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Heterogeneity in Inflation Expectations: Evidence from Czech Household Panel Data

Master's thesis

Author: Bc. Ondrej Šebík

Study program: International Economic and Political Studies

Supervisor: PhDr. Jiří Schwarz, Ph.D.

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Declaration of Authorship

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Ondrej Šebík

Abstract

This thesis examines how individuals' values, perceptions, and demographic traits shape their inflation expectations in the Czech Republic. It uses a new household panel data from the 2024 IPSOS survey. The thesis tests ten hypotheses on heterogeneity in inflation expectations and saving decisions. Methodologically, it applies the Correlated Random Effects specification to separate within- and between-individual variation. Results indicate that gender, income, education, trust in the Czech National Bank, and political affiliation systematically predict heterogeneity in expectations, while single-person households and media consumption show negligible effects. Inflation perceptions strongly influence inflation expectations. Consistent with the logic of the consumption Euler equation, respondents who habitually expect higher real interest rates are more likely to report plans to save more. Within-individual increases in real interest rate expectations are negatively associated with the probability of saving more. We find evidence that people who habitually expect higher unemployment have higher inflation expectations. Within-individual changes in expected unemployment do not seem to have an effect. We find some value orientations to influence inflation expectations. The findings challenge the assumption that inflation expectations are uniform and rational.

JEL Classification	C23, E31, E52
Keywords	inflation expectations, heterogeneity, values, perceptions
Title	Heterogeneity in Inflation Expectations: Evidence from Czech Household Panel Data

Abstrakt

Tato diplomová práce zkoumá, jak hodnoty, vnímání a demografické charakteristiky jednotlivců ovlivňují jejich inflační očekávání v České republice. Využívá nové panelové šetření domácností z průzkumu IPSOS z roku 2024. Práce testuje deset hypotéz o heterogenitě inflačních očekávání a rozhodnutí o úsporách. Z metodologického hlediska je použita specifikace korelovaných náhodných efektů, která umožňuje oddělit vnitro- a meziindividuální variaci. Výsledky ukazují, že pohlaví, příjem, vzdělání, důvěra v Českou národní banku a politická orientace systematicky predikují heterogenitu očekávání, zatímco jednočlenné domácnosti a spotřeba médií vykazují zanedbatelné účinky. Vnímání inflace silně ovlivňuje inflační očekávání. V souladu s logikou Eulerovy rovnice spotřeby mají respondenti, kteří dlouhodobě očekávají vyšší reálné úrokové sazby, tendenci uvádět, že plánují více spořit. Nárůsty očekáványch reálných úrokových sazeb v rámci jednotlivců jsou však spojený s nižší pravděpodobností, že budou plánovat více spořit. Dále zjišťujeme, že lidé, kteří dlouhodobě očekávají vyšší nezaměstnanost, mají vyšší inflační očekávání, zatímco změny v očekávané nezaměstnanosti v rámci jednotlivců se nezdají mít významný vliv. Zaznamenáváme také vliv některých hodnotových orientací na inflační očekávání. Zjištění zpochybňují předpoklad, že inflační očekávání jsou jednotná a racionální.

Klasifikace JEL	C23, E31, E52
Klíčová slova	inflační očekávání, heterogenita, hodnoty, vnímání
Název práce	Heterogenita inflačních očekávání: Důkazy z panelových dat českých domácností

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Acronyms

CES Consumer Expectations Survey

CNB Czech National Bank

CRE Correlated Random Effects

CPI Consumer Price Index

ECB European Central Bank

EIS Inter-Temporal Substitution

ERPS Expected Ranked Probability Score

FE Fixed Effects

FIRE Full-Information Rational Expectations

FOMC Federal Open Market Committee

GEE Generalised Estimating Equations

GLM Generalised Linear Model

GLS Generalised Least Squares

OLS Ordinary Least Squares

RCT Randomized Controlled Trial

RE Random Effects

VIF Variance Inflation Factor

Master's Thesis Proposal

Author	Bc. Ondrej Šebík
Supervisor	PhDr. Jiří Schwarz, Ph.D.
Proposed topic	Heterogeneity in Inflation Expectations: Evidence from Czech Household Panel Data

Motivation This thesis aims to study heterogeneity in inflation expectations and its determinants.

In the past decades, inflation modelling was dominated by full-information rational expectations (FIRE). Most recently, economists started to move away from the FIRE models as it became obvious they were inconsistent with evidence on how households form beliefs about and act upon inflation (Coibion *et al.* 2018). Empirical deviations from FIRE and developments in behavioural economics led to a shift in modelling inflation and inflation expectations that take into account sticky information, bounded rationality, and cognitive constraints. Survey respondents show a systematic bias in inflation expectations related to their heterogeneous characteristics and beliefs.

To summarize the literature into these stylized facts: inflation expectations (and, by extension, inflation) are affected by gender (Bruine de Bruin *et al.* 2010; D'Acunto *et al.* 2021c; 2022; European Central Bank 2024; Bryan & Venkatu 2001; Coibion *et al.* 2018; Blanchflower & Mac Coille 2009), education (Blanchflower & Mac Coille 2009; Brouwer & De Haan 2022; Bruine de Bruin *et al.* 2010; D'Acunto *et al.* 2022; Farvaque *et al.* 2017; Struby & Farhart 2024), income (Blanchflower & Mac Coille 2009; Brouwer & De Haan 2022; Bruine de Bruin *et al.* 2010; D'Acunto *et al.* 2022; Farvaque *et al.* 2017; Ranyard *et al.* 2008; Struby & Farhart 2024), financial literacy (Bruine de Bruin *et al.* 2010; Christelis *et al.* 2020; Stanisławska & Paloviita 2024), trust in the central bank (Blanchflower & Mac Coille 2009; Brazdik *et al.* 2024; Brouwer & De Haan 2022; Christelis *et al.* 2020; Farvaque *et al.* 2017; Gillitzer *et al.* 2017; Stanisławska & Paloviita 2024; Struby & Farhart 2024; ECB 2024), age and cohort-level experiences (Blanchflower & Mac Coille 2009; Brouwer & De Haan 2022; Bruine de Bruin *et al.* 2010; Coibion *et al.* 2018; D'Acunto *et al.* 2021b; 2022;

Diamond *et al.* 2020; Malmendier & Nagel 2016; Malmendier & Wachter 2021; Struby & Farhart 2024), cognitive abilities (Blanchflower & Mac Coille 2009; Carroll 2003; Cavallo *et al.* 2017; D'Acunto *et al.* 2019; 2021a; 2023; 2021b; 2022; Struby & Farhart 2024), media consumption (Alcidi *et al.* 2022; Braggion 2024; Carroll 2003; D'Acunto *et al.* 2022; Demgensky & Fritsche 2023; Dräger 2015; European Central Bank 2024; Gillitzer *et al.* 2017; Lamla & Lein 2008; 2010; Mazumder 2021; Pfajfar & Santoro 2013; Ranyard *et al.* 2008; Vellekoop & Wiederholt 2019), and political affiliation/preferences (Demgensky & Fritsche 2023; Gillitzer *et al.* 2017; Dräger 2015).

The aim of this thesis is to model of various individual characteristics influence inflation expectations, which has crucial consequences for macroeconomic modelling. More specifically, the thesis aims to test the following hypotheses:

Hypotheses

Hypothesis #1: Women, single, low-income, and low-educated people have an upward bias in inflation expectations.

Hypothesis #2: Higher inflation perceptions pass through higher inflation expectations.

Hypothesis #3: Short-term higher inflation expectations are associated with lower expected unemployment rates during the same period, testing an understanding of the short-term Phillips Curve.

Hypothesis #4: While there is a heterogeneity of how households act on their inflation expectations, overall, households adjust their consumption as predicted by the consumer Euler equation.

Hypothesis #5: Systematic upward bias in inflation expectations of women disappears after controlling for who in the household buys groceries.

Hypothesis #6: The type and frequency of media respondents consume have a statistically significant effect on their inflation expectations.

Hypothesis #7: Respondents who voted for political parties currently in the government have lower inflation expectations.

Hypothesis #8: Respondents with higher trust in the central bank and financial literacy have better-anchored inflation expectations.

