

EXCHANGE RATE PASS THROUGH IN EMERGING COUNTRIES: THE CASE OF TURKEY

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Abstract

It is crucial to put forth the relation between external shocks and domestic prices because of the strong correlation between them in Turkey. This paper investigates pass through of external shocks to domestic prices in Turkey over the period 2003-2014. In order to assess the impact of external shocks on price, we use McCarthy (1999) VAR model by employing monthly data set. According to the assumption of model, a variable in model can not be affected simultaneously by previous variable but it affects next variable. The empirical results indicate external shock is an important determinant of domestic prices according to results obtained from variance decomposition. A shock in import price affects industrial production index variance more significantly than oil price both in the short term and long term. The pass through of a shock in import price index to wholesale price index is quicker than the pass through of oil prices to wholesale price index.

Keywords : Pass Through, External Shocks, Domestic Prices, VAR models

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