

## **Greater Than the Sum of Its Parts:**

### **Aggregate vs. Aggregated Inflation Expectations**

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Discussion by Margaret M. Jacobson (Federal Reserve Board)

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# Introduction

- This survey investigates the consistency of households' inflation expectations  
⇒ expectations are a key determinant of inflation in New Keynesian models
- Models typically assume full information rational expectations (FIRE)
- Departing from FIRE can alter model results/policies, surveys guide departure
- This paper: quantify how behavioral inconsistencies affect estimates of IES  
⇒ rep. agents: intertemporal substitution main channel for policy to affect hhs  
⇒ reflect actual behavior by adjust existing parameters rather than adding more

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2. Elicit respondent  $i$ 's expectations for category  $k$ :  $\mathbb{E}_t^i [\pi_{k,t+1}]$
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- Salience: consumers grocery shop and pump gas most often

- D'Acunto et al. (2021b), Binder (2016, 2021), Binder & Makridis (2022), Campos et al. (2022), Berge (2018)

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Category/weights	Perceived	Actual	Implied (Fig. A.1)	Actual (CPI)
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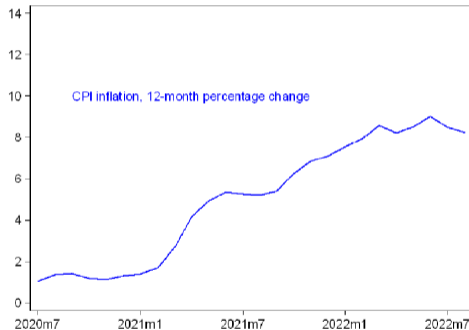
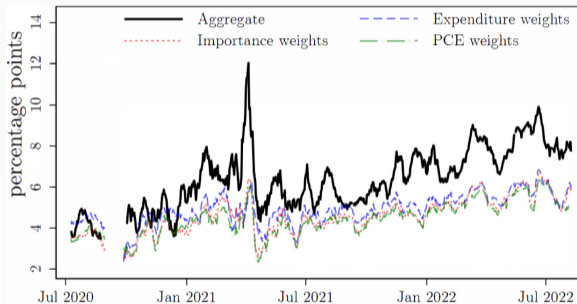
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- Importance: higher gasoline weight  $\Rightarrow$  less inconsistency?
- **Official**: lower gasoline weight  $\Rightarrow$  more inconsistency?

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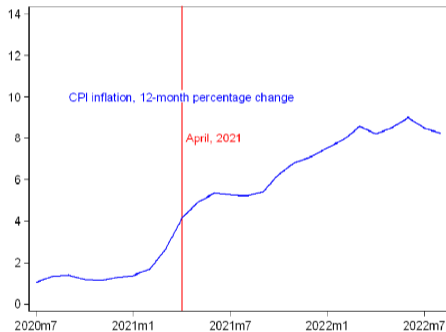
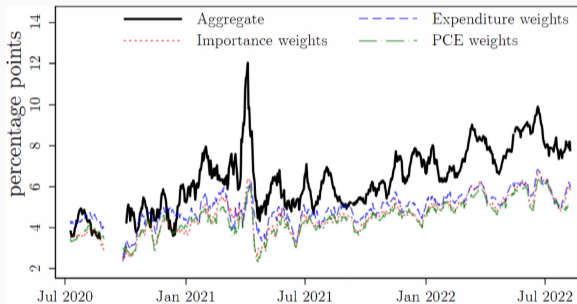
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Source: Dietrich et al. (2022), BLS

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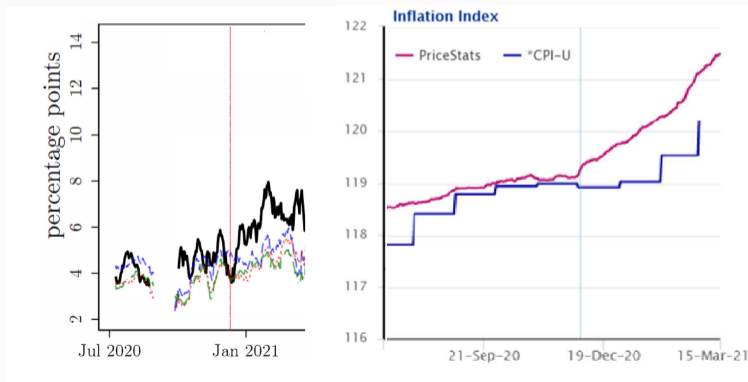
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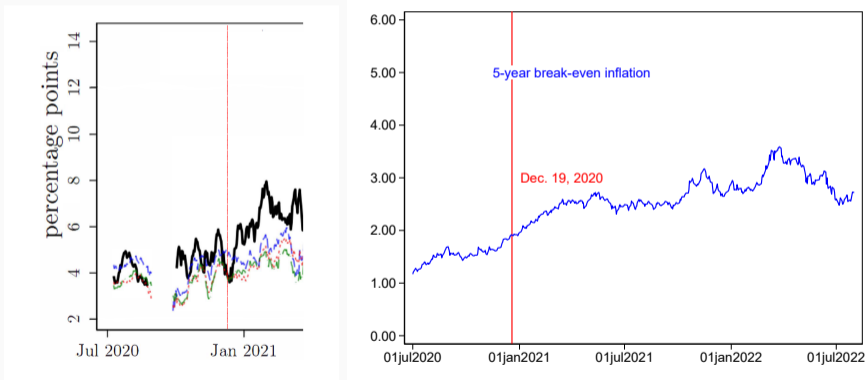
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- Correlation with high-freq. indicators: do retail prices and expectations co-move?
  - ⇒ PriceStats daily CPI: webscraped prices from retailers, best grocery approx.
  - ⇒ Both the daily CPI & expectations rise months before official index



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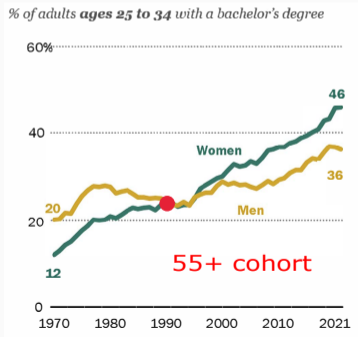
- Correlation with **publicly available** high-frequency indicators: breakeven inflation or specific sectors



Source: Dietrich et al. (2022), U.S. Treasury

## Comment 3: education by age cohort

- Michigan Survey inflation expectations are surprisingly high throughout the 2000's
  - this paper: demographic heterogeneity in aggregation inconsistency can inform
- Aggregation inconsistency decreases with wage & education
  - no interaction terms even though younger individuals are more likely to be educated





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  - Coibion et al. (2022): expenditure questions are explicitly for the household
- Survey follows SCF/HIEP for question phrasing best practices
  - respondents tend to choose “stays the same,” best to not include it
  - wording matters: “inflation” instead of “prices”

## Conclusion

- Daily household inflation expectations survey of about 20,000 observations
- Paper explores if households' inflation expectations consistently aggregate  
⇒ key assumption of full information rational expectations (FIRE)
- Results do not support FIRE: behavioral expectations least inconsistent
- Estimate IES from spending plans: allows models to reflect actual household behavior by adjusting parameter rather than adding free parameters