THE RELATIONSHIP BETWEEN NATIONAL INFLATION AND PRICE TO INDONESIA EXPORT VALUE IN TOBACCO COMMODITY

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A thesis presented to the
Faculty of Economics President University
in partial fulfillment of the requirements for
Bachelor Degree in Economics Major in Management

August 2010
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DECLARATION OF ORIGINALITY

I declare that this thesis entitled “The Relationship between National Inflation and Prices to Indonesia Export Value in Tobacco Commodity” is, to the best of my knowledge and belief, an original piece of work that has not been submitted, either in whole or in part, to another university to obtain a degree.

Cikarang, Indonesia, August 30, 2010.

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ABSTRACT

This study is about to analyze the relationship between national inflation and price to the Indonesian export value in tobacco commodity. The research was conducted in President University, Cikarang, Bekasi. The author found that the Indonesian export value in tobacco commodity was decreasing in the first quarter of 2009. The author uses this as the identified problem.

This research used secondary data as its instrument, there are 36 data distributed in time series data from 2007-2009 computed monthly. Multiple regressions used as its method. The f-test was used to find out the simultaneously influence from independent variables to the dependent variable and the t-test was used to find the partially influence from independent variables to dependent variable. The author used SPSS version 16 to process the data.

Based on the findings, the significant value for f-test is 0.018 which is below the significant level of 0.05, and it shows that the independent variables are give simultaneously influence to the independent variable. The result of t-test on inflation shows insignificant relationship to the Indonesian export value in tobacco commodity, while prices show a significant relationship to the Indonesian export value in tobacco commodity.
ACKNOWLEDGEMENT

First of all I would like to thank to the greatest god Allah S.W.T for the blessing and gave me the strength to finish this thesis. I would like to deliver my appreciation to all people that always given me support to finish my study in President University, especially to:

1. All of my family, my mom, my dad, and my little brother. Thank you for the support and love that you given to me.
2. My thesis adviser, Mr. Edy Supriyadi for his patience to give me direction, advices, supports to finish this thesis. Thanks to my second adviser, Mr. Muhril Ardiansyah for the advices and guidance.
3. Special dedication to Astrid for her time and patience who always accompany me in whatever condition, in how bad my mood when writing this thesis. I’m sure you and me will always be a great companionship ever.
4. All of my best friends in rented house on Jln. Puspa 6 no.7, thanks for the laugh you bring and the time that we’ve spent together, you guys and the house are always be the most settled place to live in.
5. My dormitory friends especially Bagas Satriadi, Ray Aditya, William Chandra, Wandy Satar, and Robeth Yosua and Nindya Pradikta for the motivation they gave to me.
6. Palu people and their dormitory, Vian, Ichad, Milang, Iban, Aiy, Adam.
7. All of my friends in International Business and other majors which I cannot mention one by one

Cikarang, August 2010

Rizky Fauzy
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CHAPTER I

INTRODUCTION

1.1 Background of the Study
Global economic makes the world become small and smaller. In the global economic, the economy activity is not only about national or even trans-nationalization but it’s done internationally. In this situation, the country’s economic condition linked between one another.

At the time like this, the superiority of one country’s business and economics is not only based on the comparative advantage strategy, but more likely to the effectiveness of the competitive advantage strategy. The globalization changes the world economic structure fundamentally and the interdependent between developing and developed countries is relatively high, if there is something happened in one country, it will give effects to the other country which have relationship to them, like export and import.

Export is considered as the most critical element in the country to gain income and also to increase the country’s foreign exchange. By doing export to the international economic society, it means that this country is participated in the global economic competition. Export is needed by the country or the region which apply the open economic like our beloved country Indonesia. By doing export to many countries, it gives the possibility to boost the economic growth and lately hoped that it will give the significant improvement to the economic stability. Besides, Indonesia who’s just survived from the economic crisis is trying to recover it by doing export to many countries in the world with the best commodity produced by Indonesia itself.
Agriculture commodities hold important aspect in national economic growth, this sector helps us to gain income, reduce unemployment and play the role as the common goods needed for domestic consumption. It’s related to the amount that the agriculture sector brings in improving the Gross Domestic Product, especially in the crisis era experienced by Indonesia in 1997-1998.¹

One of the Indonesia’s export agriculture commodities which contribute the biggest amount of foreign exchange is tobacco and cigarette. Year by year, the amount tobacco export from Indonesia to the other country is increasing in such a big numbers. Based on the data release by Ministry of Trade, export volume of tobacco on from January to April 2010 is 46.341,6 ton which increase 18 percent compared to the previous year on 2009 where the tobacco export was 39.191,5 tons. Bayu Krisnamukthi as the representative of agricultural ministry predicts that the increasing in the export value of tobacco this first quarter caused by a huge demand for tobacco which is come from China. General Secretary of APTI (Asosiasi Petani Tembakau Indonesia) Budiyono says that the increasing of the export volume of tobacco also followed by the increasing the price of tobacco per kilograms from US$ 4.8 per kg increase to US$ 5.4 per kg. ²

But if we take a look a little bit to the past, the export value of tobacco fluctuated along the time; based on the data released by BPS (Badan Pusat Statistik) in the middle of 2009, the tobacco export from Indonesia to the world is decreasing in such an extreme numbers. In March 2009, the Indonesia’s tobacco export value fell perfectly from the numbers of US$ 15,366,189 to US$ 8,082,781 at the end of April


² www.sucofindo.co.id/?menuid=15&pubid=534
and continue decreasing until reach the low level of export value with the number of US$ 4,863,564.³

![Export Value of Tobacco 2007-2009](image)

**Figure 1.1 Export Value of Tobacco 2007-2009**

(Source: Badan Pusat Statistik)

The fluctuation of these numbers can be explaining that because the inflation and price and are fluctuated too. Inflation is the condition where there is excessive money supply in community so that there will be increase in commodity price. This price tends to encourage import and discourage export since people will purchase on foreign goods that are perceived to be cheaper. In other words, the fluctuated inflation and exchange rates addressed to affect the export value.

