

## **ENDOGENOUS MONEY SUPPLY: TURKISH ECONOMY (2011-2018)**

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### **Abstract:**

There are basically two views to answer the question of how money is created: according to exogenous money hypothesis central banks have full control over the amount of money stock in the markets and other policy instruments; whereas the endogenous money theory postulates money is created by economic agents' credit demand, which arises from their process of production and changes in production costs, emanating basically from rise in nominal wages. The paper aims to analyze whether money supply creation is endogenous in the Turkish money markets during the period 2011-2018 by monthly data. For this purpose cointegration between money supply (money base, M1, M2) and credits is tested by Johansen method and VECM estimation is realized for specifying the direction of causality between the variables. Following, Toda Yamamoto test is applied to check robustness of results from VECM long and short run causality. Results point at relation from credits to money supply that money is endogenously demand determined, and that credits extended by banks form basis of money supply.

**Keywords:** Post Keynesian economics, Endogenous Money, Johansen Cointegration Test, VECM, Toda Yamamoto

**JEL Codes:** E12, E51, C32