



## Analysis of Factors That Affect the Rate of Economic Growth and Poverty in the Province of Bali, Indonesia

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### ABSTRACT

Bali Province is one of the provinces in Indonesia whose rapid economic development, but still has poverty problems. The purpose of this study was to analyze the direct and indirect effects of investment, employment, education, and health on poverty through the rate of economic growth in Bali Province. The type of data used in this study is secondary data during the period 2007-2015, while the method of data collection is observation and in-depth interview. Data analysis technique used is descriptive analysis and path analysis. Based on the results of the analysis found that: (1) health has no significant effect on the rate of economic growth in Bali Province. Investments, employment and education have a positive and significant impact on the economic growth rate in Bali Province; (2) employment and health opportunities have no significant effect on poverty in Bali Province. Investment, education and economic growth rates have a negative and significant effect on poverty in Bali Province; (3) the rate of economic growth is a variable of partial mediation in the indirect effect of investment and education on poverty, and the rate of economic growth is a full mediation variable in the indirect effect of employment on poverty, and the rate of economic growth is not mediation or no mediation on health.

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### I. INTRODUCTION

The problem of poverty is an emerging problem in every country, especially in developing countries. Bali Province as one of the provinces in Indonesia is also not free from the problem of poverty. The problem of poverty up to now is still a prolonged problem of residence including Bali which is known as a tourism destination not escape from the problem of poverty of the population (Central Bureau of Statistics of Bali Province, 2016). Table 1. shows the ratio of the number of poor people (inability to meet certain standards of basic needs, both food and non-food) to the population in the regency/city.

Bali Provincial BPS data related to poverty level in the last nine years tend to experience significant fluctuations (Table 1). The average percentage of poor people in Bali Province in 2007-2015 is 5.06 percent. The development of the poor increasingly decreasing year by year, but in 2013 the number of poor people is increasing. The development of the poor in 2013 reached 182.8 thousand inhabitants. This is due to the fuel price hike in mid-2013 and the economic crisis, so that many people live below the poverty line.

Economic growth as one of the indicators in overcoming the problem of poverty, where economic growth is a concept of economic development (Atalay, 2015). Economic growth is a

necessary condition for poverty reduction. The condition of sufficiency (sufficient condition) is that the growth is effective in reducing poverty. That is, the growth should spread in every income class, including among the poor (Siregar and Wahyuniarti, 2007). According to Barika (2013) that high economic growth accompanied by equitable distribution of growth outcomes from the business sector is needed in reducing poverty. Negative economic growth will lead to increased poverty (Ishengoma and Robert, 2006). Economic growth is a key in reducing or increasing poverty (Fosu, 2010).

**Table 1:** Percentage of Poor Population of Bali Province by Regency/City, Year 2007 - 2015

No.	Regency/ City	Year								
		2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Jembrana	9.92	7.97	6.80	8.11	6.56	5.74	5.56	5.83	5.84
2	Tabanan	7.46	6.92	4.99	6.96	5.62	4.90	5.21	5.61	5.52
3	Badung	4.28	3.28	3.28	3.23	2.62	2.16	2.46	2.54	2.33
4	Gianyar	5.98	6.61	5.76	6.68	5.40	4.69	4.27	4.57	4.61
5	Klungkung	9.14	7.03	5.23	7.58	6.10	5.37	7.01	7.01	6.91
6	Bangli	7.48	6.12	5.18	6.41	5.16	4.52	5.45	5.86	5.73
7	Karangasem	8.95	7.67	6.37	7.95	6.43	5.63	6.88	7.30	7.44
8	Buleleng	8.68	7.45	5.95	7.35	5.93	5.19	6.31	6.79	6.74
9	Denpasar	2.10	2.19	2.20	2.21	1.79	1.52	2.07	2.21	2.39
	Bali Province	6.63	5.85	4.88	5.67	4.59	3.95	4.49	4.76	4.74

Source: Central Bureau of Bali Province, 2017

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Economic growth of Regency/City in Bali Province shows an increase, this is supported by the beauty of panorama as well as the diversity of art and culture as a contribution from the tourism sector as reflected by the growth rate of GDP of Bali Province. Economic growth reflects the economy in an area, the higher economic growth in an area is assumed that the existing community in the area is getting more prosperous.