Hypothesis #9: Partisans with high trust and low knowledge hold similar inflation expectations. Partisans with low trust and high knowledge drive the differences in inflation expectations.

This thesis contributes to the literature by empirically testing the validity of the above hypotheses hold using the novel dataset from the Czech Republic. Furthermore, the empirical analysis is enhanced by using statistical matching to merge two datasets, which is not common in the inflation expectations literature.

Methodology For our analysis, we will use panel household survey data from IPSOS that ran between January and July 2024. IPSOS survey contains questions about invariant characteristics, economic expectations, media consumption, political affiliation, and more. We will clean the data, deal with outliers, and address any issues. We will use OLS regression analysis to test hypotheses. We will conduct normality tests afterwards and adjust or change regression methods accordingly (e.g., lagging variables, adding interaction terms, using fixed or random effects).

For the second part of the analysis, I will use statistical matching (D'Orazio 2017) to merge the IPSOS and Standard Eurobarometer survey to test additional hypotheses regarding values and perceptions.

Statistical analysis and visualisation will be done using R and Python. Data cleaning will be done in MS Excel and R. Text will be written using LaTeX.

Outline

1. Introduction
2. Literature Review
3. Theory
4. Data
5. Hypotheses and Methodology
6. Results
7. Discussion
8. Conclusion

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Chapter 1

Introduction

Inflation expectations are currently a core variable in macroeconomic models, but their household formation is surprisingly heterogeneous. Even though central banks invest a lot of resources in anchoring inflation expectations, the actual average citizens' beliefs do not always align with official targets. This divergence between inflation expectations and inflation target, often seen in European and American household surveys, has begun to undermine the long-standing rational expectations theory hypothesis. One might argue that such a gap is mere noise. But accumulating evidence suggests inflation expectations are systematically related to demographic traits, institutional trust, and even slight shifts in individual worldview.

In the Czech Republic, where inflation has wildly fluctuated over the last few years, it is of particular concern. There are empirical studies of household inflation formation, but they come from Western economies or aggregate Eurozone data. There is little documented data about how Czech households interpret inflation signals. Such a lack of local evidence is problematic, especially when monetary policy relies on whether the public believes the CNB will maintain its 2% target.

This thesis tries to examine these issues by examining a new survey of household inflation expectations from IPSOS. Specifically, it asks whether individual beliefs and values—ranging from confidence in the CNB to political affiliation—systematically account for discrepancies from forecasted inflation. Ten hypotheses organise this question, varying over demographic biases, the effect of perceived inflation, media consumption, and interactions between trust and monetary literacy. The contribution of this thesis is twofold: empirically, it provides micro–level facts in the Czech context; theoretically, it contradicts models assuming expectations to be entirely rational or uniform.

In this thesis, we use correlated random effects (CRE) models. CRE is not commonly used in inflation expectations studies, but we believe it to be extremely useful because it decomposes variation into within and between parts. This way, we can isolate individual changes in a variable from habitual beliefs. Robustness checks—e.g., winsorization, and balanced panel estimation—are used to ensure conclusions are not drawn from extreme responses or attrition.

The findings indicate that values and perceptions do have an effect, although in asymmetrical ways. We find that gender, income, education, political affiliation, trust in the CNB, monetary knowledge, and personal values all heterogeneously interact with inflation expectations. Controlling for shopping responsibility does not eliminate the gender gap in inflation expectations. We find that respondents who have habitually higher expected unemployment tend to report higher expected inflation. There is no effect on inflation expectations from within-individual changes in unemployment expectations. There was no significant effect on inflation expectations once we used the expected decrease in unemployment as a variable. We found a strong pass-through from inflation perceptions to inflation expectations. Within-individual increases in real interest rate expectations are negatively associated with the probability of saving more. Respondents who habitually expect higher real interest rates are more likely to report plans to save more, consistent with the logic of the consumption Euler equation. The effect of real interest rate expectations is asymmetric—expectations about future real interest rates predict increases in saving, but not decreases. We found no evidence that single-person households or media consumption have an effect on inflation expectations.

The thesis is structured as follows: Chapter 2 discusses the current state of academic literature, Chapter 3 discusses the data source, the survey, and variable selection. Chapter 4 describes the methodology used in this thesis, as well as specific model specifications for each of the hypotheses. Chapter 5 presents empirical results. Chapter 6 discusses our empirical results and situates them in the broader literature. Chapter 7 concludes.

Chapter 2

Literature Review

2.1 Formation of Inflation Expectations

Differences in consumers' exposure to prices, gender, uncertainty, age, experiences, cognitive ability, media consumption, trust in the central bank, and partisanship affect the customers' inflation expectations. Consumers are affected by heterogeneous signals and are equipped with different levels of cognition and financial literacy to process those signals. These differences translate into differences in inflation expectations (for example D'Acunto *et al.* 2021b;c; Stanisławska & Paloviita 2024; Ranyard *et al.* 2008; European Central Bank 2024; Georganas *et al.* 2014; Cavallo *et al.* 2017; Coibion *et al.* 2018; Blanchflower & Mac Coille 2009).

2.1.1 Exposure to prices

Inflation expectations of consumers are affected by changes in everyday prices. Households tend to use the most frequently purchased items—such as groceries—as a measure of inflation, and thus use these items to extrapolate and predict future inflation. D'Acunto *et al.* (2021b) find that consumers use the frequency of purchased goods rather than expenditure share in updating their inflation expectations.[1] This finding is further corroborated in D'Acunto *et al.* (2022) and in D'Acunto *et al.* (2021c). In a controlled lab experiment, Georganas *et al.* (2014) demonstrate that consumers misperceive inflation and bias their judgments of overall inflation towards inflation rates for commodities purchased

[1] For example, milk might not constitute a large expenditure share in the whole basket of groceries, but the fact that it is purchased frequently might make it more likely that increases in the price of milk disproportionately increase household inflation expectations (D'Acunto *et al.* 2021b).

more frequently. Ranyard *et al.* (2008) argue that consumers may have limited capacity to remember individual prices and are subject to several biases in constructing expectations of aggregate price increases. Nevertheless, the authors argue that consumers appear to be able to assess and anticipate inflation. The reliance on price increases of everyday commodities is so strong that D'Acunto *et al.* (2021b) warn that using core inflation will lead to biases in understanding consumer expectations.

More "visible" prices have a greater effect on household inflation expectations. Some goods are more salient than others because consumers are more exposed to them. Gas and groceries are a great example. Consumers purchase gas and drive by gas stations with their prices on billboards daily. The same goes for the prices of groceries, which are purchased daily. Research shows that prices of gas and groceries are a key input into household inflation expectations (Dhamija *et al.* 2023). Campos *et al.* (2022) show that household inflation expectations correlate with price changes in price increases of "food, apparel, and new vehicles," all being salient products.

Consumers are biased in perceiving price increases as more salient and memorable than equally large price decreases, which can lead to inflation expectations being biased upward. When evaluating everyday shopping baskets, consumers do not notice price changes equally. Empirical studies have shown that price increases have a greater chance of retention than price decreases (Weber *et al.* 2022a). D'Acunto *et al.* (2021b) find that consumers are more likely to remember positive price changes rather than negative ones. Asymmetry in inflation/disinflation perceptions is also noticed in Baqaee (2020). This could explain why we observe upward-biased inflation expectations among households in survey studies (Weber *et al.* 2022a).

People in a household responsible for everyday shopping have higher inflation expectations compared to people who are not responsible for everyday shopping. Intuitively, individuals who are responsible for day-to-day shopping such as groceries or gas are subjected to prices and, thus, price changes more frequently (Weber *et al.* 2022a).

Some research indicates that consumers will use the prices of groceries to benchmark inflation even though they are provided with inflation statistics. In a survey experiment, Cavallo *et al.* (2017) noticed that when respondents were presented with two pieces of information at the same time—one being inflation statistics and the other historical prices for random grocery prices—, they subconsciously gave equal weight to both supermarket prices and inflation figures.

