

## A VECTOR AUTO-REGRESSIVE (VAR) MODEL FOR THE TURKISH FINANCIAL MARKETS

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### **Abstract**

In this paper, we develop a vector autoregressive (VAR) model of the Turkish financial markets for the period of June 15 2006 – June 15 2010 and forecasts ISE100 index, TRY/USD exchange rate, and short-term interest rates. The out-ofsample forecast performance of the VAR model is compared with the results from the univariate models. Moreover, the dynamics of the financial markets are analyzed through Granger causality and impulse response analysis.

**Keywords:** *multivariate financial time series, vector auto-regressive (VAR) model, impulse response analysis, Granger causality*

**JEL Classification:** C01, C51