**Table 2:** Growth Rate of GDP of Bali Province by Regency/City, Year 2007 - 2015 (Percent)

No.	Regency/ City	Year								
		2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Jembrana	5.11	5.05	4.82	4.57	5.89	6.11	5.69	6.05	6.23
2	Tabanan	5.76	5.22	5.44	5.68	6.11	6.12	6.45	6.53	6.24
3	Badung	6.85	6.91	6.39	6.48	7.07	7.64	6.82	6.98	6.27
4	Gianyar	5.89	5.90	5.93	6.04	7.15	7.08	6.82	6.80	6.34
5	Klungkung	5.54	5.07	4.92	5.43	6.11	6.25	6.05	5.98	6.11
6	Bangli	4.48	4.02	5.71	4.97	6.14	6.20	5.94	5.83	6.22
7	Karangasem	5.20	5.07	5.01	5.09	5.43	5.93	6.16	6.01	6.00
8	Buleleng	5.82	5.84	6.10	5.85	6.44	6.78	7.15	6.96	6.12
9	Denpasar	6.60	6.83	6.53	6.57	7.16	7.51	6.96	7.00	6.21
	Bali Province	5.92	5.97	5.33	5.83	6.66	6.96	6.69	6.73	6.03

**Source:** Central Bureau of Bali Province, 2017

In Table 2 shows that there is a difference in economic growth in the Regency/City in Bali Province. The highest economic growth increase occurred in Badung regency in 2012 which amounted to 7.64 percent, this is due to the rise of the tourism sector. The lowest economic growth occurred in Bangli regency in 2008 of 4.02 percent. This shows that economic growth tends to be different and relatively uneven. The unevenness of economic growth is caused by the resources owned such as nature, human, capital and technology both in quality and quantity.

Sustained economic growth is an investment-backed growth, as this growth is thought to be able to increase productivity so as to help increase economic growth (Kuncoro, 2004). Investment is a strong link to economic growth and poverty reduction (Ocaya et al., 2012). Investment in the form of investment will contribute greatly in increasing economic growth. According to the Law of the Republic of Indonesia Number 25 Year 2007, investment is sourced from domestic investment and foreign investment. Both are equally important and affect the economic growth of a country (Dumairy, 1996). In the production process, additional investment becomes a multiplier of output that requires additional labor. These additional labor needs will expand employment opportunities as well as impact on the increase of people's income so that the welfare of the community increases.

The growth of the population, and ultimately associated with the increase in the labor force, has traditionally been considered a positive factor in stimulating economic growth. If the workforce is available in larger quantities, it means more productive workers are available, and large populations will increase the potential size of the domestic market (Todaro, 2006). The population on the one hand can be the

actor or resource for the production factors, on the other hand can be the target or the consumer for the resulting product (Musfidar, 2012). The development of manpower can have two important meanings, namely as the subject of development, in which the workforce as an agent in increasing economic growth (input of production factor) as well as the object of development, where the workforce as the priority element for the improvement of quality of life which includes income increase, health and education.

The relationship between education and poverty is important because education has a key role in promoting economic growth and reducing poverty (Haughton, 2012). According to Todaro (2006), education plays a major role in shaping the ability of a developing country to absorb modern technology and to develop capacity for sustainable growth and development. Furthermore, health is a prerequisite for increased productivity, while educational success is also based on good health. Therefore, health and education can also be seen as a vital component of growth and development as inputs of aggregate production functions. Its double role as input and output causes health and education is very important in economic development.

Educational investment (formal and non-formal) plays an important role in reducing poverty in the long run, directly through productivity and efficiency, as well as directly training the poor with the skills needed to increase their productivity, which in turn will increase income they (Subandi, 2014).

Health investment is an important policy to reduce poverty. There are three main factors underlying this policy, among others, (1) decreasing the burden directly and satisfying the basic needs of food is also a very important social policy objectives, (2) improving health and increasing the productivity of the poor (better health will increase reducing working days, reducing working days, and increasing energy output), and (3) reducing infant and child mortality indirectly also contributes to reducing poverty, reducing fertility such as lower mortality, the families they want, but also make them want smaller families (Subandi, 2014).

The purpose of this study was to analyze the effect of investment, employment, education, and health on the rate of economic growth in Bali Province, to analyze the effect of investment, employment, education, health and economic growth rate on poverty in Bali Province, and to analyze the influence indirect investment, employment, education, and health to poverty through the pace of economic growth in Bali Province.

