**DETERMINANTS OF Economic Growth IN TURKEY**

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**ABSTRACT**

Using quarterly time series data for the period 1970–2007, this paper examines the determinants of economic growth in Turkey. A statistical analysis of data on 151 observations validates the findings in the literature of empirical studies of economic growth except financial development. We find that…..

**Keywords***: Economic Growth; Capital Formation; Total Trade; Financial Development*

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1. **Introduction**

*The growth position of the less developed countries today is significantly different in many respects from that of the presently developed countries on the eve of their entry into modern economic growth.*

- Simon Kuznets, Nobel Laureate, Economics

Professor Simon Kuznets has cleared a country’s economic growth as a long-term rise in capacity to supply increasingly various economics goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands.

Economic growth is important for society as it increases real income and consumption, both in absolute and per capita terms, and hence makes us materially better off. Economic growth refers to…..

1. **Framework and Empirical Studies**

A framework for determining growth is briefly provided by Barro (1997). In this model,

*g = f (y, y\*)*

where *g* is the growth rate of per capita output (e.g., Gross Domestic Product), *y* is the current level of per capita output, and *y\** is the steady-state level of per capita output. At the steady-state level, the level of output per worker still increases because of exogenous labor-augmenting technological innovations, although the output per effective labor will remain constant.

In addition to economic and demographic factors, the output at the steady-state…..

1. **Methodology and Data**

Based on earlier work, the empirical model is specified as follows:

ln *GDP*t = *β*0 + *β*1 ln *K\_FORMA*t + *β*2 ln *T\_TRD*t + *β*3 ln *F\_DEV*t + *β*4 *INFLA*t + *u*t

where GDPt refers to real Gross Domestic Product, K\_FORMATIONt refers to gross fixed capital formation, total trade (T\_TRADEt) is defined as the sum of exports and imports of goods and services, financial development (FIN\_DEVt) is measured by claims on private sector divided by real GDP, INFLATIONt refers to inflation, and *u*, the error term. All variables are used in natural logs except inflation because that data in percentage and expressed in real terms.

This paper using quarterly time series data for the period 1970–2007, included 151 observations. These data found from…..

1. **Discussion on Empirical Results**

Table 1 report statistical results using ordinary least square (OLS) estimation in Turkey. For the first OLS in Column 1, all the variables are individually significant at 1% level of significance except financial development.

For the second OLS in Column 2, we used Cochrane-Orcutt iterative procedure (COIP) to estimate *ρ* for correcting autocorrelation. From the first round result COIP (OLS\*), Durbin-Watson *d* test shows that the autocorrelation still exists.

**Table 1: Estimates for the Growth equation in Turkey**

|  |  |  |  |
| --- | --- | --- | --- |
| Variables | OLS | OLS\* | OLS\*\* |
| Intercept  ln K\_FORMt  ln T\_TRDt  ln F\_DEVt  ln INFLAt  *R*2  Adj *R*2  *σ*  *DW* Statistic  Obs. | 1.4881 (18.8476)\*\*\*  0.5167 (13.4733)\*\*\*  0.4236 (10.1569)\*\*\*  -0.0359 (-0.8275)  -0.0062 (-4.3119)\*\*  0.9969  0.9968  0.1001  1.6529  151 | 1.3524 (17.4938)\*\*\*  0.4641 (10.7712)\*\*\*  0.4938 (10.4311)\*\*\*  -0.1451 (-3.0288)\*\*\*  -0.0067 (-4.0556)\*\*\*  0.9955  0.9954  0.0972  1.5919  150 | 1.1625 (36.9848)\*\*\*  0.0169 (0.4318)  0.9299 (16.8748)\*\*\*  -0.7177 (-20.0555)\*\*\*  -0.0051 (-2.2016)\*\*  0.9296  0.9277  0.0655  1.9082  150 |

*Notes*: Numbers in parentheses are *t*-statistics based on the OLS estimates.

OLS\* refers to GLS using Cochrane-Orcutt iterative procedure for the first round

(*ρ* = 0.173175).

OLS\*\* refers to GLS using Cochrane-Orcutt iterative procedure for the second round

(*ρ* = 0.886199).

\*\*\* Indicates 1% level of significance.

\*\* Indicates 5% level of significance.

\* Indicates 10% level of significance.

According to Park Test, the result from OLS\*\* estimation shows that do not reject the null hypothesis, which means no heteroscedasticity present in the data. Notice that the Chow test is highly significant for break point to the year 1997Q4. We found that…..

1. **Conclusion**

The studies of determinants of economic growth…..

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