CATRA RESEARCH INSTITUTE
P-ISSN 2720 - 9644 (Print)
E-ISSN 2721 - 0871 (Online)
JTEP
Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

Volume: 6
Number: 1
Page: 243 - 253

Article History:
Received: 2025-11-04
Revised: 2026-01-07
Accepted: 2026-01-29

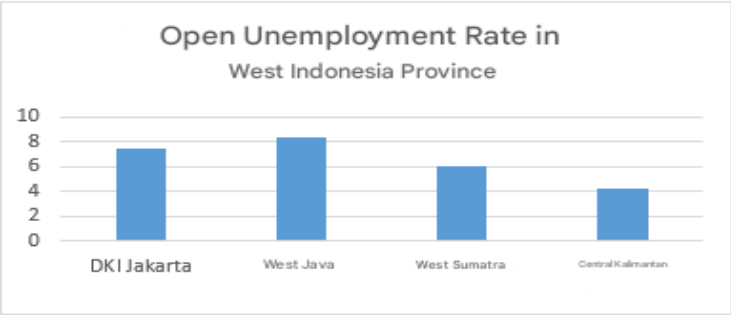
THE EFFECT OF INFLATION AND ECONOMIC GROWTH ON THE OPEN UNEMPLOYMENT RATE IN WEST INDONESIA

RT. Anugrah Fitri Rembulan[1], Basri Bado[2], Sri Astuty[3], Muhammad Syafri[4], Irwandi[5]
[1,2,3,4,5]Economics, Makassar State University, Makassar, Indonesia
Corresponding author: RT. Anugrah Fitri Rembulan
E-mail: anugrahfitrirembulan@gmail.com

Abstract:
This study aims to analyze the influence of inflation and economic growth on the open unemployment rate in Western Indonesia. The research method used is panel data analysis with a fixed regression model approach, which involves processing data from several provinces in the region over a certain period. The results of the analysis indicate that economic growth has a significant influence on reducing the unemployment rate, while inflation has no significant effect on unemployment in the study area. Interpretation of these results indicates that increased economic activity is able to reduce the unemployment rate, while fluctuations in inflation do not directly affect the unemployment rate substantially. The conclusion of this study emphasizes the importance of strengthening economic growth as an effort to control unemployment, while the effect of inflation is relatively insignificant in the context of the Western Indonesia region.
Keywords: Inflation, Economic Growth, Unemployment Rate

INTRODUCTION

The open unemployment rate remains a major problem in economic development because it reflects the imbalance between labor supply and demand. The open unemployment rate is defined as the percentage of the unemployed to the total workforce, which includes the working-age population who are unemployed but are seeking work or preparing to start a business (Central Statistics Agency, 2022). A high open unemployment rate indicates suboptimal labor absorption and limited available job opportunities. According to Sukirno (2006), unemployment is a macroeconomic problem that directly impacts public welfare by causing a decline in income and purchasing power. In Western Indonesia, particularly in the provinces of DKI Jakarta, West Java, West Sumatra, and Central Kalimantan, there are fluctuations in the open unemployment rate influenced by various factors, including inflation and economic growth. Economic growth that is not accompanied by adequate job creation has the potential to increase the number of open unemployment (BPS, 2024).



Source: Central Statistics Agency
Figure 1. Average Open Unemployment Rate 2014-2024

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

Based on the graph, the average open unemployment rate in West Java was recorded at 8.40 percent during the 2014-2024 period, indicating that West Java is among the provinces with a relatively high open unemployment rate in Western Indonesia (BPS, 2024). This condition indicates that economic growth in West Java is not yet fully inclusive, as increased economic activity has not been accompanied by optimal labor absorption; the benefits of development have not been felt equally by the entire population.

Inflation and economic growth are macroeconomic indicators closely linked to economic stability and employment conditions in a region. Inflation reflects the general increase in prices of goods and services, which directly impacts people's purchasing power. When inflation rises, the cost of living also rises, leading to a decline in household consumption. This decline in purchasing power can suppress aggregate demand, which in turn impacts production activities. Under these conditions, businesses tend to implement cost-effectiveness measures, including workforce reductions, potentially increasing the open unemployment rate (Digdowiseiso Kumba, 2018).

