

# Sticky Expectations and Consumption Dynamics

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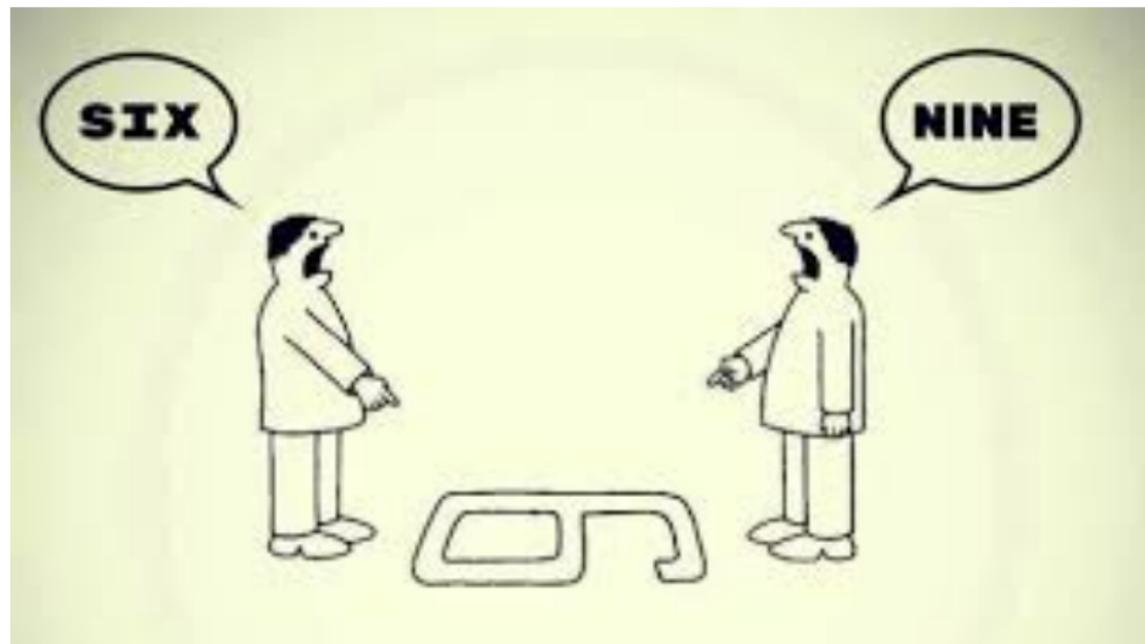
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## Usual disclaimer applies

**The views expressed are those of the author and do not necessarily represent the official views of Eesti Pank, the European Central Bank or the Eurosystem.**

## Short summary



# Long summary

Conflicting findings

- ▶ **macro** finds high habit persistence
- ▶ **micro** finds little excess smoothness

Can we explain the possible difference by inattention to macro?

- ▶ **Yes** as macroeconomic shocks go unnoticed

Model can successfully show

- ▶ no persistence at household level
- ▶ strong persistence at macro level
- ▶ little cost of inattention

# Contribution

## Reconcile

- ▶ micro and macro evidence on smoothness

## Application of heterogeneous agent (HA) DSGE

- ▶ push the boundaries what is done

# Model

CRRA utility, households decides consumption and savings, **no habits!**

Income risk

- ▶ idiosyncratic: permanent and transitory (big)
- ▶ idiosyncratic unemployment spells of 1 quarter
- ▶ aggregate: permanent and transitory (small)

Information about aggregate states arrives with Calvo

Generate time-series and estimate micro and macro regressions

# Thumbs up

- ▶ an interesting puzzle
- ▶ HA-DSGE with a meaning for macro
- ▶ running regressions on model generated data
- ▶ well documented and written, many details covered
- ▶ code in Github

Comments from a representative agent macroeconomist with a habit:)

"Absolutely fascinating." **Wired**

# THE POWER OF HABIT

Why we do what we  
do and how to *change*



**CHARLES DUHIGG**

# Is low persistence in micro data a (new) puzzle?

- ▶ psychologists claim that we have many habits
- ▶ consumption in housing and cars is very hard to change fast

**Your households are super smart but read newspapers once a year!**

If you have macro persistence you should see it in micro too (just hard to estimate)

# Is the stylized fact so clear?

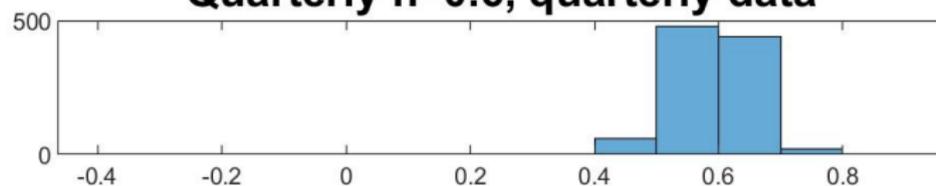
Select the best estimates in the literature!

Evidence you show might not be inconsistent

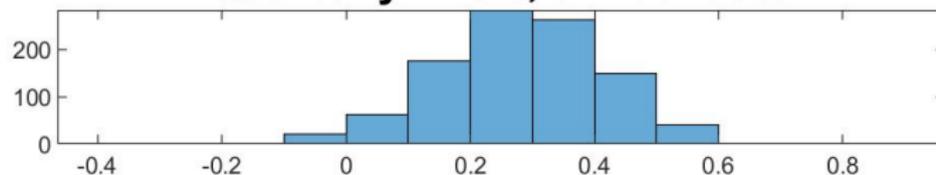
- ▶ macro often finds (0.5,0.8)
- ▶ quarterly habit of 0.6 translates to a year later  
 $0.6^4 = 0.1296$
- ▶ **not inconsistent with** Dynan (2000) conf. int.  
(-0.21,0.15(1.39)) for **yearly** data

# Small simulation

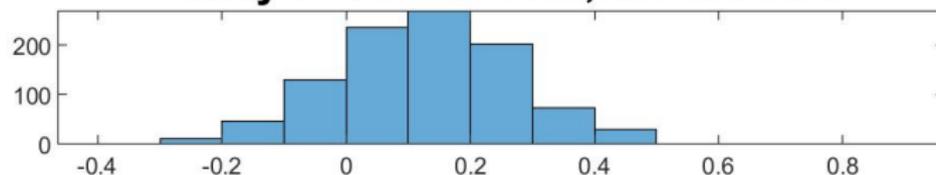
## Quarterly $h=0.6$ , quarterly data



## Quarterly $h=0.6$ , annual data



## Yearly $h=0.6^4=0.1296$ , annual data



# Do people care about macro news?

## **Explain how macro inattention works**

- ▶ do they know their budget constraint?
- ▶ people know whether unemployment level is high or low
- ▶ be kinder to learning literature

## **Macro shocks do not hit everybody the same way**

- ▶ some get unemployed, some get wage cuts
- ▶ rich and poor
- ▶ timing matters
- ▶ social safety in good and bad times

## **Need heterogeneous agent models!**

# Lessons for macro?

Macroeconomic shocks are not important?

## **Macroeconomists can continue as usual?**

- ▶ habits at macro level are well and alive?
- ▶ what are welfare conclusions of inattention compared to habits?
- ▶ is your evidence against any type of habits and habit persistence? (only one way of estimating in the paper)

# Summary

A real pleasure

- ▶ beautiful issue
- ▶ bring micro- and macroeconomists in the same room
- ▶ nice example how we can misunderstand the data

**Thank you for the paper!**