Discussion of
Barnett, Mumtaz, Paustian and Pezzini:
“Household inflation expectations in the UK: exploiting the cross-sectional dimension”

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Key contribution

- Several tests of sticky info (SI) framework
- Uses UK household-level inflation expectations
- Moderate support for SI: Hhs update once a year
- SI better than rest, but underestimates X-section dispersion
Data

- Barclays Basix survey: 1987+
Methodology

Follows Mankiw, Reis, Wolfers (2003)

▶ Approximate rational forecasts with (B)VAR
▶ Denote $\theta$ share of Hhs with up-to-date info
▶ Given $\theta$ generate distr of Hh exps
▶ $\theta(1 - \theta)^j$: share of Hhs with info outdated by $j$ quarters
▶ Estimate $\hat{\theta}^{SI\ model} = \arg\ min\ \sum_t (E\bar{\pi}^{data} - E\bar{\pi}^{SI\ model}(\theta))^2$
  where $E\bar{\pi} = \text{mean infl exp}$
▶ Test SI: Does $\pi^{SI\ model}(\hat{\theta})$ match variance observed in data?
Results

- $\theta_{SI \ model} = 0.28$
- Baseline SI underestimates dispersion
- Need more fcst heterogeneity than just SI
  Hhs draw from posterior dstrbtn? (rather than point fcsts)
- SI/geomtrc weights performs better than RI or uniform weights
Use more moments $g(\cdot)$

- $\hat{\theta} = \arg \min \sum_t (g(E_{\pi}^{\text{data}}) - g(E_{\pi}^{\text{SI \ model(\theta)}}))^2$
- # of moments ↑ ⇒ Efficiency($\hat{\theta}$) ↑

Likely consequences

1. Mom cond for variance ⇒ ↑↑ $\hat{\theta}$ substantially
   var($E_{\pi}^{\text{SI \ model(\theta)}}$) ↑ as $\theta$ ↑
   Because baseline model underestimates var
2. Over-identification will reject SI
Measurement error

- Adding classical meas error helps match SI\& $\hat{\theta} \approx 0.25$ with data
- Substantial evidence about $\hat{\theta} \approx 0.25$ for Hhs
- Different (macro) setups:
  - Carroll 2003; Khan, Zhu 2006; Carroll, Slacalek, Sommer 2009; . . .
- More moments $\Rightarrow$ can in principle test OI restr
  Or estimate more params
- Meas error needs to be substantial
- Non-classical? (varies across Hhs and in time)
- Is not necessarily unrealistic!
Fact I: $\text{IQR}(\text{Hhs Expns}) \approx 5 \times \text{IQR}(\text{Experts Expns})$
Fact II: \( \text{Profile}(\text{IQR}(\text{Hhs Expns})) \approx \text{Profile}(\text{IQR}(\text{Experts Expns})) \)
Why use (B)VAR as benchmark?

- Paper effectively tests SI jointly with Hhs’ use of BVARs
- Little idea on how the BVAR forecasts perform
- Lots of specification issues (lags, variables, priors, factors?, . . .)
- Why not use expert survey forecasts?
- Better than model.fcsts (Ang, Bekaert, Wei 2007; Wright 2010)
- More easily accessible to Hhs (than estimating BVARs)
Section on micro data

- Ideally use panel
- Partitioning by updating intensities using BVAR a bit ad hoc
  van der Cruijsen, Jansen, de Haan (2010)
- Likely finding: more educated/rich have better forecasts
- Implications for CB communication
How about other variables?

Economic activity (GDP)

- Disagreement more counter-cyclical (than about $\pi$)  
  Dovern, Fritsche, Slacalek (2009)
- Matters more to Hhs? Higher variance? $\Rightarrow$ Higher $\theta$?
- Carroll (2003) estimates $\theta = 0.32$ (for unemployment)
- In line with rational inattention (Mackowiak, Wiederholt 2009)
- But hard to ask Hhs, hard to scale
Summary

- Nice, policy-relevant paper with interesting data
- Some support for SI
- But not enough heterogeneity to match micro data
- More work to do