Discussion of "Measuring Consumer Uncertainty about Future Inflation"

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Summary: Main goal of the paper

- ▶ Measuring consumers' subjective probability distribution of future inflation: density forecasts of price and wage inflation
- ▶ Extending Michigan survey by follow-up question:
  Indicate the percent chance that, over the next 12 months, the following things may happen:

  Prices/Wages will

                    percent chance

  go up by 12 % or more
  go up by 8 % to 12 %
  go up by 4 % to 8 %
  go up by 2 % to 4 %
  go up by 0 % to 2 %
  go down by 0 % to 2 %
  go down by 2 % to 4 %
  go down by 4 % or more

Summary: Results

- People are willing and able to make density forecasts
- Substantial heterogeneity in uncertainty, stemming from demographic characteristics and financial literacy
- Positive link between point forecasts and density forecasts
- Higher uncertainty $\Rightarrow$ higher level of expectations
- Time variation:
  - Persistence in uncertainty explained by unobserved time-invariant heterogeneity
  - More uncertainty leads to larger revisions in point forecasts in the next period

Questions of clarification

- Reasons for splitting the ALP participants in December 2006 into an "old" and "young" sample?
- About half of individual point forecasts do not fall between the first and the third quartile of the same individual's forecast density:
  ⇒ Possible explanation?
- Idea for unobserved time-invariant heterogeneity?

Discussion: Do people really think like that?

- Experimental evidence for the use of subjective probabilities?
- Bryan/Palmqvist, 2006[1]: Focal points in inflation expectations:
    - Point forecasts center around 0, 3, 5, 7, 10 % inflation
    - People make qualitative forecasts
- Extending the survey by a qualitative question:
    - *How certain are you about your forecast?*
      or
    - *Judge the certainty of your forecast:*

      Answer:
    - *very certain - certain - uncertain - very uncertain - don't know*

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[1]Bryan, Michael / Palmqvist, Stefan (2006): *Testing near-rationality using detailed survey data*, in: European Commission Economic Papers

Discussion: Impact of sequence of questions?

Survey first asks about point forecasts, then about density forecasts

- ► Does this result in an anchoring effect?
  - ► Higher uncertainty, i.e., more bins used, if point forecast is left out?
  - ► Individual multimodal distribution instead of unimodal distribution?

Discussion: Further implications

- ▶ Heterogeneity in forecast uncertainty further motivation for models with heterogeneous agents?
- ▶ Malmendier/Nagel, 2009[2] : life-time experience influences inflation expectations
  - ▸ individuals having experienced high-inflation periods in their life tend to have higher inflation expectations
  - ▸ Does this affect uncertainty as well?
  - ▸ Life-time experience a possible candidate for unobserved time-invariant heterogeneity?

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[2]Malmendier, Ulrike / Nagel, Stefan (2009): *Learning from Inflation Experience*, working paper