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**FELA ÖZBEY**

Çukurova University, FEAS, Turkey

**ERHAN İŞCAN**

Çukurova University, Turkey

**MEHMET FATİH TRAŞ**

Çukurova University, Türkiye

## **HOW DO EXCHANGE RATE MOVEMENTS AFFECT STOCK PRICES? THE CASE OF TURKEY**

### **Abstract:**

One particular area in financial economics that has received a great deal of attention is the link between exchange rate and the stock prices. The interaction between exchange rate and stock prices has been of special interest because they are regarded among the leading economic variables. The effect of exchange rate on the stock market can work in two avenues. Many studies have documented that changes in the exchange rate have the capacity to increase the volatility of the stock prices, while some other researchers indicated the effect of exchange rate on average returns. In this study, we investigate both of these issues for the case of Istanbul Stock Exchange, using monthly US Dollar-Turkish Lira (USD-TRY) exchange rate and the Istanbul Stock Exchange (BIST) 100 index for the period 2009M01-2015M11, employing GARCH approach. Our main findings show that an increase in exchange rate decreases expected returns and increases the riskiness of BIST 100 in Turkey.

### **Keywords:**

Exchange Rate, Stock Prices, Turkish Stock Market, Volatility.

**JEL Classification:** C22, C58, E44