THE EFFECT OF INFLATION AND UNEMPLOYMENT ON THE ECONOMIC GROWTH OF TUAL CITY

Ikram Mubarak Djodding

Development Economics Study Program, Faculty of Economics and Business,
Doctor Husni Ingratubun Tual University - Indonesia

e-mail:
ingkam.maulana@gmail.com

ABSTRACT

Inflation turns out to have quite a big impact on the economic growth of Tual City. High inflation rates can hinder economic development in the area. In addition, unemployment greatly hinders economic growth. Low economic growth can be caused by high levels of unemployment because it reduces investment and consumer confidence. These results have major implications for the city government and related stakeholders in Tual City in their efforts to develop sound economic policies. Sustainable economic growth requires measures to control inflation and reduce unemployment rates. Good monetary policy as well as training and job search programs can help solve this problem. This research has several problems, including the small sample size and the potential impact of uncontrolled variables on economic growth. Research on the influence of inflation and unemployment on economic growth in Tual City can be expanded by considering additional relevant variables.

Keywords: *Inflation; Unemployment; Economic growth; Tual City; Multiple Linear Regression*

Diterima (Received) : 04-02-2024
Direvisi (Revised) : 23-09-2024
Disetujui (Approved) : 26-10-2024
Dipublikasi (Published) :01-11-2024

INTRODUCTION

Every country seeks economic growth as part of its development agenda (Masriah, 2011). The success of economic development can be measured by economic growth (Sukirno, 2010). Therefore, encouraging economic growth is a constant goal for every developed and developing country. The economic expansion of a country is often called the "economic growth" of the economy (Mankiw in Maulida 2019). If a country's total output of goods and services increases, or if its potential Gross National Product increases, then the country will grow. Increasing output per person is essential for a developing economy. An increase in population means higher standards of living and real wages. (Fatmawati & Syafitri, 2015) This is in line with the definition of economic growth according to Sukirno (2012) which states that economic growth is the expansion of economic activities which increases the number of goods produced by society.

Increases in national output, national income, and per capita income are expected to occur thanks to reforms in various economic sectors (Azwar, 2016). The current state will remain. Although some experts use these terms interchangeably, economic growth and economic development are different concepts. One measure of the success of economic development is economic expansion. Therefore, if economic development occurs and that development causes changes in the economic sector, then economic growth will occur. New industries will be created, and existing industries will develop, as a result of increased export and import activities.] Improvements in infrastructure and support systems also have the opportunity to bring about a shift in the agricultural sector. Located in Maluku Province is the city of Tual (Ghozali, 2016).

Before the enactment of the Law of the Republic of Indonesia Number 31 of 2007, Tual City was included in Southeast Maluku Regency. Some dissatisfied parties questioned the validity of Tual's status as an autonomous region in court, but the Constitutional Court of the Republic of Indonesia ruled in favor of the city because it stated that the city met all the criteria for autonomy. In the long term, the problem of slow economic growth can be seen as a problem at the macroeconomic level. When factors of production are increased, the capacity to produce goods and services increases, but this does not mean a proportional increase in output.

The potential for increased production exceeds real output gains. As a result, economic growth is less rapid than it should be. This is in line with this opinion from Sukirno (2012) that the term "economic growth" can also refer to the process of expanding a country's productive capacity, as measured by an increase in per capita income. When real compensation for the use of factors of production increases from one year to the next, we say the economy has grown. Increases in employment and wages are expected to result from continued economic expansion.

In a press conference, Monday (3/4/2023), the Deputy for Distribution and Services Statistics of BPS Tual City stated that the cause of inflation in Tual City was the highest annual inflation in air transportation (1.80%), gasoline (0.62%). %), fresh fish (0.62%), side dish rice (0.55%), filtered clove cigarettes (0.45%), rice (0.40%) and house contract (0.22%). An economy is said to be experiencing inflation if there is a general and continuous trend of increasing prices. This is due to factors that play a role in causing an imbalance in the flow of goods and money. Along with GDP growth, unemployment, poverty, and export-import figures, inflation is an important economic indicator. Every country faces the danger of inflation, a monetary phenomenon that always causes concern because the policies taken to combat it often have undesirable consequences for economic growth. Interest rates and the current account deficit are two examples.