Besides inflation, economic growth also plays a crucial role in creating job opportunities and improving public welfare. Economic growth reflects an increase in the output of goods and services produced in a region, which is expected to expand employment opportunities and increase public income (Aprilia Hidayah & Tony Seno Aji, 2022). With increased economic activity, demand for labor will increase, thereby gradually reducing the open unemployment rate.

An optimal increase in labor absorption does not always accompany economic growth. Growth that is not accompanied by an expansion of job opportunities can result in persistently high unemployment even when the economy shows improvement. This condition results in declining public incomes and an increased risk of poverty due to low labor productivity (Syawal Zakaria, 2024). It indicates that economic growth is not fully inclusive, so the benefits of development are not felt equally by all levels of society.

In Western Indonesia, inflation, economic growth, and unemployment remain challenges to regional development. Fluctuating inflation from year to year, coupled with economic growth that has not yet fully absorbed the labor force, has resulted in relatively high unemployment rates in several provinces. This situation indicates an imbalance between output growth and job creation, which ultimately impacts public welfare.

Therefore, high-quality and sustainable economic growth is needed, focusing not only on increasing output but also on creating widespread employment. Stable inflation control and encouragement of employment-oriented economic growth are expected to reduce unemployment and improve public welfare in Western Indonesia.

Based on the above description, it is clear that inflation and economic growth play a significant role in influencing the open unemployment rate in Western Indonesia. Fluctuations in inflation have the potential to depress people's purchasing power and production activity, while economic growth is expected to expand employment opportunities. However, in practice, the economic growth that occurs has not been fully accompanied by an optimal increase in labor absorption, so the open unemployment rate remains a problem that requires attention. This situation indicates a relationship between inflation, economic growth, and the unemployment rate that requires empirical study. Therefore, this study focuses on analyzing the effect of inflation and economic growth on the open unemployment rate in Western Indonesia, with the following research questions:

1. How does inflation affect the open unemployment rate in Western Indonesia?
2. How does economic growth affect the open unemployment rate in Western Indonesia?

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

Inflation. Inflation is generally understood as a general and persistent increase in the prices of goods and services. A price increase in just one or two commodities cannot be categorized as inflation unless the increase is widespread and affects the prices of other goods (Boediono, 2014). Inflation is also often described as a condition where the growth of the money supply is faster than the production of goods and services. The inflation rate is usually measured by changes in the Consumer Price Index (CPI), which reflects the price movements of goods and services consumed by the average person (Rudy Susanto & Indah Pangesti, 2021). The level of inflation is often used as an indicator to assess the good or bad condition of a country's economy, where low inflation tends to promote economic stability, while high inflation can hinder economic growth and reduce public welfare (Prihartini, 2016).

Referring to Iskandar Putong (2008) as quoted by Nadia Ika Purnama (2014), there are three main theories explaining inflation: quantity theory, Keynesian theory, and structuralist theory. Quantity theory states that inflation occurs due to an increase in the amount of money circulating in society that is not matched by growth in the production of goods and services. Meanwhile, Keynesian theory explains that inflation arises from a tendency for people to overconsume, resulting in increased aggregate demand while supply remains constant, ultimately driving up prices. Inflation can also occur when expenditures are financed through printing money or when credit is used to increase aggregate demand. Structuralist theory emphasizes that inflation stems from weaknesses in the economic structure, such as limited food production and foreign exchange scarcity, which leads to sustained increases in production costs (Leo Fernando Simatupang & M.M. SE, 2023).

Furthermore, the relationship between inflation and unemployment is explained through the Phillips Curve. Phillips (1958) stated that inflation reflects increasing aggregate demand, which encourages producers to increase production capacity by adding workers, thus decreasing the unemployment rate. In other words, there is a trade-off between inflation and unemployment, where rising inflation can be followed by falling unemployment, and vice versa. However, this condition is highly dependent on the structure of the economy and the ability of the production sector to absorb labor. Excessively high inflation can actually suppress people's purchasing power, reduce aggregate demand, and ultimately increase unemployment if it is not accompanied by increased production capacity (Boediono, 1998).

