People's Understanding of Macroeconomic Shocks

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What I Do

Do Households Understand Macroeconomic Shocks?
And does it matter for their behavior?

Novel survey with hypothetical scenarios

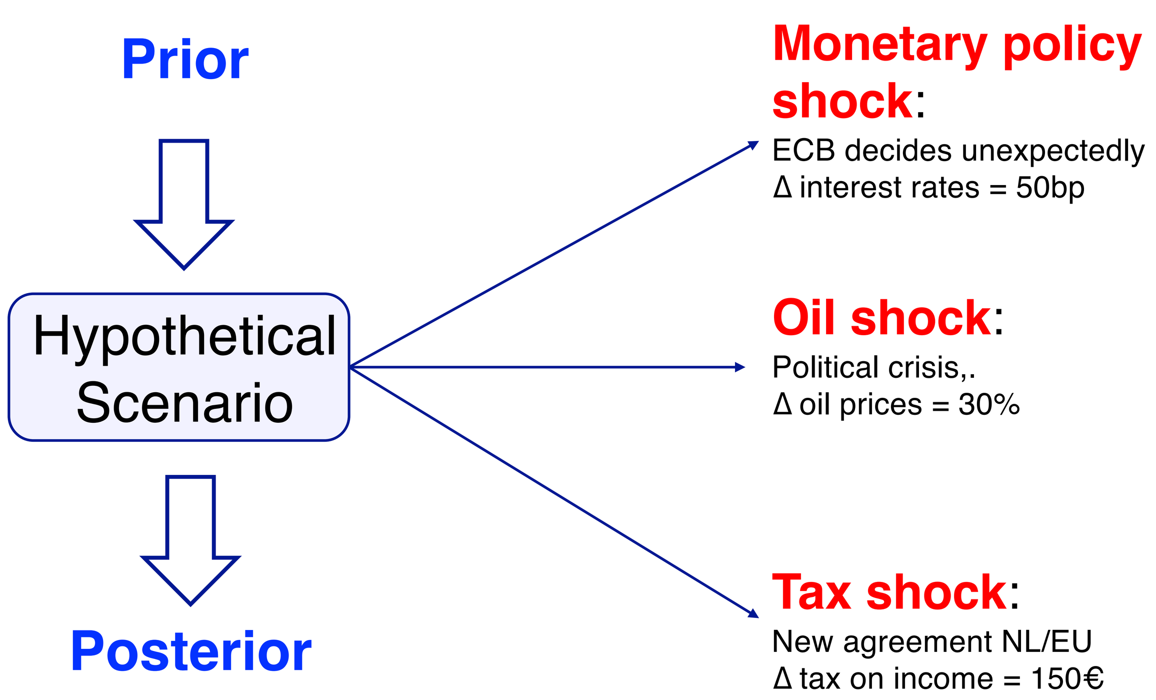
1. Quantify impact of macro shocks on inflation and unemployment expectations
   - Monetary policy shock
   - Oil price shock
   - Tax shock
2. Contrast households' responses with macro theory/evidence
3. Identify hhs who are consistent/inconsistent with benchmark
   - across shocks
   - across individuals → hhs' characteristics
4. Impact on intended spending & saving choices

Data collection

- Online survey: May 2024, 1,549 respondents (cleaned: 1,318)
- Location: the Netherlands (representative sample)
- Data collected through the LISS Panel (Centerdata)
- Matched to detailed household characteristics from LISS Panel

Survey: How do expectations react to shocks?

Measure expectations for **inflation** and **unemployment** before and after exposure to hypothetical scenarios describing macro shocks

