Discussion of *The Effect of Inflation Uncertainty on Household Expectations and Spending* by Kostyshyna and Petersen

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September 4, 2025

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- An extremely well executed and clearly written paper on an important topic
- Contributes to a burgeoning information treatments literature

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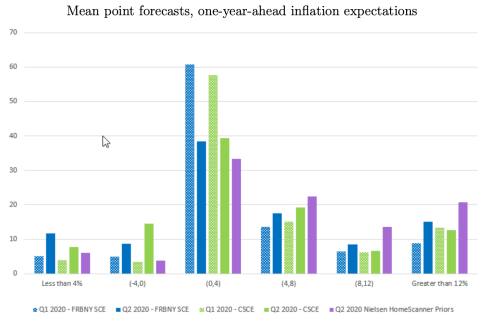
- My discussion today:
  1. A quick summary of three facts from the paper (a subset of the great work)
  2. These facts bolster three stylized facts that have emerged from this literature
  3. These facts present a paradox for *all* of our standard theories of decisions
  4. I will discuss potential resolutions as important directions for future work

1. Summarizing the Results

Fact 1: Households are highly uninformed

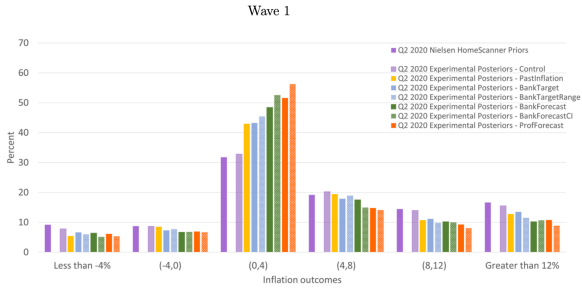
Figure B1: Comparison of one-year-ahead inflation expectations in our survey (Nielsen Homescanner, priors), FRBNY SCE and CSCE



"Despite being publicly available, the treatment information was novel to the vast majority of respondents. Only a relatively small proportion of respondents (8 to 35 percent) reported being aware of the presented information"

Fact 2: Households respond to information about inflation

Figure 4: Expected probability distribution for one-year-ahead inflation, posteriors by treatment compared with priors



"All information treatments significantly reduce both point inflation expectations of one-year-ahead inflation"

"All information treatments reduce respondents' uncertainty regarding their inflation expectations"

Fact 3: Households change spending given inflation information

Table 8: Estimation results for spending decisions

	Actual spending after treatment			
	during 1 month (1)	during 3 months (2)	during 6 months (3)	during 12 months (4)
Total spending				
PastInflation	0.073**	0.068**	0.066**	0.059**
	(0.03)	(0.03)	(0.03)	(0.03)
BankTarget	0.082**	0.072**	0.069**	0.055*
	(0.03)	(0.03)	(0.03)	(0.03)
BankTargetRange	0.105***	0.107***	0.110***	0.097***
	(0.04)	(0.03)	(0.03)	(0.03)
BankForecast	0.037	0.049	0.048	0.030
	(0.04)	(0.03)	(0.03)	(0.03)
BankForecastCI	0.060*	0.074**	0.063**	0.060**
	(0.04)	(0.03)	(0.03)	(0.03)
ProfForecast	0.051	0.055*	0.059*	0.064**
	(0.03)	(0.03)	(0.03)	(0.03)
ProfForecastRange	0.140***	0.113***	0.092***	0.081***
	(0.03)	(0.03)	(0.03)	(0.03)
constant	2.023***	6.504***	7.189***	8.011***
	(0.20)	(0.05)	(0.04)	(0.04)
Observations	4498	4522	4419	4174
R^2	0.179	0.208	0.218	0.239

"All information interventions significantly increase total nominal spending immediately, in the first 1 month following the survey, by between 5 and 11 percent. The effects are persistent: three-, six- and twelve-month spending of treated respondents is significantly higher than that of the control group."

2. An Emerging Paradox: The Coexistence of Ignorance, Learning, and Reaction

The Emergence of Three Stylized Facts Across Domains

Fact 1 (Ignorance)

XX are highly uninformed about YY

Fact 2 (Learning)

Telling XX about YY affects their beliefs about YY

Fact 3 (Reaction)

Telling XX about YY has a large effect on their decisions

Paper	Agent [XX]	Object [YY]
KP'25	Households	Inflation
CGGvR'23	Households	Inflation
CGGKW'24	Households	Growth
CGGW'23	Households	Forward Guidance
CRW'25	Households	House Prices
AFZ'19	Households	House Prices
CGR'20	Firms	Inflation
KGC'23	Firms	Inflation

Standard Decision Theory: A Trilemma

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Learning and Reaction are consistent with Ignorance *only if* the signal is hard to obtain. But the signals in these papers are not hard to obtain.

3. Directions: Potential Resolutions of This Paradox

Potential Resolution 1: Near-Rationality

- The opportunity cost of even large consumption mistakes is probably a lot smaller than you would think (Cochrane, 1989)
- Example: suppose a household has log consumption preferences and $\beta R = 1$

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- Information treatments might cause agents to switch "default" modes of behavior, overcoming small frictions that otherwise prevent this
- Evidence of near-rationality in household behavior: observational (Kueng, 2018), survey experiments (Andre, Flynn, Nikolakoudis, and Sastry, 2025)

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- The bottom line: need for meta-analysis across studies to see which treatment effects are robust and correct for the winner's curse

Conclusion

- A great and well executed piece of work
- Reinforces three stylized facts: Ignorance, Learning, and Reaction
- These facts are not consistent with our standard theories of behavior
- Two important directions that I see:
  1. Near-rationality: more work exploring this hypothesis would be valuable
  2. Meta-analysis: needed to avoid the winner's curse