In terms of impact, inflation affects income distribution, investment, and national economic stability. Prasetyo (2009) explains that inflation can lead to decreased investment, increased interest rates, increased economic uncertainty, and decreased public welfare, ultimately leading to increased unemployment. Although inflation can have a positive impact under certain conditions if it stimulates production and creates new jobs, in the Indonesian context, inflation tends to have more negative effects. Therefore, inflation stability is a crucial factor in maintaining sustainable economic growth and creating a conducive climate for employment.

Economic Growth. Economic growth is a long-term process that reflects increased production of goods and services within a region, resulting in increased income and improved welfare. Economic growth also reflects the economic conditions of a region, which directly impacts the development of the industrial sector and the dynamics of community economic activity. The higher the level of economic growth in a region, the greater the available job opportunities, as increased production is generally accompanied by an increased need for labor (Iskandar Puntong, 2008). Therefore, economic growth is often used as a primary indicator for assessing the success of a region's economic development.

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

The magnitude of a country's or region's economic growth can be measured through national income data, which reflects an increase in aggregate output. When economic growth is stable and sustainable, community economic activity expands, production capacity increases, and labor absorption becomes more optimal. This condition ultimately contributes to a decrease in the unemployment rate. Conversely, if economic growth slows, business expansion tends to be restrained, making it difficult to create new job opportunities (Iskandar). It demonstrates the strategic role of economic growth in creating jobs and strengthening the economic structure.

The relationship between economic growth and unemployment is also explained through Okun's Law, introduced by Arthur Okun (1962). This law states an inverse relationship between economic growth and the unemployment rate, whereby increased economic growth is followed by a decrease in the unemployment rate as output and labor demand increase. Conversely, when economic growth slows or contracts, the demand for labor decreases, leading to a rise in unemployment (Mudrajat Kuncoro, 2018). In other words, the rate of economic growth is a crucial factor in determining labor market conditions.

Furthermore, according to Keynes's view, changes in Gross Domestic Product (GDP) can occur more rapidly than changes in the unemployment rate because unemployment is strongly influenced by aggregate demand. When aggregate demand is low, companies tend to restrain expansion and hiring, thus limiting new job creation. Consequently, even if there is macroeconomic improvement, the impact on reducing unemployment is not always immediate. It confirms that quality economic growth accompanied by increased labor absorption is key to reducing unemployment sustainably (Chand Khem et al., 2017).

Open Unemployment Rate. Unemployment is a problem that is almost always encountered in every economic system, particularly in developing countries like Indonesia. Generally, unemployment is defined as a condition where the workforce is unable to find work that meets their needs and desires, leaving individuals without job opportunities (Mankiw, 2006). Furthermore, Qomariyah Isti (2013) explains that unemployment is a condition where the workforce is not yet absorbed into employment but is still actively seeking work. High unemployment rates directly impact the decline in public welfare due to decreased productivity and income, which ultimately can trigger poverty and various social problems (Syawal Zakaria, 2024).

The Open Unemployment Rate (TPT) is a method of measuring unemployment by comparing the number of unemployed to the total workforce. Open unemployment refers to working-age individuals who are unemployed, currently seeking work, or are ready to work. This condition generally occurs due to limited job opportunities or a mismatch between workforce qualifications and labor market needs (Aprilia Hidayah & Tony Seno Aji, 2022). Furthermore, open unemployment can also arise from weakened production activity, leading to a reduction in the workforce, particularly during economic downturns. The high TPT is influenced by various factors, including inflation, minimum wages, and the steadily increasing workforce.

From a theoretical perspective, Arthur Lewis (1954) explained that developing countries generally face a labor surplus while resource utilization remains limited. This imbalance results in a portion of the workforce being underutilized, leading to unemployment. According to this view, unemployment can be reduced by improving the quality of the workforce, particularly through education and controlling inflation to keep production costs low, enabling businesses to employ more workers (Imamul Arifin & Giana Hadi W, 2009). Meanwhile, Malthus's theory states that rapid population growth is not always accompanied by increased job opportunities, resulting in

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

increasingly fierce competition for jobs, pushing some individuals into unemployment (L Qotrunnada, 2017).

