

## The Dynamic Relationships between Stock Market Capitalization Rate and Interest Rate in Turkey

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This paper investigates the long run and short-term relationships between stock market capitalization rate and interest rates in Turkey over the period 1998-2012. Prior to conducting the analysis in a time series, in order to test the stability of the series, a unit root test was initially applied. It is determined that both stock market capitalization rate and interest rate series are not stationary. Long-run relationship is tested by Johansen Cointegration tests and casual relationship is tested by Granger Causality tests. According to the results of the study, there is long-run relationship between stock market capitalization rate and interest rates while there is not causal relationship between stock market capitalization rate and interest rates in short term.

**Keywords:** Stock Market Capitalization Rate, Interest Rates, Cointegration, Vector Error Correction Model (VECM), Causality.