Beliefs – Lived Experiences

Learning from Inflation Experiences*

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September 8, 2014

Abstract

How do individuals form expectations about future inflation? We propose that individuals overweight inflation experienced during their lifetimes. This approach modifies existing adaptive learning models to allow for age-dependent updating of expectations in response to inflation surprises. Young individuals update their expectations more strongly than older individuals since recent experiences account for a greater share of their accumulated lifetime history. We find support for these predictions using 57 years of microdata on inflation expectations from the Reuters/Michigan Survey of Consumers. Differences in experiences strongly predict differences in expectations, including the substantial disagreement between young and old individuals in periods of highly volatile inflation, such as the 1970s. It also explains household borrowing and lending behavior, including the choice of mortgages.

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Beliefs – Lived Experiences

The Making of Hawks and Doves*

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November 17, 2019

Abstract

We argue that central bankers' personal inflation experiences significantly alter their inflation forecasts, votes, and speeches. First, we show that inflation experiences have a direct impact on Federal Open Market Committee members' inflation forecasts in their semi-annual Monetary Policy Reports to U.S. Congress. Second, members with higher inflation experiences are significantly more likely to cast a hawkish dissent. Over the FOMC's voting history since March 1951, an increase in a member's experience-based inflation forecast by one within-meeting standard deviation raises the probability of a hawkish dissent by about one third, and decreases the probability of a dovish dissent also by about one third. Third, higher inflation experiences also predict a significantly more hawkish tone in speeches. Finally, aggregating over all FOMC members present at a meeting, the average experience-based forecast helps predict the federal funds target rate, over and above conventional forward-looking Taylor rule components. Our findings indicate strong and long-lasting effects of personal inflation experiences even among monetary-policy experts, and point to the importance of FOMC members' selection.

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Beliefs – Memory

A retrieved-context theory of financial decisions*

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Abstract

Studies of human memory indicate that features of an event evoke memories of prior associated contextual states, which in turn become associated with the current event's features. This retrieved-context mechanism allows the remote past to influence the present, even as agents gradually update their beliefs about their environment. We apply a version of retrieved context theory, drawn from the literature on human memory, to explain three types of evidence in the financial economics literature: the role of early life experience in shaping investment choices, occurrence of financial crises, and the impact of fear on asset allocation. These applications suggest a recasting of neoclassical rational expectations in terms of beliefs as governed by principles of human memory.

Beliefs – Trauma ("belief scarring")

The Tail That Wags the Economy:
Beliefs and Persistent Stagnation

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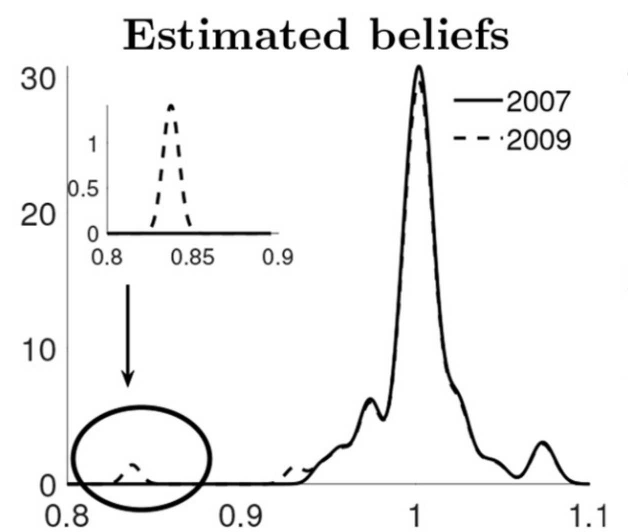

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Beliefs – IQ

IQ and Stock Market Participation

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ABSTRACT

Stock market participation is monotonically related to IQ, controlling for wealth, income, age, and other demographic and occupational information. The high correlation between IQ and participation exists even among the affluent. Supplemental data from siblings, studied with an instrumental variables approach and regressions that control for family effects, demonstrate that IQ's influence on participation extends to females and does not arise from omitted familial and nonfamilial variables. High-IQ investors are more likely to hold mutual funds and larger numbers of stocks, experience lower risk, and earn higher Sharpe ratios. We discuss implications for policy and finance research.

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Preferences – Own History

Habit Formation: A Resolution of the Equity Premium Puzzle

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Marshall (1920) discussed the notion that tastes can be cultivated and that they are affected by past consumption. Duesenberry's (1949) thesis on the consumption function is probably the first serious examination of the implications of habit persistence. Ryder and Heal (1973) introduced the notion of adjacent and distant complementarity and discussed the stability of a growth model in the presence of habit persistence. Stigler and Becker (1977) argued that preferences should not be taken as exogenous but that it is fruitful to endogenize them and search for factors that explain differences or changes in behavior. Kydland and Prescott (1982) introduced preferences that are non–

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Preferences – Other People

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By Kasandra Brabaw July 28, 2023 CBR - Behavioral Science

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EXPERT OPINION BY AMY MORIN, AUTHOR, "13 THINGS MENTALLY STRONG PEOPLE DON'T DO" @AMYMORINLCSW

AUG 26, 2019

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Preferences – Nationality