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The Dynamic Relationship between Economics and Financial Instability

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After 1980s, the long-term macroeconomic instability in Turkish Economy has become a serious problem within financial liberalization. Recent institutional changes in Turkish financial market drove us to reexamine the dynamic relationship between the financial instability and macroeconomic instability. The aim of this study is to investigate the causal relationship between economic instability and financial instability for Turkish Economy. The data used in the study are quarterly and cover the period of 1998-2012. In this study, GDP and M2Y/GDP were used as the macro-economic indicator and financial indicator, respectively. Kalman Filter Technique among various algorithmic approaches was used to get economic and financial instability indicators. After getting both indicators, Box-Jenkins models of both variables were statistically estimated by using Kalman Filter. The relationship between economic instability and financial instability was examined by using Granger Causality test. Consequently, in the short-term, economic instability causes financial instability and financial instability causes economic instability.

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