Based on the description above, the writer interested to conduct a research if inflation and exchange rates affects the Indonesia’s tobacco export value. The author decides to give the title of this research as:

“THE RELATIONSHIP BETWEEN NATIONAL INFLATION AND PRICE TO THE INDONESIA EXPORT VALUE IN TOBACCO COMMODITY”

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³ Badan Pusat Statistik Library
1.2 Problem Identification

Indonesia is known as one of the biggest exporter country of agriculture product and these commodities succeed to bring very large amounts of the country’s income, beside that it also provide big numbers of jobs field to the Indonesia’s society. The problem arise when the macroeconomics in Indonesia especially inflation fluctuates drastically within the short period. Based on this fluctuation, it assumed the export value of Indonesia’s tobacco decrease along the line.

In march 2009, the tobacco export fell perfectly from the numbers of US$ 15,366,189 to 8,082,781 at the end of April and continue decreasing until reach the lowest level of export value in that year with the number of 4,863,564, this free fall is a serious problem that faced by the country. Based on the explanation above, it shows that Indonesia’s tobacco has interesting aspects to be observed especially for those related to the export value. The author limits this research to the Export value of Indonesia’s tobacco, inflation rate, and tobacco price from 2007 until the end of 2009.

1.3 Statement of Problem

Based on the problem identified, so the statements of problem about this research can be written as follows:

1. Is there any relationship between inflation rates and price with Indonesia’s tobacco export value?

Research Purposes & Objectives

1. To find out the relationship between inflation rates and price with Indonesia’s tobacco export value?
1.5 Significant of the Study

1. For the author: This research means a lot to the author, beside it completes the requirement to get the bachelor’s degree in Management International business, it’s a form of application of three years study in President University. Generally, by doing this research, the author can implement both of the materials learned in campus and also the experience when the author was on his internship. And specifically, this research helps the author to understand about the importance of international trade mostly about export and import, how it works and the parties who’s participated in these international economic activities.

2. For the campus: By doing this research, it gives a new thought about the international trade especially in export and import activities and the instrument that can affect the exports. The result of this research also can be seen as completing the previous study about the export and it contributes the thoughts to be used for another research which takes same field of study.

3. For the government: Beside it gives advantages to the author and the campus, this research also can be used by the government to keep an eye upon the export activity such as how the governments anticipates before the inflation keeps rising.

4. For the exporter: It gives a thought to the exporter with the price setting and maintains it when the inflation fluctuates.
1.6 Theoretical Framework

Based on the figure 2.1, the theoretical framework explain about the field that the author wants to observe, in international trade there are two activities that is critical to the country. It’s export and import, but on this research the author focused on the export activity especially on the export value and factors that affecting it, the researchers wants to find out if there is relationship between the variables taken which are inflation, domestic price of Indonesia’s tobacco to its export value.
1.7 Scope and Limitation of Study

In complying with the research objective above, the scope of the research has to be limited and focused to make the research stay on the right track to avoid the unrelated question. This research is focused on how the inflation and price of the affect the tobacco commodity export value. The period of the research data gather from 2007-2009.

1.8 Definition of Terms

1. **Inflation**, The over general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index. Over time, as the cost of goods and service increase, the value of a dollar is going to fall because a person will not be able to purchase as much with that dollar as he/she previously could.

2. **Globalization**, Name of the process of increasing the connectivity and interdependence between the world markets and business. This process has speeded up dramatically in the last two decades as technological advances make it easier for people to travel, communicate and do business internationally. In general, as the countries being connected with the other countries, the competition among will be followed increase.

3. **Export**, Goods manufactured in this country and purchase by foreigners

4. **Import**, Goods produced in foreign countries and consumed or invested domestically
2.1. International Trade Theory

International trade is vital because this cross country trade will increase the possibility consumption of one country. International trade make countries possible to consume more goods compared to the available goods based on production possibility line on the condition without international trade.

The key of international trade is the comparative advantage theory. This theory assumed that a country possible to increase their living standard and their real income with the specialization of commodity products which have high productivity. According to classic theory, international trade is an act when national economy condition yields country’s profit. Some countries are deficient in critical raw materials, such as lumber or oil. To fill up these various deficiencies, countries must engage in international trade to obtain necessary resources to produce the goods and/or services desired by their citizens. While according modern theories, international trade is explained as links among natural country advantages, government action, and industry characteristics.

The background of international trade is not much different from domestic trade. The primary objective of trade is to maximize the gains from trade for the parties engaged in the exchange of goods and services. Each country has different competitive position as it has different economy stability and dynamics, resulted from its quantity and quality of its production factor (land, labor, capital, technology). The cost involved and factors of production separate international trade from domestic trade. International trade involves across border exchange and this increase the cost of
trading. Factors like tariffs, restrictions, time costs and costs related with the legal system of the countries involved in trade make the international trade a costly affair, whereas the extent of restrictions and legal hassles are considerably low in case of domestic trade. Nevertheless, the different between international trade and domestic trade is the production as a crucial role. The mobility factor of production is less across nations within domestic territory.

Figure 2.1 International Operations and Economic Connections


Figure 2.1 above shoes that trade in goods and services and movement of production factors are means in which countries are linked internationally to meets its international objectives. A company of a country that does international trade must gear its strategy to trading and transferring its means of operation across borders – say from Country A (as home country) to Country B (as host country). Once this process has taken place, the countries are connected economically.
2.1.1 Free Trade Theories

a. Theory of Comparative Advantage
A country has a comparative advantage in producing a good if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other countries. Therefore the essential insight about comparative advantage and international trade can be said: *Trade between two countries can benefit both countries if each country exports the goods in which it has a Comparative advantage.* (Krugman & Obstfeld, 2003)