## II. LITERATURE REVIEW

### A. Investment

According to Sukirno (2015), investment can be interpreted as expenditure or expenditure of investors or companies to buy capital goods and production equipment to increase the ability to produce goods and services available in the economy. Investment is the mobilization of resources to create or increase production capacity/income in the future.

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According to Horrow-Domar, to be able to increase the rate of economy required new investments as additional capital stock (Arsyad, 2016). Investment activities allow a society to continuously improve economic activities and employment opportunities, increase national income and raise the level of community prosperity. A decrease in investment will cause the national income level to decline below the national income capacity. Increased investment into an area will lead to an increase in economic growth (Sukirno, 2014).

### B. Employment Opportunity

Employment is an opportunity created by a certain economic development, in the sense that employment opportunities may already be filled or unfilled. The number of employees that work is usually seen as the number of job opportunities available in a region (Mantra, 2012). According to the Law of the Republic of Indonesia Number 13 Year 2003 on Manpower Chapter I Article 1 paragraph 2 states that the workforce is any person who is able to do work to produce goods and/or services either to meet their own needs and for the community. One of the indicators used to measure local employment situation is the employment rate indicated by how much of the workforce says it is working during enumeration (Kuncoro, 2013).

### C. Healthy

According to the Law of the Republic of Indonesia Number 36 Year 2009 on Health, health is a healthy state, both physically, mentally, spiritually and socially which enables everyone to live productively socially and economically. The World Health Organization (WHO) defines health as a state of complete physical, mental, and social well-being and is not limited to disease or weakness. Health is one of the variables of people's welfare that can describe the level of public health with respect to the quality of life. Population health is one of the capital for the success of nation building because with healthy people, development is expected to run smoothly.

### D. Education

According to the Law of the Republic of Indonesia Number 20 Year 2003 on National Education System, education is a conscious and planned effort to create learning atmosphere and learning process so that learners actively develop their potential to have spiritual power of religion, self-control, personality, noble, as well as the skills he needs, society, nation and state. Education is concerned with the development of knowledge and skills and skills of both human and labor in the development process. According to Harlik, et al. (2013), education is a requirement to achieve economic development. The rapid expansion of educational opportunities is seen as the key to achieving national development success. Increasingly faster education the development process to achieve high growth towards the achievement of community welfare.

### E. Poverty

Poverty is a major problem experienced by developing countries (Vincent, 2009). Poverty is the inability to meet minimum living standards (Kuncoro, 1997). Basic needs that must be met include food, clothing, shelter, education, and health. Poverty is an absolute and relative condition that causes a person or a group of people within a region does not have the ability to meet basic needs in accordance with certain values or norms prevailing in society due to natural, cultural, or structural causes.

### F. Economic Growth

Economic growth is defined as the development of activities in the economy that cause goods and services produced in society increases and the welfare of society increases (Sukirno, 2000). A country is said to experience economic growth if there is an increase in real GNP in the country (Wikipedia, 2017). In other words, economic growth is more indicative of quantitative change and is usually measured using gross domestic product, or income or output per capita (Nanga, 2005).

### G. Conceptual Framework

Based on the theory, concept, and the results of previous research, it can be arranged as a conceptual framework as Figure 1.

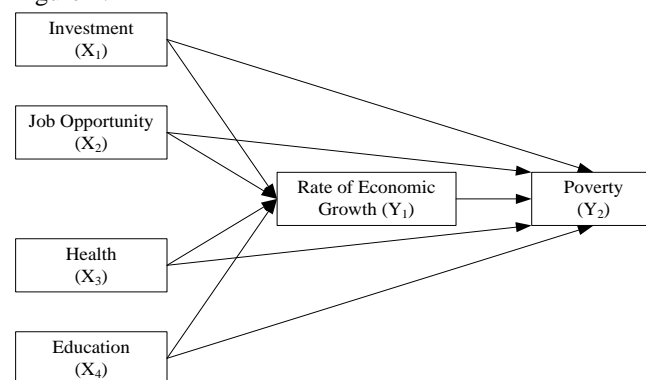


Figure 1: Conceptual Framework

## III. RESEARCH METHOD

This research is a quantitative research using associative paradigm that aims to analyze the relationship of several variables, namely direct influence and indirect influence of investment, employment, education, and health to poverty through economic growth rate in Bali Province. Data analysis techniques used to solve the problems in this research is descriptive analysis and path analysis. The path analysis technique is used to test the contribution. The contribution shown by the path coefficient on each path diagram of the causal relationship between variables  $X_1$ ,  $X_2$ ,  $X_3$ , and  $X_4$  to  $Y_1$  and their impact on  $Y_2$  (Riduwan and Kuncoro, 2014). Research on the analysis of factors affecting the rate of economic growth and poverty in Bali Province in 2007-2015.