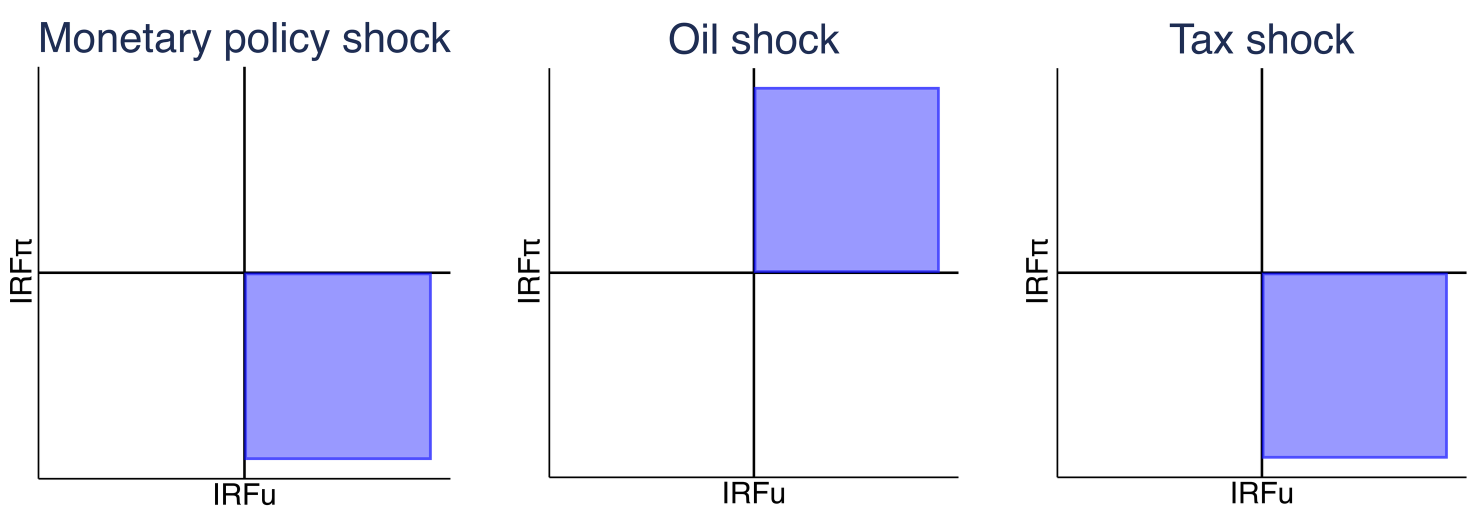


Subjective impulse response = SIRFs = Posterior - Prior = expected impact of the shock

Benchmark: Macro models & time series evidence

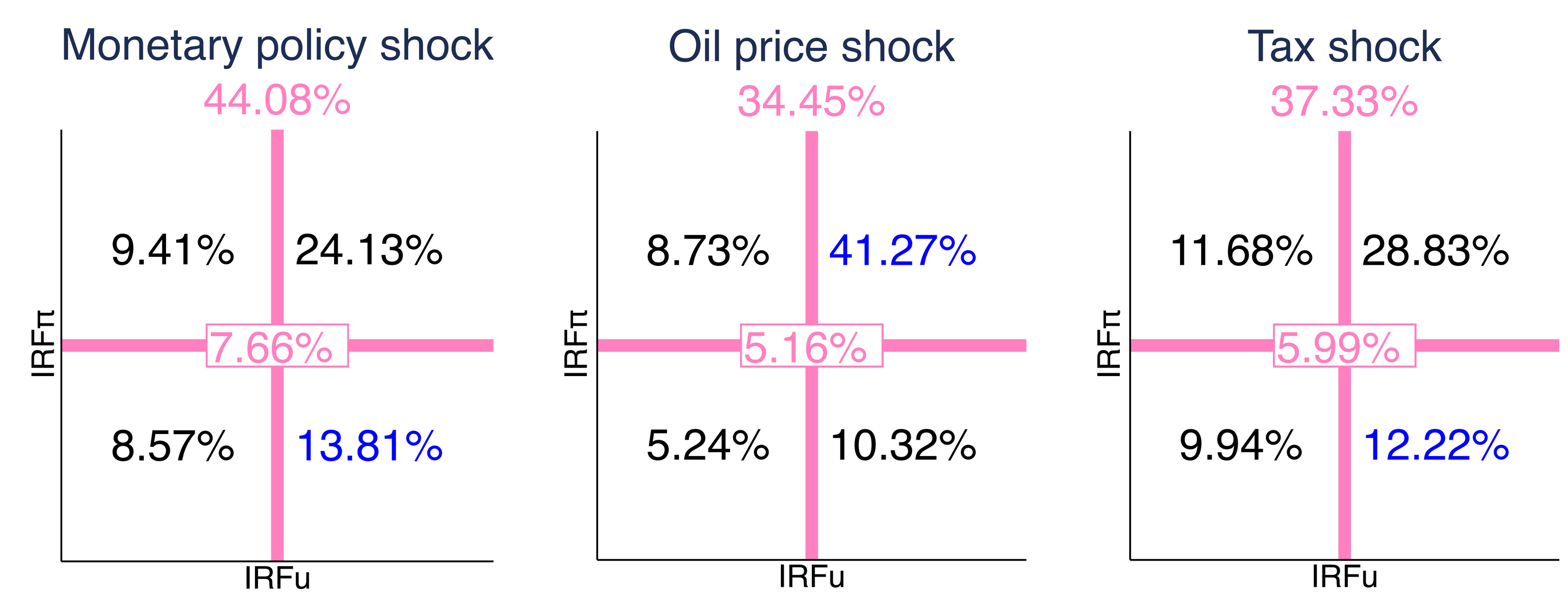
How do inflation and unemployment respond to shocks?