The statement above is about possibilities, not about what will actually happen. Instead, international production and trade is determined in the marketplace where supply and demand rules. This theory is trying to inform us that global efficiency gains may still result from trade if a country specializes in those products it can produce more efficiently than other products – regardless of whether other countries can produce those same products even more efficiently. (Daniels, Radebough, & Sullivan, 2007)

b. Theory of Absolute Advantage
Economists use the term absolute advantage when comparing the productivity of one person, firm, or nation to that of another. The producer that requires a smaller quantity of inputs to produce a good is said to have an absolute advantage in producing that good. (Gregory, 2009)

In 1775, Adam Smith, the Scottish economist explain the real wealth of a country consist of the goods and service available to its citizen. Smith developed the theory of absolute advantage, which holds that different countries produce some goods more efficiently than other countries. So, the global efficiency can increase through free trade. (Daniels, Radebough, & Sullivan, 2007)
Smith reasoned that if trade were unrestricted, each country would specialize in those products that give it a comparative advantage. Each economy resource would shift to efficient industries because the country could not compete in the inefficient ones. Through specialization, countries could increase their efficiency because three reasons:

1. Labor could become more skilled by repeating the same tasks
2. Labor would not lose time in switching from the production of one kind of product to another.
3. Long production runs would provide incentive for the development of more effective methods.

A country could then use its excess specialized production to buy more imports than it could have otherwise produced. Smith believed the market place would make the determination; he thought that a country’s advantage would either be natural or acquired:

1. Natural Advantage
   A country may have a natural advantage in producing a product from agricultural and natural resources (mining, oil and etc) because of climatic condition, access to certain natural resources or availability or certain labor forces.

2. Acquired Advantage
   A country may have an acquired advantage in services and manufacture goods rather than agricultural goods and natural resources. The acquired advantage usually competitively in either product or process technology. An advantage if product technology is that it enables a country to produce a unique product or one that is easily distinguished from those of competitors. (Daniels, Radebough, & Sullivan, 2007)
c. **Theories of Specialization some Assumption and Limitations**

Both absolute and comparative advantage theories are based on specialization. They hold that output will increase through specialization. There are several factors concerned with this theory.

1. **Full employment**
   
The theories of absolute and comparative advantage both assume that resources are fully employed. When countries have many unemployed or unused resource, they may seek to restrict import to employ or use idle resource.

2. **Economic efficiency**
   
   Countries also often pursue objectives other than output efficiency. They may avoid overspecialization because of the vulnerability created by changes in technology and by price fluctuations.

3. **Division gains**
   
   Although specialization brings potential benefits to all countries that trade, the earlier did not indicate how countries will divide increase output. However, many people, including government policymakers, are concerned as well absolute economic growth, relative meaning in comparison to trading partners. If they perceive a trading partner is gaining too large a share of benefits, they may forget absolute gains for themselves so as to prevent relative losses.

4. **Mobility**
   
   The theories of absolute and comparative advantage assume that resource can move domestically from the production of one good to another – and at no cost. The movement of resources such as capital is clearly an alternative to trade. It is safe to say that resources are more mobile domestically than they are internationally. (Daniels, Radebough, & Sullivan, 2007)
2.1.2 Trade Pattern Theories

a. Country size theory
This theory assumes that large countries usually depend less on trade than small countries. Countries with large land areas are apt to have varied climates and an assortment of natural resource, making them more self sufficient than smaller countries.

b. Size of economy
This theory holds that countries can be compared by the economic size. The economic size of a country can measure the country domination on the world trade. For developed countries because this counties produce so much, incomes are high and people buy more from domestic and foreign sources. At the same time, the trade within developing countries is less than trade between developed and developing countries. (Daniels, Radebough, & Sullivan, 2007)

c. Factor Proportion Theory
These theories explain why countries have comparative advantage in certain goods. Countries differ in support of factors of production (U.S is nation with high of capital nation while Brazil is a country with excessively number of labor). Goods differ in their factor intensities (it takes more capital to labor to make computers; it takes more relative to capital to make shoes).

d. Country Similarity Theory
In 1961, The Swedish economist, Steffan Linder’s proposed a theory that has a similarity with comparative advantage. This theory explained that trade should done between same development country, which means the countries has a similar economic level and intra-industry trade in manufactured goods should be common. This theory particularly useful in explaining trade in differentiated goods such as
automobiles, expensive electronics equipment, and personal care products, for which brand names and product reputation play an important role in consumer decision.

e. The Product Life-Cycle Theory
These theories state that the location of production of certain kinds of product shifts as they go through their life cycle. Developed by Raymond Vernon of the Harvard Business School, this theory mentioned that international product life cycle theory trace the role of innovation, market expansion, comparative advantage, and strategic responses of global rivals in international production, trade, and investment decision.

2.2 Export Theory

2.2.1 Definition of Export
Export defined as goods and services that are produced domestically and sold abroad (Gregory, 2009). Export is an economic acts that one country committed to sent out countries goods or service to other countries. In export the consumer are the other country export goods or service are provided to foreign consumers by domestic producers. (Daniels, Radebough, & Sullivan, 2007). Export is the goods and services that we sell to people in other countries. (Parkin, Powell, & Matthews, 2005)

2.2.2 Export Strategy
a. Strategy Advantage of Exporting
Principally, both services companies and manufactures export to increase sales revenues. Many of the former, such as accountants, advertisers, lawyers or solicitors, and consultant, export their services to meet the need of their client abroad. Companies that are capital and research intensive, pharmaceutical companies for example, export to achieve economies of scale by spreading their research, product development, and capacity expenditures over a larger scale area.
Similarly, many companies that are not leaders in their domestic markets may more actively seek export sales as an indirect way to counter the volume advantage commanded by the market leader. One advantage to these export sales is the ability to alleviate the problem of excess capacity in the domestic markets. Another reason some companies do export rather than invest abroad is because perceived higher risk of operating internationally. (Daniels, Radebough, & Sullivan, 2007)

b. Diversification
Exporting enables companies to diversity their activities, there by developing the capacity to weather in the home marker. Because economic growth is not the same in every market, export diversification allows a company to use strong growth in one market to offset weak growth in another. Similarly, the company that develops more customers reduces its vulnerability to the loss of particular customers. (Daniels, Radebough, & Sullivan, 2007)

c. Profit Potential
One more strategic advantage of exporting is the potential of greater profitability. For several reasons, companies can sell their products at greater profit abroad then at home. This often happens because the competitive environment in the foreign market is different, possibly because in that market the product has no direct substitute or is in a different stage of its life cycle. Mature product at home often triggers extreme price competition, whereas a growth stage in foreign market may permit premium prices. Greater profitability also may come about because of the different government actions at home and abroad that affects profitability, such as differences in the taxation of earnings or the regulation of prices. If, however companies must divert efforts from domestic sale to service the greater demand of foreign markets, they may lack the resources to sustain their growth objectives.
2.2.3 The Stages of Export Development

