

Inflation Dynamics of Turkey: A Structural Estimation

Abstract

Recent empirical research on the New Keynesian Phillips Curve (NKPC) does not offer any supporting evidence for its benchmark version in which all firms are forward-looking. There is, however, empirical support for a modified, “hybrid”, NPKC, in which only a proportion of the firms that use a forward-looking rule to set prices.

This paper estimates both the benchmark and the hybrid versions of the NKPC using Turkish data. In contrast with the previous applications on developed countries like the U.S. and several Euro area countries, we find empirical support for the benchmark NPKC. This support persists even after controlling for the weak identification problem which has been a serious concern in generalized method of moment estimation. Moreover, the hybrid NKPC is refuted by the data, i.e. the backward-looking behavior is found to be statistically insignificant.