On the other hand, there are several studies suggesting that not only do consumers adjust their inflation expectations when exposed to new information, but they also put less emphasis on price signals from groceries. For example, Armantier *et al.* (2016) find that consumers update their inflation expectations when faced with new information, arguing that price signals from groceries have only limited pass-through to inflation expectations. Likewise, Coibion *et al.* (2020) argue that when provided with ”explicit information about inflation and monetary policy”, consumers adjust their inflation expectations.

2.1.2 Gender

Women tend to have, on average, higher inflation expectations than men (Bruine de Bruin *et al.* 2010; D'Acunto *et al.* 2021c; 2022; European Central Bank 2024; Bryan & Venkatu 2001; Coibion *et al.* 2018; Blanchflower & Mac Coille 2009). The reason for this is related to the heterogeneous price signals. Women see pricing signals more frequently than men since women conduct the majority of household grocery shopping. Because food prices are volatile and price increases are more memorable, women often expect stronger inflation than men. D'Acunto *et al.* (2022) notice that when grocery duties are handled equitably throughout homes, the gender expectation difference disappears. At the same time, the authors argue the ”gender expectations gap” cannot be accounted for by differences in income, household structure, or wealth. This is because inflation expectation differences exist *within* the studied households. D'Acunto *et al.* (2021c) argue that traditional gender roles—such as that women take care of the household—are the main driver of the ”gender expectations gap”. Using the Consumer Expectation Survey, Di Nino *et al.* (2022) find that ”following a similar change of perceived inflation, men and women, regardless of their age, tend to revise their inflation expectations in a similar fashion.” This supports the idea that ”gender expectations gap” is created through different inflation experiences, and not through innate differences between the genders.

2.1.3 Single-Person Households

Household composition also appears to influence how people form inflation expectations. Recent studies indicate that living alone or with others also influences not only the level of expected inflation but also how individuals experience price changes over time. This line of research is inclined to describe single-household households as having fewer constraints—like finances or information—that might expose them to price changes. Messner & Rumler (2022) use survey data amid the post-pandemic inflation spike and found that one-person households consistently expected higher five–year–ahead inflation than households with multiple persons. The disparity was not negligible—singles expected about 6.5 percent, compared to about 5.4 percent for households containing three or more individuals. This pattern did not hold for one-year expectations.

2.1.4 Income

Lower-income households have higher inflation expectations both at short-term and long-term horizons (for example, Madeira and Zafar 2015)

A straightforward explanation could be that poorer households spend a disproportionate share of their income on goods like food or energy. It is these items whose prices swing more often and more visibly than, say, durable goods or services. This constant exposure could make price changes feel more salient, pushing their expectations up. Mankiw, Reis, and Wolfers (2003) give this explanation.

That said, one should not ignore the possibility that the gap reflects differences in what households perceive rather than consume—their "personal inflation" may simply be higher than the aggregate index. This framing treats inflation expectations as less about what's actually in the shopping cart and more about how people process the prices they encounter. Two households could face identical price changes but interpret them differently. Bryan and Vencatu (2001) confirm this interpretation. They claim that the gap in inflation expectations is too large to be explained by differences in the consumption basket across income groups. They suggest that differences in expected inflation come from differences in inflation perceptions.

Another issue might be that constrained budgets can increase the emotional weight of price changes. For example, even small increases in costs might be perceived as threats to basic living standards. This threat could create a general pessimism about prices. For households with limited budgets, even a small rise in the costs can feel like a direct blow. It is possible that feeling doesn't just fade after the initial shock, but it lingers. The stress of constantly budgeting and re–budgeting could make any increase feel larger than it really is. Over time, this might harden into a sort of background pessimism about the economy that's only loosely related to actual inflation. Armantier et al. (2015) find that lower–income households, when confronted with price shocks, revise their inflation expectations more aggressively than higher–income groups—even if the overall price environment hasn't shifted dramatically.

2.1.5 Uncertainty

Economic uncertainty plays a role in household consumption and the formation of inflation expectations.

When consumers are uncertain about the macroeconomic outlook, their inflation expectations tend to increase. The surveys show an inverse relationship between consumer sentiment and inflation expectations: the moment economic sentiment worsens, households report higher inflation expectations. While Reiche & Meyler (2022) suggest this is because negative economic outlook increases uncertainty and, by extension, inflation expectations, Haidari & Nolan (2022) suggests this might be only a correlation and not causation.[2] One explanation could be that households use mental heuristics and compound all "bad" indicators (high inflation, high unemployment, high uncertainty, etc.) into one basket (Andre *et al.* 2022; Kamdar 2019).

As economic uncertainty increases, households fear losing their income or facing unexpected expenses. To account for this, households can use precautionary savings, reducing consumption (Baker *et al.* 2016). As a consequence, decreased consumption may lead to lower inflation. Using a Michigan survey of US consumers, Zhao (2022) finds that when inflation uncertainty increases, consumers are less willing to purchase durable goods. Similar results are found in Binder (2017). Huber *et al.* (2023) find that when faced with higher uncertainty, households place greater importance on perceived past inflation. In addition, Zhao (2022) notices the heterogeneity in uncertainty formation based on socioeconomic differences. This could mean that the socioeconomic background affects both inflation expectations and inflation uncertainty. On the other hand, Afunts *et al.* (2023) find that both short-term and long-term inflation expectations increased due to Russia's invasion of Ukraine. This increase might be the result of fears among the household about energy prices.

The inflationary environment affects households' interest in consuming news

[2] Haidari & Nolan (2022) use Australian data and find that low consumer sentiment coincides with higher inflation expectations.

about inflation. In times of low and stable inflation, inattention costs are usually low, and households can afford to update their inflation beliefs less frequently. The expected changes in the price level are negligible, so there is a smaller impact on household decisions (Powell 2022). Higher and unexpected inflation increases the cost of inattention, forcing households to update their inflation expectations more frequently and consume more news about inflation. Baker *et al.* (2018) discovered that shocks cause inattentive agents to update their information instantly, while, during regular times, inattentive agents do so only occasionally. Weber *et al.* (2023) showed that households and businesses in advanced economies became more likely to be aware of the news about inflation as inflation increased. The authors also demonstrated that agents in high-inflation environments are more aware of inflation levels and more knowledgeable about monetary policy. Similarly, Cavallo *et al.* (2017) found that people in low-inflation environments have weaker prior beliefs about inflation than individuals in high-inflation environments. Korenok *et al.* (2022) argue that people in some countries ignore inflation if it remains below a certain level.

A consistent high inflation environment might entrench higher inflation expectations (for example Powell (2022)). When households experience a long period of high inflation, they assume that this pattern will continue. Consequently, they adjusted their expectations upward, believing that inflation would persistently rise. Unfortunately, this will result in higher actual inflation, thus fueling the cycle. Using Bayesian VARs, Istrefi & Piloiu (2014) find that long-term inflation expectations increase after a shock in both the U.S. and the Eurozone. Korenok *et al.* (2022) argue that since increased inflation leads to increased consumption of news about it, there is a risk that this will lead to ”an accelerationist regime,” where inflation becomes more challenging to control. Bracha & Tang (2022) suggest that inflation expectations are better anchored in low-inflation environments. A high-inflation environment risks accelerating inflation expectations.

2.1.6 Age and Cohort-Level Experiences

Exposure to economic swings significantly impacts people’s risk preferences and beliefs about the economy. When taking financial risks, people who have experienced poor stock market returns in their lifetimes tend to be less willing to undertake risk. They participate in the stock market less frequently and invest a smaller percentage of their assets in stocks when they do participate.

These individuals also tend to be more pessimistic about future stock returns (Malmendier & Nagel 2011). Since different age groups can recall different economic shocks, there is a cohort-level impact on their beliefs. Giuliano & Spilimbergo (2009) find that young people who experience a recession tend to be more left-wing, in favour of redistribution, and more convinced that luck is more important in life than effort. Shigeoka (2019) finds that young men affected by a severe economic recession are, as adults, more risk-averse and less likely to be self-employed.

The cohorts are biased due to their different macroeconomic experience. Older people have greater experience with macroeconomic events and thus can draw from a more extensive memory than their young counterparts. Young people, for example, never experienced hyperinflation in the 1970s and, therefore, are "robbed" of this occurrence when forming inflation expectations, which may lead to them underestimating future inflation. On the other hand, older people who experienced higher inflation will consider this experience when forming beliefs about future inflation. Diamond *et al.* (2020) find that inflation expectations in Japanese households rise with age, even after controlling for different household-level-specific inflation rates. They argue that

> The positive correlation between age and inflation expectations is driven to a significant degree by the correlation between cohort and inflation expectations, which we interpret to represent the effect of historical inflation experience on expectations of future inflation rates.

