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Exogeneous and Endogeneous Money Supply Arguments: The Case of Turkey

Bilge Köksel¹¹Gaziantep University, Turkey

ABSTRACT

The roots of the exogeneous and endogeneous money supply arguments have gone back to debate between Currency School and Banking School since nineteenth century. Orthodox approaches such as Monetarist School assumes exogeneity of money supply. Exogeneity means, money supply is determined by central bank. On the other hand, Post Keynesian economists have argued that money supply is endogeneous. It means, central bank cannot control the money supply and money supply is determined by credit demand. The purpose of this study is to test money supply is endogeneous or exogeneous for the Turkish economy in 2006:1-2015:11 period by using Johansen cointegration analysis. The analysis period has started since 2006. Because the definition of the money supply is changed in December 2005. And moreover, inflation targeting regime has been implemented since 2006. Inflation targeting regime assumes exogeneity of money supply. In order to test endogeneous money supply hypothesis, the total bank credits to the private sector are taken as an independent variable and money supply in the form of M2 is a dependent variable. Vice versa is true for testing exogeneous money supply hypothesis. According to the empirical findings, there is a bidirectional long run relationship between bank credits and money supply.

KEYWORDS Exogeneous Money Supply; Endogeneous Money Supply; Turkish Economy

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