From the conceptual framework, it can be a list of the hypothesis of this research is as follow as:

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- 1) Investment, job opportunity, health, and education have a positive and significant impact on rate of economic growth in Bali Province.
- 2) Investment, job opportunity, health, education, and rate of economic growth have a negative and significant effect on poverty in Bali Province.
- 3) Investment, job opportunity, health, and education have a significant indirect effect on poverty through the rate of economic growth in Bali Province.

Two regression equations based on conceptual framework can be compiled in Figure 1.

$$Y_1 = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_1 \dots\dots\dots(1)$$

$$Y_2 = \beta_5 X_1 + \beta_6 X_2 + \beta_7 X_3 + \beta_8 X_4 + \beta_9 Y_1 + \varepsilon_2 \dots\dots\dots(2)$$

**IV. RESULT AND DISCUSSION**

Based on the results of research can be seen the relationships among variables research, which is the path coefficient in this study. The path coefficient can be made in the form of a path diagram (Suyana Utama, 2016). The model can also be expressed in terms of structural equations as follows:

Structural Equation 1:

$$Y_1 = 0.2009 X_1 + 0.2867 X_2 - 0.1135 X_3 + 0.3620 X_4 + \varepsilon_1$$

Structural Equation 2:

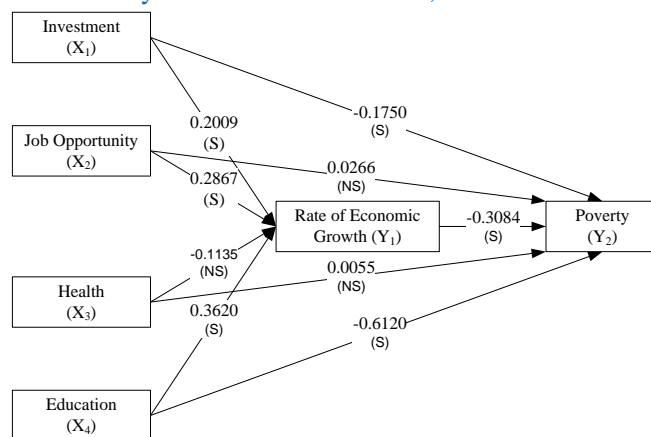
$$Y_2 = -0.1750 X_1 + 0.0266 X_2 + 0.0055 X_3 - 0.6120 X_4 - 0.3084 Y_1 + \varepsilon_2$$

**Table 3:** Summary of Path Coefficients

Relation	Regression Coefficient		t-value	p-value	Result
	Standard	Not-standard			
X <sub>1</sub> → Y <sub>1</sub>	0.2009	0.0001	2.1249	0.0368	Significant
X <sub>2</sub> → Y <sub>1</sub>	0.2867	2.0062	2.6991	0.0086	Significant
X <sub>3</sub> → Y <sub>1</sub>	-0.1135	-0.0501	-1.4070	0.1635	Non significant
X <sub>4</sub> → Y <sub>1</sub>	0.3620	0.1546	3.4230	0.0010	Significant
X <sub>1</sub> → Y <sub>2</sub>	-0.1750	-0.0002	-3.3062	0.0015	Significant
X <sub>2</sub> → Y <sub>2</sub>	0.0266	0.5431	0.4403	0.6610	Non significant
X <sub>3</sub> → Y <sub>2</sub>	0.0055	0.0070	0.1227	0.9027	Non significant
X <sub>4</sub> → Y <sub>2</sub>	-0.6120	-0.7616	-9.9039	0.0000	Significant
Y <sub>1</sub> → Y <sub>2</sub>	-0.3084	-0.8990	-4.9440	0.0000	Significant

Table 3 explains that investment (X<sub>1</sub>), job opportunity (X<sub>2</sub>) and education (X<sub>4</sub>) variables significantly influence the rate of economic growth (Y<sub>1</sub>). The health variable (X<sub>3</sub>) has no significant effect on the rate of economic growth (Y<sub>1</sub>). Meanwhile, investment (X<sub>1</sub>) and education (X<sub>4</sub>) have a significant effect on poverty (Y<sub>2</sub>). Job opportunities (X<sub>2</sub>) and health (X<sub>3</sub>) have no significant effect on poverty (Y<sub>2</sub>). The rate of economic growth (Y<sub>1</sub>) has a significant effect on poverty (Y<sub>2</sub>).

