

## ABSTRACT

This study is about monetary economic in Indonesia. There are three main topics on this study. First topic is about development of monetary economic in Indonesia. Second topic is about monetary policy in Indonesia. The third topic is about money supply in Indonesia. The period of this study is 1980-1999.

The first topic provides a brief overview of the Indonesian monetary development, covers the three distinct periods of monetary experiences and financial regimes. The main period are pre-reform (pre-1983), post-reform (post 1983) and financial crisis (1997-1999).

Second topic is about monetary policy in Indonesia. Indonesia's main economic concern is development. Monetary is directed toward supporting the growth objective of the development program. The emphasis of a particular objective varies from time to time depending upon the economic conditions, but for the last two decades (1980s to 1990s) the main concern seemed to be economic growth and price stability (in broad terms). Prior to the crisis, Indonesia's monetary policy framework was mainly conducted using base money as the operational target. Targeting of the monetary base after the crisis as a temporary framework mainly aimed to absorb the monetary expansion originating from liquidity support to the banking system.

The third topic is about money supply in Indonesia. Our empirical results show that high-powered money is the most important factor influencing money supply in Indonesia. Our empirical results show that net foreign assets would play a central role in affecting high-powered money in Indonesia. Another of our empirical results show that variable time and saving deposits is the most important factor influencing bank reserve in Indonesia. The currency ratio is affected by number of bank offices, when we consider the narrow definition of money supply. For the broader definition of money supply, per capita income plays a central role in currency ratio. In Indonesia, the income elasticity of demand deposits is greater than the income elasticity of currency.



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