Discussion of "Socioeconomic status and macroeconomic expectations" by Das, Kuhnen and Nagel

Monika Piazzesi
Stanford & NBER

SI 2017

summary of findings

- study forecasts in 1978-2014 Michigan survey
- construct index of macro forecasts from forecasts of future stock returns, business conditions, unemployment
- measure income to distinguish poor and rich households
- on average, rich households are more optimistic than poor households

  in booms, rich households make more optimistic forecasts than poor
  in recessions, rich households are as pessimistic as poor households

$\Longrightarrow$ difference in forecasts between rich and poor is
positive on average, procyclical and asymmetric

- forecasts matter for stock market investments

Bayesian learning as mechanism

- suppose rich households receive high quality signals (precise),
  poor households know that their signals are lower quality (less precise)
- intuitive, poor households know that they do not understand what is going on in the economy
- Bayesian learning: forecasts of rich households are more cyclical than forecasts of poor households
- how about asymmetry?

learning under ambiguity

- Epstein & Schneider 2008 JF
- rich households continue to receive high quality signals
- now suppose that poor households have a range of precisions
- intuitive, poor households are more ambiguity averse than rich
- updating puts large weight on negative signals,
  interpreted as very precise
  small weight on good signals – interpreted as imprecise
- also cyclicality and asymmetry in forecasts during booms

alternative mechanism

- rich households observe data that is more volatile than the data that poor households observe
- not subjective perception about signal quality but signals are different
- rich households have more cyclical consumption and income
  Vissing-Jorgensen and Parker (2009)
- also have more cyclical luxury consumption
  such as Rolex watches and cheritable donations,
  Ait-Sahalia, Yogo, and Parker 2005
- asset values are useful signals of the business cycle
  rich households have stocks and houses, watch their values fluctuate,
  while poor households do not follow news about stock market and rent

implications for savings

- paper focuses on implications for stock investments
- natural: Michigan survey includes questions about participation and share of income invested in stocks
- richer households are more optimistic about stock market, participate and invest more in stocks
- how about overall savings?
  should poorer households save more on average than rich households?
  how about the cyclicality?

construction of the index

- macro forecast index includes stock market forecasts PSTK
- index does not include questions about house price forecasts
  e.g. in answering "do you think now is a good time to buy a house?"
  a fraction of households answers "yes because house prices will go up"
  Piazzesi & Schneider 2009
- poor households do not participate in asset markets
- why not exclude all asset market forecasts from index?
- not important because sample is shorter (start in 2002)
  but conceptionally a more attractive index
- index would only measure forecasts of real variables:
  business conditions and unemployment