Several factors trigger exporting. A company can export goods and services to related companies, such as subsidiaries, or it can export to independent customers. Sometimes a company exports its products to its related companies overseas, which then sell them to local customers. Other times, a company exports semi-finished goods that are used by its related companies as inputs in their manufacturing process. In many cases, however, the sale is to a third party, and in those situations, the exporter may sell directly to the buyer or indirectly via an intermediary. There are three phases of export which starts with the pre-engagement, initial exporting and the last is advance exporting.

**Pre engagement (Phase I)**
- Companies selling goods and services solely in the domestic market
- Companies considering cut not currently exporting

**Initial Exporting (Phase II)**
- Companies that do sporadic, marginal exporting
- Companies that see lots of potential in export market
- Companies unable to cope with exporting demands

**Advanced (Phase III)**
- Companies become regulars exporters
- Companies gain extensive overseas experience
- Companies may use other strategic for entering markets

*Figure 2.2 Phase of Export Development*  
(Daniels, Radebough, & Sullivan, 2007)
2.2.4 Pitfalls of Exporting

Companies often see exporting far more difficult from selling goods and services than in the home market. Most companies, particularly smaller ones, prefer to concentrate on domestics rather than foreign markets. Typically, potential exporters have a sense of the likelihood of needing to adjust their operations for different language, cultures, and market demands.

1. Dealing with Financial Management

   Similarly, most realize that exchange rates fluctuation and transaction processes of export activity require more sophisticated financial management. Many companies struggle with the fact that export transaction may require them to help foreign customer secure financing, whether in the form of trade credits, government-financed support, or bank guarantees they risk losing sale.

2. Dealing with Communication Technology

   Communication technologies have increased the difficulties of managing exports. Before the internet, exports were customarily arm’s-length, ship-it-and-forget-it transaction. Contact with customers relied on hard copy documents either faxed or sent overnight.

2.3 Inflation Theory

2.3.1 Definition of Inflation

   Inflation rate is the percentage change in the price level from one year to the next (Parkin, Powell, & Matthews, 2005).

   Inflation is an increase in the overall level of prices in the economy (Gregory, 2009). Inflation result from an increase in the amount of circulating currency beyond the needs of trade; an oversupply of currency is created and in accordance with the law of supply and demand, the value of money decrease.
2.3.2 Types of Inflation

Inflation can be classified by how rapidly average price rise, or by whether people expect it. Other distinctions pinpoint its causes. This section addresses all three approaches (Byrns & Stone, 1995)

a. Creeping Inflation vs. Hyperinflation
   Creeping inflation occurs when average prices rise at fairly low rates, whether hyperinflation occurs when average price rise more than 50% per months.

b. Anticipated vs. Unexpected Inflation
   A second way to categorize inflation or deflation is how accurately people anticipate changes in the price level. Unexpected changes in average price do far more harm than anticipated ones. Hedging is one way people try to buffer against expected losses of purchasing power.

c. Demand-pull inflation (demand-side)
   Demand-pull inflation occurs when average prices rise because aggregate demand grows excessively relative to aggregate supply.

d. Supply-Side Inflation
   Supply-side inflation result when aggregate supply shrinks, causing the price level to rise and aggregate output to fall.

e. Cost-Push Inflation
   Cost-push Inflation
   An inflation that results from an initial increase in costs is called cost-push inflation. The two main sources of increases in costs are: an increase in money wage rates and an increase in the money prices of raw materials.

f. Administered-Price Inflation
   According to administrative-price theory, firms with market power may be reluctant to raise price because they fear adverse publicity, in trust action or similar to their dominance in market.
2.3.3 Mixed Theories of Inflation

a. Composition-Shift Inflation

The foundation of composition-shift inflation theory is the assumption that prices rise more easily than they fall. So, if the demand rises in one sector of the economy, prices rise. But if there are offsetting declines in demands in other sectors, prices do not fall at least in the short run. Instead, as sales shrink, firms reduce output and lay off workers. Thus, inflationary pressure emerges as the composition of demands and supplies changes. Growing sectors will typically experience increases in prices, while declining sectors suffer from stagnation and unemployment rather than long-term price cuts. (Byrns & Stone, 1995)

b. Expectational Inflation

Inflationary expectations may cause expectational inflation because prevalent forecast are at least partially self-fulfilling: we create our own future realities by what we anticipate. If at the same time, buyers expect inflation, they will try to accumulate their own inventories of durable goods. Thus, inflationary expectations quickly cause price hikes because they reduce supplies and increase demands. (Byrns & Stone, 1995)

2.3.4 Consumer Price Index (CPI)

The consumer price index (CPI) is measured by pricing the items on a list representative of a typical urban household budget. (Baumol & Blinder, 2006). CPI is calculated and announced each month by Badan Pusat Statistik (BPS). To know which item included and what amounts, BPS conducts survey of spending habits roughly once every decade. As a consequence, the same bundle of goods and services is used as a standard for ten years or so, whether or not spending habits change. Of course, spending habits do change, and this variation introduces a small error into the CPS’s measurement of inflation.
The CPI is used to estimate changes in the purchasing power of money and as an escalator in some contracts calling for future payments. Unfortunately, problems are inherent in any economic index used to prescribe policy. Most economic variables are presented in their current nominal values. The nominal or monetary values are the dollar amounts received or paid. Nominal values lose comparability over time unless adjusted for inflation or deflation.

