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**THE EFFECT OF CAPITAL MOVEMENTS LIBERALIZATION
ON OUTPUT: IN TURKEY**

ABSTRACT

The effect of capital movements liberalization on output has been discussed by international analytical and empirical literature. In supporters of capital movements liberalization have defended that liberalization appear to increase effect of foreign direct capital on output. However, contraries of capital movements liberalization have claimed that liberalization may lead to increase effect of speculative portfolio investments and short term capital on output.

The aim of this study is to analyze the effect of capital movements liberalization on output by using vector autoregressive (VAR) model for period 1992:1–2007:4 in Turkish economy. According to impulse-response functions and variance decomposition have showed that short term capital has effect on output. From the viewpoint economic literature, the results were in line contraries of capital movements liberalization.

KEYWORDS: Capital movements liberalization, short term capital, foreign direct capital, output, vector autoregressive (VAR) model, impulse-response functions, variance decomposition.