EconWorld2015@Torino

Türkiye Cumhuriyet Merkez Bankası Para Politikaları Kapsamında Taylor Kuralı / Taylor's Rule within the Framework of Monetary Policies of the Central Bank of Turkey

Burhan Doğan[1]

[1]Anadolu University, Turkey

Abstract

Economic units in a country alter their expectations and decisions depending on the economic developments and the policies that are implemented. Therefore, execution of monetary policies, which show their effect in short term, play an important part in changing economic indicators. The ongoing discussions on whether monetary policy should be executed on the basis of a rule or of the current status of economic conditions, in order to improve effectiveness of monetary policies do exist for a long time. However, the general opinion is that monetary policies should be executed on the basis of a rule. Determination in advance of policies implemented on the basis of a rule by Central banks, which are among actors that steer the economy, may help the economic units to make predictions and decrease the unrest in the markets. Therefore, it is discussed in the economy literature that a simple rule such as the Taylor's rule understandable to markets be implemented rather than complex rules that are difficult to understand. In this study, the reaction function of the monetary policy of the Central Bank of Turkey is estimated through VAR model within the framework of Extended Taylor's Rule created by adding foreign exchange rate to the function estimated in Classical Taylor's Rule for the term 2004:1-2014:5. According to the estimation outcomes, the output gap, inflation gap, and reaction of shortterm rate of interest that the foreign exchange rate is exposed to are insignificant.

Keywords Taylor's Rule; Monetary Policy; VAR Model

JEL E43, E52

Presented at EconWorld2015@Torino, Turin, Italy.