Discussion

-- “Inflation Perceptions and Expectations in the Euro Area: The Role of News”

-- “Information Flows and Disagreement”

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* 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**

\[ E^{SI}_t X_{t+12} = \delta_t A^{12} X_t + (1 - \delta_t) A E^{SI}_{t-1} X_{t+12} \]

**Sticky expectations**

\[ E^{SE}_t X_{t+12} = \delta_t A^{12} X_t + (1 - \delta_t) E^{SE}_{t-1} X_{t+11} \]

**Epidemiological**

\[ E^{EPI}_t X_{t+12} = \delta_t E^{prof}_t X_{t+12} + (1 - \delta_t) E^{EPI}_{t-1} X_{t+11} \]

- Updating fraction \( \delta_t \) 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

Fraction of population

Expected Inflation over the next year (%)
Inflation Expectations Through the Volcker Disinflation

Probability Distribution Function: Consumers' Expectations

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