



TABLE OF CONTENTS

Cover Page.....	i
Statement of Approval.....	ii
Statement of Originality.....	iii
Acknowledgement.....	iv
Table of Contents.....	v
List of Figures.....	vii
List of Tables.....	viii
List of Appendices.....	ix
List of Abbreviations.....	x
Abstract.....	xi
CHAPTER I	1
INTRODUCTION	1
1.1. Background.....	1
1.2. Research Question.....	7
1.3. Research Objectives.....	7
1.4. Advantage of Research.....	8
1.5. Scope of the Research.....	8
1.6. Research Mechanism.....	9
CHAPTER II	10
THEORETICAL FRAMEWORK AND LITERATURE REVIEW	10
2.1 Theoretical Framework.....	10
2.1.1 Determinants of trade balance.....	10
2.1.2 Monetary shock during the inflation targeting regime.....	12
2.1.3 The relationship between monetary shock and trade balance.....	13
2.1.4 Contradiction review.....	14
2.2 Empirical review and hypothesis.....	15
CHAPTER III	18
RESEARCH METHODOLOGY	18
3.1. Research Design.....	18



3.2.	Operational Definitions of Variables.....	18
3.2.1.	Real Gross Domestic Product (GDP).....	18
3.2.2.	Price Level.....	19
3.2.3.	Jakarta Interbank Offered Rate (JIBOR).....	19
3.2.4.	Real Monetary Aggregate.....	20
3.2.5.	Real Effective Exchange Rate (REER)	20
3.2.6.	Trade Balance.....	20
3.2.7.	Oil.....	21
3.3.	Data Collection.....	21
3.4.	Data Analyst Techniques.....	22
3.4.1.	Unit Root Test.....	22
3.4.2.	Johansen Cointegration Test.....	23
3.4.3.	Lag Optimality Test.....	23
3.4.4.	Structural Vector Error Correction Model (SVECM).....	24
3.4.5.	Impulse Response Function (IRF)	27
3.4.6.	Forecast Error Variance Decomposition (FEVD).....	27
CHAPTER IV		28
ANALYSIS AND DISCUSSION		28
4.1.	Data Description.....	28
4.2.	Research Result.....	31
4.2.1.	Unit Root Test.....	31
4.2.2.	Johansen Cointegration Test.....	33
4.2.3.	Lag Optimality Test.....	34
4.2.4.	Structural Vector Error Correction Model Estimation.....	34
4.2.5.	Impulse Response Function.....	35
4.2.6.	Forecast Error of Variance Decomposition.....	39
4.3.	Discussions.....	40
CHAPTER V		43
CONCLUSIONS AND RECOMMENDATIONS		43
5.1.	Conclusions.....	43
5.2.	Limitations.....	44
5.3.	Recommendations.....	44
REFERENCES		46
APPENDICES		51