Inflation increases due to price fluctuations in the domestic market caused by domestic shocks.

From the background the related to economic conditions, especially inflation in Tual City, the researchers are interested in studying the impact of inflation and unemployment on the economic growth of Tual City. It is expected that the results of this study will provide proper insight into the impact of inflation and unemployment on the economic sectors of Tual City.

LITERATURE REVIEW

Inflation

Inflation essentially reflects an imbalance between supply and demand in an economy. Even when an economy is experiencing normal inflation, excessive price increases can damage consumer purchasing power, disrupt the allocation of resources, and make economic planning uncertain (Simanungkalit, 2020).

Apart from that, Inflation can also affect a country's fiscal and monetary policies and needs to be carefully managed to maintain price stability and balanced economic growth (Saefulloh et al., 2023). Inflation is an economic phenomenon where prices generally experience continuous increases in a country over a certain period of time (Adrian & Zulfahmi, 2012).

Inflation causes the purchasing power of the country's currency to decrease, so people need to spend more money to buy goods and services (Sari & Nurjannah, 2023). Factors causing inflation include excessive demand, increased production costs, increased wages, and international price fluctuations (On, 2016). Although low inflation can encourage consumption, high inflation can create economic uncertainty (Hafidz et al., 2023). In contrast, deflation is a general decline in prices that can hamper consumer spending and investment, and potentially trigger an economic slowdown (Priyono dan Ismail, 2017). Efforts to control inflation require appropriate monetary and fiscal policies (Pujadi, 2022).

Unemployment

The unemployed include residents who are not working but are looking for work or starting a new business, or who have a job but are not looking for work because they have not yet started working (Segoro & Pou, 2012). Haikal et al., (2024) stated that unemployment is a problem that is often experienced in a region, especially in Indonesia itself. The unemployment rate is one of the indicators used to measure the progress of a region, meaning that a higher unemployment rate can indicate worse economic conditions (Paelongan & Sandy, 2015). High unemployment can also hinder regional development in the long term, and what is most worrying is the burden of family problems because it results in poverty and drives high crime rates and inflation (Ishak, 2017).

Economic growth

Economic growth is a long-term issue that must be addressed for any country that is expected to experience very rapid economic growth (Salim et al., 2021). Every country has the same goal: to accelerate economic growth (Haikal et al., 2024). Economic growth is a process of continuously increasing output per capita in the long term (Latuheru & Gobay, 2024). Economic growth is the cause of whether a country's economy is healthy or not and economic growth is an absolute requirement for advancing and prospering the nation (Nurajizah et al., 2024). If a country is unable to accelerate its economic growth, new economic and social problems such as high levels of poverty will arise. Economic growth can be measured by gross domestic product (GDP) (Simanungkalit, 2020).

Economic growth is an important indicator in economic development and development efforts in a country. In this case, it can improve the welfare of society in a country at the level of per capita income (Jamaludin & Juliansyah, 2020). Therefore, economic growth can be used as a measure of a country's success in terms of economic development (Fatmawati & Syafitri, 2015). Economic growth can also be used to explain other things related to macroeconomics, such as the inflation rate, poverty rate, or unemployment rate (Hanifah, 2022).

According to Lincoln quoted by Halim (2020), Economic growth can be interpreted as the efforts made by a country to achieve GDP in the range of 5% to 7% more in one year over a relatively long period of time. If a country's GDP can reach this figure, then economic growth in that country can be said to be good. To determine whether a country's economic growth is good or not, an aspect is needed to measure it. (Saefulloh et al., 2023).

METHOD

The research location was conducted in Tual City, Maluku Province. With research time from June to July 2023. This research uses a quantitative research approach. This research aims to explain the hypothesis of the relationship between two variables: inflation (hereinafter referred to as X1), unemployment (hereinafter referred to as X2), and economic growth (hereinafter referred to as Y).

This research uses data on inflation, unemployment, and economic growth data for the city of Tual, with secondary data presented and collected from the Central Statistics Agency and covering the years 2018-2020. The data analysis technique in this study is multiple linear regression, which was analyzed using SPSS version 22.