Furthermore, the relationship between open unemployment and macroeconomic variables is explained by Okun's Law, which states a negative relationship between economic growth and the unemployment rate. Increased economic growth will be followed by increased output and labor demand, thereby reducing the unemployment rate, while an economic slowdown tends to increase unemployment (Arthur Okun, 1962; Mudrajat Kuncoro, 2018). Furthermore, A.W. Phillips also explains the link between inflation and unemployment, where increased aggregate demand drives inflation while simultaneously expanding production and employment, thereby reducing unemployment (Derian Dwi Permana, 2019). Thus, the Open Unemployment Rate is not only influenced by labor market conditions but is also closely linked to the dynamics of inflation and economic growth.

METHODS

This study uses a quantitative descriptive analysis approach to analyze the effect of inflation (X1) and economic growth (X2) on the open unemployment rate (Y) in Western Indonesia. The study population includes all data on inflation, economic growth, and unemployment in Western Indonesia. The sample consists of data on unemployment, economic growth, and inflation in Western Indonesia from 2014 to 2024, obtained using a saturated sampling method (census sampling) from publications by the Central Statistics Agency (BPS).

This approach was chosen because it uses panel data, which combines cross-sectional and time series data. This analysis aims to illustrate the relationship between inflation, economic growth, and the unemployment rate. Arrows pointing from X1 and X2 toward Y indicate that both independent variables influence the open unemployment rate, either partially or simultaneously. The data used is secondary data from the BPS data for 2014-2024.

The analytical method used in this study is panel data regression analysis. Panel data are generated from a combination of cross-sectional and time series data. Three panel data regression model estimation approaches were tested: the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM). Based on the test results, the most appropriate model for this study was the Random Effects Model (REM), although there were initial indications that the FEM was more appropriate based on the F-statistic test. In addition, hypothesis testing (F-test and t-test) and classical assumption tests (such as the Durbin-Watson autocorrelation test) and multicollinearity tests were also conducted. The regression equation used is:

$$Y = \beta O + \beta 1X1 + \beta 2X2 + \varepsilon$$

Description:

Y = Unemployment Rate
X1 = Inflation
X2 = Economic Growth
βO = Constant/Intercept
β1, β2 = Regression Coefficients
e = Error Term

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

This study uses Panel Data Regression Analysis as a quantitative data analysis method, combining cross-sectional and time series data. The analysis process begins by estimating three panel data regression models: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). To determine the best model, a series of tests is conducted, namely the Chow Test (comparing CEM and FEM) and the Hausman Test (comparing FEM and REM). Based on the results of the model testing, the most appropriate model for this study is the Random Effect Model. After the model is established, classical assumption tests are carried out, including the Autocorrelation Test using Durbin-Watson (DW) and the Multicollinearity Test using the Variance Inflation Factor (VIF). Finally, hypothesis testing (statistical tests) is carried out, including the Determinant Coefficient Analysis (R2) to measure the model's ability to explain the dependent variable, the t-Test (Partial) to assess the individual influence of independent variables, and the F-Test (Simultaneous) to assess the overall influence of independent variables on the dependent variable.

RESULT AND DISCUSSION

Table 1. Eviews 12 Output Results

Variable	Common Effect	Fixed Effect	Random Effect
Constanta (C)	0.0000	0.0000	0.0000
X1	0.6653	0.0636	0.0662
X2	0.0562	0.0000	0.0000
R-Square	0.088973	0.850432	0.352382
F-static	2.003079	43.21298	11.15447

Source: Data Processed 2026

Based on the analysis results in Table 1, the panel data regression model selection using EViews 12 yielded an F-statistic of 64.4866 with a Prob (F-statistic) of 0.000, which is less than the 0.05 significance level. These results indicate significant differences between cross-sectional units, thus rejecting H0 and accepting H1. Therefore, the most appropriate model for use in this study is the Fixed Effects Model.