- According to theory: benchmark = textbook models
- According to time series: I estimate VAR IRFs to empirically identified shocks



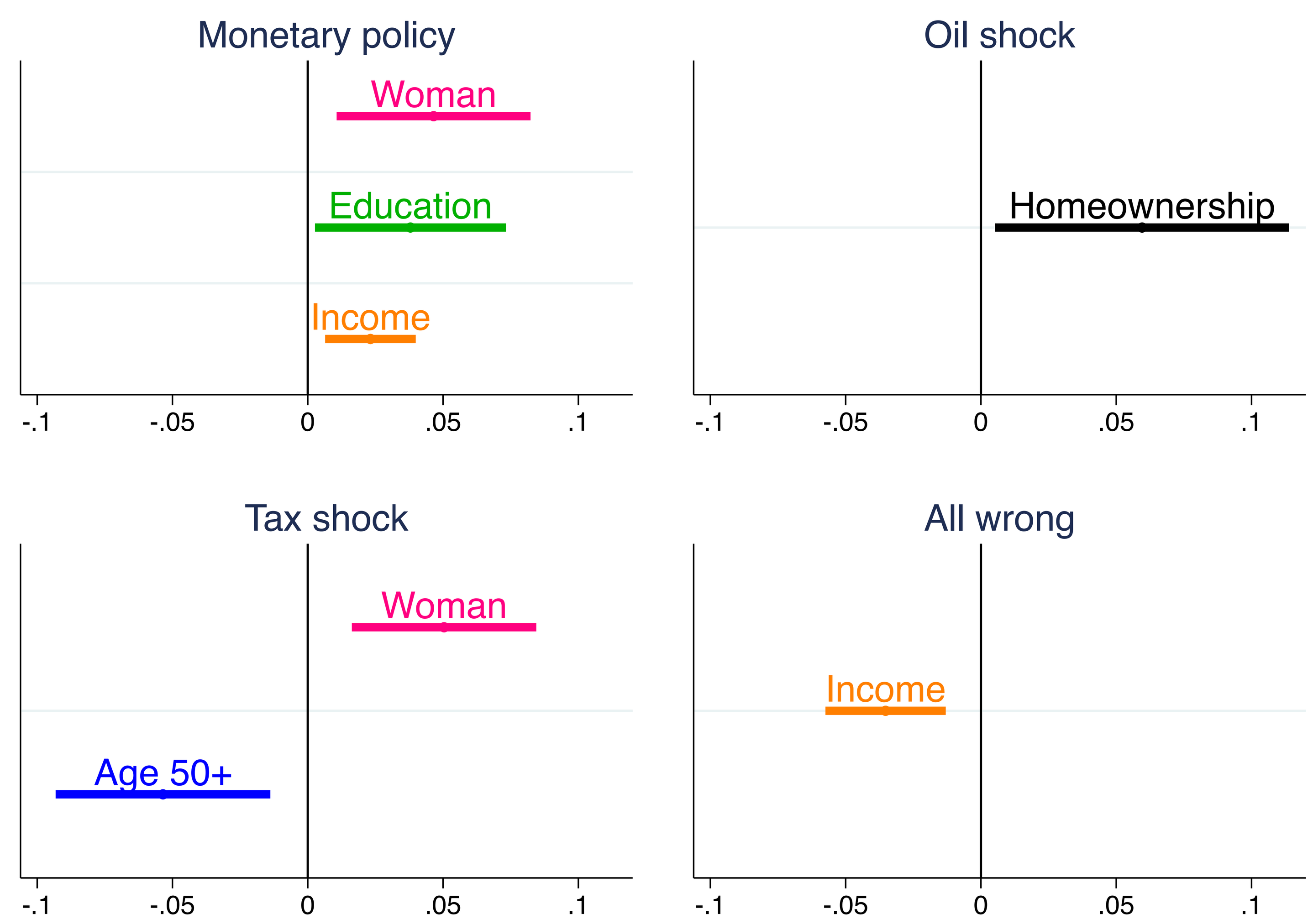
Strategy: compare sign of SIRFs to sign of benchmark IRFs → consistency?

