CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives the reader a complete knowledge of the research overview and study summary. The goal of this chapter is to provide a summary of the study, a discussion of the results, contribution of the study, recommendations for future research, and a conclusion.

5.2 Overview of Study

This study aims to examine the factors that influence the exchange rate in Indonesia. In addition, there are 2 research questions that will be highlighted in this paper, whether risk, benefit, and trust have a significant relationship with the use of cashless transactions. The factors that will be highlighted in this study are inflation and interest rates have a relationship with the exchange rate. In this study, two hypotheses will be associated with the variables produced in this study to examine the factors that influence the exchange rate.

The data collection method used in this research is to gather data and information from the Bank Indonesia website. As a result, the data was analyzed and assessed using the EViews program. In addition, the collected data was analyzed and evaluated using the EViews program. The results of the analysis revealed that only 1 hypothesis showed a statistically significant relationship in the regression test (Sig < 0.01).

Table 5.1 Summary of the Hypothesis Testing

Hypothesis	**Accepted (Sig < 0.01)**	**Rejected (Sig > 0.01)**
H1: Inflation has a positive effect on Exchange Rate	√	

H2: Interest Rate has a Negative effect on Exchange Rate		√

Source: Data processed by the author

5.3 Summary of Research Findings

5.3.1 The Effect of Inflation on the Exchange Rate

The first question of this research is as follows "How does inflation affect the exchange rate?". Based on the research question, Hypothesis 1 (H1) "Inflation has a significant positive effect on exchange rates in Indonesia".

After being analyzed, the research results show that hypothesis 1 is accepted where in inflation has a significant positive relationship with the exchange rate. Researchers suspect that an increase in the rate of inflation in Indonesia compared to other countries will result in a significant decline in exports and a significant increase in imports.

These results are the same as research conducted by Muchiri (2015) which states that there is a significant and positive influence between inflation and foreign currency exchange rates in Kenya.

5.3.2 The Effect of Interest Rate on the Exchange Rate

The second question of this research is as follows "How do interest rates affect exchange rates in Indonesia?". Based on the research question, Hypothesis 2 (H2) “There is a significant negative effect between interest rates and exchange rate in Indonesia”.

After being analyzed, the research findings show that hypothesis 2 is rejected where the interest rate has an insignificant negative relationship with the exchange rate. The researchers surmised that an increase in interest rates in Kenya in comparison with foreign countries would result in a non-significant reduction in the number of Indonesian Rupiah units needed to be converted into one unit of foreign currency.

These results differ from research conducted by Okoth (2015) which shows that the relationship between inflation and interest rates on the exchange rate in Kenya during 2007-2012 was very significant. In addition, research conducted by Pattnaik and Mitra (2001) also shows that interest rates, inflation rates, and exchange rates have a high correlation.

However, the results of this study are the same as research conducted by Muchiri (2015) which shows that there is an insignificant negative relationship between interest rates and foreign exchange rates in Kenya.

5.4 Contribution of Study

5.4.1 Body of Knowledge

This study is not much different from previous research papers on this matter, based on evaluations from various previous studies which have made several studies on the factors that influence exchange rate movements. In this context, this study considers the significance of the relationship between inflation and interest rates in influencing exchange rate movements. Taken together, this research enables future scholars to utilize it as a review of the literature and a point of reference for their own relevant topics.

5.4.2 Practical

The researcher made the conclusion that inflation has a direct effect on exchange rates in Indonesia. The recommendation for this conclusion is that the Central Bank of Indonesia and the Indonesia government should use the available monetary policy tools to control a rise in inflation rates and consumer prices. The study also concluded that interest rates do not significantly affect exchange rates in Indonesia. The study however recommends that the government and the central bank of Indonesia should ensure the rates of interest rates charged by banks do not have adverse effects on other macroeconomic factors, which might affect exchange rates.

5.5 Limitation

This study is focused on interest rates and inflation as independent variables while the exchange rate is the dependent variable. Therefore, the findings are based on consideration of macroeconomic factors and apply only to those factors.

Second, this study uses secondary data that is quantitative in nature and does not incorporate qualitative aspects that affect the exchange rate in that country. To measure exchange rates the study uses the Indonesian Rupiah against the US dollar despite the fact that the Indonesian currency is also pegged to other currencies such as the Euro and the British pound, which are also major currencies.

5.6 Future Research

This study only focuses on interest rates and inflation as independent variables to test their effect on foreign exchange rates. This study also recommends a similar study, which will cover other macroeconomic variables, government policies, regulations, and fiscal policies to determine their effect on exchange rates in Indonesia. Furthermore, additional studies can be carried out on the relationship between interest, inflation, and exchange rates among Southeast Asian countries. This study uses the United States dollar versus the Indonesian Rupiah to measure the exchange rate, and the Consumer Price Index as a measure of inflation. therefore, this study recommends additional research using different measures using others such as inflation growth rates, GDP growth rates, and different exchange rates.

5.7 Conclusion

The main objective of this research is to identify the variables that affect deviations in the exchange rate of the Indonesian Rupiah. The researchers discovered a positive correlation and a significant relationship between inflation and the exchange rate, indicating that they have reason to believe that if inflation rates in Indonesia rise relative to those in other nations, exports will significantly decline, and imports will significantly rise.

The study's findings also indicate that interest rates have a negative but not statistically significant impact on exchange rates because, as predicted, higher interest rates in Kenya than in other nations would lead to a non-significant decrease in the amount of Indonesian Rupiah required to buy one foreign currency unit.