



연세대학교
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Does Presidential Partisanship Affect Fed Inflation Forecasts?

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- 1 Motivation
- 2 Describing Forecast Errors
- 3 What Might Explain Forecast Errors?
- 4 Empirical Tests
- 5 Conclusions

Motivation

- ▶ Clark & Arel-Bundock (2011) found that policymakers at the US Federal Reserve are not politically indifferent.
- ▶ NEED TO COMPLETE

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Our **dependent variable**:

$$E_q = \frac{F_q - I_q}{I_q}$$

- ▶ F_q = inflation forecast for quarter q . (We use forecasts made *two quarters* prior).
- ▶ I_q = actual inflation in quarter q .
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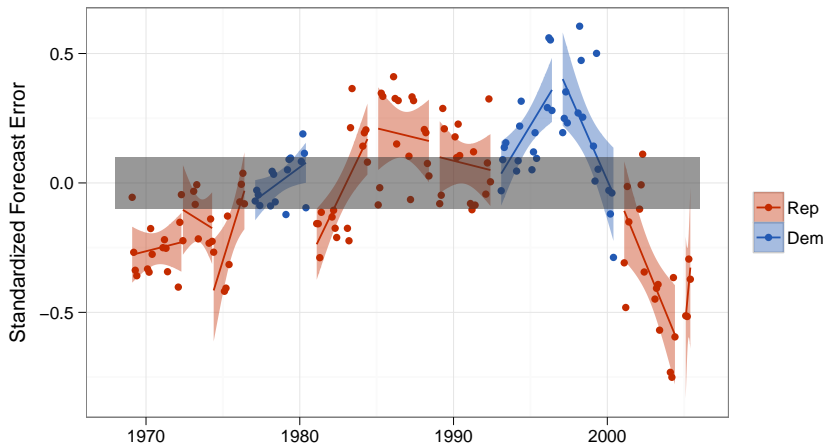
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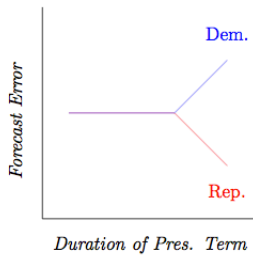
Ideally, the mean forecast error is 0.



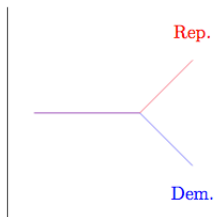
Traditional understanding of Fed forecasting

FILL IN

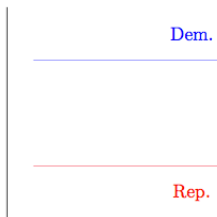
Partisan Preferences



Monetary Expectations



Partisan Heuristics



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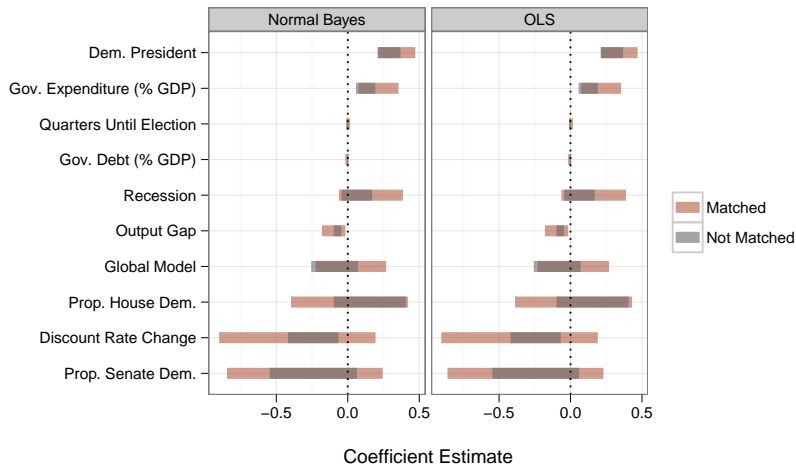
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2. Used the matched data sets in numerous **parametric models** with standardized inflation forecast errors as the continuous dependent variable.

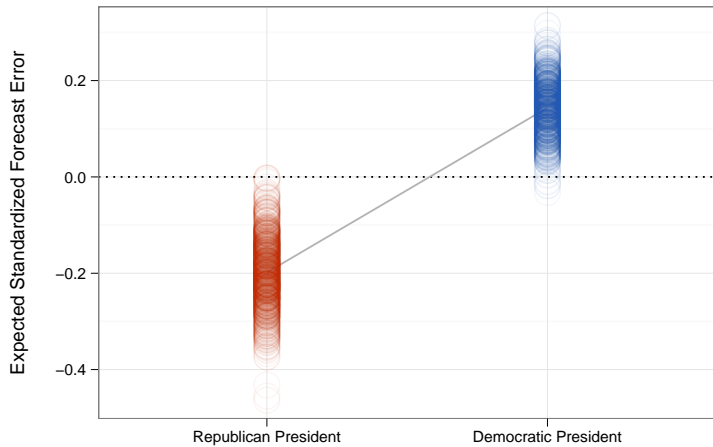
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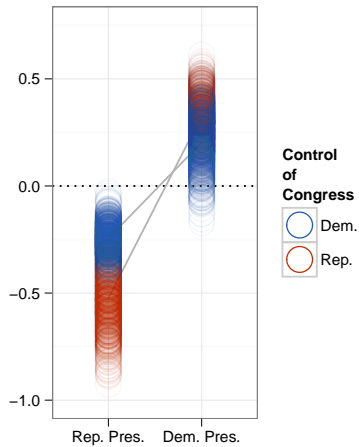
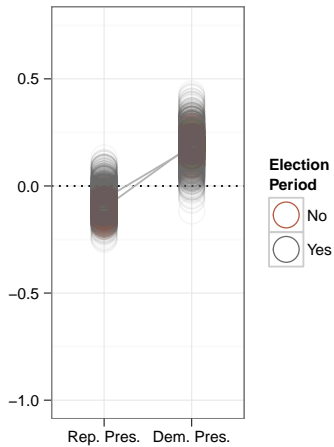
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Expected Standardized Forecast Error



Does presidential partisanship affect Fed inflation forecasts?

Probably.

How?

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