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+
- Bank of England/GfK NOP Inflation Attitudes Survey: 1999+

Methodology

Follows Mankiw, Reis, Wolfers (2003)

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- $\theta(1-\theta)^j$: share of Hhs with info outdated by j quarters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

Results

- $\theta^{\text{SI model}} = 0.28$
- 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 $g(\cdot)$

- $\hat{\theta} = \arg\min \sum_t \left(g(E\pi^{\text{data}}) - g(E\pi^{\text{SI model}}(\theta))\right)^2$
- # of moments $\uparrow \Rightarrow$ Efficiency$(\hat{\theta}) \uparrow$

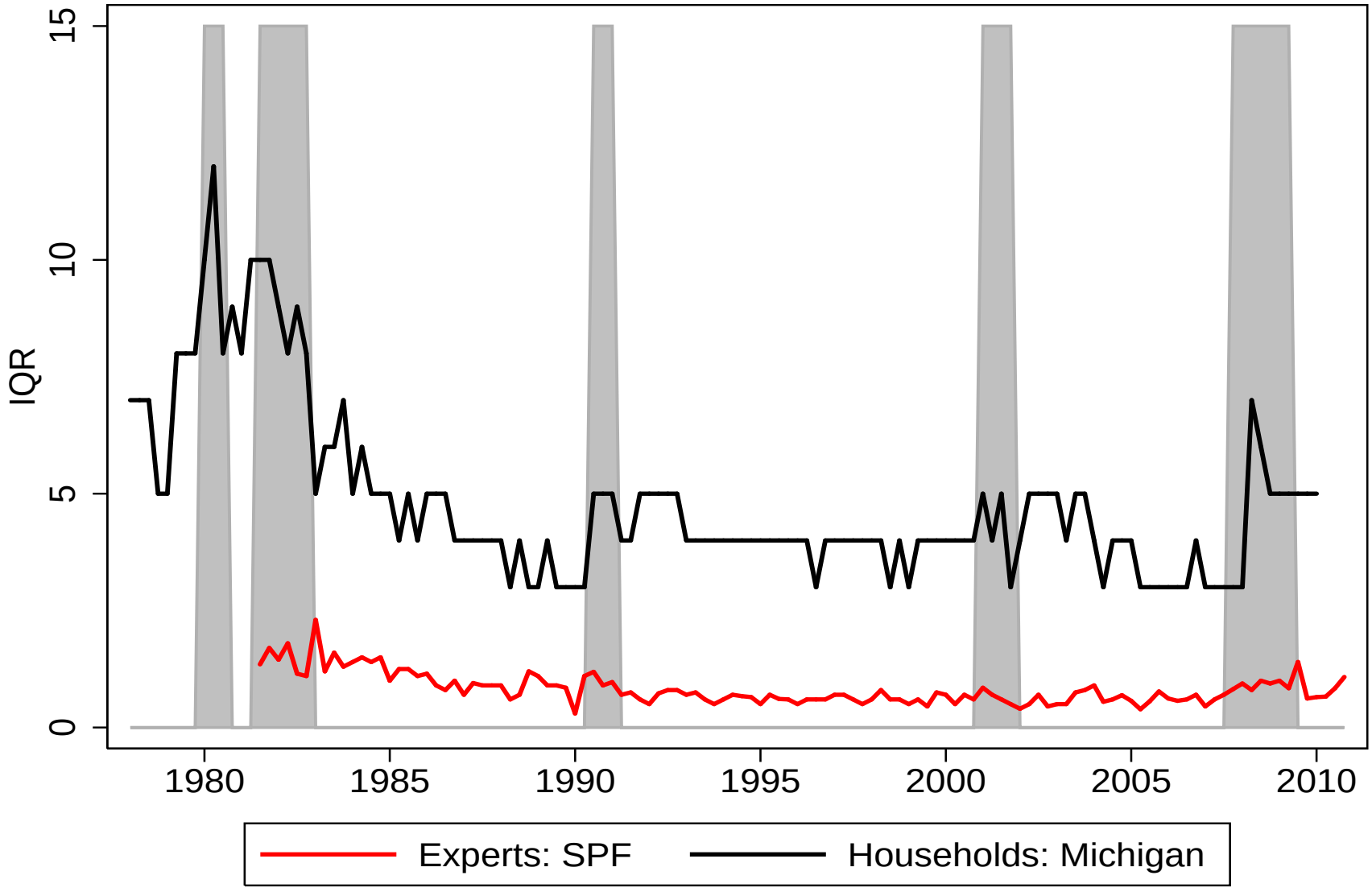
Likely consequences

1. Mom cond for variance $\Rightarrow \uparrow\uparrow \hat{\theta}$ substantially
   var$(E\pi^{\text{SI model}}(\theta)) \uparrow$ as $\theta \uparrow$
   Because baseline model underestimates var
2. Over-identification will reject SI

