

Empirical Household Finance

Online PhD-Level Class

Expectations in Household Finance

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Plan For Today

- Some observations on today's topic:

Expectations in Household Finance

- A research project:

Personal Experiences and Expectations about Aggregate Outcomes

Expectations in Household Finance

- Beliefs key in understanding all intertemporal decisions, including household financial choices
 - Traditional benchmark: Rational expectations based on all (publicly) available information
 - But: Little support in the data (Manski, 2004, for an overview)

Expectations in Household Finance

- Beliefs key in understanding all intertemporal decisions, including household financial choices
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Research questions:

- How are beliefs actually formed?
- How do different beliefs affect behavior?
- What are the (macro) implications?

Measuring and Analyzing Expectations

How to measure beliefs?

- Infer from prices, choices
- Elicit directly via surveys
 - Michigan survey
 - NY Fed Survey of Consumer Expectations
 - Household surveys by many other central banks
- Variety of surveys ask about expectations
- Designing/Running surveys is relatively cheap (MTurk, etc.)
- Many opportunities for exciting research
- Expectation shifter
 - Shift in variable known to affect expectations
 - Shift expectation through information provision

Haaland, Roth, Wohlfart (2020): Designing Information Provision Experiments

What have we learned?

- Survey data are informative
- Rational expectations often inconsistent with evidence
- Expectations strongly influenced by what is “close”
 - Close in time - Extrapolation: Expectations strongly influenced by recent events (e.g., Greenwood, Shleifer (2014), many others)
 - Close personally: Expectations influenced by personal experiences (e.g., Malmendier, Nagel (2011, 2016, 2017), many others)
 - Close geographically: Later today
 - Close socially: Social network (The Economic Effects of Social Networks: Evidence from the Housing Market)

Behavior and Macro Implications

- How do different beliefs affect behavior?
 - Challenge: Observing beliefs and actions in the same data
 - Approach 1: Survey measures of (intended) actions
 - Approach 2: Inferred beliefs and actual actions
 - Beliefs affect actions

Behavior and Macro Implications

- How do different beliefs affect behavior?
 - Challenge: Observing beliefs and actions in the same data
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 - Approach 2: Inferred beliefs and actual actions
 - Beliefs affect actions
- (Macro) implications?
 - Asset pricing
 - Macro models

Papers Today

- Now:
 - Kuchler, Zafar (JF 2019): *Personal Experiences and Expectations about Aggregate Outcomes*
→ How do individuals form expectations?
- Recap:
 - Bailey, Cao, Kuchler, Stroebel (JPE 2018): *The Economic Effects of Social Networks: Evidence from the Housing Market*
→ Expectations shifter
- Later today:
 - Johannes Stroebel: *Five Facts about Beliefs and Portfolios*
 - Yueran Ma: *Biases in Expectations: Experimental Evidence*
 - Ricardo Perez-Truglia: *Betting on the House: Subjective Expectations and Market Choices*
 - Cami Kuhnen: *Socioeconomic Status and Household Expectations*
 - Michael Weber: *Exposure to Grocery Prices and Inflation Expectations*