Table 2. Results of Eviews12 Panel Data Regression Model Selection

Variable	Statistic	Chi-Sq Statistic	Prob.
Cross-section F (Chow Test)	64.486661		0.0000
Cross-section random (Hausman Test)		4.189717	0.1231

Source: Data Processed 2026

Chow Test. The Chow Test aims to determine the best panel data regression model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). After the Chow Test results show that the Fixed Effect Model is superior to the Common Effect Model, the next step is to conduct a Hausman Test to determine whether the more appropriate model to use is the Fixed Effect or Random Effect. Based on table 2, the results of the selection of the panel data regression model output from Eviews12, obtained an F statistic value of 64.4866 with a Prob value (F statistic) of 0.000, which is lower than the significance level of 0.05, which indicates that there is a significant difference between cross-section units, so that the null hypothesis (H0) is rejected and the alternative

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

hypothesis (H) is accepted, thus the most appropriate model used in this study is the Fixed Effect Model.

Hausman Test. After the Chow Test results indicated that the Fixed Effect Model was superior to the Common Effect Model, the next step was to conduct a Hausman Test to determine whether the Fixed Effect Model or the Random Effect Model was more appropriate. Based on Table 2, the results of the panel data regression model selection obtained through eviews12 output show a Chi-Square statistic value of 4.189717 with a significance level (p-value) of 0.1231. Because the probability value is greater than the 5% significance level (0.05), the null hypothesis (H_0), which states that the Fixed Effect Model is the most appropriate, is rejected. Conversely, the alternative hypothesis (H1) is accepted, indicating that the best model for use in this study is the Random Effect Model.

From the panel data regression specification test analysis, the most appropriate model for this study is the Random Effect Model. In previous tests, the model has met classical assumptions, so the obtained estimates are consistent and unbiased. The panel data regression model estimation results are presented as follows:

Table 3. Panel Data Regression Output Results

Independent Variable	TH	T_{count}	t_{table}	Sig.	Vif
X1	-	1,887160	2,024394164	0,0662	1.000000
X2	+	4,846192	2,024394164	0,0000	0,413049
Constant					1.000172
Adjusted R^2					0,35282
F Statistic					11.15447
F count					3,251923846
Prob F count					0,000136
Durbin Watson					1,447669
N					44

Source: Data Processed 2026

The table shows the panel data regression equation as follows:

$$Y = \beta O + \beta 1X1 + \beta 2X2 + \varepsilon$$
$$Y = 7.626 + 0.104\ X1 + 0.310\ X2 + \varepsilon$$

Panel data regression. The constant of 7.626 indicates that if the inflation (X1) and economic growth (X2) variables are zero, then the open unemployment rate (Y) is estimated to be 7.626%. This value reflects the basic unemployment rate before considering the effects of inflation and economic growth. The inflation coefficient (X1) of 0.104 indicates that every 1 percent increase in inflation will increase the open unemployment rate by 0.104%, assuming other variables remain constant, and conversely, a 1% decrease in inflation will decrease the open unemployment rate by 0.104%. Meanwhile, the economic growth coefficient (X2) of 0.310 indicates that every 0.10% change in economic growth will be followed by a 0.310% change in the open unemployment rate, assuming other variables remain constant, where an increase in economic growth of 0.104% will increase the open unemployment rate by 0.310%, and a decrease in economic growth of 0.104% will decrease the open unemployment rate by 0.310%.

Autocorrelation test. The autocorrelation test is used to assess the relationship between observational data, both in time series data and cross-section data. From Table 3, the Durbin-Watson

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google doi Crossref ROAD DRJI oneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

value is 1.447669. This value is compared with the Durbin-Watson table value at a significance level of 5% with the number of observations n = 44 (10 years x 4 provinces) and the number of independent variables k = 2, namely inflation and economic growth. From the table, the DL value is 1.4226, DU is 1.6120, and 4-DL is 2.388. The test results show that the DW value > 4-DL is 1.447669 > 2.5774, so it can be concluded that the regression model has negative autocorrelation, and the assumption of autocorrelation-free in the model has not been achieved.

Multicollinearity Test. Multicollinearity testing is a condition where there is a relationship between independent variables in a model. A good regression model should be free from multicollinearity. To determine whether a model contains multicollinearity, the criteria are: if the VIF value is >10, multicollinearity is present. Conversely, if the VIF value is <10, multicollinearity is not present.