### 2.3.5 Other Price Indices

**a. Producer Price Index**

The producer price index (PPI) covers nonretail markets, averaging price changes for the primary products. Most prices summarized by this index are the wholesale selling prices of representative producers, but some prices come from specialized markets such as commodity exchanges (Byrns & Stone, 1995).

**b. The GDP deflator**

The GDP deflator is used to deflate the nominal value of the GDP. Its largely based on other price indices. For example, each component of consumer spending is adjusted using appropriate data from the Consumer Price Index. Business spending for capital equipment or raw materials is deflated with appropriate parts of the Producer Price Index. Parts of other indices are used to deflate the prices of items not included in the CPI or PPI, such as government services, construction and agricultural outputs. (Byrns & Stone, 1995)
2.4 Previous Study

Student of Atmajaya University conducted research about the effect of inflation and exchange rates toward the export value of Indonesia’s commodity. The object that is observed in this research is the export value of non oil Indonesia's commodity from 1985-2004. Objective of this research is to analyze the factors that affecting the export value of non oil commodity by Indonesia. Research method used is the multi regression to find out the relationship between the independent variables and the dependent variable. The data collected is the annually inflation rate and the exchange rates of Indonesia’s Rupiah to United States Dollars, the author used the secondary data during the research. Result of this research shows that the export value of Indonesia’s non oil commodity affected by the inflation and exchange rates in the amount of 71.04%.
CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Method
The researcher takes the quantitative research because the purpose of the research is
to discover the relationship between inflation, price of tobacco, and the export value
of Indonesia’s tobacco.
By using the quantitative, the data can be easily converted into number and analyze
through mathematical expression. Quantitative method shows the relationship
between the independent variable and the dependent variable. In a population, the
process of measurements in quantitative research can help the researchers to observe
the connection between empirical observation and mathematical expression of
quantitative relationship.

3.2 Research Instrument
3.2.1 Type of Data
To conduct this research, the author uses the secondary data. According to
managementstudyguide.com, secondary data is the data that have been already
collected by and readily from other sources. Such data are cheaper and more quickly
obtainable than the primary data and also may be available when the primary data
cannot be obtained at all. And according to businessdictionary.com, secondary data is
existing primary data that was collected by someone else or for a purpose other than
the current one.
3.2.2 Data Collection Method
The author uses secondary data of tobacco export volume from Indonesia to the world in the period of 2007 until 2009 monthly. The process in collecting data began in July, 6th 2010. The first step is to find the possible factors that explain about the factors that affecting export value by searching in through the handbooks and e-book. The data was gathered from BPS (Badan Pusat Statistik), the author directly came to BPS library to find the export value of Indonesia’s tobacco to the world especially in the form of time series data from 2007 until the end of 2009. Data gathered from the BPS library are the price of tobacco and the export value of tobacco. Then the data of Indonesia’s inflation rate are collected from BPS official website, it’s in the form of time series data from 2007 until 2009 and they are monthly categorized.

3.2.3 Data Analysis Method
The author uses regression analysis as the statistical used in this research. Regression analysis concerns with the study of the dependence of one variable, the dependent variable, on one or more other variables, the explanatory variables, with a view to estimating or predicting the (population) mean or average value of the former in terms of the known or fixed (in repeated sampling) values of the latter. Because this research uses four independent variables and one dependent variable, the author will be using multiple regressions analysis, descriptive statistic, coefficient of correlation, coefficient of determinant, F-test and T-test.

3.2.4 Sampling Design
The population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. There are 36 data series used in this research; they are Indonesia’s inflation rate, price of tobacco and export value of Indonesia’s tobacco.
3.3 Research Framework

The author takes these steps to make the research finish on the time


The author decided to start the research with read articles on the news and internet about the Indonesia’s export in tobacco commodity, and the author found that the export value was extremely decreasing in the first quarter of 2009. After that, started to study about the literature that supports to conduct the research about the topic and decided to take inflation rates and price of tobacco as variables. The author completely gets the data from some sources like BPS library and internet, after that the data processing is conducted using SPSS 16 software, after the process come to the result, then the author made a conclusion and recommendation based on this research study about Indonesia tobacco export.
3.4 Research Variables

3.4.1 Independent Variables

![Figure 3.2 Research Variables](source)

*Source: Adapted from Samuelson, Open Economic Slide, 2003 and case & fair Principles of Economics, 2004*

The research variables used in this research are listed as follows:

1. **Inflation Rate**
   
   Inflation rate is the first independent variables, the data shows in time series from during the starting period of 2007 until 2009. The inflation rate here was the inflation rate for foods, drinks, tobacco and cigarettes in Indonesia. This variable is the independent variable which use percent (%) as its unit.

2. **Domestic Price**
   
   The price used here is the domestic price of the dependent variables, so the price is going to be the domestic price of Indonesia’s tobacco commodity

3. **Export Value on Tobacco Commodity**
   
   Dependent variable in this research is tobacco export value from Indonesia to the world. The period taken for this variable is from 2007 until 2009 monthly. The standard measurement for this variable is in US $
3.5 Statistical Treatment

3.5.1 Multiple Regression Analysis

Multiple regression analysis is regression analysis conditional upon the fixed values of Y or the mean response of Y for given the values of the repressors. (Gujarati, 2003)

This research use multiple regression analysis to analyze the data in order to find out the correlation between factors that affecting the export value of Indonesia’s tobacco which the independent variables are inflation and price of tobacco

Regression model that will be tested is as follows:

\[ EXP = \beta_0 + \beta_1 \text{INF} + \beta_2 \text{PRICE} + e \]

- \( EXP \) = Indonesia’s tobacco export value
- \( INF \) = Inflation
- \( PRICE \) = Tobacco Price
- \( \beta_0 \) = Interception
- \( e \) = Errors

