INTRODUCTION

In this study, causal relationships between Istanbul Stock Exchange (ISE) stock prices, dollar rate, consumer price index, interest rates and industrial production were investigated. In this context, in the period January 2005 to July 2011, monthly data were analyzed by using Johansen-Juselius Co-integration test, vector error correction model (VECM) and the impulse-response analysis. As a result of the research, there is no long-run relationship between ISE stock prices and macroeconomic variables such as interest rates, exchange rate and consumer price index. It has been proven that the existence of long-run relationship is only between ISE and industrial production. According to the results of the error correction model, a unidirectional causality from stock prices to industrial production has been proven. Impulse-response analysis results and error correction model results are in the same direction.

Key words: Istanbul stock exchange, causal relationship, vector error correction model, impulse-response analysis.