

The Endogeneity of Oil Price Shocks and their effects on Indonesia

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Abstrak

The endogeneity of Oil Price Shocks and Their Effect of Indonesia : A structural Vector Autoregression Model. In the paper the endogeneity of oil price shocks as well as the effects of different type of the shocks on the Indonesian economy represented by its gross domestic product (GDP), consumer price index (CPI) and real effective exchange rate (REER) were investigated. A structural Vector Autoregression (SVAR) model was constructed extending Killian (2009) model by employing several lags constrains in the model as Indonesia is a small open economy. There was evidence that oil price shocks were endogenously formed by oil-specific-demand itself, aggregate global demand and fraction of oil stock. The exports' effect convincingly existed in the oil price shocks influencing the economy of Indonesia. In addition, there was no evidence that Indonesia enjoyed benefits from being an OPEC member.