With a focus on Germany, Braggion (2024) discovers that households in regions that experienced higher inflation during the hyperinflation of the 1920s, almost a century later, continue to anticipate higher future inflation. This finding raises the possibility that collective memory plays a role in transferring inflation experiences between generations. Similar results are reported for Polish homes in former German territories. Interestingly, Malmendier *et al.* (2021) even notes that the heterogeneity of inflation perceptions between the members of the Federal Open Market Committee (FOMC) influences whether the members will be hawkish or dovish with respect to their decisions, speeches and inflation projections.

Culture and environment also influence how individuals form their beliefs and preferences. Variations in cultural and socio-political environments expose individuals to different information and also shape how they interpret new information. For example, East Germans support redistribution and governmental involvement more than West Germans. Because they experienced communism for longer, older generations are more affected by this effect (Alesina & Fuchs-Schündeln 2007). Interestingly, the authors note a convergence in beliefs among West and East Germans. Osili & Paulson (2008) observe that immigrants from nations where institutions better protect private property are more likely to own stocks in the US. They argue that institutions from an immigrant's native country have a lasting and early-life impact.

Nevertheless, individuals' lifetime experiences are subject to recency bias, where instead of assigning equal weights to events throughout their lifetimes, they assign higher weights to more recent events. Recency bias arises simply because recent events take less effort to recall (Tversky & Kahneman 1974). Malmendier (2021) highlights that recent experiences influence individual expectations and risk-taking more strongly than those of earlier life. The same goes for D'Acunto *et al.* (2022), who find that lifetime events are powerful predictors of expectations due to people's tendency to give personal past experiences more weight. In addition, young people are more affected by recent events (Malmendier & Nagel 2011), arguably because they have a smaller accumulated experience from which to recall. This finding was confirmed by Malmendier & Nagel (2016).

2.1.7 Cognitive abilities

The cognitive abilities and IQ of the individuals affect their inflation expectations. In general, people are affected by several systemic cognitive constraints, including framing bias (Kahneman & Tversky 2000; Thaler 2016), representative heuristics (Tversky & Kahneman 1974), recency bias (D'Acunto *et al.* 2022), confirmation bias (Nimark & Sundaresan 2019), rational inattention (Sims 2003), information stickiness (Mankiw & Reis 2002), diagnostic expectations (Bordalo *et al.* 2022a), etc. For this thesis, the most important are these stylised facts: Emotions play an important role in determining whether the new information that a person acquires will also remain in their memory (Tyng *et al.* 2017). The more emotionally charged the information, the higher the probability of retention (Pessoa 2013; Vuilleumier 2005). People form their beliefs (and, by extension, expectations) using a reference point such as familiar circumstances or an idealised model (Tversky & Kahneman 1974). Using rational inattention, people are more likely to filter out information that does not confirm their prior beliefs (Nimark & Sundaresan 2019).

Forming inflation expectations requires (i) digesting large quantities of information and price signals and (ii) assessing the weights and probabilities for a pass-through from these price signals to future inflation. Individuals with a higher IQ are better equipped to absorb price signals and use them to form inflation expectations. D'Acunto *et al.* (2019) find heterogeneity in the way individuals create, revise and act on their expectations based on their cognitive abilities. D'Acunto *et al.* (2021a) find that consumers with lower cognitive abilities do not respond to expansionary fiscal and monetary policies, even when unconstrained by their financial situation. Their results are robust even after controlling for income, education, economic expectations, and demographic variables. The results are corroborated by D'Acunto *et al.* (2023), where the authors studied a representative male population. They found that men with higher IQs have consistent inflation expectations and act as expected by the Euler equation, controlling for education, income, economic expectations, and socioeconomic status.[3]

2.1.8 Central Bank

Communication

If a central bank can effectively communicate, the public can adjust their inflation expectations, which will make it simpler for the central bank to achieve its inflation target (for example Woodford 2005). Nevertheless, households may be constrained by information frictions. [4] Central bank statements are frequently written at a collegiate reading level, which is much higher than that of the typical citizen, as noted in Haldane & McMahon (2018). This creates a gap between the general population and economists. If this gap is not addressed, it may result in expectations that are not anchored.

Recent empirical studies have tried to measure how forward guidance affects household expectations. In Coibion *et al.* (2023), the authors found that households' inflation expectations were impacted by information about current

[3]Accurate forecasting requires cognitive work, and experts are more qualified than typical consumers to perform this task. This is why, as we already discussed, individuals use groceries and prices as a proxy for inflation. As we will see later, individuals can use their trust in central banks to increase the accuracy of their inflation expectations.

[4]We already discussed that according to models of sticky information (Mankiw & Reis 2002) and rational inattention (Sims 2003), households only occasionally update expectations because its costly. In addition to information frictions, households might have trouble interpreting and/or understanding the central bank's communication. For example, 57% of the respondents in the general population think that increasing interest rates lead to *higher* inflation (Andre *et al.* 2022).

interest rates, but any guidance longer than a year into the future had no further influence. Using text mining techniques Odu *et al.* (2024), the authors found that the monetary policy statements of six African central banks have a statistically significant influence on inflation expectations. Providing explicit inflation forecasts can have an adverse effect. In contrast to the intended effects of forward guidance, households frequently interpret news of higher future inflation as a sign of economic downturn and may reduce spending as a result (Candia *et al.* 2020).[5]

Although some literature suggests that central bank communication affects inflation expectations, other authors disagree. Coibion *et al.* (2022a) argue that policy announcements do not alter household spending plans. European Central Bank (2024) too argues that "little evidence supports the idea that central bank interest rate setting decisions or their announcement have a significant or direct effect on households' inflation expectations." D'Acunto *et al.* (2022) argue that it is unconventional fiscal policy that increases households' expectations and consumption, forward guidance announcements do not. Lamla & Vinogradov (2019) measured the changes in perceptions and expectations of inflation and interest rates in response to the announcements of the Federal Open Market Committee (FOMC), using surveys before and after FOMC meetings. They found that the "FOMC announcements have no measurable direct effect on perceptions and expectations of inflation and interest rates." The authors studied only 12 meetings. Fiore *et al.* (2021) used a similar methodology, but studied 47 FOMC meetings. They, too, found no effect on inflation expectations in response to FOMC announcements.

Trust

Trust in the central bank affects household inflation expectations because individuals use trust as a filter to judge information from the central bank, as well as a measure of an individual's belief in the capabilities of the central bank to deal with inflation. High-trust individuals tend to believe that the central bank will meet its inflation targets, so they adjust their inflation expectations accordingly. On the other hand, individuals who do not trust the central bank will disregard its communication. Christelis *et al.* (2020) find that high trust in the ECB lowers consumers' inflation expectations. The authors also find that

[5] The authors argue that what matters here is the individual's interpretation of inflation news. If an individual holds a supply-side view of the economy, policy communication about higher expected inflation will decrease their propensity to consume.

high trust has a more significant effect on decreasing high inflation expectations than increasing low inflation expectations.

Individual characteristics affect the extent to which individuals trust the central bank simply because these differences in characteristics can result in different economic experiences, knowledge, or attitudes. Ehrmann *et al.* (2012) find that trust in the ECB varies with gender, age, marital status, education, political orientation, or general satisfaction with life. Farvaque *et al.* (2017) find that higher trust in the ECB is associated with higher education, higher income, a centre-to-right political orientation, people with optimistic expectations and men. The unemployed trust the ECB less. Similarly, Brouwer & De Haan (2022) find that right-wing ideology, knowledge of the ECB, or trust in other European institutions affect trust in the ECB. Nevertheless, the authors do not find statistically significant effects of age, education, income, or employment status on trust in the ECB.