Based on the summary of the path coefficient above, a path diagram such as Figure 2 can be constructed.



**Figure 2:** Path Coefficient of Conceptual Framework

Based on Figure 2 can be calculated direct influence, indirect influence and total influence between variables as follows

**Table 4:** Summary of Direct Effect, Indirect Effect, and Total Effect Between Research Variables

Variable		Y <sub>1</sub>	Y <sub>2</sub>
X <sub>1</sub>	Direct Effect	0.200	-0.175
	Indirect Effect	-	-0.061
	Total Effect	0.200	-0.236
X <sub>2</sub>	Direct Effect	0.286	0.026
	Indirect Effect	-	-0.088
	Total Effect	0.286	-0.061
X <sub>3</sub>	Direct Effect	-0.113	0.005
	Indirect Effect	-	0.035
	Total Effect	-0.113	0.040
X <sub>4</sub>	Direct Effect	0.362	-0.610
	Indirect Effect	-	-0.111
	Total Effect	0.362	-0.723

Where: X<sub>1</sub>=Investment; X<sub>2</sub>=Job Opportunity; X<sub>3</sub>=Health; X<sub>4</sub>=Education; Y<sub>1</sub>=Rate of Economic Growth; Y<sub>2</sub>=Poverty.

To know the value of e<sub>1</sub> and e<sub>2</sub> is calculated by the formula:

$$e_1 = \sqrt{1-0.510} = 0.7$$

$$e_2 = \sqrt{1-0.857} = 0.378$$

To check the validity of the model, there are indicators to perform the examination, namely the coefficient of total determination results as follows:

$$R_m^2 = 1 - P_{e1}^2 - P_{e2}^2 \dots P_{ep}^2$$

$$R_m^2 = 1 - (0.7)^2 - (0.378)^2$$

$$R_m^2 = 0.929$$

Where:

$$R_m^2 = \text{Coefficient of Total Determination}$$

$$P_{ei}^2 = \text{Standard error of estimate}$$

The total coefficient of determination or R Square of 0.929 has the meaning that 92.9 percent of the information contained can be explained by the model formed, while the

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rest, ie 7.1 percent is explained by other variables outside the established model.

The results of tests conducted show that investment has a positive and significant impact on the rate of economic growth in the Province of Bali. This means that if investment increases then the rate of economic growth also increases. The positive relationship between investment variables to economic growth rate variables is supported by Smith's theory, Harrod-Domar and Solow-Swan theory (Arsyad, 2016), Tariq and Saniya (2013) research that investment plays a very important role in economic growth, productive capacity of the economy, and increasing labor.

The results of the test show that job opportunity have a positive and significant effect to economic growth rate in Bali Province. This means that if employment increases, the rate of economic growth also increases. The positive relationship between the employment variables on the variables of economic growth is supported by Boediono (2012), Suparmoko and Maria (2000), Todaro (2000), Fleisher et al. (2007) which states that there is a positive influence between population growth and economic growth where the condition and progress of the population, especially the working population is closely related to the growth and development of economic activity in a region.

The result of data analysis shows that health has no significant effect on economic growth rate in Bali Province. This is not in accordance with the theory and hypothesis that employment has a positive and significant impact on the rate of economic growth in Bali Province. This is because health interpreted with long life expectancy, which is not accompanied by expertise will be a burden for development, as reflected in the heavy burden of the central government and local governments to provide various public services such as education, health, housing and employment . Healthy is not only the absence of disease, but also the ability of the community to develop its potential during life. The results of this study in accordance with research conducted by Dewi and Sutrisna (2014).

The results of the tests show that education has a positive and significant impact on the rate of economic growth in Bali Province. This means that if education increases then the rate of economic growth also increases. The positive relationship between the variables of education on the variables of economic growth is supported by the theory of Todaro (2006); Handayani (2016); Baldwin, et al. (2008).