RESULTS AND DISCUSSION

Normality Test

The normality tests aim to determine whether the residual or confounding variables in a regression model follow a normal distribution (Sugiono, 2019). If Asimp. Sig (2tailed) > 0.05 then the data is normally distributed, according to the normality test criteria. The results of the normality test for each variable can be seen in Table 1.

Table 1
Normality Test

	One-sample Kolmogorv-smirnov test		**Standardized remainder**
N			5
Common Parameters [a,b]	Means		.0000000
	Std. Deviation		9.74167456
The Most Extreme			
		Absolute	.194
	Positive		.194
	Negative		-.150
Kolmogorov-Smirnov Z			.194
Asymp.Sig.(2-tailed)			. 200c [,D]

Source: Data in SPSS, 2023

The research results showed that data on inflation, unemployment and economic growth in Tual City were normally distributed, this is shown in the normality test output table which shows the Aysmp sig(2-tailed) 0.200 > 0.05.

Multiple Linear Regression Test

A multiple regression analysis was carried out to determine the impact of inflation (X1) and unemployment rate (X2) variables on the economic growth variable (Y). Table 2 shows the results of the multiple regression test.

Table 2
Multiple Linear Regression Analysis

Model	*Unstandardized Coefficients*		*Sig.*
	B	*Std. Error*	
(Constant)	50.319	27.084	
Inflation	.613	1025	.601
Unemployment	-.292	.341	.481

Source: Data in SPSS, 2023

From Table 2, the following regression equation is obtained:
Y = 50.319 + 0,613 (X1) – 0,292 (X2)
X1 = Inflation
X2 = Unemployment
Y = Economic Growth
Or
Economic growth = 50.319 + 0.613 (Inflation) - 0.292 (Unemployment)

If there is no inflation or unemployment variable then the value of the economic growth variable is 50.319, corresponding to a constant value of 50.319. In the second model, the positive influence of inflation on GDP growth is shown by a regression coefficient of 0.613. Reducing unemployment would slow economic growth by -0.292 percentage points, corresponding to a regression coefficient of -0. 292 (which has a negative sign).

t-Test

A t-test can be used to determine whether a dependent variable is at least somewhat related to an independent variable (Putri et al., 2023). If the significance level of the test is greater than 0.05 then the null hypothesis (H0) is accepted and the alternative hypothesis (Ha) is rejected, this indicates that there is an insignificant inverse relationship between the two variables. The null hypothesis (H0) is rejected, and the alternative hypothesis (Ha) is accepted if and only if the significance level (p) is less than 0.05 (Putri et al., 2023). If the calculated t is compared with the t-table, if the calculated t is greater then H0 is rejected and Ha is accepted. Apart from that, accepting Ho means rejecting Ha if t-count is smaller than the t-table (Ekasari, 2018).

By entering these numbers into the t-table formula (nk-1, where n is the number of samples and k is the number of independent variables), we can calculate the t-table value at the 5% significance level. The table obtained is 2.110, which is (a/2:nk-1) = (0.05/2; 20-2-1 = 17). The following t-test results can be seen in Table 3.

Table 3
t-test

	Model T	Sig
Inflation	.598	.610
Unemployment	-.598	.481

Source: Data in SPSS 2023.

The results of the T-test can be described as follows:

1) First, for X1, the t-count for the inflation variable is 0.598, with a significant value of 0.610 (greater than 0.05). The calculated t-value of 0.598 is smaller than the t-table value of 2.110, so H1 is accepted and H0 is rejected, this shows that inflation has a positive and significant effect on GDP growth.
2) A t-count of -0.598 was obtained for the unemployment variable (X2) with a significance value of 0.481, and a t-count of 0.598 was smaller than the t table of 2.110, so H1 was accepted and rejected H0, showing that unemployment has a positive and statistically significant effect on GDP growth.

F-Test

Based on the previous description, the F test has two prerequisites when comparing the efficacy of two treatments (Ghozali, 2016). The research hypothesis is based on the theoretical foundations and results of previous studies, inflation and unemployment have a significant impact on GDP/economic growth. The Manova test is used to test hypotheses about the effect of training or intervention on the phenomenon being investigated (Sugiono, 2019). This decision is based on the following considerations:

1) If Sig. > 0.05 then H0 accepted.
2) If Sig. < 0.05 then H0 is rejected (Sugiono, 2019).

