Paper ID Number: *221*

Paper prepared for the

EY International Congress on Economics II

"GROWTH, INEQUALITY AND POVERTY"

Ankara, November 5-6, 2015

EKONOMİK YAKLAŞIM
Quarterly Peer-Reviewed Scientific Journal
Department of Economics - Gazi University

The effects of elections on monetary policy in Turkey: An evaluation in terms of Political Business Cycle Theory

Eryılmaz, F.[1]

1 Uludag Universtity/Department of Economics, Bursa, Turkey

filizgaygusuz@gmail.com

The effects of elections on monetary policy in Turkey: An evaluation in terms of Political Business Cycle Theory

Eryılmaz F.

Abstract

The Political Business Cycle Theory which emerged as one of the basic areas of discussion of Positive Public Choice Theory, were based on the studies of Kalecki (1943) and Akerman (1947) in the 1940s. Political Business Cycle Theory are examined under two main branches of Traditional Political Business Cycle Theory and Rational Political Business Cycle Theory. While Traditional Political Business Cycle Theory are classified in two groups as Traditional Opportunistic Political Business Cycle Theory and Traditional Partisan Political Business Cycle Theory, the Rational Political Business Cycle Theory are separated as Rational Opportunistic Political Business Cycle Theory and Rational Partisan Political Business Cycle Theory. While voters are assumed to have adaptive expectations in Traditional Political Business Cycle Theory, they are accepted as being rational in Rational Political Business Cycle Theory. Another model of differentiation of the relationship of Political Business Cycle Theory is the Opportunistic or Partisan relationship. In the Opportunistic model, it is assumed that the single aim of the governing parties, which are accepted as equally formed, is to apply policies which will maximise their chances of winning elections. In partisan models, the governing parties are not similar, and are in fact at different ends of the ideological spectrum as right and left-wing (Alesina and Roubini, 1990; Alesina, Roubini and Cohen, 1991). In this study, the Traditional Opportunistic Business Cycle Theory of Nordhaus (1975) was tested for the series of M0, M1, M2, M2Y, the interbank rate, the three-month Turkish lira (TL) time deposit rate, the three-month United States (US) dollar time deposit rate, nominal and real treasury auction rates for the Turkish economy. In the determination of whether or not political opportunistic policies were observed in general elections held in the period 1985M12- 2012M4, the autoregressive model used in studies by Alesina, Cohen ve Roubini (1991, 1992, 1997) of OECD countries and industrial countries, was used in this study.

Keywords: Political Business Cycle Theory, Traditional Opportunistic Political Business Cycle Theory, Monetary Policy, Box-Jenkins Models, Turkey.

JEL classification: D72, E62, H62.