Exposure to Daily Price Changes and Inflation Expectations
by
D’Acunto, Malmendier, Ospina and Weber

Discussion
by
Kristoffer Nimark
Cornell University

December 6, 2019
Exposure to Daily Price Changes and Inflation Expectations

Novel survey that matches household consumption bundles with inflation expectations
- Expenditure and frequency weighted household CPI
- Household expectations of aggregate CPI inflation
- Household asset holdings

Experienced price changes affect inflation expectations
- Frequency weighted bundle more correlated with expectations than expenditure weighted bundle
- For households that state news media as main source of information, experienced prices are uncorrelated with inflation expectations
- Inflation expectations affect decisions, i.e. portfolio choices
Why this paper is useful, Part I

Local market information has been hypothesized to be a relevant source of information about aggregate state

- Lucas (JET 1972, AER 1973, JPE 1975), Nimark (JME 2008), Lorenzoni (AER 2009), Graham and Wright (JME 2010), Nimark (AER 2014)

Provides a lower bound on how uninformed (rational and fully attentive) agents can be

- Until now, we had no good empirical estimates of variation in household specific CPIs

This paper provides empirical evidence that can be used to calibrate/evaluate this class of models
Why this paper is useful, Part II

(How) do expectations respond to household CPI?
Two parts:
1. Do expectations respond to experienced prices? **Yes.**
2. Do expectations respond optimally to experienced prices? **Not clear.**

Authors suggest that households relying on frequency weighted CPI display behavioral biases

- Theoretically, no reason why expenditure weighted household CPI should be a better indicator of future aggregate inflation
- Frequency weighted CPI has lower x-sectional dispersion and a mean closer to realized core aggregate inflation

Is it possible to use existing data to test which type of household CPI is on average a better predictor?
Why this paper is useful, Part III

Linking household expectations to actions

- High inflation expectations households hold smaller portion of wealth in nominal assets

At first blush, this makes sense since inflation reduces real return on nominal assets. But:

- Do households not believe/understand the Taylor principle?
- Since the 1980s, real returns on nominal assets are positively correlated with inflation

Broader question: Do households with unreasonable expectations take conditionally reasonable actions?
Summing up

**Bottom line: We need more papers like this!**

New matched data on household
- Expectations
- Actions
- Sources of information

Produce a set of stylized facts that can form a basis for evaluating macro models