

This research project delves into how different types of households form their expectations about inflation and how these differences can influence economic policies. Inflation expectations refer to what people think will happen to prices in the future, which can affect their spending and saving behaviors. This study focuses on three main questions: how different groups form these expectations, how they react to economic changes, and what this means for policies aimed at managing the economy.

Key Questions and Goals:

- **How Do Different Households View Inflation?** We aim to understand how various factors like income, age, and education level affect how people predict future price changes. For example, do older people or those with higher incomes expect inflation to be higher or lower than other groups? Understanding these differences can help us see how diverse groups in society think about economic issues.
- **How Do These Expectations Change with Economic Shocks?** We investigate how different groups adjust their inflation expectations when significant economic events occur, such as changes in interest rates set by the central bank. Knowing how quickly and accurately people adjust their expectations can help in designing better economic policies that work effectively for everyone.
- **What Are the Implications for Economic Policies?** By understanding these differences in expectations, we can explore how well current economic policies are working. If certain groups are more affected by inflation or are less responsive to policy changes, targeted strategies might be needed to ensure that policies are fair and effective for all segments of the population.

Why Is This Important?

- **Improving Policy Effectiveness:** Economic policies often rely on how people think prices will change in the future. If we know that different groups have varying expectations, policymakers can design more tailored and effective measures.
- **Enhancing Economic Stability:** By understanding and addressing the diverse expectations of different groups, we can help stabilize the economy, ensuring that everyone benefits from economic growth and stability.
- **Supporting Better Decision-Making:** Individuals and businesses make important financial decisions based on their expectations of inflation. Providing clearer insights into these expectations can help them make better choices, contributing to overall economic well-being.

How Will We Do This?

- **Analyzing Data:** We will look at survey data that shows what people think will happen to prices. Using special statistical tools, we will study this data to find patterns and trends. This helps us understand how people's expectations about prices are formed and how they change over time.
- **Building Models:** To see how different people's expectations can affect the economy, we will create a mathematical model that simulates the economy with different types of households. Such a model will help us explore different scenarios and understand the broader impact of central bank actions on people's price expectations.

Expected Outcomes:

- **Clearer Insights into Inflation Expectations:** By breaking down the data by income, age, and education, we will gain a clearer picture of how different groups form their expectations. Our findings will help suggest ways to improve economic policies, making them more effective and inclusive.
- **Contributions to Behavioral Economics:** The study will add to the understanding of how cognitive biases and real-life experiences shape people's economic expectations and decisions.