

Inflation and Economic growth of Indonesia; 1960.....69

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In this paper we attempt to establish a simple monetary-growth paradigm of Indonesian economy. we can not apply the established idea of monetary mechanism in the modern theoretical economics to Indonesia. Therefore we investigate historically the Indonesian monetary institution. Then we find that financial market of Indonesia is rudimentary. According to this basic historical finding, we proceed to quantitative analysis. Then we gain the following findings.

1. The money supply is regulated by the policy-determined High-Powered-Money.

2. Gross domestic capital formation at current prices is determined by the allocation-of-increased-money policy.

3. The velocity is an increasing function of expected-rate of inflation, and this expected rate is formulated by the Adaptive expectation hypothesis.

4. The production function is the supply-ceiling type.

From these findings, we can establish a simple monetary-growth paradigm which is relevant to history. By this paradigm we can explain consistently the observed figures of inflation and economic growth.

Then we proceed to the counterfactual analysis, and we find the comparative advantage of monetary-policy instruments. In the final section we suggest the theoretical implications of our analysis to Comparative Economic History. We think that this paradigm will be applicable to some other developing countries.