

**THE IMPACT OF FEDERAL FUNDS RATE, EXCHANGE RATE, AND
MONEY SUPPLY ON INFLATION IN INDONESIA**

THESIS



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DEPARTMENT OF DEVELOPMENT ECONOMICS

FACULTY OF ECONOMICS AND BUSINESS

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2026

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**Submitted in Partial Fulfillment of the Requirements for the Degree of
Bachelor of Economics**



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PREFACE

Praise and gratitude are devoted to God Almighty for His love, grace, and blessings, which have enabled the author to complete this undergraduate thesis entitled “The Impact of Federal Funds Rate, Exchange Rate, and Money Supply on Inflation in Indonesia.” This undergraduate thesis is submitted in partial fulfillment of the requirements for the degree of Bachelor of Economics at the Development Economics Study Program, Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur.

The author realizes that the process of completing this undergraduate thesis could not have been accomplished without the support and assistance of many parties. Therefore, on this occasion, the author would like to express sincere gratitude and highest appreciation to Dr. Dra. Ririt Iriani, S.E., M.E., as the thesis advisor, for her valuable guidance, time, support, and encouragement throughout the completion of this thesis. The author would also like to express deepest gratitude to:

1. Dr. Ir. Akhmad Fauzi, MMT, as the Rector of Universitas Pembangunan Nasional Veteran Jawa Timur.
2. Dr. Dra. Ec. Tri Kartika Pertiwi, M.Si., Crp, as the Dean of the Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur.
3. Riko Setya Wijaya, S.E., M.M., as the Head of the Development Economics Study Program, Universitas Pembangunan Nasional Veteran Jawa Timur.

4. Dr. Dra. Ririt Iriani S, S.E., M.E., as the thesis advisor who has provided guidance and direction throughout this research process.
5. All lecturers of the Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur, for the valuable knowledge and experiences provided during the academic years.
6. The author's beloved parents, for their endless prayers, love, support, and encouragement, both morally and materially, which enabled the author to complete this study successfully.
7. The author's beloved younger siblings, Cecil and Meymey, for their love, care, and togetherness, which continuously became a source of strength and motivation throughout the study period.
8. EIS, for the love, support, care, and companionship given to the author throughout the academic journey and the completion of this undergraduate thesis.
9. The author's close friends, Dita and Khrisna, for their togetherness, sincere support, and assistance throughout the research and thesis writing process. Your encouragement and presence became an important source of strength for the author.
10. BONBIN (Bintang, Yani, Brigita, and Fahmi), for the togetherness and support since the beginning of college life. Your friendship and encouragement have become a valuable part of this thesis completion process.

11. All friends of the Development Economics Study Program, Class of 2022, Universitas Pembangunan Nasional Veteran Jawa Timur, for struggling and learning together throughout the university years.

The author realizes that this undergraduate thesis is still far from perfect due to limitations in knowledge and ability. Therefore, constructive criticism and suggestions are highly appreciated for the improvement of this scientific work. Finally, the author hopes that this thesis will provide benefits for the author, academics, and all parties concerned with monetary policy in Indonesia.

Surabaya, 10 May 2026

The Author

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THE IMPACT OF FEDERAL FUNDS RATE, EXCHANGE RATE, AND MONEY SUPPLY ON INFLATION IN INDONESIA

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ABSTRACT

This study aims to analyze the impact of the Federal Funds Rate (FFR), the Rupiah exchange rate (IDR/USD), and the broad money supply (M2) on inflation in Indonesia using monthly time-series data from January 2015 to December 2024. The Autoregressive Distributed Lag with Error Correction Model (ARDL-ECM) was applied. The results show that the FFR has a significant short-run effect on inflation, positive at the first lag and partially reversed at the second, but is insignificant in the long run, reflecting Bank Indonesia's ability to buffer domestic prices from permanent U.S. monetary spillovers. The exchange rate only becomes significant after a three-month lag in the short run, with a negative direction consistent with demand compression, and is weakly significant at the 10% level in the long run. The money supply shows no significant effect on inflation in either the short or long run, suggesting that sustained M2 growth did not directly translate into higher prices, in line with Bank Indonesia's inflation-targeting framework. The ECM coefficient of -0.104939 confirms a valid long-run adjustment mechanism, with deviations from equilibrium corrected at approximately 10.49% per month, implying a full adjustment period of around 9 to 10 months.

Keywords: Inflation, Federal Funds Rate, Exchange Rate, Money Supply, ARDL-ECM