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**Real wages, inflation and labour productivity: The Case of  
Turkey**

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### *Abstract*

*In the literature the relationships between inflation, real wages and labour productivity has received much attention. Because strong evidence of these variables can help shape policy formation for productivity enhancement, inflation control or consumption stimulation. There are a number of reasons why associations may exist between real wages, inflation and productivity. It is almost standard to envisage that inflation and productivity are negatively related as workers purchasing power affects motivation and effort, but also because inflation affects firms' investment plans, influences capital depreciation rates and induces changes in the choices of production techniques in the literature. On the other hand a positive relationship between real wages and productivity is often hypothesized because higher real wages increase the opportunity cost of job loss and stimulate greater work effort to avoid redundancy. This positive relationship is also hypothesized because higher real wages put upward pressure on labour costs and cause firms to substitute capital for labour, thereby increasing the marginal productivity of labour. In this direction the purpose of this study is to investigate the relationship between labor productivity, real wages and inflation in Turkish manufacturing sector for the period 1988Q1- 2014Q2. Cointegration analysis, Granger causality and structural change tests has been used in order to see the existence of long-run and causality relationships between these three series.*

*Keywords: Real wage, Inflation, Labour productivity, Cointegration, Granger causality, Turkey.*

*JEL classification: C50, E23, E29.*