapter V Closing, in this chapter contains an explanation of the research which contains conclusions on the results of the research, limitations of the research, and suggestions for research.

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CHAPTER V

CONCLUSION

A. Conclusion

To find out whether there is an influence of independent variables of money supply, interest rates, exchange rates and world oil prices on the dependent variable of inflation in Indonesia within a period of 38 years. This study uses multiple linear regression analysis using R-Studio software. Based on the results of the research conducted, the following conclusions can be drawn:

1. The money supply has a positive and significant influence on inflation, where exchange rate depreciation can increase inflation. This is marked by an increase in the money supply, so people's purchasing power will also increase, this will have an impact on increasing the demand for goods and services which will further cause inflation. This shows the importance of controlling the money supply to maintain inflation stability in the Indonesian economy.
2. Interest rates have a negative and significant influence on inflation. So every decreasing interest rate will have an effect on the increase in inflation. This is characterized by falling interest rates can lead to an increase in aggregate demand, depreciation of the exchange rate and reduced savings and together can drive inflation.

3. The exchange rate has a positive and insignificant effect on inflation.

This happened because the government remained in its efforts to stabilize the rupiah exchange rate against the dollar at a time when inflation was volatile due to uncertain economic conditions.

4. World oil prices have a negative and significant effect on inflation, this occurs when low oil prices can reduce cost pressure on the economy.
5. Overall, the variables of the money supply, interest rates, exchange rates and world oil prices affect inflation in Indonesia. This can be seen from the results of the determination test where all independent variables have an effect of 67.67% on inflation in Indonesia.

B. Limitations and Advice

Based on the research that has been carried out, the suggestions that can be conveyed by the researcher are:

1. For the government, it is necessary to closely monitor changes in the money supply, exchange rate and oil prices to take appropriate policy measures to keep inflation stable, including through appropriate monetary and fiscal policies.
2. For academics and future researchers, this research is expected to be an additional source and reference for further research. In addition, this research still has many shortcomings, so it is hoped that future research can improve by adding new relevant variables (such as investment, unemployment, public consumption level) with

inflation and extending the research period (maybe consider using quarterly or monthly data, to get a more detailed analysis of inflation dynamic), and using different methods such as VAR, ECM to analyze long and short term causality between variables.



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