

ABSTRACT

This study aims to compare the effectiveness of the stock price transmission channel and the exchange rate channel in transmitting monetary policy shocks to their respective macroeconomic targets (inflation and output) in Indonesia. The method employed is the vector error correction model (VECM), constructed by developing two models for each channel using quarterly data from 2008Q1 to 2023Q4.

The empirical results indicate differences in the roles of the two channels. First, the exchange rate channel is proven to be more effective in controlling inflation, while the stock price channel instead shows a temporary increase in prices (price puzzle) in the early period. Second, conversely, the stock price channel is more effective in influencing output growth, whereas the exchange rate channel faces an obstacle in the form of a temporary increase in output (output puzzle) at the beginning of the transmission. Therefore, there exists a policy trade-off in which price stability relies more on exchange rate movements, while output control is more influenced by conditions in the stock market.

Keywords: Monetary Policy Transmission Mechanism, Stock Prices, Exchange Rate, Inflation, GDP, VECM.