Trust in the central bank also affects the anchoring of household inflation expectations. High trust in the ECB leads to confidence that the ECB will be successful at keeping its inflation target, even after a spike in short-term inflation. This leads to high-trust individuals keeping their inflation expectations stable as short-term inflation varies. In comparison, low-trust individuals are adjusting their inflation expectations more frequently. Stanisławska & Paloviita (2024) find that individuals with high trust in the central bank and high financial literacy anchor their inflation expectations more. These individuals have a more stable medium-term inflation when faced with increases in actual inflation. Similarly, Christelis *et al.* (2020) find that consumers with higher trust in the ECB have anchored medium-term inflation and lower uncertainty about future price changes. Brouwer & De Haan (2022) found the same, arguing that higher trust is associated with inflation expectations similar to the ECB's target.

Nevertheless, trust in the central bank and individuals' inflation expectations are subject to possible endogeneity bias.[6] This is because trust and inflation expectations can have a bidirectional relationship. On the one hand, individuals with higher trust in the ECB can develop inflation expectations that

[6]The authors employ various solutions to deal with endogeneity. Christelis *et al.* (2020) use trust in other people as an instrumental variable. Angino *et al.* (2022) "use data on institutionalised constraints on the decision-making powers of chief executives in the 1600–1850 period and literacy rates at the end of the 19th century to build a measure of social trust that does not suffer from reverse causation or omitted variable bias." Brouwer & De Haan (2022) use trust in other European institutions.

align with the ECB's anchor. On the other hand, lower actual inflation can lower an individual's inflation expectations, increasing the individual's trust in the ECB (Christelis *et al.* 2020).

Although important, some authors noted that knowledge about the ECB matters less than general trust in the ECB in forming inflation expectations. For example, Christelis *et al.* (2020) find that the effect of trust in the ECB on people's inflation expectations is so strong that controlling for people's knowledge of the ECB's objectives does not change its effect.

2.1.9 Media

Media can be important because (i) media acts as a transition mechanism of information and (ii) media provides commentary—and thus potential bias—about inflation information. The attention of the media to specific information can affect economic expectations, thus contributing to changes in wage negotiations, pricing strategies, and spending. Larsen *et al.* (2021) use machine learning and conclude that the media play a role in the formation of household expectations and that the news topics reported in the media "are a good predictor of both inflation and inflation expectations." In a randomised controlled trial, Coibion *et al.* (2022b) note that informing consumers about the central bank's inflation target has a statistically significant influence on changing their inflation expectations.

Nevertheless, the authors notice that presenting consumers with news articles lowers this effect, suggesting that consumers are less responsive to information provided via news media. Some argue that there is a gap between the inflation news reported in the media and the households that revise inflation expectations.

Building on Carroll's "sticky information" model (2003), Pfajfar & Santoro (2013) found that consumers' inflation expectations tend to be "sticky" or slow to change in response to new information. Carroll (2003) explains that this stickiness arises because people pay attention to news reports only occasionally. This is in line with the findings of Cavallo *et al.* (2017). Pfajfar & Santoro (2013) also find that consumers who update their expectations do not revise them in line with professional forecasts. On the other hand, Mazumder (2021) finds that if news channels report on inflation more often, the inflation forecast gap between households and professional forecasters closes.

Building on Carroll (2003), Lamla & Lein (2008) show that "more news leads to more updating and information processing which finally eventuates in better inflation forecasts ... [and that] the specific content of news impairs consumers' forecasts." In another paper, Lamla & Lein (2010) argue that heightened media reporting resulted in a "statistically significant and economically meaningful impact on inflation perceptions."

If the media frames any news about inflation as negative, households might increase their inflation expectations as a result. Thus, media reports on inflation can also introduce a possibility of bias. According to Dräger (2015), when news regarding declining inflation is presented negatively in the media, it may lead to increased inflation expectations rather than decreasing them. One possible explanation for this phenomenon might be that households associate inflation with poor macroeconomic conditions.

Nevertheless, both Dräger (2015) and Lamla & Lein (2008) argue that the effect of media consumption on inflation expectations is limited, especially after we control of inflation perceptions.

We might thus expect differences in inflation perceptions (and, by extension, inflation expectations) based on the type of media consumed (or lack thereof). Various media channels put emphasis on different issues, and this heterogeneous salience might result in heterogeneity in inflation expectations.

2.1.10 Partisanship

Some authors noticed an interesting divide between partisan groups when studying inflation expectations. Citizens often associate inflation with bad economic outcomes rather than with a demand-driven, overheated economy. If a disliked politician assumes office, households who disapprove of this politician will assume bad economic outcomes will come, which might trickle down to higher expected inflation. Bartels (2002) studied partisan perceptions during the Reagan administration and reported aggregate differences in economic perceptions across partisan groups. When asked in 1988, more than half of Democrats responded that inflation had worsened since 1980, even though the actual inflation had decreased by more than two-thirds. Partisan bias can also be observed when assessing unemployment. Republicans, on the other hand, reported more favourable assessments of both inflation and unemployment. Bachmann *et al.* (2019) show that inflation expectations were higher in Republican-dominated states compared to Democrat-dominated states during Obama's presidency. Notably, inflation expectations in Republican-dominated states declined compared to Democrat-dominated states when Donald Trump entered office, suggesting that voters change their economic assessment—and, by extension, inflation expectations—when the president is from a party they support. Curtin (2018) also noticed a change in economic expectations immediately after electing Donald Trump, which continued well into 2018. Even though partisans have access to the same economic information, they put different weights on the type of information. Democrats assign more importance to negative news, and Republicans vice versa. This results in Democrats expecting a recession while Republicans expect economic growth. Brady *et al.* (2022) note that this gap in economic perceptions between Republicans and Democrats approximately doubled between 1999 and 2020. Gillitzer *et al.* (2017) argue that consumers in the U.S. and Australia lower their inflation expectations after a favourable political party gets elected, confirming the idea that people use politicians to benchmark economic conditions and, by extension, inflation expectations.

In addition to the partisan divide, Struby & Farhart (2024) find heterogeneity in inflation expectations between different groups of partisans. They find that politically knowledgeable, low-trust partisans are driving the differences in expectations. Low-knowledge partisans and high-knowledge partisans with high trust tend to hold similar expectations. Binder *et al.* (2024) found that inflation expectations of Republicans increased during COVID-19, while inflation expectations of Democrats stayed anchored. In addition, the authors show that inflation expectations of Republicans increase disproportionately more to CPI releases and are more sensitive to them.

2.1.11 Values and Perceptions

The literature suggests that rather than treating inflation perceptions as solely the product of information and group identity, cognitive and personal traits and characteristics fundamentally shape them.

Variables usually included in the standard inflation expectations models cannot fully explain individual heterogeneity in inflation expectations. Recent research has shown it is important to include value orientations and personality traits. While earlier literature focused on the role of political affiliation, media exposure, or income, newer work in behavioural macroeconomics suggests that personal values are important in shaping how individuals interpret economic signals. This is because value orientations and personality traits are filters through which individuals perceive the economy.

Some studies show that personal value systems affect individuals' inflation perceptions and expectations. For example, Abildgren & Kuchler (2021) show that heterogeneity in inflation perception remains even after we control for household characteristics like income, education, or employment. The authors attribute this fact to deeper psychological traits. They find that certain individuals always overestimate inflation, which hints that persistent cognitive biases might play a role. Human characteristics may drive a portion of the inflation perception gap, as these biases are correlated with pessimistic tendencies and possibly risk-averse personality. This is further supported by Orland (2013), who connects macroeconomic perception to the Big Five personality qualities. The author demonstrates that while people with a high conscientiousness trait have better forecast accuracy, those with a strong neuroticism trait overestimate unemployment and inflation. Sagiv *et al.* (2011) show that human values—as defined by Schwartz's typology—shape economic preferences and perceptions. The authors find that individuals with community-oriented or conservative values show different strategic behaviour in experimental game settings. These findings are relevant to inflation expectations, as they imply that individuals who prioritise tradition, security, or conformity may consistently interpret price signals as threats. At the same time, those high in *Spontaneity* or *Challenge-Seeking* may show greater resilience or even contrarian optimism in their inflation expectations.

