Empirical Household Finance
Online PhD-Level Class

Expectations in Household Finance

Theresa Kuchler
NYU Stern, NBER, CEPR
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

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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?
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• (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*