3.5.2 Multiple Coefficient of Determination (R\(^2\))

The coefficient of determination is a summary measure that tells how well the sample regression line fits the data. (Gujarati, 2003). Statistically, it measures how many percentage the variation of Y variable explained by the repressors jointly. It is a nonnegative quantity and it lies between 0 and 1. \( R^2 \) is calculated as follows:

\[ R = \frac{ESS}{TSS} = 1 - \frac{RSS}{TSS} \]
Where:

\[ \text{R}^2 = \text{Coefficient determination} \]

\[ \text{ESS} = \text{Explained sum of squares} \]

\[ \text{RSS} = \text{Residual sum of squares} \]

\[ \text{TSS} = \text{Total sum of squares} \]

### 3.5.3 Coefficient of Correlation \(( R )\)

It’s a measure of the degree of association between \( Y \) and \( X \) variables (Gujarati, 2003). In other words, it measures the strength of linear relationship between the dependent and independent variables. The coefficient of correlation can be computed directly from the coefficients of determination, as follows:

\[ r = \pm \sqrt{\text{R}^2} \]

Or from the sample data:

\[
r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \left( \sum x^2 \right) - (\sum x)^2} \sqrt{n \left( \sum y^2 \right) - (\sum y)^2}}
\]

### 3.5.4 Classical Assumption Tests of Least Square Method

The estimation method used in this research is the Ordinary Least Squares (OLS) method. This method is chosen because it is the most powerful and popular methods or regression analysis. Moreover, it is also simpler mathematically. The use of this method has to meet several assumptions to make sure that there are no data problems.
These statistical tests are listed as follows:

1) Normality Test
   Normality test is conducted to test whether residuals in the regression model is normally distributed or not. A normally distributed regression model is a good one.
   Graphically, normality test can be observed using Normal Probability Plot (NPP) that is a graphical device to study the shape of the Probability Density Function (PDF) of a random variable. On the horizontal, or X, axis, we plot values of the variable of interest (OLS residuals), and on the vertical, or Y, axis we show the expected value of this variable if it were normally distributed. If the variable is in fact from the normal population, the NPP will be approximately a straight line. (Gujarati, 2003)

2) Multicollinearity Test
   Multicollinearity problems arise if there is perfect relationship or certainly among the few independent variables or all variables in the model. In cases of serious multicollinearity, regression coefficients are no longer showing pure effect of independent variables in the model. There are several models for detecting the presence of multicollinearity. To detect multicollinearity problem, the author do a test on the variables with the measurement of the Variant Inflatio Factor (VIF), when the VIF values are under 10, in means that there is no multicollinearity problem aroused. (Gujarati, 2003).

3) Heteroscedasticity Test
   Heteroscedasticity is a condition where the residuals of each regressors have unequal variance. A good regression model is one that has no heteroscedasticity problem. One consequence of heteroscedasticity is the OLS is no longer BLUE.
4) Autocorrelation test

Autocorrelation is correlation between members of series of observations ordered in time (as in time series data) or space (as in cross sectional data). (Gujarati, 2003). A good regression model is one that has no autocorrelation problem. Autocorrelation makes OLS properties no longer BLUE. Although estimates are still linear and unbiased, they are no longer best of efficient. The standard errors become so wide that confidence intervals will be larger. As a result, the $t$ and $F$ test may give inaccurate results and what appears to be statistically insignificant may in fact be significant.

To detect if there is autocorrelation, the author use the Durbin-Watson $d$ Test. But before that, we must do a step to do the Durbin Watson $d$ Test.

The steps of the Durbin – Watson test are as follows:

1. Run the OLS regression and get the residuals.
2. Compute $d$ using the formula below
3. For the given sample size and numbers of regressors, find out the critical $d_L$ and $d_U$ values.

$$d = \frac{\sum (e_i - e_{i-1})^2}{\sum e_i^2}$$

The result of the formula ($d$ values) then compared with the value of $d$ in Durbin-Watson table. On the table was loaded with two values it’s the upper limit value (du) and lower limit values (dl) for various values of n and k. For the positive autocorrelation ($0 < p < 1$), null hypothesis (Ho) is accepted if $d > d_u$. 


Then Ho reverse rejected if d < dl. For the negative autocorrelation, null hypothesis (Ho) accepted if (4-d) > du, on the contrary is rejected if (4-d) < dl.

\[ H_0: \text{no positive autocorrelation} \]

<table>
<thead>
<tr>
<th>Reject H₀</th>
<th>Zone of indecision</th>
<th>Reject H₀⁺</th>
<th>Zone of indecision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of positive auto-correlation</td>
<td>Do not reject H₀ or H₀⁺ or both.</td>
<td>Evidence of negative auto-correlation</td>
<td></td>
</tr>
</tbody>
</table>

\[ d_L \quad d_U \quad 2 \quad 4 - d_u \quad 4 - d_L \quad 4 \]

Figure 3.3 Decision rule for Durbin Watson Test Result

3.6.5 Hypothesis Testing

a. F – Test

F – Test is one of statistical test that is used to test the significance of all explanatory variables simultaneously toward the dependent variable.

\[ F = \frac{\hat{S}_a^2}{\hat{S}_\delta^2} \]

Where \( \hat{S}_a^2 \) the variance of the first is group and \( \hat{S}_\delta^2 \) is the variance of the second group.
The hypothesis for F test is as follows:

- **Ho**: All independent variables simultaneously do not affect the dependent variables
- **Ha**: All independent variables simultaneously affect the dependent variables

Ho is rejected if the p-value is less than 0.05. On the contrary, Ho is accepted if the p-value is more than 0.05

### b. T – Test

T – Test is another statistical test that is used to test the significance of the independent variables individually toward the dependent variable.

\[
t = \frac{(x_1 - x_2) - d}{SE}
\]

Where \(x_1\) is the mean of sample 1, \(x_2\) is the mean of sample 2, \(d\) is the hypothesized difference between population means, and \(SE\) is the standard error.

