An Analysis on Monetary Condition Index in Turkey by Using Structural Var Analysis

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Abstract
The Central Bank of Turkey (TCMB) has a significant effect on aggregate demand and inflation expectation via monetary policy tools. While deciding monetary policies it's a crucial question and a discussion topic for TCMB if the policy makers should take into consideration Taylor Rule that mainly depends on the interest rate or Monetary Condition Index (MCI). The MCI that is a popular tool in the last decades that is calculated as a weighted average of the real short-term interest rate and the real effective exchange rate relative to their value in a base period. MCI also is a pointer that explains if the central banks policies expansionary or tight. The reality that MCI can have influence on the domestic currency and the foreign currency together is an advantage for MCI. This study aims to explain the possible effects of MCI on the aggregate demand in Turkey. Structural Var analysis will be used for the analysis. The period for the analysis covers a period of starting from M1:2003 till M8:2015

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