

Comments on BBP

José A. Scheinkman

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Survey data

- 1 Expectations in surveys are often not purely extrapolations
 - Moullineaux (1980) or Gramlich (1983) on inflation expectations.
- 2 However survey expectations often fail tests for “rationality”
- 3 Since responders often have no incentive to figure out actual expectations, the ratio of noise to signal is just too high.
 - Exceptions such as analysts forecasts.
- 4 Expectation surveys largely ignored in equilibrium macroeconomics.
 - Exceptions: Sticky expectations New Keynesian models.

Some recent papers using subjective expectations in equilibrium asset-pricing

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- Nagel and Xu (2018)
 - Reconcile behavior of asset prices and survey data using standard asset-pricing model and representative agent who learns with fading memory about the mean endowment growth rate. (Malmendier and Nagel).
 - Equity premium is objectively counter-cyclical, but subjectively it is not.
- Jin and Sui (2018)
 - A representative agent model with return extrapolation.
 - Lower weight on more distant observations in the past than $N-X$

Some recent papers using subjective expectations in equilibrium asset-pricing

II

- Bhandari, Borovicka and Ho (2018)
 - Motivated by upward bias, positive correlation and counter-cyclicity of household forecasts for unemployment and inflation rates.
 - Agent's subjective beliefs influenced by time-varying concerns of model misspecification
 - New-Keynesian model with frictional labor markets can reconcile differences between forecasts and objective measures

Bhandari, Borovicka and Payne

- Household survey data on macroeconomic forecasts contain large systematic biases
 - Substantial belief dispersion in the cross section.
 - Large variation in the time series.
- As in BBH concern for model specification is modeled as in Hansen-Sargent

$$V_t = \inf_{\{E_t m_{t+1}=1\}} \log C_t + \beta E_t[m_{t+1} V_{t+1} + \frac{\beta}{\theta} E_t[m_{t+1} \log(m_{t+1})]].$$

- The change in measure from the objective distribution to the *subjective* distribution is given by

$$m_{t+1} = \frac{e^{(-\theta V_{t+1})}}{E_t[e^{(-\theta V_{t+1})}]}$$

Bhandari, Borovicka and Payne

II

- Responses to survey assumed to reflect subjective distribution.
 - Alternative: m influences savings and portfolio decisions but not what I answer to pollster.
- One period ahead belief wedges on r.v. x_{t+1} ,

$$E_t[m_{t+1}x_{t+1}] - E_t[x_{t+1}]$$

- Data + model + linear approximations allow for estimating belief wedges for different groups.
 - At this point assume identical θ and β .
 - Variations come from correlation of (scaled) continuation values on observables for the different groups.
 - V is endogenous - solution method developed in BBH.

Bhandari, Borovicka and Payne



- Ambitious and interesting project to explain cross-sectional variations in beliefs.
- Malmendier and Shen (2018)
 - Significant and long-lasting effects of crisis experiences on consumer spending after controlling for time effects, age, income, wealth, and several demographic and macroeconomic factors.
 - Experiences affect individual's beliefs about future economic conditions.
 - Lifetime experiences do not predict future income after including the same set of controls.
 - Proposes a cause for difference in subjective beliefs.

Bhandari, Borovicka and Payne

IV

- BBP
 - Estimate risk exposures from consumption micro data.
 - In principle one could add a module of equilibrium consumption-portfolio decisions. (Not easy)
 - To accommodate age-cross-section would need a life-cycle model
 - Set of rich predictions.

Experts

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- Graham *et al.* on experts accuracy on macroeconomics forecasting.
- More likely that experts responses to non-anonymous poll reflect concerns about model mispecification.