

THE EFFECT OF MONETARY POLICY SHOCK ON EMPLOYMENT AND OUTPUT: THE CASE OF TURKEY

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Abstract

Monetary transmission mechanism which is questioning the relationship between macro economic variables and monetary variables has been discussed from past to present. It is generally accepted that contractionary monetary shocks affect total consumption, employment and total output negatively. However, the leading position of countries' properties (socio-economic, political etc.) on the relationship between real variables and monetary variables, create a debate among economists and ratify to make them precise evidence. The main aim of this paper is to analyze the effectiveness of narrow credit view on employment and output for Turkey. Within this framework, money supply, total loans, employment rates and industrial production index monthly variables are analyzed for the period of 2005-2010 by using VAR method. The results indicate that changes in money stock (*m2*) have an impact on real variables such as employment and output through credit stock.

Keywords: Monetary Transmission Mechanism, Employment, Output, Turkey, VAR

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