

The influence of oil prices on Indonesias exchange rate

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Abstrak

ABSTRACT

This study tests for a long-run relation between oil prices and the rupiah US dollar exchange rate. We discover, first, that the long-run cointegration relation between oil prices and the real exchange rate (RER) is sensitive to different exchange rate regimes in Indonesia. Second, we find a long-run cointegrating relation between oil prices and the RER over the float exchange rate regime. However, in the managed float period, there is no evidence of a long-run relation between oil prices and the RER. In the long run, higher oil prices lead to an appreciation of the rupiah against the US dollar in the float period (post-August 1997 period). We demonstrate that these results are robust to different data frequencies.