

ABSTRACT

Economic growth in Indonesia seems to have some disparity problem, with most economy activities are focused on Java Island while the other islands are left behind. This is proven by the contribution from Java Island that represents more than half of Indonesia's Gross Domestic Product (GDP), while only represents small part of entire nation's area. Despite this is the fact that majority of those contributions are mostly from cities or municipalities in Java Island.

The purpose of this paper is to analyze the causalities and effects of capital, education and health, using the Augmented-Solow Growth Model from Mankiw-Romer-Weil as the basic approach. The analysis method from this research uses estimation with Three-stage Least Squares (3SLS) approach on panel data that consists of 34 Municipalities in Java Island in the span of 5 years from 2015 up to 2019, which are decomposed into three income classification.

Results show that physical capital stock has positive and significant effect towards economic growth on every income level. However, labor has negative and significant effect on economic growth instead. Education brings positive effect and significant to economic growth on every income level, but instead, health only brings positive and significant effect toward economic growth on municipalities that have high income. Despite this, the relationships between education and health show that they have positive and significant relationship on eachother, this is consistent on every income classification.

Keywords: Economic Growth, Augmented Solow Model, Human Capital, Simultaneous Equation Model