Discussion

- -- "Inflation Perceptions and Expectations in the Euro Area: The Role of News"
- -- "Information Flows and Disagreement"

by Cristian Badarinza and Marco Buchmann

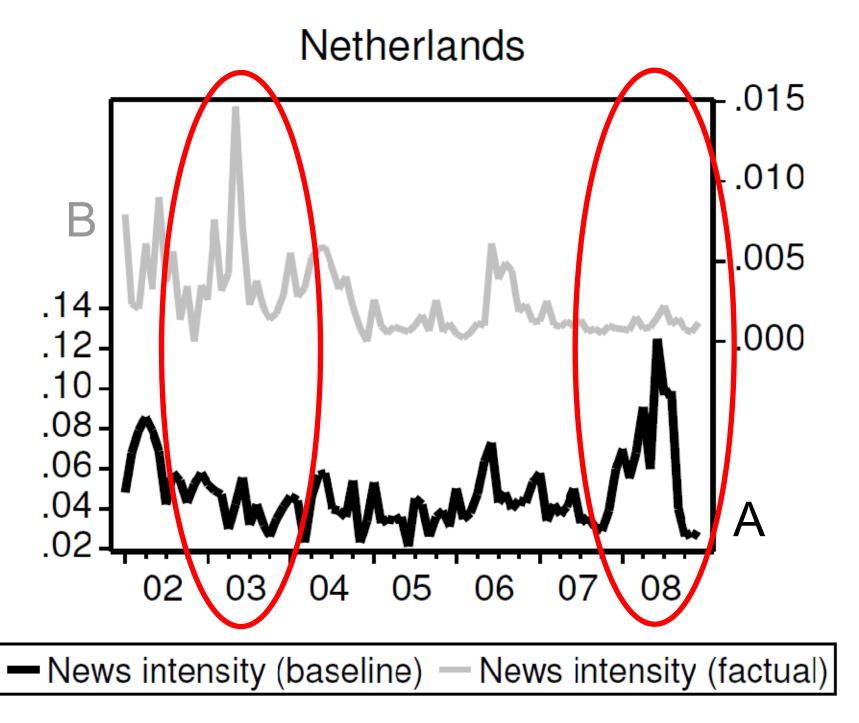
Fabien Curto Millet

Federal Reserve Bank of New York Conference on Consumer Inflation Expectations
New York, 18-19 November 2010

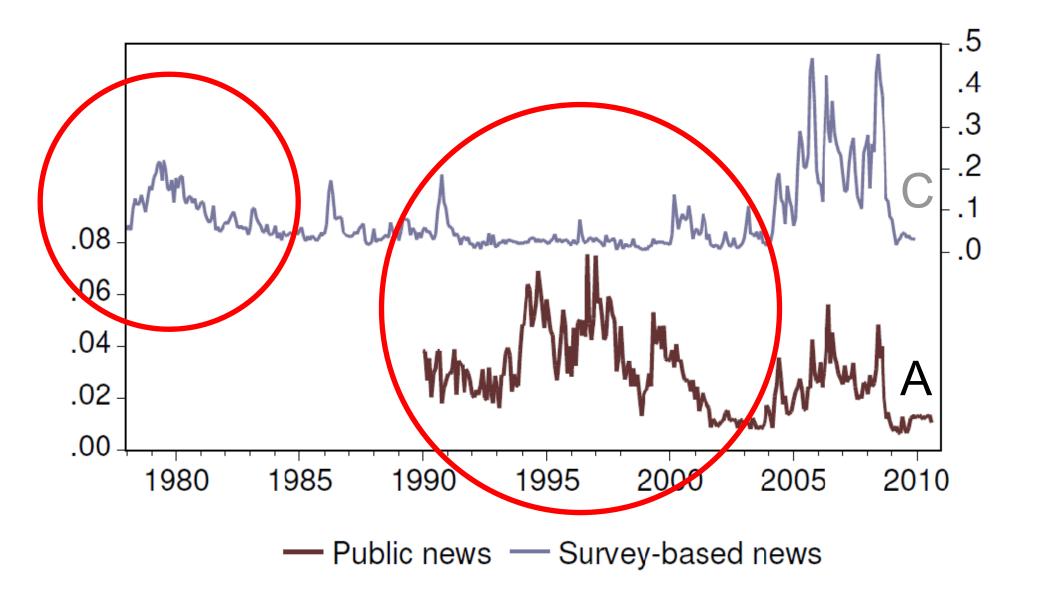
^{*} The views expressed are the responsibility of the author alone and not of NERA Economic Consulting

Measuring disagreement and news intensity

- Measuring disagreement
 - Quantitative measures (US paper)
 - Categorical measure (US and Euro papers)
- Measuring news
 - Broadcasting
 - (A) General news intensity (US and Euro papers)
 - % of inflation-related news in overall economic news
 - (B) Factual news intensity (Euro paper)
 - Receiving
 - (C) Survey news (US paper)



^{*} Figure 3, Badarinza and Buchmann (2009)



^{*} Figure 3, Badarinza and Buchmann (2010)

