

# 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?
  - 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*