



## TABLE OF CONTENTS

|   |     |
|---|-----|
| LIST OF FIGURES   | iii |
| LIST OF TABLES  | iii |
| Abstract  | iv  |
| Acknowledgements  | v   |
| <br>  |     |
| CHAPTER 1: INTRODUCTION .....                                       | 1   |
| 1.1 Background and the Aim .....                                    | 1   |
| 1.2 Hypothesis .....  | 3   |
| 1.3 A brief history on Indonesia's tax system and tax reforms ..... | 5   |
| 1.3.1 Indonesia's tax system .....                                  | 5   |
| 1.3.2 Indonesia's tax reforms .....                                 | 10  |
| 1.4 The Indonesian labor market .....                               | 14  |
| <br>  |     |
| CHAPTER 2: LITERATURE REVIEW .....                                  | 17  |
| 2.1 Theoretical framework .....                                     | 17  |
| 2.2 Empirical review .....  | 29  |
| 2.2.1 Developed countries' cases .....                              | 29  |
| 2.2.2 Developing countries' cases .....                             | 30  |
| <br>  |     |
| CHAPTER 3: DATA AND METHODOLOGY .....                               | 32  |
| 3.1 Data .....  | 32  |
| 3.1.1 Labor force participation rate .....                          | 32  |
| 3.1.2 Working hours .....   | 32  |
| 3.1.3 Monthly average wages .....                                   | 32  |
| 3.2 Methodology .....   | 33  |
| <br>  |     |
| CHAPTER 4: STATISTICAL ANALYSIS .....                               | 35  |
| 4.1 The Supply Side of the Labor Market .....                       | 35  |
| 4.1.1 Labor force participation rate .....                          | 35  |
| 4.1.2 Working hours .....   | 38  |



|                             |   |    |
|-----------------------------|---|----|
| 4.2                         | The Demand Side of the Labor Market .....                   | 41 |
| 4.3                         | Graphical analysis .....                                    | 43 |
| 4.4                         | Econometric analysis .....                                  | 45 |
| 4.5                         | Interpretation of the results of statistical analysis ..... | 52 |
| CHAPTER 5: CONCLUSION ..... |   | 54 |
| BIBLIOGRAPHY .....          |   | 56 |



## LIST OF FIGURES

|          |   |    |
|----------|---|----|
| Figure 1 | Indonesia Real GDP 1980 – 2006 .....                      | 15 |
| Figure 2 | Income and Substitution effects .....                     | 21 |
| Figure 3 | Backward-bending labor supply curve .....                 | 22 |
| Figure 4 | Male Labor Force Participation Rate .....                 | 37 |
| Figure 5 | Female Labor Force Participation Rate .....               | 38 |
| Figure 6 | Female Working Hours .....                                | 40 |
| Figure 7 | Male Working Hours .....                                  | 40 |
| Figure 8 | Historical changes in male and female working hours ..... | 41 |

## LIST OF TABLES

|         |  |    |
|---------|--|----|
| Table 1 | 1983 marginal tax rates .....                                  | 11 |
| Table 2 | 1994 marginal tax rates .....                                  | 12 |
| Table 3 | Individual marginal tax rates .....                            | 13 |
| Table 4 | Resident and permanent establishments' marginal tax rates..... | 14 |