Conceptual modelling of inflation expectations

Rational

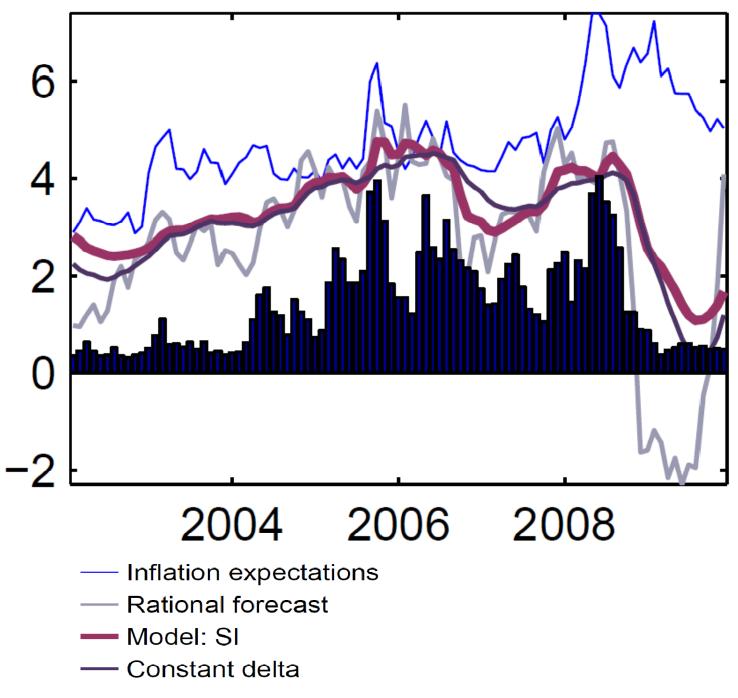
$$E_t X_{t+12} = A^{12} X_t$$

Sticky information
$$E_t^{SI}X_{t+12} = \delta_t A^{12}X_t + (1-\delta_t)AE_{t-1}^{SI}X_{t+12}$$

Sticky expectations
$$E_{t}^{SE}X_{t+12} = \delta_{t}A^{12}X_{t} + (1 - \delta_{t})E_{t-1}^{SE}X_{t+11}$$

Epidemiological
$$E_t^{EPI} X_{t+12} = \delta_t E_t^{prof} X_{t+12} + (1 - \delta_t) E_{t-1}^{EPI} X_{t+11}$$

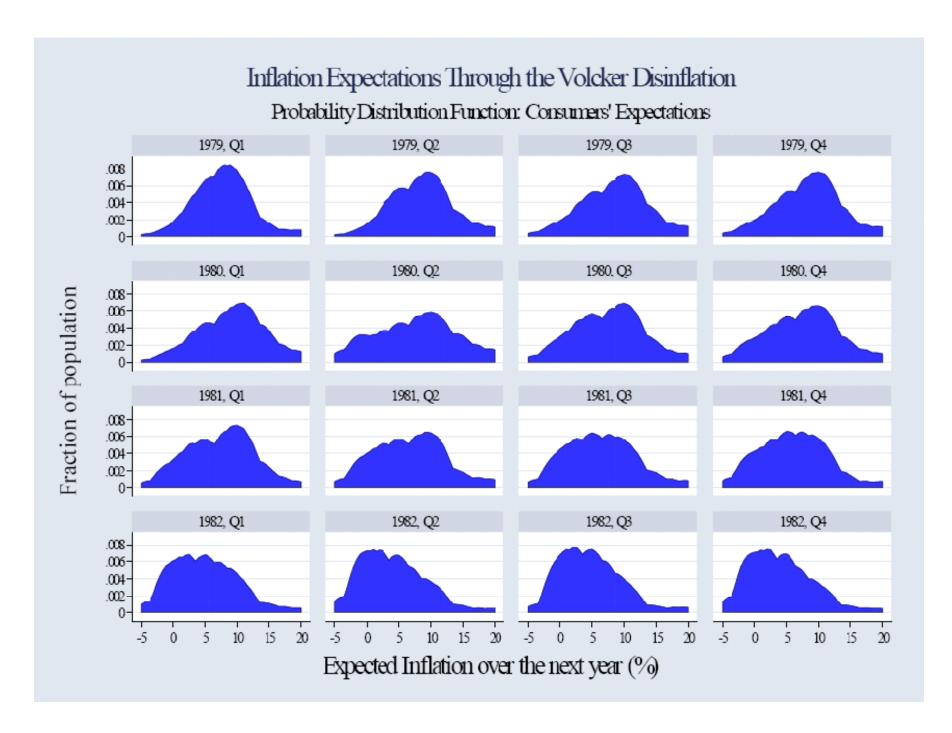
- Updating fraction δ_t either:
 - (i) constant
 - (ii) time-varying, proxied by survey-based news intensity
- Rational expectations proxied by VAR



^{*} Figure 7, Badarinza and Buchmann (2010)

Inflation Expectations Through the Volcker Disinflation Probability Distribution Function Predicted by Sticky Information Model 1979, Q1 1979, Q2 1979, Q3 1979, Q4 1980, Q1 1980, Q2 1980, Q3 1980, Q4 Fraction of population 1981, Q2 1981, Q1 1981, Q3 1981, Q4 1982, Q1 1982, Q2 1982, Q3 1982, Q4 12 12 Expected Inflation over the next year (%)

^{*} Mankiw, Reis and Wolfers (2003), p.47



^{*} Mankiw, Reis and Wolfers (2003), p.46