

Inflation expectations at times of high and low inflation

by Michal Marenčák

Discussion by Rüdiger Bachmann, University of Notre
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Inflation Expectations: Determinants and
Consequences—BFI University of Chicago

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The literature

An equation we have been estimating for some time (e.g., Bachmann et al., 2015):

$$c_{i,t} = \alpha + \beta * \pi_{i,t}^e + \gamma * x_{i,t} + \epsilon_{i,t}.$$

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- Therefore: I do not think, we are estimating an *Euler equation* here (exception: Crump et al., 2022). Let's call this a *consumption function*.
- Claims of causality vary across studies.

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- Studies effect of “don't know”-answer for inflation expectations on consumption readiness for large durable items.

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- In inflation surge times, only weakly accelerating inflation expectations have a positive impact; they don't in deflationary or disinflationary times (although picture not so clear-cut).
- “Don't know”-answer for inflation expectations appears to have a negative impact on consumption readiness.

Comment 1—Cheap shots

- Few really clear patterns in the empirical results: e.g., at least constant inflation expectations have an impact in deflationary but not in disinflationary times.

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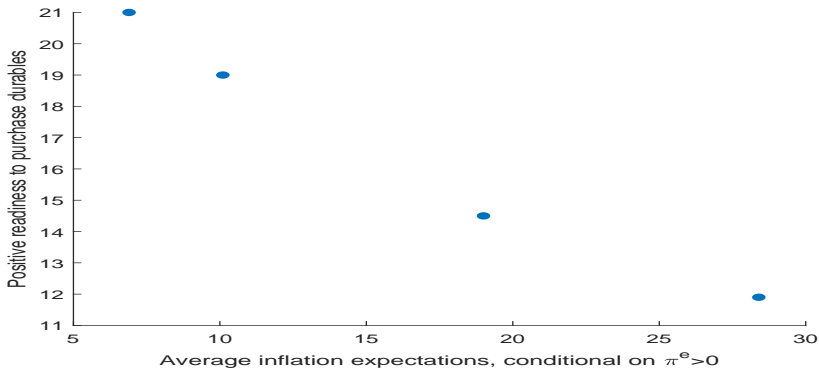
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- Why not run a regression with simple quantitative inflation expectations from Q6A (or is this the intensive-margin regression)?

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- Few really clear patterns in the empirical results: e.g., at least constant inflation expectations have an impact in deflationary but not in disinflationary times.
- Why not run a regression with simple quantitative inflation expectations from Q6A (or is this the intensive-margin regression)?
- In terms of establishing causality between inflation expectations and consumption, this paper falls back behind the survey experiment literature (Coibion et al.), which tends to come down on negative impacts of inflation expectations (“stagflationary view”).

Comment II

The simple unconditional data, also speak for the “stagflationary view”:



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- ② Why do we care about the extensive-intensive margin distinction for *inflation expectations*. Clear theoretical justification for investment, prices, etc. What learning model do we have in mind here?
- ③ “Don't know”—results are interesting but what to make of them: *risk versus uncertainty*? Gloom effects?

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But we also need to start thinking about some theory to interpret all these results.

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- P19: why include the covariance term into the extensive margin? Seems arbitrary.