Result: Inertia & heterogeneity across shocks



Belief inertia: big share of sample has IRFs=0
Consistency varies by shock: oil > monetary policy > tax
Most "popular" sign combination: **both IRFs >0**

Result: Heterogeneity across households

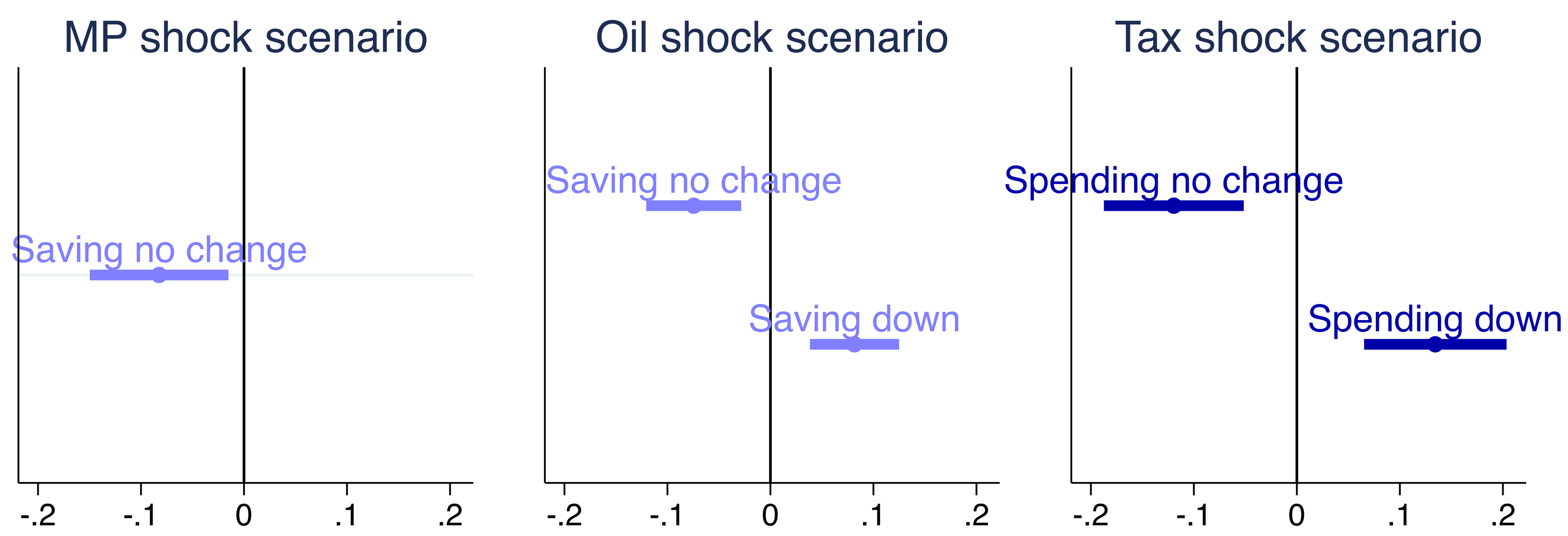


Hh characteristics → different roles for different shocks

Result: Impact on choices

Survey question: spending/saving, increase/decrease/no change in response to the shock

$$\text{dummy for behavior} = \beta \text{ dummy for consistency} + \gamma X + \epsilon$$



Consistency with theory reduces inertia.

Policy implications

- Misinterpretations and inertia weaken policy transmission
- Belief heterogeneity → distributional consequences
- Simplify policy communication + direct policy tools
- Next steps: theoretical framework, policy transmission with subjective expectations

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