

Do We Still Need Coins? The Role of Payment System Innovation, Pandemic and Coin's Purchasing Power on Coin Demand in Indonesia

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Abstract

Research that examines the relationship between payment system innovation and factors influencing the demand for coins was scarce. Studies of money demand in Indonesia also should have paid more attention to the significance of coinage, despite their criticality for economic transactions and the central bank's explicit mandate for their availability. This article makes two contributions to the current body of knowledge: Initially, we broaden the conventional function of money demand by focusing on coin demand and incorporating a direct metric for payment system innovation (PSI), the COVID-19 pandemic, and coin purchasing power. Second, we evaluate the Indonesia coin demand model by employing various indicators of PSI—card and digital payments, ATM/Debit cards, and electronic money. This study employs the autoregressive distributed lag (ARDL) bounds test method to estimate the corresponding equations. The findings provide evidence of a long-term relationship between coin demand, PSI measures, the pandemic and coin's purchasing power. The findings suggest that PSI significantly affects the demand for coinage. The value of Rupiah coins and the pandemic have significantly impacted the demand for coinage. The demand for coins could potentially be affected by non-economic factors, leading to the misconception of substantial demand.

Keywords: Money demand; coin; payment system; innovation; purchasing power; COVID-19