ABSTRACT

This undergraduate thesis covers policies, phenomena, and critical situations in Indonesian economy during the period of 1980 through 2005. This long period is divided into two periods: policy reform era in 1988-1997 and post crisis era in 1998-2005. In order to be able to properly identify the most binding constraint of Indonesian economy and to compare it to other economies, the method used is fixed effect model or least square dummy variables. The empirical results and narrative analysis suggest that the most binding constraint during the two periods is educational attainment. The most interesting result is the meager influence of institutions quality on economic activity during the New Order Era but increasing after it. Another staggering result is that the financial and banking deregulations implied by access to sound money were negatively related to growth. The results also indicate that Indonesia needs to sharpen its expenditure on productive sectors. In addition, democracy needs good treatment in the long term.

Key Words: Growth Diagnostics, Indonesian economy, fixed effect model

UNIVERSITY OF INDONESIA