Some studies showed that there is a link between personal values and economic expectations among investors and people who make decisions under risk. According to Jiang *et al.* (2023), people's views on economic risk and return, particularly inflation expectations, are highly predicted by personality qualities like neuroticism and openness to experience. In particular, investors with high neuroticism traits anticipate more inflation and perceive more negative risk, which aligns with earlier findings that anxiety-related traits are associated with economic pessimism (Stöber 1997). On the other hand, people who score highly on openness to experience typically anticipate better or moderate economic results. These patterns mirror what might be expected in inflation expectation formation—those who value novelty, adaptability, or personal growth may be less sensitive to temporary inflationary pressures, while those who prioritise order, security, safety, or stability may be more inflation-averse.

2.2 Effect of Inflation Expectations on Consumption

So far, we have dealt with heterogeneity in the formation of inflation expectations. The question now is how inflation expectations affect decisions to save and consume.

Most of the literature uses some form of the consumption Euler equation to model the effect of inflation expectations on consumption. The consumption Euler equation posits that a change in inflation expectations leads to a change in the real interest rate (holding the nominal interest rate constant), which in turn affects the decision to consume. For example, an increase in expected inflation lowers the real interest rate, which reduces the incentive to save and increases the incentive to consume today. In other words, the opportunity cost of consumption decreases, so the consumption Euler equation predicts that when households increase their inflation expectations, they will increase consumption (D'Acunto *et al.* 2023). A related concept—the elasticity of inter-temporal substitution (EIS)—describes the magnitude of the consumption Euler equation.

In practice, evidence on the consumption Euler equation is mixed. Using RCTs, D'Acunto *et al.* (2022) show that increasing household inflation expectations increases consumption. Ichiue & Nishiguchi (2015) find evidence supporting the consumption Euler equation using Japanese household microdata. According to the authors, households with higher inflation expectations reported increasing expenditures. Dräger & Nghiem (2021) find that current expenditure positively correlates with inflation expectations but negatively with nominal interest rate expectations. The authors also find that this effect is amplified by news about inflation and monetary policy witnessed by consumers. Vellekoop & Wiederholt (2019) find that Dutch households with higher inflation expectations save less and are more likely to purchase a car. The positive response of consumption to increased inflation expectations is also observed in Duca-Radu *et al.* (2021).

Nevertheless, some literature suggests that increased inflation expectations do not necessarily lead to increased consumption. According to CES data, when asked point blank how they would respond to experiencing higher inflation, only a small percentage of the respondents replied that they plan to increase consumption, with 30% saying that they would reduce consumption (European

Central Bank 2024). Similarly, Jiang *et al.* (2024) find that about 74% of households do not respond to higher inflation expectations with changes in their consumption. Only about 20% of consumers say that they would decrease their consumption (in line with the consumption Euler equation).

On the other hand, some authors find that increased inflation expectations lead to *lower* consumption. Using RCTs, Coibion *et al.* (2019) find "that exogenously higher inflation expectations lead to lower, rather than higher, spending on the part of households." Bachmann *et al.* (2015) find that "a one percentage point increase in expected inflation during the recent zero lower bound period reduces households' probability of having a positive attitude toward spending by about 0.5 percentage points."

The reason behind these counterintuitive results is that households view higher inflation expectations as a proxy for worse economic outcomes, thus postponing consumption as a buffer for decreased income. When economic uncertainty increases, households tend to cut consumption and increase savings as a buffer against this uncertainty (Carroll 1997). This is empirically supported by Roth & Wohlfart (2020). Households might decrease their consumption in response to increased anticipated inflation because they have a stagflationary view. Contrary to the consumption Euler equation, a stagflationary view implies that households expect inflation and unemployment to increase simultaneously. This view can lead to increased precautionary savings and a delay in discretionary spending in response to higher expected inflation. Coibion *et al.* (2019) document that Dutch households with increased inflation expectations decrease their consumption of durable goods and at the same time increase their pessimism about their real income, supporting the stagflationary view of inflation among Dutch households. The results in Kamdar (2019) support this view. According to the author, sentiment drives consumer opinions about economic factors. Consumers with optimistic sentiment expect lower unemployment and better personal financial situations, but at the same time expect inflation to fall.

Heterogeneity in consumption

Households are not homogeneous in their response to higher inflation expectations, but the direction and magnitude of consumption depend on their heterogeneous characteristics. Using panel data from the US, Burke & Ozdagli (2021) find that "durables spending increases with expected inflation only for selected households, while nondurables spending does not respond to expected inflation." Coibion *et al.* (2022a) "document that the positive response for spending on day-to-day goods and services (i.e., non-durables) tends to be stronger for more educated, higher income and financially unconstrained consumers." D'Acunto *et al.* (2023) show how differences in IQ lead to different consumption-savings decisions. As discussed, Duca-Radu *et al.* (2021) find evidence showing consumers behave as predicted by the consumption Euler equation. Nevertheless, the authors find that this responsiveness is stronger for respondents with high financial literacy. Although Ichiue & Nishiguchi (2015) also supports the finding that respondents behave according to the consumption Euler equation, they argue that this relationship is stronger for asset holders and older respondents. Dräger & Nghiem (2021) show that only respondents who are able to save, are financially unconstrained, are active on financial markets, or have a high financial literacy, act in accordance with the consumption Euler equation.

Chapter 3

Data

3.1 Survey

This thesis uses a new panel dataset that was designed to measure Czech households' inflation expectations. It was constructed using a six-wave, nationally representative survey between January and June 2024 under the assistance of the Czech National Bank (CNB) and the Institute of Economic Studies, Charles University, with funding from the Technological Agency of the Czech Republic (project TQ01000396). The CNB served as the main partner and also provided methodological oversight. The project aimed to fill a gap in Czech household expectation data and was explicitly modelled using best practices abroad, like, for example, the ECB's Consumer Expectations Survey and the New York Fed's Survey of Consumer Expectations.

The survey used a repeated cross-section with a rotating panel design, which enables both longitudinal and cross-sectional analyses of expectation formation. Each monthly wave surveyed at least 1,000 Czech adults recruited via the IPSOS *Populace.cz* online panel. To ensure national representativeness, it used quota sampling for characteristics like age, gender, education, region, and size of residence. Respondents from previous waves were preferentially re-invited—as a result, 639 individuals completed all six waves. This design permits fixed-effects or correlated random effects estimation to examine within-individual changes over time.

The questionnaire used a multi-method data collection strategy. Each wave included a core list of 10 questions (Q1–Q10) that elicited point forecasts (e.g., expected inflation in 1 and 3 years), subjective probability distributions over inflation intervals, perceived current inflation, expected direction of 1-year ahead unemployment and compensatory income adjustments. In waves 1 and 6, the questionnaire (Q11–Q21) was expanded to include measures of monetary policy knowledge, trust in the central bank, financial literacy, household saving and borrowing behaviour.

In addition to these variables, other variables and indicators were merged from the IPSOS panel metadata. The variables include gender, age, education, household income, household size, employment status, financial product usage, political affiliation, media consumption, and respondents' values and perceptions, among others.

The questionnaire design followed strict methodological principles to make sure cognitive accessibility was not an issue. Questions were formulated to reduce priming effects (e.g., no reference to official inflation rates) and cognitive burden for low-literacy respondents. The survey included familiar anchors (e.g., price of milk) and used both the term" inflation" and" price increase" to accommodate varying levels of economic literacy. A pilot survey in December 2023 (N = 150) tested whether there were some issues with comprehension, technical validity, and response behaviour.

No arbitrary outlier trimming was performed. Observations with extreme responses were kept because such values reflect meaningful information. For more in-depth methodological information about the survey, see Baxa *et al.* (2025).

3.2 Variables

The following subsections elaborate on the measurement of dependent variables, main covariates, and controls. For easy orientation, all variables are summarised in Table A.1.

3.2.1 Dependent Variables

We use three main dependent variables in this thesis—expected 1-year ahead inflation, intended changes in saving behaviour, and absolute deviation from the inflation target. "Expected 1-Year Inflation" measures individuals' quantitative point expectations about the y-o-y inflation rate in 12 months. This variable is used for the majority of the hypotheses. For Hypothesis 4, we use the binary variable "Save More". This variable measures if the respondent reports planning to increase household savings in the following year, regardless of the reason.