Table 4
F-Test

	Model F	Sig
Regression	0.380	0,725

Source: Data in SPSS, 2023

Based on the table 4, it can be seen that the F-count is 0.380, which is greater than the F table of 2.015 with a sig value of 0.725, which is a value greater than 0.05. This shows that H0 is accepted. This shows that all independent variables, namely inflation (X1), unemployment (X2) have a positive and significant effect simultaneously on economic growth (Y). This shows that there is a positive influence between inflation and unemployment on economic growth in Tual City.

The Effect of Inflation on Economic Growth

The research results show that the inflation rate has a significant effect on economic growth in the city of Tual. During the observation period there were fluctuations, economic growth was caused by the last five years (2018-2022). Economic growth will decrease by -5.98%, the negative sign shows an inverse relationship between inflation and economic growth, if inflation is high then economic growth in Tual city will decrease and vice versa. In this research, the inflation rate which is above 10% indicates that the inflation rate in the city of Tual is relatively high. This finding is also in accordance with previous research by Dewi and Purbadharmaja (2013) which concluded that inflation had a significant effect on economic growth in the city of Tual.

The Effect of Unemployment on Economic Growth

From the research results, unemployment results have a significant effect on economic growth in the city of Tual. The estimation results show an unemployment coefficient of 0.858. This shows that the unemployment rate has increased by 1%, while the inflation variable remains constant. Economic growth will decrease by -5.98%, the negative sign shows an inverse relationship between inflation and economic growth, if inflation is high then economic growth in Tual City will decrease and vice versa.

This research is supported by Murni (2006), rising unemployment can lead to lower economic growth because people's purchasing power declines and entrepreneurial investment decreases. There is an effect between unemployment and economic growth. To maintain economic growth, we need policies that not only aim for economic growth but also reduce the unemployment rate through the creation of new jobs.

The Effect of Inflation and Unemployment on Economic Growth (simultaneous)

According to the output of data processing, it can be seen that F has a significance value of 0.725 > 0.05 so that it can be linked to the variables of inflation and unemployment which together influence economic growth in the city of Tual as the research hypothesis is that inflation and unemployment have a significant impact on GRDP/economic growth, based on the basic theory and previous research results. Thus, it can be concluded that the influence of inflation and unemployment on economic growth in the city of Tual is significant. So inflation and unemployment are two important factors that drive economic growth in the city of Tual. Inflation, unemployment, and economic growth have a close relationship. If one of the three does not meet expectations then it will be hampered.

CONCLUSION AND SUGGESTION

Based on the discussion, the conclusions that can be put forward are that inflation and unemployment partially influence economic growth. This shows that low inflation and unemployment increase economic growth. Inflation and unemployment simultaneously influence economic growth.

Suggestions for future research will use a larger sample to produce comprehensive and lasting data and quotes. Previous studies have linked economic growth to factors such as foreign investment, labor, health, education, and government spending; Future studies should build on these findings.

REFERENCE

Azwar, A. (2016). Peran Alokatif Pemerintah melalui Pengadaan Barang/Jasa dan Pengaruhnya Terhadap Perekonomian Indonesia. *Kajian Ekonomi Dan Keuangan*, *20*(2), 149–167. https://doi.org/10.31685/kek.v20i2.186

Ekasari, Y. K. (2018). Pengaruh Biaya Pendidikan Dan Kinerja Guru Terhadap Pencapaian Siswa (Analisis Deskriptif Pada SMA Negeri Di Kabupaten Purwakarta). *Jurna Ekonomi Dan Bisnis*, *2*(1), 125–143.

Fatmawati, I., & Syafitri, W. (2015). Analisis Pertumbuhan Ekonomi Indonesia Model Solow Dan Model Schumpeter. *Jurnal Ilmiah Mahasiswa FEB Universitas Brawijaya*, *3*(2), 1–12. https://jimfeb.ub.ac.id/index.php/jimfeb/article/view/1860/1702

Hafidz, M., Rizah F., M., & Alfa Centauri, S. (2023). Pengaruh inflasi terhadap pertumbuhan ekonomi: perspektif Indonesia. *Jurnal Keuangan Negara Dan Kebijakan Publik*, *3*(1), 17–26.

