



INTERNATIONAL RESERVE DEMAND IN TURKEY

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In this paper, we used Frenkel and Jovanovic's (1981) buffer stock model based on adjustment (reserve volatility) and opportunity cost of international reserve holdings to investigate international reserve behaviors. The monthly time series data from January 1994 to November 2014 was employed to examine empirically the international reserve demand in Turkey. The volatility measure was calculated by employing GARCH specification. The findings show that the opportunity cost impacts to international reserve demand positive and significantly as expected from the theoretical model. However, the adjustment cost has significantly negative impact on international reserve demand in contrast to the theoretical model. We also observe that opportunity cost has larger impact on international reserve demand than reserve volatility in the period examined for Turkey. This can probably arise the fact that Turkey has experienced high interest rate and hence it has had high opportunity cost for many years.

Keywords: Reserve demand, Buffer stock model, Opportunity cost, GARCH.