REVISITING THE FISHER HYPOTHESIS: EVIDENCE FROM TURKEY BASED ON THE METHODS OF FMOLS, DOLS AND CCR

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Abstract

Central Bank of the Republic of Turkey (CBRT) has used CBRT interest rate as the principal instrument in monetary policy implementations based on inflation targeting regime. The decisions on CBRT interest rate has been made by taking into account inflation expectations. The Fisher Hypothesis is based on the relationship between the nominal interest rate and the expected inflation rate. In this paper, we analyze empirically the monetary policy implementations in the inflation targeting regime under the Fisher Hypothesis. For this purpose, the validity of Fisher Hypothesis is tested for Turkey using the period 2003:01-2014:08. Empirical findings suggest that a strong form of Fisher Hypothesis is valid in the long-run in Turkey. Hence, it is concluded that the CBRT, instead of inflation accommodating monetary policy in the short-run, has implemented the anti-inflationary monetary policy in the long-run.

Keywords: monetary policy, Fisher Hypothesis, FMOLS, DOLS, CCR, parsimonious error-correction model
References


