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Host: Stefan Trautmann

Attention to the Macroeconomy

Abstract:

We collect novel measures of households' and firms' attention to the economy using open-ended survey questions, fielded during a large shock to inflation, and provide three sets of facts. First, we characterize the variation in attention. Attention to the macroeconomy exhibits large and persistent cross-sectional heterogeneity, responds strongly to shocks, and is negatively correlated with attention to household- or firm-level topics. Second, we explore the link between attention and expectation formation. More attentive respondents adjust their inflation expectations more frequently during the shock, are more confident in their beliefs, and hold smaller misperceptions about realized inflation, yet their expectations about future inflation deviate more strongly from professional forecasts. Third, we provide evidence on potential drivers of attention. Levels of attention and changes in response to the shock are strongly correlated with economic exposure and information acquisition costs -- goal-oriented drivers -- but also with past inflation experiences -- a non-goal-oriented driver.

* joint work with Sebastian Link, Andreas Peichl, Oliver Pfäuti, and Christopher Roth.