THE GRANGER CAUSALITY EFFECTS OF FOREIGN MONETARY POLICIES AND WORLD OIL PRICE TO DOMESTIC EXCHANGE RATE: A CASE OF INDONESIA RUPIAH

UNDERGRADUATE THESIS

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Eka Nur Solicha

ABSTRACT

This study aims to examine whether or not there is Granger causality effect of foreign monetary policies which represented by the devaluation of China Yuan (CHY) and increase of FED funds target rate also the world oil price to domestic exchange rate which represented by Indonesia Rupiah (IDR). The research will use daily frequency data and divided into 3 (three) timeframe according to each hypothesis. Between June 2015 and October 2015 for Yuan devaluation effect, between October 2015 and February 2016 for FED funds rate effect, also between June 2015 and December 2015 for the world oil price effect. The study found that there is unidirectional Granger causality effect directed from China Yuan against U.S. Dollar exchange rate to Indonesia Rupiah against China Yuan at one percent significance level. Also, there is bidirectional Granger causality effect between world oil price and Indonesia Rupiah against U.S. Dollar exchange rate at one percent significance level (directed from world oil price to Indonesia Rupiah against U.S. Dollar exchange rate) and ten percent (directed from Indonesia Rupiah against U.S. Dollar exchange rate to world oil price). Meanwhile, the study did not find Granger causality relationship between FED funds rate and Indonesia Rupiah against U.S. Dollar exchange rate.

Keywords: Granger causality effect, monetary policy, Yuan devaluation, FED funds rate, world oil price, exchange rate.

TABLE OF CONTENTS

CHAPTER IV RESULT AND DISCUSSION

CHAPTER V CONCLUSION AND RECOMMENDATION

LIST OF FIGURES

LIST OF TABLES

LIST OF APPENDICES