

ABSTRACT

The exchange rate plays a crucial role as a key indicator in an open economy, reflecting a country's economic stability and influencing both trade flows and international investment. In Indonesia, fluctuations in the rupiah against the U.S. dollar (USD/IDR) have become a major focus of economic studies, especially under conditions of global uncertainty. This research aims to analyze the determinants of the USD/IDR exchange rate from both short-term and long-term perspectives.

This study is grounded in the theory of Purchasing Power Parity (PPP) as the fundamental framework in analyzing exchange rate behavior. From this foundation, three theoretical approaches are derived, namely the Balance of Payments approach, the Asset Market approach, and the Monetary approach. The Balance of Payments approach is represented by the net export variable, the Asset Market approach is represented by the interest rate differential between Indonesia and the United States, while the Monetary approach is represented by the inflation differential between the two countries. The dependent variable in this study is the USD/IDR exchange rate. The data employed are monthly time series spanning the period from January 2020 to December 2024. To capture both the short-run and long-run dynamics of the relationships among these variables, the Error Correction Model (ECM) is applied as the primary analytical method.

The findings reveal that, in the long run, the interest rate differential has a significant negative effect on the exchange rate, while the inflation differential has a significant positive effect. Net exports show no significant both in long-term influence. In the short run, interest rate differential, and inflation differential significantly affect the exchange rate, whereas net exports remain insignificant. These results confirm the relevance of the exchange rate theories in explaining exchange rate dynamics in Indonesia.

Keywords: *exchange rate, net exports, interest rate differential, inflation differential*