

CHAPTER I

INTRODUCTION

A. BACKGROUND OF STUDY

Money as a means of exchange eliminates many of the difficulties in barter system. Exchanges can only be done by the two parties equally in need of goods exchanged. However, with the existence of money as a means of exchange that is recognized throughout the community, then it can become a tool of exchange for various purposes by many parties. Islam sees money as merely a means of exchange, not a commodity. Money is a flow concept, therefore must be always circulating in the economy. Islam does not accept the concept of the time value of money as it is known in the concept of conventional money. In the concept of Islamic economy, money will always belong to the Community or money is a public goods, then the money should be used freely and no one hoard it without the resistance of others. The monetary system in Islamic economy must support toward the function of money as a means of exchange and avoid hoarding money. The monetary system is essentially as a part of a country's macroeconomic policies in order to control macroeconomics then it can stimulate a better money supply.¹

The interest rate does not affect the role in determining the amount of money offered at a certain time. Bring money demand is aggregate demand, that is, the overall demand for money in the economy which is the demand for money for transactions, just in case and speculation. Money supply is often associated with interest rates and inflation. Too much money in circulation can push up prices of goods in general, which will cause inflation. If there is too little money in circulation, economic activity will be slower. Based on this, the money supply needs to be regulated to suit

¹ Aji Prasetyo. 2017. “*Peran Uang Dalam Sistem Moneter Islam*”. *Majalah Ekonomi* ISSN No.1411-9501, Vol XXVI No. 1 Juli.

economic capacity.²

That is how monetary policy is the policy of the government to improve the economy through regulating the money supply. The money supply, in macro analysis, has an important influence on the level of economic output, also on prices. In the context of Indonesia, economic development in Indonesia cannot be separated from the involvement of the monetary and banking sectors. One important element of the monetary sector is considered capable of solving economic problems.³

Besides the transaction and consumption functions, money can also be invested to make a profit, than investment becomes a stabilizer for consumption in the society. The Conventional Economy, focuses on the bank interest rate through its central bank to control investment and consumption. When the bank interest rate is raised, then the person will tend to keep their funds in the bank. Vice versa, when the bank lowered the interest rate then the community will tend to be indebted for consumption. This contrasts with an interest-free economy system, as suggested by Islam. In Islamic economic investment is an activity that is highly recommended, because by investment the money will become more productive and bring benefits for economic growth and community. The investment is one of the tools for humans to keep the existence of his survival at the moment of his weak and helpless. The difference on the theory of investment in conventional economic paradigms with the Islamic Economics all actions, activities, policies, strategies and interactions in the economy are not merely based on the issue of profit and loss in this world, but it will affect the

² Maria Jose Augusto. 2017. *Pengaruh Tingkat Bunga, Inflasi dan Pertumbuhan GDP Terhadap Jumlah Uang Beredar di Timor Leste*. E-Journal Economy and Bussines Udayana University. Bali

³ Muhammad Ahmad. 2011. *“Analisis Pengaruh nilai tukar, kredit, suku bunga SBI, inflasi dan investasi terhadap jumlah uang beredar (M2) di Indonesia”*. Thesis of Economics and Development Studies of Hidayatullah Syarif State Islamic University, Jakarta,

hereafter as the mean of Muslim's commitment.⁴

The absence of interest rate instruments in all Sharia financial system activities has been replaced by the concept of profit sharing. This is the only difference between a conventional financial system and the Islamic financial system in contemporary times. The contemporary Islamic financial system still uses conventional fiat money and still applies the fractional reserve banking system. This is understandable considering that the Islamic finance system in Indonesia is still dominated by the strength of a large conventional system within the framework of a dual banking system.⁵

The problem in economic development, according to Adam Smith is the ability of humans to save and invest more. According to Adam Smith, the interest rate must be raised in order to accelerate the ability of the society in saving and investment. Thus, the level of investment will be determined by the level of savings while they are fully invested. The role of interest rates on development, according to Adam Smith's theory is that the increase in prosperity, development and population will cause decrease in interest rates and consequently the supply of capital. This makes the "goldsmith" will forced to lend their money in more to have the highest interest rate in order to the maintenance the standard of living. With the depreciation of the interest rates, amount of capital will increase. However, when interest rates decrease, the "goldsmith" are not able to lend more money. So they prefer to invest and become entrepreneurs.⁶

Specially in Indonesia since 1976 the currency circulation are smaller, it only reached 48,7% compared to the percentage of the demand deposit circulation which reached 51,3%. The percentage indicates that there has

⁴ Suprayatno, Eko. 2005. *"Ekonomi Islam, Pendekatan Ekonomi Makro Islam dan Konvensional"*. Jakarta. Graha Ilmu.

⁵ Ascarya, Noer Azam Achsan, Heni Hasanah. 2008. *Perilaku Agregat Moneter dalam Sistem Keunagan/ Perbankan Ganda di Indonesia*. Indonesia Economic Journal and Bussines Vol. 23, No. 2. ITB Bogor.

⁶ Adam Smith. 1981. *An Inquiry In to The Nature and Cause Of The Wealth Nations*. Indiana: Oxford University Press, p.13

been a process of modernization in the monetary sector. Also, it indicate that the control on the amount of money circulation in Indonesia are difficult with the widespread activities in a subsistence economy monetization, it consequently giving the tendency of rising inflation rate.⁷

Based on the facts above, the researcher wants to carry out an analysis related to the same title and the object of the research intended is Indonesia as Indonesia is still a developing country. But researchers want to look at it by adding a return variable shari'ah, so here the researcher takes the title **“ANALYSIS OF THE INFLUENCE OF INTEREST RATE AND RETURN SHARIA AND TOWARD BOTH MODEL MONEY DEMAND M2 ON PERIOD 2012-2017.”**

B. PROBLEM FORMULATION

Based on the above problem researcher finds the following problem formulation:

1. What is the influence of Interest rate and Return Sharia and Social both model of Money Demand M2 in 2012 – 2017?
2. Which is the more influential between the Return of Sharia and Interest rate toward both model of Money Demand M2 in 2012 – 2017?

C. PURPOSE OF STUDY

As for purpose rather than a discussion of some of the problems above as follows :

1. To know the influence of Interest rate and Return Sharia toward both model of Money Demand M1 in 2012 – 2107.
2. To find out which one is the more influential between the Interest rate and Return Sharia toward both model of Money Demand M1 in 2012 – 2017.

D. SIGNIFICANCE OF STUDY

⁷ Adwin S. Atmadja. 1999. *”Sumber-sumber penyebab dan pengendaliannya”*. Jurnal Akuntansi dan Keuangan Vol. 1, No. 1, Mei:54.

In this research analysts researcher decide to uses two parts, theoretical and practical:

1. Theoretical

Theoretical results of this research can be used as a reference, the criticism, as well as a comparison for the next researcher in the study of research with the same topic to see the development of the influence of Interest rate Islamic and Interest Rate toward both model of Money Demand M2 in 2012 – 2017.

2. Practical

In practical the result of this can be made as equalization research for rights own monetary authority in determining monetary policy with regard to the Influence of Return Sharia and Interest Rate toward both model of Money Demand M2 in 2012 – 2017.