

## ABSTRACT

*Manufacturing industry has a big role in Indonesia's economic growth. Because of it, output growth of this sector should be attended. Output growth comes from two sources, which is input growth and productivity growth. If output growth comes from input growth, it will create unsustainable growth. But if output growth comes from productivity growth, it's a challenge for developing industry. So that this study want to observe what the source of output growth in manufacturing industry is. Beside that, this study want to observe the influence of input labor and capital to output. This study also has another purpose, which is observe the production function of manufacturing industry and estimate value of Marginal Product of Labor (MPL) dan Marginal Product of Kapital (MPK) from this sector.*

*This study uses Cobb Douglass analysis and Panel Data Method. The dependent variable is output of manufacturing industry, the independent variable is labor and capital. The study finds that labor and capital influence significantly to output. Beside that, this study finds the shape of manufacturing industry's production function is decreasing return to scale. The estimation result show that dominance source of output growth is capital growth. It's mean that the productivity of manufacturing industry is relatively low. The MPL and MPK estimation present that add one rupiah capital can create the higher increase of output rather than add one person labor.*

*Keywords: output and input growth, production function, manufacturing industry.*