

EconWorld2017@Paris

Impact of Monetary Policy on Stock Market Prices Under Different Regimes: The Evidence from Turkey

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ABSTRACT

Determining of the effect of monetary policy on asset prices is of importance for both policy makers and financial market participants. The reason is that changes in financial asset prices affect investors' decisions. Also, so-called changes can lead to financial instability. Purpose of this study is to analyze how stock market returns in Turkey response to monetary policy over the period of 2002:01-2016:12 under low volatility and high volatility regimes. For this purpose, we used monthly policy interest rate and stock market returns and utilized from Markov Switching dynamic regression method. It follows from the results of analysis that there is negative relationship between policy interest rate and stock market returns in low volatility regime while the connection in question is insignificant in high volatility regime.

KEYWORDS Monetary Policy; Stock Market; Markov Regime Switching Model

JEL E52, E44, C22