Inflation Expectations and Information Selection: Evidence from a Randomized Control Trial*

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Abstract

We use experimental methods to measure how information selection and information processing leads to heterogeneity in inflation expectations. There are four findings. First, we find that respondents differ in their preferred piece(s) of inflation forecasts from established institutions. It suggests that only those who can process a set of information are likely to demand information. Second, we find that providing credible information about future inflation helps to stabilize inflation expectations. Third, we show that respondents tend to more incorporate multiple pieces of information into their expectations than a single piece of information. The evidence may suggest that respondents believe that information from multiple sources contains more precise signals than information from a single source. Fourth, we find that endogenous information selection induces respondents to incorporate the acquired information into their expectations more than those who receive the same information exogenously. The result may imply that those who are exposed to inflation risk through interest rate risk are likely to pay high attention to signals.

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1 Introduction