Manuscript ID PSRM-OA-2013-0040 entitled "Inflated Expectations: How government partisanship shapes monetary policy bureaucrats' inflation forecasts" which you submitted to Political Science Research and Methods, has been reviewed and I have read it carefully as well. The comments of the reviewer(s) are included at the bottom of this letter and attached.

While the reviewer(s) recognise the potential of your manuscript as a valuable contribution to the journal, they also suggest some major revisions to your manuscript. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

Let me make clear that this is a weak R&R. Although, R1 recommends rejecting the ms., s/he recognizes that this might potentially be an interesting question. s/he also admits that the empirical analysis is well executed for the most part.

Especially R2 questions the clarity and consistency of the theoretical argument and I fully agree. There is a lot of work to be done to establish a plausible chain of theoretical arguments that allows deriving testable hypothesis, I urge you especially to work on the theoretical part.

Moreover, both reviewers question the use of matching estimators, especially because many observations are thrown out and it remains completely unclear what the benefit in your specific case matching can have over simple regression analysis. You need to make a stronger argument supporting your model choice as well as showing the robustness of results when using the full sample.

R1 is worried about exogenous shocks influencing forecasting errors and I think that is a valid and important point that you need to address.

In general, I urge you to follow the recommendations of both reviewers closely and I expect a detailed response to their criticisms and questions.

best, Vera

To revise your manuscript, log into http://mc.manuscriptcentral.com/psrm and enter your Author Center, where you will find your manuscript under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number will be appended to denote a revision. You may also click this link to start your revision:

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When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. Please use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

Because we are trying to facilitate timely publication of manuscripts submitted to the Political Science Research and Methods, your revised manuscript should be uploaded as soon as possible. We expect to receive your revision by 07-Jan-2014.
If it is not possible for you to submit your revision by this date, please contact the Editorial Office to rearrange the due date. Otherwise we may have to consider your paper as a new submission.

Once again, thank you for submitting your manuscript to the Political Science Research and Methods and I look forward to receiving your revision.

Sincerely,
Prof. Vera Troeger
Editor, Political Science Research and Methods
v.e.troeger@warwick.ac.uk, psrm@epsanet.org

Reviewer(s)' Comments to Author:
Reviewer: 1
Comments to the Author
See attached file for comments to the authors.

Reviewer: 2
Comments to the Author
This paper investigates whether inflation forecasts by the staff of the US Federal Reserve suffer from partisan bias. The paper tries to understand the origins of this bias, and presents alternative theoretical models. The preferred theoretical model is what authors call the partisan heuristic model. Alternatives are a so called “partisan preference theory” model and a “monetary expectation theory” model. Authors find empirical evidence that US Fed staff inflation forecasts are systematically higher for Democratic presidential administrations and lower for Republican.

This paper has an interesting question and some potentially strong results. There are however significant weaknesses. The empirical issues signaled below are something that the authors can deal with. However the vagueness of the theory and my inability to see how the revised theory will look like make me recommend a weak R&R to the editor. I detail my points below:

Theory:
- The starting point for a theory of bias in inflation forecasts should be a comprehensive and clear discussion of the incentives / preferences of staff (there is some ad-hoc discussion of that on p. 6). What do they aim for when forecasting inflation? Who is their principal? What happens when they are wrong? What makes them want to get it “right”? What makes it likely that staff will not update? Can this be related to the Republican preferences of FOMC members rather than a heuristic explanation? Staff need not have a partisan preference, but persistence of bias (and heuristic) may be explained by FOMC member preference. Under what kind of interaction between staff and FOMC would staff ever want to systematically counter FOMC policies?

- We need to understand who is inflation adverse at the Fed: the staff or the FOMC? How do staff relate to the FOMC?
- I would like to understand a lot better how “heuristics” come to life and the literature behind them. It seems very broad to claim that Democrats and Republicans “behave differently in government”. Is it about a set of policies? If so which ones? The discussion on p. 5 is unsatisfactory – I think authors need to specify their approach better before going into alternative theories. It seems to me that the alternatives need to be considered in a robustness section after the key results.

Empirics:
- Clarify what the length of forecast means (p.10).
- I find very confusing the use of matching. It is not clear what it buys, or what are the counters to using it. What are the problems in the data that are being solved by matching? The authors should directly explain how the chosen estimation (including the Bayesian normal linear regression) are a good choice for their data, instead of referring the reader to the references.
- In the variables section I find protracted the discussion of elections, interaction with presidential party ID, Congress party ID – again, this seems appropriate for robustness checks.
- Government expenditure, debt and deficit are included because these may be some of the policies on which Democrats are expected to differ from Republicans. What would other policies be? Crucially, how about inflation expectations? We know that inflation expectations become unhinged in high inflation environments, which makes it hard to control and possibly predict inflation. It seems to me that authors should use past inflation levels and inflation variability in their models.
- Figure 5 – it seems that expected errors for Republicans get closer and closer to zero as the lag of the forecast is closer to present time. Why may that be the case?
- If the heuristic explanation is right – would there not be an expectation that there is also a relationship between president party ID and unemployment forecast errors? Why is the lack of evidence on unemployment bias, supporting evidence for inflation forecast bias (p. 23)?

Other:
- Introduction should tell readers more about why we should care about inflation forecasts. Inflation forecast bias is not necessarily the bread and butter of every political scientist, so we should understand (i) why it is important; (ii) the literatures that are relevant to the question and (iii) how has it been studied before.
- Give a sense of what other information the FOMC uses in making decisions. How important is the Greenbook data/information?
- Related to the first point above, authors introduce jargon that is under explained, e.g. “rationality of forecasts” (p.3); behavioral economics literature (p. 24)
- The treatment of the effect of partisan politics on inflation and output seems quite thin. Examples are on p. 4 (including footnote 3).
- To what extent is it reasonable to apply a framework of “relatively poor information societal actors” to Fed staff (p. 4 and again in conclusion). This would need some justification.

- Some statements are baffling, like the rationale for choosing the dependent variable (p. 9). Why is the assumption that central bankers are inflation averse a justification for the measure? This paper seems about making understanding in more detail the decision making process within the Fed, so we need to know about which “central bankers” is this story about: the Fed staff, the FOMC?