

# An Evidence Analysis Of The Exchange Rate Disconnect Puzzle In Indonesia

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## Abstract

A dilemma in international macroeconomics that have been being empirical debating is Meese-Rogoff exchange rate disconnect as the persistent research finding of disengaging between exchange rate and macroeconomic fundamentals. This study analyses the evidence of the exchange rate disconnect puzzle of Indonesian Rupiah *vis-à-vis* the United States dollar. By using ARDL, the result showed that in the short-run, Dornbusch-Frankel sticky price model explains better the refusing of the puzzle evidence which provided macroeconomic fundamental that affect exchange rate movement. Nevertheless, in the long-run, Frenkel-Bilson flexible price model provide a little support in the refusing of the puzzle evidence.

**Keywords:** exchange rate, macroeconomic fundamentals, ARDL, sticky price, flexible price.



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