

**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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**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.

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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), 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 to capture both short-run dynamics and long-run relationships among the variables. The results show that in the short run, the FFR has a significant and positive effect on inflation at both the first and second lag, reflecting a delayed transmission mechanism through. The exchange rate becomes significant at the second and third lag in the short run, both with positive direction. The money supply (M2) also shows a positive and significant effect on inflation in the short run. In the long run, however, only the exchange rate retains a weakly significant positive effect at the 10% level, while the FFR and M2 are both insignificant. 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