The hypothesis for T – Test is as follows:

- **Ho\(_1\)**: There is no significant relationship between inflation and Indonesia’s tobacco export value
- **Ha\(_1\)**: There is significant relationship between inflation and Indonesia’s tobacco export value
- **Ho\(_2\)**: There is no significant relationship between price and Indonesia’s tobacco export value
- **Ha\(_2\)**: There is significant relationship between price and Indonesia’s tobacco export value
CHAPTER IV

ANALYSIS OF DATA AND INTERPRETATION

This chapter gives research result and analysis of data to explain the relationship of several factors against export value of tobacco. Each result will be explained in detail and reasons will be included to explain why these results occurred.

4.1 Research Object Description

This research used the data of Indonesia’s tobacco export value, inflation and price of tobacco. The data used is monthly data from 2007 – 2009.

4.2 Regression Analysis Result

4.2.1 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPORT</td>
<td>5.6899E6</td>
<td>2.69001E6</td>
<td>36</td>
</tr>
<tr>
<td>INFLATION</td>
<td>.715278</td>
<td>.3593922</td>
<td>36</td>
</tr>
<tr>
<td>PRICE</td>
<td>2.5653E6</td>
<td>5.70252E5</td>
<td>36</td>
</tr>
</tbody>
</table>

*Source: Data Processing Result of SPSS 16*

Table 4.1 is the descriptive statistics box which shows us about the mean and standard deviation of the variables. All variables use the same population which is 36, in the form of monthly data from 2007-2009.
4.2.2 Classical Assumption Test
The multiple regression analysis is preceded with classical assumption test to make sure there is no data problem. After that, the regression coefficients are shown on the regression output.

a. Normality Test

From the figure 4.1 below, it is shown that the Normal Probability Plot is approximately straight line. It means that the residuals in the regression model are normally distributed.
b. Multicollinearity test

One of the classic assumptions of the linear regression is no perfect multicollinearity in the model. The multicollinearity in the regression model can be assumed if there is a perfect linear relationship between a few or all independent variables in the model.

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Tolerance</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td></td>
</tr>
<tr>
<td>INFLATION</td>
<td></td>
</tr>
<tr>
<td>PRICE</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: EXPORT

*Source: Data Processing Result of SPSS 16*

Based on the table 4.2 above, we can conclude there is no multicollinearity problem because all VIF values are below 10, it shown on the table that the VIF value of the two variables are 1.040 and 0.961 of tolerance.

Alternatively, the null hypothesis is accepted and alternative hypothesis is rejected. It means that there is no existence of perfect linear relationship among all or some independent variables. There results give more confidence that the coefficient estimates are more precise. Beside, the OLS estimation method can be used efficiently.
c. Heteroscedasticity Test

This research uses graphical method to detect whether there is heteroscedasticity problem or not. It can be seen from the figure 4.2 above that there is no systematic pattern between the two variables. The residual plotted on the graph above are scattered one another. Hence, the null hypothesis that stated there is no heteroscedasticity is accepted. It means that the variances of the residuals in the regression model are equal.

Figure 4.2 Scatterplot of Heteroscedasticity Test

Source: Data Processing Result of SPSS 16
d. Autocorrelation Test

A good regression model is one that has no autocorrelation problem. Autocorrelation makes OLS properties no longer BLUE. The autocorrelation can be seen from the Durbin-Watson table on the Model of Summary from the SPSS result.

![Table 4.3 Output of Durbin – Watson](image)

<table>
<thead>
<tr>
<th>Model Summary&lt;sup&gt;b&lt;/sup&gt;</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Durbin-Watson</td>
</tr>
<tr>
<td>1</td>
<td>1.678</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PRICE, INFLATION  
b. Dependent Variable: EXPORT

Source: Data Processing Result of SPSS 16

Although estimates are still linear and unbiased, they are no longer best of efficient. The standard errors become so wide that confidence intervals will be larger. As a result, the $t$ and $F$ test may give inaccurate results and what appears to be statistically insignificant may in fact be significant.

Autocorrelation in this research is detected using Durbin-Watson method. The Durbin-Watson $d$ statistic is 1.990. Then, compared to the table of Durbin – Watson, we find out that for thirty six samples given and three explanatory variables, the $d_U$ is 1.674. So, the computed $d$ value lies between $d_U$ and $4-d_U$. following the decision rule, it can be concluded that there is no autocorrelation, positive or negative.
### 4.2.3 Coefficient Correlation

#### Table 4.4 Output of Coefficient Correlation

<table>
<thead>
<tr>
<th></th>
<th>EXPORT</th>
<th>INFLATION</th>
<th>PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPORT</td>
<td>1.000</td>
<td>-.172</td>
<td>.389</td>
</tr>
<tr>
<td>INFLATION</td>
<td>-.172</td>
<td>1.000</td>
<td>.196</td>
</tr>
<tr>
<td>PRICE</td>
<td>.389</td>
<td>.196</td>
<td>1.000</td>
</tr>
<tr>
<td><strong>Sig. (1-tailed)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPORT</td>
<td></td>
<td></td>
<td>.010</td>
</tr>
<tr>
<td>INFLATION</td>
<td>.158</td>
<td></td>
<td>.126</td>
</tr>
<tr>
<td>PRICE</td>
<td>.010</td>
<td>.126</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPORT</td>
<td>36</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>INFLATION</td>
<td>36</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

*Source: Data Processing Result of SPSS 16*

The coefficient of correlation in this research is analyzed with Pearson Correlation. The following is the output of Pearson Correlation from SPSS 16. It measures the strength of a linear relationship between two variables. The table of Pearson Correlation above shows the strength of the linear relationship between $X$ and $Y$ variables. The correlation between inflation to export value of tobacco is -0.172, it can be concluded that the correlation between these two variables is weak. Meanwhile, the price has a positive correlation to export value of tobacco; it can be proofed from the table that shows us the positive number in the amount of 0.389.
4.2.4 Multiple Regression Analysis
This research uses multiple regression analysis because the model has more than one independent variables. The following table is an estimation output of signification test that was conducted using t-test and F-test. The effect of independent variable individually toward dependent variable will be conducted using t-test. On the other hand, F-test is used to test the effect of all independent variables toward dependent variable simultaneously. Each independent variable is significat if p-value is less than 0.05.