Table 3 shows that the VIF value for inflation is 1.000000 and the VIF value for economic growth is 0.413049, each of which is <10, thus concluding that there are no symptoms of multicollinearity.

Partial t-test. The partial t-test is used to assess whether each independent variable individually influences the dependent variable. The decision-making criteria in the t-test are: if the significance value is > 0.05 and the calculated t-value is > t-table, then the independent variable (X) is declared to influence the dependent variable (Y).

Based on Table 3, the results of the partial t-test indicate that the inflation variable (X1) has a significance value of 0.0662 > 0.05, with a calculated t-value of 1.887160 < the t-table value of 2.024394164. Therefore, inflation has no partial effect on the open unemployment rate. Meanwhile, the economic growth variable has a significance value of 0.0000 < 0.05, with a calculated t-value of 4.846192 > the t-table value of 2.024394164, indicating a partial effect of economic growth on the open unemployment rate in Western Indonesia.

F-test. The F-test is used to assess whether independent variables simultaneously have a significant effect on the dependent variable. In this study, the F-test aims to determine whether inflation and economic growth simultaneously have a significant effect on the open unemployment rate.

Based on the analysis results in Table 3, the calculated F-value is 3.981748 > F-table value of 2.024394164, with a significance value of 0.000136 < 0.05. It indicates that H0 is rejected and H1 is accepted, meaning that inflation and economic growth simultaneously have a significant effect on the open unemployment rate.

Coefficient of Determination (R2) Test. The Coefficient of Determination (R2) test is used to measure the extent to which the independent variables explain variation in the dependent variable. The R^2 value ranges from 0 to 1. If $R^2 = 1$, this indicates that the regression model contributes 100% to the dependent variable. Conversely, if $R^2 = 0$, the regression model is unable to explain variation in the dependent variable.

Based on Table 3, the adjusted R-square value is 0.35282, equivalent to 35.28%. This coefficient of determination indicates that the independent variables, namely inflation and economic growth, are able to explain 35.28% of the variation in the dependent variable, the open unemployment rate. Meanwhile, the remaining 64.72% is estimated to be influenced by other variables not included in this research model.

Inflation. The research findings show that the significance value (Sig) for the inflation variable (X_1) is 0.0662, which is greater than the 0.05 probability level (0.0662 > 0.05). Therefore, H_0 is rejected, and H_1 is accepted. It can be concluded that inflation has no significant effect on the open

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google Scholar doi Crossref ROAD DRJI ONESearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

unemployment rate in Western Indonesia. This finding aligns with the research findings of Nadhifa Fauziah (2021), which states that inflation does not significantly influence the unemployment rate.

Economist A.W. Philips argues that there is a negative relationship between the unemployment rate and inflation. He argues that years with low unemployment tend to be associated with high inflation, and conversely, years with high unemployment tend to be associated with low inflation.

According to A.W. Philips (1958), cited in Mankiw (2012), the link between inflation and unemployment is based on the assumption that inflation reflects an increase in aggregate demand. Because high inflation contributes to demand, producers increase their production capacity by employing more workers. When labor demand increases, prices will rise (inflation), and the unemployment rate will decrease (Hadiyan, 2018).

The insignificant effect of inflation on unemployment in Indonesia is due to the fact that the inflation rate in Indonesia is not driven by an increase in aggregate demand (demand-pull inflation), which has a multiplier effect on increasing production capacity and labor absorption, thus reducing unemployment (Heykal et al., 2024).

However, the inflation rate that occurred was more caused by other factors which did not have an impact on the reduction of the workforce, namely the increase in fuel prices (BBM) which had an impact on the weakening of the exchange rate, climate change or unpredictable weather, increased production costs, increases in government-regulated prices (administered prices) such as: increases in transportation fares, toll fares, cigarette prices, and LPG (Liquefied Petroleum Gas) prices, as well as high inflation in food (volatile foods) which resulted in supply shortages and distribution disruptions in various regions.

