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Monetarist Approach to the Relationship Between Money Supply and Inflation: The Turkish Case (1988-2016) / Para Arzı ve Enflasyon İlişkisine Monetarist yaklaşım: Türkiye örneği (1988-2016)

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ABSTRACT

The relationship between inflation and money supply, which is a broad research topic in economics literature both theoretically and empirically, is aimed to be examined. The relationship between money supply and prices has created a debatable argument basis for a long time among the different schools of economics (especially between Keynesian and Monetarist approaches). Keynesian economists acknowledge that money supply is an important factor affecting the price level, but argue that the change in money supply can not be accepted as the only reason for price changes. They emphasize the importance of structural factors on price changes and argue that money supply alone can not be an effective tool to control price changes. Monetarist approach, on the other hand, acknowledges that the constant expansion of money supply is the only reason for inflation. In this study, based on the monetarist approach, the causality relationship among money supply, prices, and wages is examined by using the recent data from Turkey from 1988 to 2016. The results of the tests with the Turkish data support that structural approach which suggests that the relationship between money supply and prices is working two ways from money supply to prices and from prices to money supply. On the other hand, the result of the causality relation between prices and wages suggest a one way relationship from prices to wages. This last finding implies that demand factors are effective in the inflationary process in Turkey and supply-side factors, especially cost factors on inflation are very weak

KEYWORDS Money Supply; Inflation; Monetarist Approach; Causality Analysis

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