For robustness, we also estimate Hypothesis 4 models with the variable ”Save Less”, which measures the reported planning to decrease household savings in the following year. For Hypothesis 8, we use a continuous variable measuring absolute deviation from the inflation target. It is calculated as $\left|\pi_t^{\text{target}} - \pi_t^{\text{exp}}\right|$, where π_t^{target} is the 2% inflation target, and π_t^{exp} is the expected 1-year ahead inflation.

3.2.2 Main Covariates

The main covariates are included as the baseline in almost all models because they are essential in forming inflation expectations. Excluding them might cause omitted variable bias. These variables are perceived current inflation, subjective inflation uncertainty, unemployment expectations, and household income.

Perceived inflation measures the respondents' perception of the inflation rate over the past 12 months in percentage points. This perception may serve as a reference point for inflation expectations and is shaped by personal experience, personal price salience, and others.

In this thesis, the inflation uncertainty is quantified using the *Expected Ranked Probability Score* (ERPS) proposed by Krüger & Pavlova (2024). In earlier research, using the triangular or generalised Beta distributions was normal. The issue with this is that it defines a specific functional form. Rather than defining a specific functional form, the ERPS views the reported probability bins as ordered categories and estimates the spread of the cumulative probabilities. The measure is given by

$$\text{ERPS}(p) = \sum_{k=1}^{K} P_k\Big(1 - P_k\Big),$$

where P_k denotes the cumulative probability up to bin k. Larger values indicate more spread out beliefs, though whether this perfectly matches what individuals themselves perceive as ”uncertainty” is open to debate.

The appeal of ERPS lies partly in how well it fits the structure of our survey. Many respondents allocate their probability distribution to only one or two bins—a pattern that tends to trip up parametric approaches such as Engelberg–Manski–Williams (EMW). Those methods require assumptions about the underlying distribution and become sensitive to choices about support limits, particularly when respondents put probabilities in the extreme bins (e.g., ”12%

and above"). The midpoint method avoids parametric fitting thanks to placing mass at bin centres. Still, it introduces its own judgment calls about how far the outermost bins extend—a choice that rarely feels empirically grounded.

By ignoring the numeric width of bins, ERPS avoids these pitfalls. That simplicity, however, has consequences: it cannot be compared across surveys that use different bin structures and does not provide estimates of variance or tail risk. A related limitation is that the measure does not account for whether the survey bins are open or closed at their endpoints; outer bins such as "12% and above" have no natural bound, which means ERPS cannot capture differences in how far respondents expect inflation might extend into the tails. For the purposes of this study—tracking differences in perceived uncertainty across demographic and attitudinal groups—this trade-off seems reasonable. The bins in our data are fixed over time, and the focus is less on precise variance estimates than on capturing relative heterogeneity in expectations.

The next variable is expectations about general unemployment in the Czech Republic. Unemployment expectations are not measured quantitatively, but a binary variable coded as 1 is used if the respondent expects unemployment in the Czech Republic to increase over the next 12 months. We use this variable because it might affect inflation expectations if respondents implicitly hold either a version of the Phillips Curve or of inflation and unemployment in stagflationary terms.

Household income is measured as an ordinal variable, which is measured on a 10-point scale reported by respondents. The smaller the number, the lower the household income. Income is a key determinant of both actual and perceived vulnerability to changes in inflation, and thus might also affect both inflation expectations and expectations on saving behaviour.

3.2.3 Other Covariates and Control Variables

The regression models include a range of control variables that account for demographic, socioeconomic, political, and informational heterogeneity.

Gender is included as a binary variable, coded as 1 for female respondents. Age is measured categorically across six brackets (18–24, 25–34, 35–44, 45–54, 55–64, and 65+), with the 18–24 group serving as the reference category.

Binary variable "Primary shopper" shows whether the respondent is responsible for grocery shopping in their household. It is derived from survey question $XC21$, which explicitly asks respondents whether they personally make the majority of decisions and purchases related to groceries. Responses are coded as 1 if the respondent identifies as the primary shopper and 0 otherwise.

Education is coded as a categorical variable that captures the respondent's highest level of completed education. The variable is derived from survey question $XC5$, which includes 11 categories ranging from "no education" to "doctoral degree." For regression modelling, these are recoded into three education groups—primary, secondary, and tertiary. Primary education covers categories 1 to 3, including respondents with no education, incomplete primary education, or completed primary education. Secondary education includes categories 4 to 7: vocational training without or with a high school diploma (maturita), post-secondary vocational programs, and non-tertiary higher education. Tertiary education includes values 8 to 11, which include bachelor's, master's, and doctoral degrees.

We used two ways to calculate real interest rates—one with the expected nominal interest rate on savings accounts, and the other with the expected nominal interest rate on mortgages. "Real Interest (SA)" denotes the subjective real return on savings, calculated as the difference between the respondent's expected nominal interest rate on savings accounts and their expected inflation over the next 12 months. The nominal part is elicited via survey question $Q13$: "*If you have a savings account, or are considering opening one, what interest rate do you expect on it for 12 months?*" Expected inflation is drawn from the respondent's quantitative forecast of year-ahead inflation. Variable "Real Interest (Mortgage)" is derived analogously to the savings-based version, but instead uses the respondent's answer to survey question $Q14$: "*If you have a mortgage, or are considering one, what mortgage interest rate do you expect for 12 months?*" Just like with the savings account version, expected inflation is subtracted from the expected nominal mortgage to give us the real interest rate.

Political affiliation is a categorical variable based on respondents' reported voting behaviour in the most recent election to the Chamber of Deputies. The variable is derived from item $XC128$, which asks: "Which party did you vote for in the Chamber of Deputies election?" To simplify the analysis, we collapsed party choices into three broader categories: (1) Government Voter, (2) Opposition/Other Voter, and (3) Non-Voter/Refused. Government Voter includes respondents who reported voting for either of the ruling coalitions—SPOLU or Piráti/STAN. This group is coded as 1 in the binary "Govt Voter" variable. Opposition/Other Voter encompasses a variety of parties not in government.

These include ANO, ČSSD, KSČM, Zelení, Trikolóra, SPD, Přísaha, and other fringe or unspecified parties (19, 95). These are grouped as the reference category. “Non-Voter/DK/Refused” includes individuals who did not vote, do not know, or refused to answer. We included this variable in the models to separate the effect of opposition voters on the government voters, and at the same time, allow us to see the inflation expectations for not politically engaged respondents.

Trust in the CNB is coded as a binary variable. It is derived from survey question $Q18$, which asked participants: ”*Do you trust the Czech National Bank?*”, with response options ranging from ”definitely yes” to ”definitely no.” Responses were recoded such that individuals answering ”definitely yes” or ”rather yes” (values 1 and 2) were categorised as expressing trust, while those selecting ”rather no” or ”definitely no” (values 3 and 4) are grouped under distrust. Respondents who selected ”don’t know” or refused to answer are treated as missing.

Three variables measure monetary policy knowledge. The first variable, ”Knows Target,” is a binary indicator coded as 1 if the respondent correctly identifies the CNB’s inflation target as 2%, and 0 for any other numeric response. This variable is derived from survey item $Q16_1$, which directly asks for the inflation target in percentage terms. Respondents who selected ”don’t know” are treated as missing. The second variable, ”Understands Policy,” assesses respondents’ grasp of the monetary transmission mechanism. It is derived from item $Q17$, where respondents were asked to what extent they agree with the statement that ”higher interest rates reduce inflation.” Responses indicating agreement (codes 1 and 2: definitely or rather yes) are classified as correct, while disagreement (codes 3 and 4: rather or definitely no) is coded as incorrect. Again, ”don’t know” responses are coded as missing. Finally, we create a binary composite variable labelled” Knowledge,” which synthesises the two individual indicators above. Respondents who both correctly identify the inflation target and understand the monetary policy mechanism are coded as having ”High” knowledge (1); all others are coded as ”Low” (0).

