Salient Price Changes, Inflation Expectations, and Household Behavior

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Inflation Expectations

LHS
- Malmendier and Nagel (2015)
- Burke and Manz (2014)
- Binder (2016)
- Binder and Rodrigue (2017)
- de Bruin et al. (2011)
- Cavallo et al. (2014)

RHS
- Bachmann et al. (2015)
- Burke and Ozdagli (2013)
- D’Acunto et al. (2015,2016)
- Crump et al. (2015)

etc.

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- Binder (2016): there is no effect from gas prices on inflation expectations.
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- Wants to explain the (seemingly puzzling) amount of cross-sectional heterogeneity in inflation expectations.
- Does so through *weighted* perceived inflation measures.
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- Salient perceived inflation is \emph{negatively} related to inflation expectations.
- Results driven by (i) regular shoppers and (ii) the financially illiterate.
- There is also results in the vein of the RHS papers, but those seemed less worked out in the paper, so I will not comment on them.
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Comment I - right notion of salience?

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Unrelated idea: compute a Frequency-CPI based on frequency of price changes, not on frequency of purchases.
Comment II - negative correlation between inflation perceptions and inflation expectations

Comment IIa: is this really in the data?

The paper you cite (Cecchetti et al., 2017) finds negative autocorrelation of inflation changes (not price changes). Also: when I just compute CPI inflation as a year-over-year percentage change of the CPI: it's highly positively autocorrelated. The change of this inflation rate is still positively autocorrelated. Only when I compute CPI inflation as a month-over-month percentage change of the CPI: it's still slightly positively autocorrelated, but now the change of this inflation rate is indeed negatively autocorrelated.
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Conversely, I would have thought that the financially illiterate have adaptive expectations, in which case the sign should be positive.
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But is there then not also the possibility of a selection effect: households just send those guys that know best about prices / care most about observing prices?
Comment III - can you really explain the cross-sectional heterogeneity of inflation expectations?

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More generally: engage more with competing explanations in the literature of this heterogeneity, for instance Burke and Manz (2014) on financial illiteracy.
Comment IV - why should we care about inflation perceptions?

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It basically shows the opposite of what you are saying: we do not need complicated scanner data for monetary policy, a good household-level inflation expectation survey is fine. Especially since I can’t think of a way how monetary policy – assuming it wanted to manipulate inflation expectations somehow – could possibly exploit the knowledge that particular inflation perceptions through salience change inflation expectations.
Think about relating this paper and its results to some model of imperfect information / learning / information acquisition (for example my last comment on the slide Comment I, which could help you relate to the rational inattention literature). Also, you could use a RIA model to see how much more inflation dispersion your idiosyncratic perception channel can generate.
Comment V - random thoughts

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2. Gas prices: the standard thinking is that gas prices are salient and that they should relate to inflation expectations. Binder (2016) does not appear to find that. How does that square with your result? Is Binder (2016) simply wrong? Or are gas prices not really salient? This might be interesting to explore.
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I also find the results on inflation uncertainty interesting – have you explored even higher subjective moments of inflation expectations and their determinants?
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But I am not sure it has found “its angle” yet.