THE IMPACT OF EXCHANGE RATE AND INTEREST RATE ON PUBLIC EXPECTATIONS AS MEASURED THROUGH THE CONSUMER EXPECTATIONS INDEX IN INDONESIA

THESIS

Compiled by:

Khrisna Saputra

22011010189/FEB/EP

DEPARTMENT OF DEVELOPMENT ECONOMICS

FACULTY OF ECONOMICS AND BUSINESS

UNIVERSITAS PEMBANGUNAN NASIONAL “VETERAN”

JAWA TIMUR

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Khrisna Saputra
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Defended Before and Approved by the Board of Examiners
Department of Development Economics, Faculty of Economics and Business
Universitas Pembangunan Nasional "Veteran" Jawa Timur
Date: May 25, 2026

Approved by:
Supervisor

Dr.Dra.Ec.Ririt Iriani, S.E,Ak.M.E.
NIP. 196502081990022001

Board of Examiners:
Chairperson

Wirya Wardaya, S.E., M.Sc.
NIP. 198108222024211003

Examiner

Anisa Fitria Utami, S.E., M.E.
NIP. 199111282024062001

Aknowledged by,
Dean of the Faculty of Economics and Business
Universitas Pembangunan Nasional "Veteran" Jawa Timur

Dr. Dra. Ec. Tri Kartika Pertiwi, M.Si, CRP.
NIP. 196304201991032001

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Name	: Khrisna Saputra
NPM	: 22011010189
Programs	: Bachelor (S1)
Study Programs	: Development Economics
Faculty	: Economics and Business

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Khrisna Saputra

22011010189

FOREWORD

All praise be to Allah SWT who has bestowed His Grace and guidance, so that the author can complete his thesis with the title **"The Impact of Exchange Rate and Interest Rate on Public Expectations Measured Through the Consumer Expectations Index in Indonesia".** The purpose of writing this thesis is to qualify to achieve a Bachelor of Economics degree at the Development Economics Study Program, Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur.

The author realizes that in the process of preparing this thesis, the author cannot run alone. For the completion of this thesis, the author expresses his respect and gratitude to Mrs. Dr.Dra.Ec.Ririt Iriani, S.E,Ak.M.E. as the supervisor who has taken the time for the guidance process so that this thesis can be completed properly.

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12. All parties that the author could not mention one by one who had helped in the completion of writing this thesis.

The author realizes that the preparation of this thesis is still far from perfect. Therefore, the author's constructive suggestions and criticisms are greatly appreciated. Hopefully this research can provide useful understanding and insights, especially in the field of development economics.

Finally, the author hopes that this research can provide better insight and understanding of the relationship between exchange rate and interest rate on public expectations in Indonesia.

Surabaya, May 25, 2026

Author

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THE IMPACT OF EXCHANGE RATE AND INTEREST RATE ON PUBLIC EXPECTATIONS AS MEASURED THROUGH THE CONSUMER EXPECTATIONS INDEX IN INDONESIA

Khrisna Saputra
Department of Development Economics, Faculty of Economics and Business,
Universitas Pembangunan Nasional "Veteran" Jawa Timur
22011010189@student.upnjatim.ac.id

ABSTRACT

This study aims to analyze the impact of exchange rate and interest rate on public expectations as measured by the Consumer Expectations Index in Indonesia. The research method used is descriptive quantitative with the Vector Error Correction Model (VECM) analysis using EViews 13 software through stationarity tests, optimum lag determination, stability tests, Granger causality tests, cointegration tests, Impulse Response Function (IRF), and Forecast Error Variance Decomposition (FEVD). The data used are secondary monthly time series data for the 2016–2025 period obtained from Bank Indonesia. The results show that interest rates do not have a significant effect on public expectations in both the short term and long term. Meanwhile, exchange rates have a significant effect on public expectations in both the short term and long term. The depreciation of the rupiah exchange rate tends to reduce public optimism regarding future economic conditions. The FEVD results indicate that the exchange rate has the most dominant contribution in explaining the variance of public expectations in the long run, indicating that the exchange rate is the main factor influencing the formation of public expectations in Indonesia.

Keywords: Exchange Rate, Interest Rate, Public Expectations, Consumer Expectations Index, VECM.