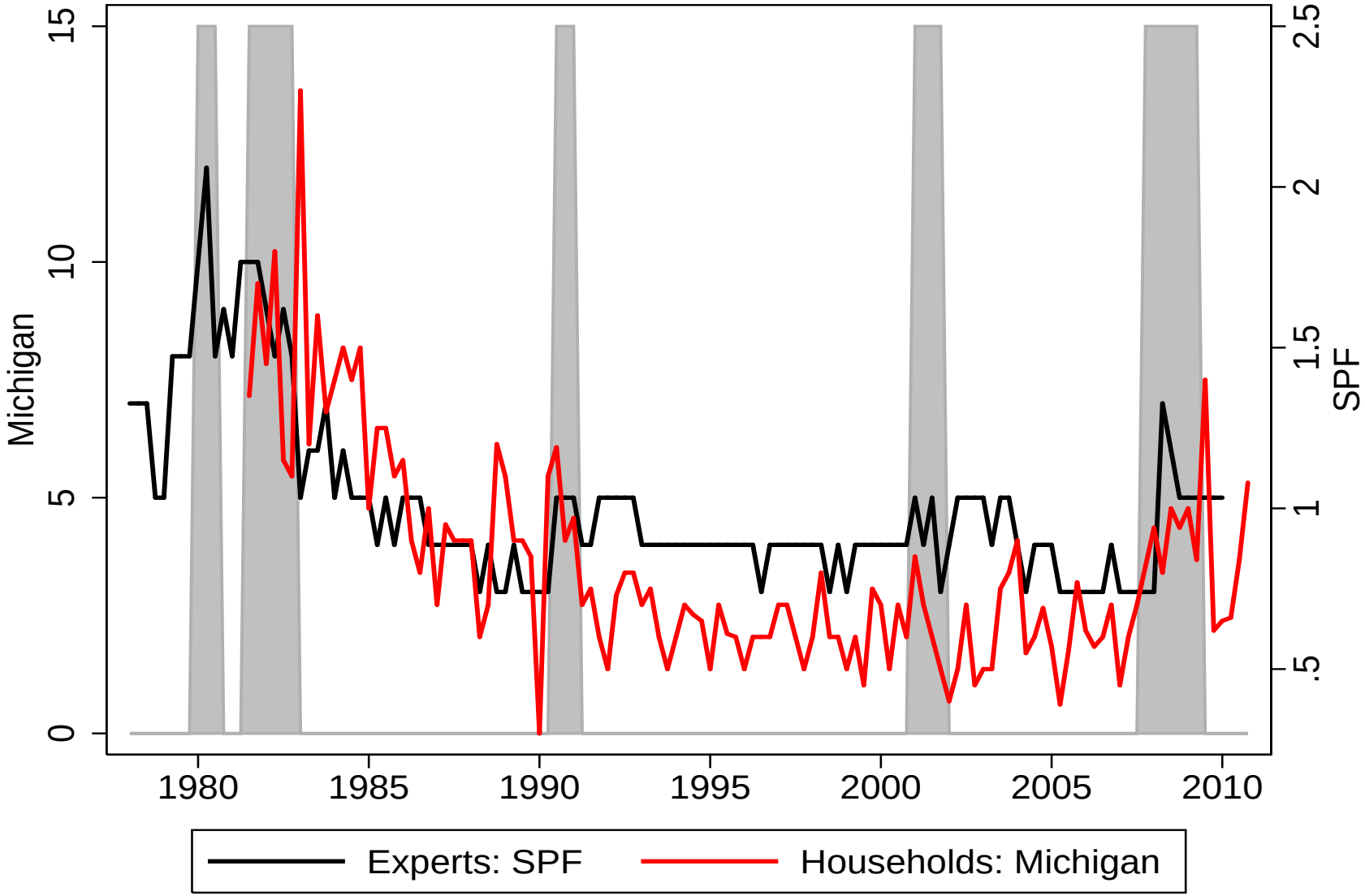
Measurement error

- 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: IQR(Hhs Expns) $\approx 5 \times$ IQR(Experts Expns)



Fact II: Profile(IQR(Hhs Expns)) $\approx$ Profile(IQR(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
- More natural to look at fcst errors à la Souleles (2004) 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 π)
  Dovern, Fritsche, Slacalek (2009)
- Matters more to Hhs? Higher variance? $\Rightarrow$ Higher θ?
- 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