a. Model Summary

Table 4.5 Output of Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.464</td>
<td>.215</td>
<td>.168</td>
<td>2.45375E6</td>
<td>1.678</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PRICE, INFLATION
b. Dependent Variable: EXPORT

Source: Data Processing Result of SPSS 16

From the table above, it shows that the variation of the Indonesia’s tobacco export value can be explained by variabels taken in this model which are the national inflation and the price of the tobacco. This regression model has R square value of 0.215 which means that 21.5 percent the export value of Indonesia’s tobacco affected by inflation and price fluctuation. On the other hand 78.5% of the variation is explained by other factors that are not included in the model.
a. **F-test**

Table 4.6 Output of F-test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>5.458E13</td>
<td>2</td>
<td>2.729E13</td>
<td>4.532</td>
<td>.018a</td>
</tr>
<tr>
<td>Residual</td>
<td>1.987E14</td>
<td>33</td>
<td>6.021E12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.533E14</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PRICE, INFLATION

b. Dependent Variable: EXPORT

*Source: Data Processing Result of SPSS 16*

F-test used to identify if the inflation and price variables altogether affects the export value of Indonesia's tobacco export value. From the output of F-test in the table 4.6 above, it shows the F calculated is in the value of 4.532 with the Sig value 0.018 which is far below the p-value of 0.05. With this result, the author concludes that altogether the inflation and price variables affect the export value of Indonesia’s tobacco significantly.

So we reject the null hypothesis which means that simultaneously all independent variables do affect export volume as the dependent variable. In other words, the inflation and tobacco price have significant impact to Indonesia’s export value in tobacco commodity as the independent variable.

b. **t-test**

To test the significance of the inflation and price variables individually toward the export value of Indonesia’s tobacco, the author uses t-test. Manually, this t-test can be done by comparing the calculated-t and the t-table, but since the data processing using SPSS software, the t test is based on the sig value of each independent variable which is the inflation and price.
The explanation about the result of this t-test will be written as follows:

The p-value is significant at 0.05, and according to the table 4.6 output of t-test, inflation as the first independent variables has a sig value of 0.110 which is greater if compared to the p-value. This result means that inflation is affecting the export value of Indonesia’s tobacco insignificantly. With this, it can be concluded that the first null hypothesis states there is insignificant relationship between inflation and export value of Indonesia’s tobacco is accepted, and it rejects the alternative hypothesis.

The second variable to be tested is price, from the table 4.6, it can be seen that the sig value of this variable is 0.009 which is far below the p-value of 0.05. The result means that price is affecting the export value of Indonesia’s tobacco significantly. So, it can be concluded that the second null hypothesis states there is insignificant relationship between price and the export value of Indonesia’s tobacco is rejected, and it accepts the alternative hypothesis.
c. Multi-regression analysis summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.753441.584</td>
<td>1.967E6</td>
<td>.892</td>
</tr>
<tr>
<td></td>
<td>INFLATION</td>
<td>-1.934529.981</td>
<td>1.177E6</td>
<td>-.258</td>
</tr>
<tr>
<td></td>
<td>PRICE</td>
<td>2.074</td>
<td>.742</td>
<td>.440</td>
</tr>
</tbody>
</table>

a. Dependent Variable: EXPORT

Source: Data Processing Result of SPSS 16

Based on the table 4.7, we can develop a regression model as follows:

\[ \text{EX} = 1,753,441.584 - 1,934,529.981 \text{INF} + 2.074 \text{PRICE} + e \]

From the table, the coefficient of inflation is -1,934,529.981, it means that if inflation rates increase in one percent, so that the export value of Indonesia’s tobacco will be decrease by -19345.29981, and because the sig value of inflation is 0.110 which is greater than 0.05, the author concludes that there is an insignificant relationship between the export value of Indonesia’s tobacco and the inflation rate. The author found that the result of this research is in line with the export theory. In the export theory, if the inflation is increasing then the export value will be decrease. So, the first hypothesis stated that there is no significant relationship between inflation rates and export value of Indonesia’s tobacco is supported, it accepts the null hypothesis and rejects alternative hypothesis.

Meanwhile, the second independent variable tells the different story, it’s the price of tobacco commodity. From the table, the coefficient of the price is 2.074, it means
when there is an increasing in price in one percent, the export value of Indonesia’s tobacco will be increased in the amount of 2.074, the p-value shown in the table is 0.0019 which is far smaller than 0.05. It means that there is a highly significant relationship between the export value of Indonesia’s tobacco with the fluctuation of the tobacco price. When the price goes up, the export value of Indonesia’s tobacco tends to increase because the government wants to get more profit when the prices is in the low value. And with this, the second hypothesis stated there is no significant relationship between prices of the tobacco and it’s export is rejected, it rejects null hypothesis and accepts the alternative hypothesis.
CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion of the Study

The research is aimed to identify the relationship between the production output, inflation and price of the tobacco toward the tobacco export value of Indonesia. The result has proven that there is relationship between the variables on the model, and it explained as follows:

1. Inflation

Base on the result of the research, inflation has highly insignificant relationship to the export value of Indonesia’s tobacco. And the results is connected with the export theory, if the inflation is increasing then the export value will be decrease.

2. Price

Price also has highly significant relationship to the export value of Indonesia’s tobacco, which is mean that the decreasing and increasing in the price of tobacco is affecting the export value of Indonesia’s tobacco. When the price is increase, then the export value will be increase too.

5.2 Recommendation

According to this research all the variables are has a highly relationship and affection to the Indonesia’s tobacco export value. And these are the recommendations from the author:

1. For Government

The government should concern more on improving the tobacco commodity export. Indonesia government should add more facilities and policy for
increasing spices commodity export value. This is a great opportunity for Indonesia to become the world leader in exporting tobacco and help the national economy condition.

2. For the next researcher

It’s better for the next researcher to add another variable besides the variables used in this research, they can add exchange rates and tariff as their independent variables.
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