

Monetary control in a developing economy: Indonesian case

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Abstrak

ABSTRACT

Over the last decade, increasing attention has been paid to the effect of monetary policy on the path of economic activities, and it is now generally recognized as a powerful tool in stabilizing the economy. Traditionally, the theory of monetary policy is formulated in terms of the adjustments of the policy instruments in order to achieve the desired values for the ultimate objectives such as the rate of output growth, the inflation rate and the balance of payment objectives. In contrast, to this "one stage procedure" of monetary policy, in the 1960s the new theory of monetary policy which is called "the two stage procedure of monetary policy" introduced the concept of intermediate targets which lie in-between the instruments directly controlled by the monetary authorities and the ultimate objectives of the policy. The efficiency of the monetary policy in a two-stage procedure depends upon the close relationships between the policy instruments and the intermediate target, and also between the intermediate targets and the ultimate policy objectives. In recent years, central bankers from some countries, in conducting monetary policy, have paid increasing attention to controlling monetary aggregates as a mean of achieving the desired values of its ultimate objectives.

A resurgence of emphasis on money and its influence on the level of economic activity occurred in the decade of the sixties, which has also been supported by a great deal of empirical and theoretical researches. Foremost are the very extensive research findings by Milton Friedman and Anna Schwartz in their monumental work "A Monetary History of the United States 1867 - 1960" which concluded among others, "The changes in the behavior of the money stock have closely associated with changes in economic activity". On the same line of argument, Leonall C. Andersen and Yerry L. Yordan, in their research finding, came to the conclusion that the influences of changes in money stock have a strong, rapid and predictable effect on the rate of change of economic activity. Extending the Andersen-Yordan work over a longer period, Michel W. Keran found that monetary influence has dominated economic activity even in the period when financial and institutional factors were substantially different. These empirical results were derived from the economies of developed countries, especially United States.