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Disagreement in Household Inflation Expectations: An Inference Through Media Information

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ABSTRACT

Disagreement is a common phenomenon in the inflation expectations of the households in survey data (Mankiw, 2004). Empirical studies suggest that data on inflation expectations frequently violate the two important characteristics: unbiased and consistency, of rational expectation-hypothesis (REH). Thus, there is a pressing need to incorporate and understand the role of information in addition to demographic and macroeconomic characteristics to understand the disagreement in household expectations. Following Lamla (2012), we model the disagreement in the household inflation expectations using two sets of variables, one is a proxy for relevant macroeconomic information and the other proxies for media information. Our empirical analysis suggests that disagreement is persistent. In other words, the disagreement at time $t-1$ has a large influence on the disagreement at time t . Further, media (news or web search) information obtained by using google trend data on the frequency of certain keywords shows that with the increase in frequency of these keywords, survey disagreement seems to have lessened. Additionally, inflation regime has significant effect on disagreement. In low inflation regime, disagreement is higher compared to the high inflation regime.

KEYWORDS Inflation Expectations; Forecast Disagreement; Media Coverage

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