# ANALYSIS OF MONETARY POLICY TRANSMISSION MECHANISM IN INDONESIA DURING THE PERIOD OF 2000-2014
## (A Study of Keynesian Approach)

Deswita Herlina
Fakultas Ekonomi dan Bisnis Universitas Sultan Ageng Tirtayasa
Email: deswita@untirta.ac.id
Iis Ismawati
Fakultas Ekonomi dan Bisnis Universitas Sultan Ageng Tirtayasa
Email: ismawati@untirta.ac.id

**ABSTRACT**

This study identified the effectiveness of the monetary policy transmission mechanism both on quantity channel price channel (Keynesian Approach) in Indonesia in 2000-2014. The price channel (Keynesian Approach) consists of a channel of interest rate via cost of capital effect, channel of interest rate via consumption effect, channel of exchange rate via direct pass-through effect channel, channel of exchange rate via indirect pass-through effect, channel of asset price via investment effect and channel of asset price via wealth effect . The effectiveness of the monetary policy transmission was measured by the time lag and the strength of the variables in response to monetary policy shocks. The objectives of the study were to identify and compare the effectiveness of the monetary policy transmission mechanism the keynesian approach based on time lag and variable strength responding to monetary policy shocks.

This research used Vector Error Correction Model (VECM) analysis tool with Impulse Response Function (IRF) and Varian Decomposition (VD) estimation tool. The research data used secondary data of the Indonesian Economic and Financial Statistics (SEKI) published by Bank Indonesia, and the data was quarter time series data from 2000 to 2014. The estimation results showed that channel of interest rates via cost of capital, channel of exchange rate via direct pass-through effect, channel of asset price via investment effect was effective influence on the real sector (inflation).

**Keywords**: transmission of monetary policy, interest rate channel, exchange rate channel, asset price channel, *vector error correction model*