

#1628: The Effect of Experience and Learning on Judgemental Inflation Forecasts

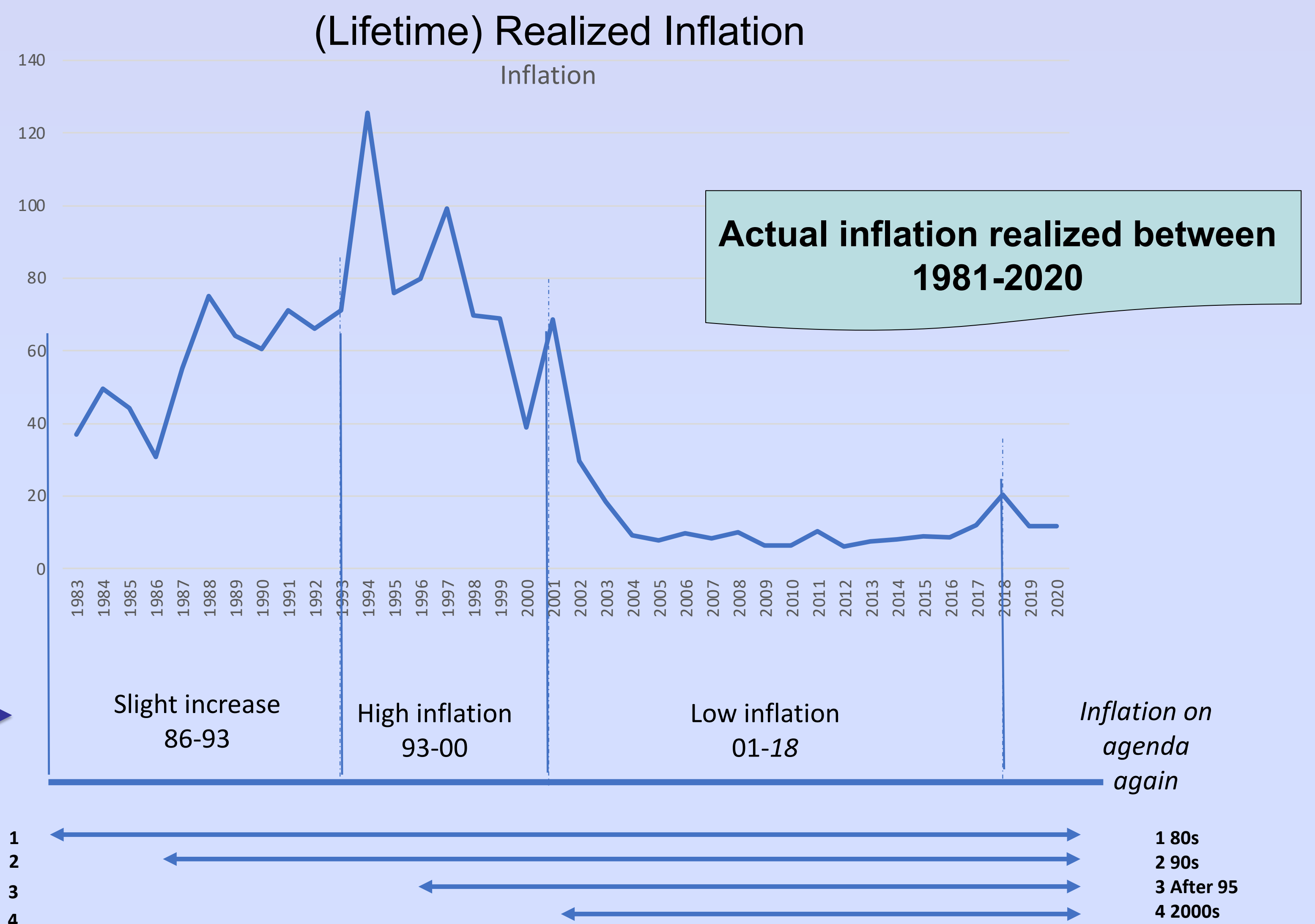
Neslihan Özlü

Operations Management, Stockholm Business School, Stockholm University, Sweden

INTRODUCTION

Previous research on learning from inflation experiences shows that adaptive learning models should include age and lifelong experience aspects to reflect different life experiences of individuals (Malmendier and Nagel, 2016 and Malmendier and Nagel, 2011).

Similarly, professional forecasters experience different levels of inflation in their lives (Malmendier and Nagel, 2021).



RESEARCH QUESTION

Do forecasters base their forecasts on lifelong experiences?

How do professionals' experiences affect their forecasts about future inflation?

What is the role of age?

Categories

- 1 Born 1970s, moderate inflation
- 2 Born 1980s, high inflation
- 3 Born 1990s, low inflation
- 4 Born after 2000s, increasing inflation

METHOD

We first cluster forecasters according to their estimates (4 clusters)

Experience	Age
7	26
9	33
14	37
19	45



Among the clusters, moderate experienced group has above average forecasts for most of the categories

Among the clusters, low-experience & younger group has below average forecasts for most of the categories

835 forecasts by, 26 forecasters, with homogenous backgrounds for 13 years ('08-21) in at least 5 different categories

Time-series fixed effects regression with age and working experience (number of forecasts instead of years of experience) AR(1) autoregressive estimates

Overall, work experience and age have an increasing effect on the forecasts, & a decreasing effect on the deviations

RESULTS

- Heterogenous lifelong inflation experiences
- Started working in a high inflationist environment

- Homogenous lifelong inflation experiences
- Started working in a low-moderate inflationist environment

- Higher inflation estimates than others
- Less deviation over time
- However, slower learning or inconsistencies with higher variation

- Lower inflation estimates than others
- Less deviation over time
- Learning faster,
- Convergence to consistently less deviation over time

References

1. Malmendier, U., & Nagel, S. (2016). Learning from inflation experiences. *The Quarterly Journal of Economics*, 131(1), 53-87.
2. Malmendier, U., & Nagel, S. (2011). Depression babies: do macroeconomic experiences affect risk taking?. *The quarterly journal of economics*, 126(1), 373-416.
3. Malmendier, U., Nagel, S., & Yan, Z. (2021). The making of hawks and doves. *Journal of Monetary Economics*, 117, 19-42.