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THE IMPACT OF ELECTRICITY AND LIQUID PETROLEUM GAS (LPG) PRICE CHANGES ON INFLATION: EVIDENCE FROM INDONESIA

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Abstract

Indonesian consumption of energy has been increasing as well as increasing energy prices. Households energy consumption is the most vulnerable to the effects of changes in inflation; while they will be directly affected if there is a rise of electricity and LPG. Using the main of monthly data from January 2009 until December 2017, this study aims to examine the effects of electricity and liquid petroleum gas (LPG) price changes on inflation and vice versa. Augmented Dickey Fuller, Johansen Cointegration, Vector Autoregressive, and Granger Causality model were employed to analyzed the data. The results show that there are no cointegration between electricity price with inflation and LPG price with inflation which means there are no long term relationship. Moreover, it is found that electricity price do not cause to the inflation, and inflation does cause to the electricity price. Similar result occurs between LPG price and inflation. So, it can conclude that both electricity and LPG price does not cause to the inflation, and inflation can give an effect on electricity and LPG price. If the rate of inflation changes, electricity price and LPG price also can change. This finding will contribute to the Indonesian government in making policies to control the inflation in order to avoid an increasing in electricity and LPG price.

Keywords: Causality, Electricity Price, Inflation, LPG Price, Vector Autoregressive.