The results of data analysis show that direct investment shows a positive and significant influence on the rate of economic growth in Bali Province. Indirectly, investment has a significant effect on poverty through the economic growth rate in Bali Province. This is evidenced by the value of z arithmetic equal to -4.9449 greater than the value -1.96 which means that the rate of economic growth is a variable mediation on the effect of investment on poverty. The amount of incoming investment will provide a strong impetus for achieving high economic growth and reducing poverty levels. This is supported by the theory from Sharp et

al. (1996) in Kuncoro (2010) the causes of poverty in terms of economics include: 1) In micro, poverty arises because of the unequal pattern of resource ownership that results in a lame revenue distribution; 2) Poverty arises from differences in the quality of human resources; 3) Poverty arises from differences in access to capital and research by Arshanti and Wirathi (2015) (Ocaya et al., 2012).

The result of data analysis shows that directly employment opportunities show a positive and significant influence on the rate of economic growth in Bali Province. Indirectly, employment has a significant effect on poverty through the economic growth rate in Bali Province. This is evidenced by the value of z arithmetic of -2.3691 greater than the value -1.96 which means that the rate of economic growth is a variable mediation on the effect of employment opportunities against poverty. The poor do not have the proper quality of human resources, so they do not get the desired level of income. This will have an impact on the reduced level of welfare. So the greater the employment opportunities with low quality will increase the number of poor people. According to Sharp (2000) that the poverty rate of one source is due to the low quality of the labor force.

The result of data analysis shows that the direct health shows negative and insignificant effect on the rate of economic growth in Bali Province. Indirectly, health has no significant effect on poverty through economic growth rate in Bali Province. This is evidenced by the value of z arithmetic of -1.3535 is smaller than the value -1.96 which means that the rate of economic growth is not a variable mediation on the health effects of poverty. This is because the increased life expectancy results in the burden of having health, economic, social and environmental problems. So the large number of elderly will affect the consumption of bigger, smaller saving, investment shrink and impact on slower economic growth. Therefore, the trend of high life expectancy will reduce economic growth and increase the number of poor people. The results of this study are in accordance with research conducted by Wijantari and Bendesa (2016).

The results of data analysis show that direct education shows a positive and significant influence on the rate of economic growth in Bali Province. Indirectly, education has a significant effect on poverty through the economic growth rate in Bali Province. This is evidenced by the value of z arithmetic of -2.8130 greater than the value -1.96 which means that the rate of economic growth is a variable mediation on the influence of education to poverty. The achievement of educational development objectives in turn can improve the quality and productivity of the population, where the growth of population productivity is the motor of economic growth and welfare of the population. The higher a person's level of education, the knowledge and skills will also increase so as to encourage an increase in one's productivity. The company will get more results by hiring a workforce with higher productivity, so the company will be willing to provide higher wages/salary to the concerned. In

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the end someone who has high productivity will get better welfare, which can be shown through increased income and consumption. Tobing (in Hastarini, 2005) argues that, people who have higher levels of education, measured by the length of time for schools will have better jobs and wages than those with lower education.

The results of data analysis show that the rate of economic growth has a negative and significant effect on poverty. This means that if the rate of economic growth increases then poverty will decrease. The negative correlation between the variable of economic growth to the poverty variable is supported by Kuznet's theory (in Tambunan, 2008) growth and poverty have a very strong correlation, because in the early stages of development process poverty tends to increase and when approaching the final stage of development the number of poor people gradually - diminished. Jonaidi's research (2012) and the results of a study conducted by Sumarto (2002) from SMERU Research Institute Kuncoro (2014) have a very strong negative relationship between economic growth and poverty.

### V. CONCLUSION

Based on the data analysis and discussion can be concluded several things as follows: (1) Health does not affect the rate of economic growth in the province of Bali. Investment, employment and education have an effect on increasing economic growth in Bali Province; (2) Employment and health opportunity does not affect poverty in Bali Province. Investment, education and economic growth rate have an effect on reducing poverty in Bali Province; and (3) Economic growth rate variable is partial mediation variable to investment variable, and education variable. Economic growth rate variable is full of mediation variable to job opportunity variable and variable of economic growth rate not mediation to health variable.

The suggestions can be given are: (1) Opening opportunities for skills through education and training for under-educated workers so that they have greater opportunities for job opportunities; (2) The Bali Provincial Government through the National Population and Family Planning Board (BKKBN) conducts counseling through Elderly Family Development program to improve knowledge and skills for elderly and families to realize Tangguh Elderly. Elderly tough is an effort to keep the elderly healthy, active, independent and productive.

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