Economic Growth. Based on Table 3, the probability value of the t-statistic for the economic growth variable (X2) is 0.000. This value is smaller than the significance level (α) of 0.05 (0.0000 < 0.05), so it can be concluded that economic growth (X2) has a significant effect on the unemployment rate. Furthermore, the coefficient of the economic growth variable (X2) is -0.310711, indicating that every one-unit increase in economic growth will decrease the unemployment rate by 0.310711 units. Conversely, every one-unit decrease in economic growth will increase the unemployment rate by 0.310711 units.

The results of this study align with the researcher's hypothesis: unemployment is significantly negatively affected by economic expansion. It was found that economic growth has a negative and significant effect on open unemployment in Western Indonesia.

The results of this study align with research conducted by Andreas Ginting (2021), which states that economic growth has a negative and significant effect on the unemployment rate. It means that increasing economic growth can lead to a decrease in the unemployment rate, and conversely, a decrease in economic growth can lead to an increase in the unemployment rate.

This finding aligns with Okun's Law, introduced by Arthur Okun in 1962. Okun stated that there is a negative relationship between economic growth and the unemployment rate, where every 1% increase in the unemployment rate is estimated to reduce economic growth by approximately 2%. (Mudrajat Kuncoro, 2018)

The meaning of Okun's Law is that in an economy, a reduction in the unemployment rate can be achieved through increased economic growth. Furthermore, according to Keynes, one reason why Gross Domestic Product (GDP) can increase or decrease faster than the unemployment rate is that the increase in unemployment is triggered by low aggregate demand during a given period, making it difficult to create a larger number of jobs. (Chand Khem, et al., 2017: 135)

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

Economic growth is one of the main indicators for assessing economic performance, both at the national and regional levels. An economy is said to be experiencing growth if there is an increase in the production of goods and services compared to the previous year. This increase in output encourages companies to increase the number of workers in the production process, thereby increasing job opportunities for the workforce. This condition can ultimately reduce the unemployment rate. Thus, the higher the rate of economic growth, the greater the output produced, which results in increased employment and a lower unemployment rate.

CONCLUSION

Based on the research findings, inflation and economic growth have different effects on the open unemployment rate in Western Indonesia. Inflation was found to have no significant effect on the open unemployment rate, despite a theoretical trade-off relationship explained by the Phillips Curve. It is supported by the finding that inflation in the region is more influenced by costs and administered prices, rather than increases in aggregate demand that drive employment. Meanwhile, economic growth showed a significant and negative effect on the open unemployment rate, indicating that increased economic growth can suppress unemployment. This finding is consistent with Okun's Law, which states that growth in output and labor demand, coupled with high economic growth, will reduce the unemployment rate. Thus, simultaneously, inflation and economic growth have a significant effect on the open unemployment rate in Western Indonesia.

Recommendations. This research further recommends maintaining inflation stability to prevent pressure on the economy, particularly through controlling the prices of necessities, ensuring smooth distribution, and monitoring regulated prices. Furthermore, economic growth should be increased through encouraging investment, strengthening infrastructure, and developing productive sectors capable of absorbing large-scale labor. On the other hand, improving the quality of human resources through education and job training is also important to ensure inclusive and sustainable economic growth, thereby reducing the open unemployment rate in Western Indonesia.

REFERENCES

Aprilia, H., & Tony, S. A. (2022). Pengaruh Inflasi Dan Investasi Terhadap Tingkat Pengangguran Di Indonesia. *Independent: Journal of Economics* 2, no. 3: 160-168. https://doi.org/10.26740/independent.v2n3.p160-168

Andreas, G. (2021). Pengaruh Investasi, Upah, Pertumbuhan Ekonomi, dan Inflasi Terhadap Tingkat Pengangguran Terbuka Di Provinsi Jambi. Jambi: Universitas Jambi

Boediono. (1998). *Teori Pertumbuhan Ekonomi.* Seri Sinopsis Pengantar Ilmu Ekonomi No. 2.

Boediono. (2014). *Pengantar Ilmu Ekonomi No.2 Ekonomi Makro (edisi keenam).* BPFE-Yogyakarta

Badan Pusat Statistik. (2024). Tingkat Pengangguran Terbuka Menurut Provinsi (Persen).

