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**THE RELATIONSHIP  
BETWEEN INFLATION AND  
ECONOMIC GROWTH:  
EVIDENCE FROM TURKEY**



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## Preface

Inflation and economic growth are two fundamental macroeconomic variables that have been widely debated in the field of economics for many years. The relationship between these two concepts has been a central focus of theoretical and empirical studies; however, the lack of a clear consensus indicates that the topic remains academically relevant and open to discussion. In particular, the impact of inflation on economic growth plays a critical role in shaping the economic policies of nations.

This study, derived from the dissertation titled “The Relationship Between Inflation and Economic Growth: Evidence from Turkey,” completed under the supervision of Prof. Dr. James Davidson as part of the MSc Economics program at Exeter University Business School, aims to present an econometric analysis of the relationship between inflation and economic growth using Turkey's quarterly data for the period 1988-2014. The economic structure of Turkey during this period, shaped by high inflation and periodic growth rates, underscores the importance of gaining a deeper understanding of this relationship. Such an understanding is expected to provide a significant reference point for the formulation of economic policies. The study further seeks to contribute not only to the academic literature but also to the decision-making processes of policymakers through its findings.

I extend my deepest gratitude to my esteemed parents, whose unwavering support and love have been my constant source of strength, and to my dear siblings, who have always stood by my side throughout this journey. Their presence has been a vital source of motivation in completing this work.

I hope this study contributes to addressing the theoretical and empirical gaps in the literature regarding the relationship between inflation and economic growth and serves as a guide for researchers interested in this subject.



## Abstract

*Despite significant research and debate, academics and researchers have failed to agree upon a conclusive definition for inflation in an economic context. Similarly, the relationship between economic growth and inflation is also well documented but inconclusive. Numerous studies point to both positive and negative relations between these two economic variables, with some strains of research investigating the existence of threshold values of inflation at which the relationship may switch from positive to negative, or vice versa.*

*In this study, we examine the relationship between inflation and economic growth in Turkey between 1988 and 2014. During part of this period, the Turkish economy suffered extreme hyperinflation and so understanding the link between these two variables is key for policy makers to enable them to enact the correct decisions to ensure stability and growth of the Turkish economy.*

*Specifically, we use Pearson correlation and OLS methods to understand the linkages between inflation and economic growth, finding that a negative correlation of 0.21 exists, supported by results of OLS estimations, that a 1% increase in CPI causes a 2.2% decrease in GDP. Results of Granger causality analysis however, are insignificant, indicating there to be no causal relationship between inflation and growth levels for the dataset analysed.*



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