

ABSTRACT

Since almost all of countries embraced open economy as an economic system, International economic is now becoming a fundamental issue. This issue link through the trade in goods and services, through flows of economy, through investment in each other's economies than even before. Show important the role of central bank as the ruler monetary authority. Since the arbitrages become one of the ideas in international economic, then there should also be high correlation in aggregate price levels. While few empirically literate economists take Purchasing Power Parity (PPP) seriously as a short-term proposition, most instinctively believe in some variant of PPP as an anchor for determination the long run real exchange rates.

This study is a quantitative study. The types of research are explanatory and associative research to illustrate and prove the model study. Moreover, this study is examines the Purchasing Power Parity in Indonesia and the comparators 6 ASEAN countries that form of monthly time series periods 2005-2012 using Johansen cointegration approach as a research model. Association among price, exchange rate and interest rates are play a role to accommodate this study.

I found evidence on the long run relationship among the variables indicating the importance of interest rate and price on exchange rate behavior when this period is considered. The findings thus show that bivariate and multivariate approach impact within this period is considered. Then found that the linkages between goods and asset market found in all countries comparator to support that PPP in Indonesia hold a long term behavior.

Keyword: Purchasing Power Parity in Indonesia, Exchange rate, price ratio, interest rate, Johansen cointegration, ASEAN economies