

ABSTRACT

Inflation occurs because there is disequilibrium between aggregate demand and aggregate supply. According to the Demand Pull Theory of Inflation, inflation from the demand side is caused by the increasing of the amount of aggregate demand for goods or services, so it creates excess demand condition which causes inflationary gap. Meanwhile, according to the Cost Push Theory of Inflation, the inflation is caused by an increasing of production costs.

The aim of this study is to identify the determinants of regional inflation from the demand-pull and cost-push inflation in the province's economy, using annual panel data in the period of 2010 - 2021. The data that used from the demand side in this study is: household consumption levels, Gross Fixed Capital Formation (GFCF), The Defisit of the Regional Revenue And Expenditure Budget (APBD), and net exports. Then from the supply side, the inflation rate can encourage regional inflation through increasing the minimum wage, output gap, and inflation expectations. The analytical method that used is Ordinary Least Square (OLS) regression, with the Fixed Effect Model or Least square dummy variable.

The results showed that from the demand side, the household consumption variable have a positive and significant effect on regional inflation, while the Defisit of the Regional Revenue And Expenditure Budget (APBD) variable have a negative and significant effect on regional inflation. Furthermore GFCF and net exports have no significant effect on regional inflation. From the supply side, the provincial minimum price variable, output gap, and inflation expectations have a positive and significant effect on regional inflation..

Keywords: *inflation, regional inflation, demand pull, cost push, output gap*

