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Discussion of
“Consumer Wealth and Price Expectations”
By Dias, Sharma, and Fitzsimons

Lingxuan “Sean” Wu, NYU Stern

Overview

- ❖ My read: this paper uses experiments / survey data to show
 - ❖ 3 causal mechanisms (studies 1-4)
 - ❖ #1: perceived financial constraint (X) *causally* drives inflation expectations (Z)
 - ❖ #2: perceived financial constraint (X) -> pain of paying (Y) -> inflation expectations (Z)
 - ❖ #3: perceived financial constraint (X) -> pain of paying (Y) -> perceived current inflation (Y') -> inflation expectations (Z)
 - ❖ Consequences (studies 5-6)
 - ❖ Inflation expectations predict stockpiling and a preference for fixed-price contracts
- ❖ My comments:
 - ❖ If #1 is true, distributional implications + aggregate consequences
 - ❖ I'll focus on mechanisms: identification assumption for #1, which designs inform #2, and whether #3 is established

Mechanism #1: challenges of identifying $X \rightarrow Z$

- ❖ Let Z_{it} = inflation expectations, X_{it} = perceived financial constraints

- ❖ SVAR:
$$\begin{pmatrix} Z_{it} \\ X_{it} \end{pmatrix} = \sum_{n=1}^p A_n \begin{pmatrix} Z_{i,t-n} \\ X_{i,t-n} \end{pmatrix} + \begin{pmatrix} 0 & r_{ZX} \\ r_{XZ} & 0 \end{pmatrix} \begin{pmatrix} Z_{it} \\ X_{it} \end{pmatrix} + \begin{pmatrix} \epsilon_{it,Z} \\ \epsilon_{it,X} \end{pmatrix} \text{ and } r_{ZX} > 0$$

- ❖ Challenges:

- ❖ Correlation between Z and X also incorporates r_{XZ} which is plausibly positive (study 1A)
- ❖ Controlling for past is necessary but doesn't solve the identification challenge (study 1B)
- ❖ Need an instrument that “directly” moves X but not Z (study 1C)
 - ❖ This point extends to the other 2 causal claims

Mechanism #1: manipulating X to establish $X \rightarrow Z$

- ❖ Goal of study 1C: perceived financial constraints (X) $\rightarrow$ inflation expectations (Z)
 - ❖ First, manipulate X
 - ❖ Treatment group: participants wrote about the factors that contribute to their financial constraints
 - ❖ Control group: participants wrote about what they did in past weekend
 - ❖ Then, elicit X and Z
- ❖ Finding: treatment group reports higher X and Z
- ❖ My comments:
 - ❖ Identification assumption: treatment (thinking about financial constraints) does not, by itself, move inflation expectations
 - ❖ counter-example: thinking about financial constraints triggers memories of inflation and hence inflation expectations
 - ❖ What about asking people to imagine losing their jobs or savings?
 - ❖ not a perfect treatment either, as negative experiences themselves can lead to higher inflation expectations (Taubinsky-Butera-Saccarola-Lian '25)

Mechanism #2: challenges for $X \rightarrow \text{pain of paying (Y)} \rightarrow Z$

- ❖ Goal of study 2: perceived financial constraints (X) $\rightarrow$ pain of paying (Y) $\rightarrow$ inflation expectations (Z)
 - ❖ First, manipulate: participants imagine moving to a new country
 - ❖ Treatment group: “expenses taking up nearly all of your income”
 - ❖ Control group: “expenses well within your budget”
 - ❖ Then, elicit X, Y, and Z
 - ❖ X (like before): “To what extent did you feel financially constrained?”
 - ❖ Y: “How painful do you think it would be for you to pay?”
- ❖ Finding: treatment group reports higher X, Y, and Z
- ❖ My comments:
 - ❖ Conceptually, how is pain of paying (Y) different from perceived financial conditions (X)?
 - ❖ Manipulation may directly change inflation expectations (Z), if participants justify financial constraints with high inflation
 - ❖ To establish $X \rightarrow Y \rightarrow Z$, we need *independent variations* in X and Y, not comovement in X and Y

Mechanism #2: variations across categories/countries/time

- ❖ Goal of study 4A: perceived financial constraints (X) -> pain of paying (Y) -> inflation expectations (Z)
 - ❖ Elicit Z across 14 categories + measure Y across these categories *on a separate sample of respondents*
- ❖ Finding: across categories, Y correlates with Z
- ❖ My comments:
 - ❖ This design varies Y while holding X fixed, as a single budget constraint governs all spending categories
 - ❖ Correlation, not necessarily causality. However, interesting correlation, not a within-person effect, but rather about *categories*
 - ❖ Would be interesting to see what explains pain of paying across *categories*, e.g., size of purchase? difficulty in search?
 - ❖ Comments on studies 4B/C (across countries/time): X, Y, Z comove—I'm not sure what we learn from that

Mechanism #3: $X \rightarrow Y \rightarrow \text{perceived current price (Y')} \rightarrow Z$

- ❖ Goal of study 3: perceived financial constraints (X) $\rightarrow$ pain of paying (Y) $\rightarrow$ perceived current price (Y') $\rightarrow$ inflation expectations (Z)
 - ❖ Treatment group: article explaining that current inflation doesn't predict future inflation/info about current inflation
 - ❖ Control group: no article/info
- ❖ Finding: in treatment group, X doesn't correlate with Z
- ❖ My comments:
 - ❖ To me, treatment comes too close to just fixing Z, not sure if it shows $Y \rightarrow Y' \rightarrow Z$
 - ❖ Literature: people vastly overestimate inflation (Coibion-Gorodnichenko-Weber '22), negative non-economic events (ER visits) lead to higher inflation forecasts (Taubinsky-Butera-Saccarola-Lian '25)
 - ❖ My takeaway: people know little about inflation, use various heuristics when asked, and strongly update when receiving any information

Summary

- ❖ Inflation expectations are key in macro, especially today
- ❖ Paper makes interesting causal claims. If that's what the authors go for, could benefit from explicitly discussing
 - ❖ results on correlation vs. causality
 - ❖ various threats to identification
- ❖ My comments on 3 causal claims:
 - ❖ For #1, the treatment must manipulate X without affecting Z
 - ❖ For #2, the across-expenditure-category design seems most effective
 - ❖ For #3, it is challenging to establish and may not be necessary