

EconWorld2015@Torino

Financial Development, Capital Accumulation, Productivity and Growth: The Turkish Case

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ABSTRACT

The aim of this study is to analyze the impact of financial development and instability on economic growth in Turkey as well as on capital accumulation and productivity, which are the sources of growth. To this end, a quarterly data set (1989Q1-2013Q4) is used to investigate the relationship between financial development, instability and economic growth within a production function framework using the Johansen cointegration and impulse response techniques. The impact of financial development and economic instability on capital accumulation and productivity is also analyzed in the same way. Furthermore, in addition to using the private sector credits-GDP ratio, which is the widely used basic financial development indicator in the related literature, appropriate indices are developed to represent the role of the banking system and capital markets in financial development. In so doing, this study aims to clarify the role played by the banking system and capital markets in capital accumulation, productivity and growth in a way that is of relevance to policymakers.

KEYWORDS Financial Development; Growth; Macroeconomic Instability

JEL E44, O40, E60