Long-Run Money and Inflation Neutrality test in Indonesia

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Abstract / Anotation

This paper investigates long-run neutrality of money and inflation in Indonesia, with due consideration to the order of integration, exogeneity, and cointegration of the money stock-real output and the money stock-price, using annual time-series data. The Fisher-Seater methodology is used to do the tasks in this research. The empirical result indicate that evidence rejected the long-run neutrality of money (both defined as M1 and M2) with respect to real GDP, showing that it is inconsistent with the classical and neoclassical economics. However, the positive link between the money and price in long run hold for money defined as M1 rather than M2, which consistent with these theories. In particular, beside the positive effect to long-run inflation, monetary expansion have long-run positive effect on real output in the Indonesian economy.