

Experience-Based Expected Inflation

Research Proposal 2

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Research Question / Tested Hypothesis / Main Argument

Inflation expectations affect actual inflation, since the price and wage adjustments made by agents depend on the inflation they expect in the future. For this reason, one of the greatest challenges for a central bank with an inflation targeting regime is to anchor the population's inflationary expectations. Do groups with heterogeneous crisis experiences have heterogeneous inflationary expectations?

Model / Assumptions

Based on game theory, we can handle multiple a priori beliefs that can affect the outcome of expectations based on experience: information from previous periods. Additionally, we can model incomplete information shared by the central bank to naïve or experienced agents (individuals and firms).

Methodology

Statistical learning models based on Bayesian methods will be needed in aid of comparing a posteriori simulated data with real data from next period. Non parametric methods will keep track on unbiasedness and autocorrelation issues. Getting more specific, numerical methods like Metropolis–Hastings algorithm and Differences-in-Differences models will help.

Data

Inflation opinion surveys and multiple central bank raw data.

Inspired By

- "El efecto de vivir una o varias crisis inflacionarias en las expectativas de inflación de los individuos" by María Fernanda Visoso Gutiérrez
- "Statistical Bayesian learning for heavy-tailed models" by Daniel Salnikov Botello

1. One-pager written for the research seminar on institutional economics. E-mail: clezamaj@itam.mx . ↗