Hafidz, M. S, M., Rizah, F. M., & Alfa, C. S. (2023). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi: Perspektif Indonesia. *Jurnal Keuangan Negara Dan Kebijakan Publik*, *3*(1), 17–26.

Halim, A. (2020). Pengaruh pertumbuhan usaha mikro, kecil dan menengah terhadap pertumbuhan ekonomi Kabupaten Mamuju. *Jurnal Ilmiah Ekonomi Pembangunan*, *1*(2), 157–172.

Hanifah, U. (2022). Pengaruh ekspor dan impor terhadap pertumbuhan ekonomi di Indonesia. Transekonomi. *Akuntansi, Bisnis Dan Keuangan*, *2*(6), 107–126.

Ishak, K. (2017). No Titleывмывмыв. *Ятыатат*, *вы12у*(235), 245.

Jamaludin, J., & Juliansyah, H. (2020). Pengaruh Belanja Pemerintah Terhadap Pendapatan Perkapita Indonesia. *Jurnal Ekonomika Indonesia*, *9*(2), 1. https://doi.org/10.29103/ekonomika.v9i2.3178

Latuheru, A., & Gobay, O. (2024). Pengaruh Belanja Langsung dan Belanja Tidak Langsung Terhadap Pertumbuhan Ekonomi Kota Jayapura. *Jurnal Ekonomi Dan Bisnis*, *16*(1), 65–74. https://doi.org/10.55049/jeb.v16i1.252

Munqowwi, H. M., Mubarok, Z., Solina, P. R., & Abadi, T. M. (2024). Sistem Perekonomian Terbuka. *Sains Student Reasearch*, *2*(1), 452–461.

Nurajizah, S. A., Allena, S., Utama, R., & Kurniawan, M. (2024). Analisis Pengaruh Nilai Tukar Dan Inflasi Terhadap Pertumbuhan Ekonomi Indonesia Tahun (2014-2023). *Jurnal Ekonomi Dan Keuangan Islam*, *2*(3), 229–240. https://doi.org/10.61132/santri.v2i3.645

Paelongan, P., & Sandy, S. (2015). Analisis Faktor-Faktor Yang Mempengaruhi Tingkat Pengangguran Di Kabupaten Jombang Tahun 2004-2013. *Artikel Ilmiah Mahasiswa*, *2013*, 1–5.

Priyono dan Zainuddin, I. (2017). *Teori Ekonomi* (Teddy Chandra (ed.); 1st ed.). Dharma Ilmu.

Pujadi, A. (2022). Inflasi: teori dan kebijakan. *Jurnal Manajemen Keberagaman*, *2*(2), 73–77.

Putri, A. D., Ahman, A., Hilmia, R. S., Almaliyah, S., & Permana, S. (2023). Pengaplikasian Uji T Dalam Penelitian Eksperimen. *Jurnal Lebesgue : Jurnal Ilmiah Pendidikan Matematika, Matematika Dan Statistika*,m *4*(3), 1978–1987. https://doi.org/10.46306/lb.v4i3.527

Salim, A., Fadilla, & Purnamasari, A. (2021). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Indonesia Anggun Purnamasari. *Ekonomica Sharia: Jurnal Pemikiran Dan Pengembangan Ekonomi Syariah* , *7*, 17–28.

Sari, S. P., & Nurjannah, S. (2023). Analisis Pengaruh Nilai Tukar, Jumlah Uang Beredar dan BI Rate Terhadap Inflasi di Indonesia dan Dampaknya Terhadap Daya Beli Masyarakat. *AKTIVA: Journal of Accountancy and Management*, *1*(1), 21–29. https://doi.org/10.24260/aktiva.v1i1.1015

Segoro, W., & Pou, M. (2012). Analisis Pengaruh Produk Domestik Regional Bruto (PDB), Inflasi, Indeks Pembangunan Manusia (IPM) dan Pengangguran terhadap Kemiskinan di Indonesia Tahun 2019-2012. *SNapp2016 Sosial, Ekonomi, Dan Humaniora*, 28–34.

Simanungkalit, E. F. B. (2020). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi di Indonesia. *Indonesia . Jurnal Manajemen*, *13*(3), 327–340.

Sugiono. (2019). Bab iii metoda penelitian. *Jurnal Akuntansi Dan Keuangan*, *3*, 1–9.