

## TABLE OF CONTENT

TITLE PAGE .....	i
THESIS APPROVAL .....	ii
THESIS DEFENSE APPROVAL .....	iii
CERTIFICATE OF ORIGINALITY .....	iv
ABSTRACT .....	v
<i>ABSTRAK</i> .....	vi
MOTTO AND DEDICATION .....	vii
PREFACE .....	viii
TABLE OF CONTENT .....	xi
LIST OF TABLES .....	xiv
LIST OF FIGURES .....	xv
CHAPTER I INTRODUCTION .....	1
1.1 Background.....	1
1.2 Research Problems .....	9
1.3 Research Objectives .....	10
1.4 Research Benefits .....	11
1.5 Outline .....	12
CHAPTER II LITERATURE REVIEW.....	14
2.1 Theoretical Basis .....	14
2.1.1 Investment.....	14
2.1.2 Foreign Direct Investment (FDI) .....	21
2.1.3 Economic Growth Theory .....	25
2.1.4 Inflation.....	30
2.1.5 Interest Rate .....	31
2.1.6 Exchange Rates Indices .....	33
2.1.7 Economic Freedom.....	35
2.1.8 Trade Openness.....	44
2.2 Previous Research .....	45

2.3 Theoretical Framework .....	56
2.4 Hypothesis .....	56
<b>CHAPTER III RESEARCH METHODOLOGY .....</b>	<b>59</b>
3.1 Research Variables and Variable Operational Definition .....	59
3.1.1 Foreign Direct Investment (FDI) inflows .....	60
3.1.2 Economic Freedom Index (EFI) .....	61
3.1.3 Real Gross Domestic Product Per Capita .....	62
3.1.4 Real Effective Exchange Rates (REER) .....	62
3.1.5 Trade Openness.....	62
3.1.6 Interest Rate .....	63
3.1.7 Inflation Rate .....	63
3.1.8 Relative Wages .....	63
3.2 Types and Sources of Data .....	64
3.3 Data Collection Method .....	65
3.4 Data Analysis Method .....	65
3.4.1 Common Effect Model (CEM).....	68
3.4.2 Fixed Effect Model (FEM).....	68
3.4.3 Random Effect Model (REM) .....	69
3.4.4 Model Specification Test.....	70
3.5 Classical Assumption Test .....	72
3.5.1 Normality Test.....	73
3.5.2 Multicollinearity Test .....	73
3.5.3 Autocorrelation Test .....	75
3.5.4 Heteroscedasticity Test.....	75
3.5.5 Robust Standard Errors.....	76
3.6 Testing of Regression Analysis Statistical Criteria .....	77
3.6.1 Simultaneous Test (F-test).....	77
3.6.2 Partial Test (T-test).....	78
3.6.3 Goodness of Fit (R <sup>2</sup> ).....	79
<b>CHAPTER IV RESULTS AND DISCUSSION.....</b>	<b>82</b>

4.1 Description of Research Object.....	82
4.2 Estimation Results.....	84
4.2.1 Panel Data Model Specification Test.....	84
4.2.2 Fixed Effect Model Regression Analysis .....	85
4.2.3 Normality Test Analysis .....	87
4.2.4 Multicollinearity Test Analysis .....	88
4.2.5 Autocorrelation Test Analysis .....	89
4.2.6 Heteroscedasticity Test Analysis.....	90
4.3 Results of Statistical Analysis of Regression Criteria.....	91
4.3.1 Coefficient of Determination ( $R^2$ ) .....	91
4.3.2 Simultaneous Statistical Test (F-Test).....	92
4.3.3 Partial Statistical Test (T-Test).....	93
4.4 Discussion.....	96
4.4.1 Effect of Economic Freedom on FDI .....	96
4.4.2 Effect of Economic Growth on FDI .....	97
4.4.3 Effect of Real Effective Exchange Rate on FDI.....	98
4.4.4 Effect of Trade Openness on FDI.....	99
4.4.5 Effect of Interest Rate on FDI.....	100
4.4.6 Effect of Inflation on FDI .....	101
4.4.7 Effect of Wage on FDI.....	102
CHAPTER V CONCLUSION.....	104
5.1 Conclusion.....	104
5.2 Limitation .....	105
5.3 Suggestions.....	106
REFERENCES.....	107
APPENDIX.....	107