Chand, K., Tiwari, R., & Phuyal, M. (2017). Economic Growth and Unemployment Rate: An Empirical Study of the Indian Economy. *PRAGATI: Journal of Indian Economy, Vol. 4*, Issue 2, Hal. 130-137. https://doi.org/10.17492/pragati.v4i02.11468

Digdowiseiso, K. (2018). *Perekonomian Indonesia Dalam Perspektif Ekonomi Makro.* Jakarta Selatan:Lembaga Penerbit Universitas Nasional.

Derian, D. P. (2018). Analisis Pengangguran di Yogyakarta.

Hadiyan, F. (2018). *Analisis Hubungan Inflasi dengan Pengangguran di Indonesia Tahun 1980 2016 dengan Pendekatan Kurva Phillips, Jurnal Ekonomi.* Yogyakarta: FE Universitas Islam Indonesia. Hal. 7.

CATRA RESEARCH INSTITUTE
• P-ISSN 2720 - 9644 (Print)
• E-ISSN 2721 - 0871 (Online)
JTEP Journal of Tourism Economics and Policy
JOURNAL OF TOURISM ECONOMICS AND POLICY
Indexed By : GARUDA Google doi Crossref ROAD DRJI OneSearch ISJD sinta INDEX COPERNICUS Clarivate Analytics WEB OF SCIENCE BASE

Heykal, M., Prasetya, S., & Harsanti, P. S. (2024). Pengaruh Kualitas Pelayanan terhadap Kepuasan Pelanggan pada Jasa Wisata (Open Trip) CV Tidung Island. *Jurnal Ekonomi Manajemen Akuntansi, 30*(1), 250-265. https://doi.org/10.59725/ema.v30i1.226

Iskandar, P. (2010). *Economics Pengantar Mikro dan Makro.* Jakarta: Mitra Wacana Media. Hlm 68.

Imamul, A., & Giana, H. W. (2009). *Membuka Cakrawala Ekonomi.* Bandung: PT. Grafindo Media Pratama.

Lela, Q. (2017). Analisis Pengaruh Pendidikan, Pertumbuhan Ekonomi, dan Rasio Gini Terhadap Pengangguran Terbuka di Daerah Istimewa Yogyakarta Tahun 2010-2015. Skripsi. Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Malang.

Leo, F. S. (2023). Ekonomi Makro. Perkumpulan Rumah Cemerlang Indonesia Anggota Ikapi Jawa Barat.

Mankiw, N. G. (2006). *Pengantar Ekonomi Makro.* Salemba Empat.

Mankiw. (2013). *Pengantar Ekonomi Mikro.* Jakarta: Salemba Empat.

Kuncoro, M. (2018). *Perencanaan Pembangunan Daerah: Teori dan Aplikasi.* Jakarta: PT Gramedia Pustaka Utama.

Nadhifa, F. (2021). Analisis Pengaruh Pertumbuhan Ekonomi, Inflasi dan Jumlah Penduduk Terhadap Penganggutan di Indonesia Periode Tahun 1989-2018. Jakarta: Universitas Islam Negeri Syarif Hidayatullah

Phillips, A. W. (1958). The Relation Between Unemployment and The Rate of Change of Money Wage Rates in the United Kingdom. Economica. https://doi.org/10.2307/2550759

Prasetyo. (2009). *Fundamental Makro Ekonomi.* Yogyakarta: Beta Offset

Qomariyah, I. (2013). Pengaruh Tingkat Inflasi dan Pertumbuhan Ekonomi Terhdapa Tingkat Pengangguran di Jawa Timur. *Jurnal Pendidikan Ekonomi, Vol. 1*, No.3.

Rudy, S., & Indah, P. (2021). Pengaruh Inflasi dan Pertumbuhan Ekonomi Terhadap Tingkat Kemiskinan di Indonesia. *JABE (Journal of Applied Business and Economic) 7*, no. 2: 271– 278. https://doi.org/10.30998/jabe.v7i2.7653

Syawal, Z. (2024). *Pengantar Teori Ekonomi Makro.* Uwais Inspirasi Indonesia.

Sadono, S. (2006). *Pengantar Teori Makro Ekonomi.* Jakarta: Raja Grafindo Persada.