We also create a composite categorical indicator combining the” Trust” and” Knowledge” variables. We combine two binary indicators to cross-classify these two dimensions into four mutually exclusive groups (High Trust, High Knowledge; High Trust, Low Knowledge; Low Trust, High Knowledge; Low Trust, Low Knowledge). Low Trust, Low Knowledge is used as a reference group. For easier understanding, Eq. 3.1 shows how the indicator is derived:

$$\text{Trust, Knowledge}_i = \begin{cases} \text{if Trust}_i = 0 \text{ and Knowledge}_i = 0 & \text{(Low Trust, Low Knowledge)} \\ \text{if Trust}_i = 0 \text{ and Knowledge}_i = 1 & \text{(Low Trust, High Knowledge)} \\ \text{if Trust}_i = 1 \text{ and Knowledge}_i = 0 & \text{(High Trust, Low Knowledge)} \\ \text{if Trust}_i = 1 \text{ and Knowledge}_i = 1 & \text{(High Trust, High Knowledge)} \end{cases} \tag{3.1}$$

To examine how different media environments shape inflation expectations, the analysis includes four ordinal variables capturing the frequency of media usage across distinct channels: internet, television, radio, and newspapers. These variables are derived from survey questions $XC95$, $XC97$, $XC98$, and $XC274$, respectively, each asking respondents how often they engage with the given medium in their free time. All four variables are measured on a 10-point ordinal scale, where 1 denotes "more than 6 hours daily" and 10 indicates "never," with intermediate values corresponding to decreasing frequencies of exposure in between.

Finally, we use responses to item $XC250$ from the survey to measure personal values and life orientations. In this question, respondents are asked: "*Different people can be described in different ways. How would you like others to speak about you? As someone who . . .* " They are then shown sixteen descriptive statements covering a variety of traits and preferences, like spontaneity, sociability, ambition, or a preference for stability and order. Respondents must choose at least three and at most five of these statements based on how they would like to be perceived by others. We code each selected statement as a binary variable (1 = selected, 0 = not selected). Since respondents can choose multiple statements, these dummies are not mutually exclusive. We keep these binary indicators separate in the analysis rather than aggregating them into an index. This approach allows us to see how specific values—for example, a preference for a stable life or order—relate to the respondents' inflation expectations.

Chapter 4

Methodology

4.1 Methodological Problem with Panel Data

Panel data introduces an econometric challenge, and that is the presence of time-invariant unobserved heterogeneity. If the time-invariant unobserved heterogeneity affects both the outcome variable and at least one of the covariates, it will cause omitted variable bias. A simple approach to deal with this issue is to use pooled Ordinary Least Squares (OLS), which ignores individual structures and outright assumes the observations are independent and identically distributed. This is inappropriate, as a single entity contributes more than one observation, and thus we can safely assume the existence of unobserved heterogeneity.

The Random Effects (RE) model has a better structure on how to treat time-invariant unobserved heterogeneity. While it models it, it assumes that unobserved individual effects are randomly distributed and uncorrelated with the covariates. Mathematically, RE treats the unobserved heterogeneity as part of the error term. Nevertheless, this assumption is often too strong. For example, individuals with higher salaries systematically report lower inflation expectations (for example, D'Acunto *et al.* (2022)), thus violating the assumption of exogeneity and leading to inconsistent RE estimates (Wooldridge 2010).

The Fixed Effects (FE) model addresses this problem because it allows correlation between the unobserved effect and the covariates. It achieves this by demeaning all variables within each individual and thus eliminating the unobserved effect. While FE is consistent under weaker assumptions, it achieves this by dropping all time-invariant variables. This is a major limitation for papers like this one, where we are trying to model time-invariant variables like gender or political affiliation.

Given these limitations, we need to find a better model that will allow for both time-invariant covariates and the possibility that unobserved heterogeneity is correlated with covariates. The Correlated Random Effects (CRE) gives us this option. It was introduced by Mundlak (1978) and extended by Chamberlain (1982), and it is well suited for this paper since CRE keeps the RE structure, while it relaxes the independence assumption by including the individual-specific means of the time-varying covariates.

4.2 Theoretical Justification for CRE

The backbone of CRE is that it models the individual-specific effects as a function of observed characteristics. Specifically, the CRE assumes that the unobserved effect α_i can be expressed as

$$\alpha_i = \bar{X}_i' \pi + c_i \tag{4.1}$$

where $\bar{X}_i$ denotes the vector of individual-specific means of time-varying covariates, π is a vector of coefficients, and c_i is the remaining uncorrelated residual.

We can substitute Equation (4.1) into the standard RE model, and then it becomes:

$$Y_{it} = X_{it}' \beta + \bar{X}_i' \pi + c_i + \varepsilon_{it}. \tag{4.2}$$

This specification effectively decomposes the total variation into a within-individual (X_{it}) and between-individual components ($\bar{X}_i$). Including the $\bar{X}_i$ resolves the omitted variable bias that would have resulted if α_i was correlated with the time-varying covariates. For example, individuals who have consistently higher inflation perceptions may have higher inflation expectations. If we omitted $\bar{X}_i$, the model would incorrectly attribute between-individual variation to within-individual variation.

It is important to note that the CRE specification reduces to standard RE if we assume that $\pi = 0$. This would mean that the unobserved individual heterogeneity is uncorrelated with our covariates. This means that we can test the joint significance of so-called "Mundlak" terms to see if CRE is a better alternative than simple RE. If $\bar{X}_i$ is jointly significant, it means that we should use CRE instead of RE.

4.3 Model Specification

The empirical model in the majority of the hypotheses tested in this thesis has the following form:

$$Y_{it} = \beta_0 + X_{it}'\beta + \bar{X}_i'\pi + Z_i'\gamma + u_{it} \tag{4.3}$$

where Y_{it} is respondent's expected inflation in one year, X_{it}' includes time varying covariates such as perceived inflation, expected unemployment in one year, and inflation uncertainty, $\bar{X}_i$ are the individual-specific means, and Z_i includes time-invariant individual characteristics like gender or political affiliation.

We estimate the model using Generalised Least Squares (GLS). Time dummies for each survey round were included to control for time-specific shocks.

4.4 Generalised Estimating Equations

While the majority of the hypotheses in this thesis are tested using CRE models with GLS, Hypothesis 4 involves a binary dependent variable—whether the respondent indicated that they plan to save more or less in the next 12 months—and, therefore, we need a nonlinear model that can account for repeated observations on the same individual. Standard logistic regression is not ideal in this context because it assumes independence of observations. This ignores the intra-individual correlation common in the panel data.

To address these challenges, we use the Generalised Estimating Equations (GEE) framework, originally developed by Liang and Zeger (1986). GEE is built on the generalised linear model (GLM) framework, but is better suited for panel data or repeated observations. It accounts for the fact that repeated answers from the same individual will likely be correlated over time. It does this by assuming a specific structure of this correlation. This means that GEE is useful for estimating average effects in the population rather than tracking how individual behaviour changes over time.

This approach follows a similar logic to the CRE model used in the rest of the thesis. In the GEE model, we include both the time-varying variables and their individual averages. By doing this, we control for unobserved factors that do not change over time but might otherwise bias the results. The model we estimate takes the form of a logistic regression with the following structure:

$$\text{logit}\Big(\Pr(Y_{it} = 1 \mid X_{it}, \bar{X}_i, Z_i)\Big) = \beta_0 + X_{it}'\beta + \bar{X}_i{}'\pi + Z_i'\gamma \tag{4.4}$$

where Y_{it} is a binary indicator for whether the respondent reported ”saving more”/”save less”, X_{it} are time-varying predictors such as subjective real interest rate expectations, $\bar{X}_i$ are their individual-level means, and Z_i are time-invariant characteristics such as gender or education.

The GEE model is estimated using a logistic link function, which is suitable for binary dependent variables. We also use an exchangeable correlation structure, which assumes that a person's answers across different survey waves are similarly correlated. To make sure our results are reliable even if this assumption isn't exactly right, we use robust standard errors that correct for possible misspecification of the correlation structure.

This modelling strategy is supported by existing research. For example, Burke & Ozdagli (2021) used U.S. panel data to show that households' inflation expectations can influence how much they spend, especially when it comes to durable goods like appliances or furniture.

4.5 Diagnostics and Robustness

We use several tests to evaluate the appropriateness of the CRE. First, we use the Hausman test to assess whether conventional RE is consistent. If we reject the null, we need to use either CRE or FE, as there is a correlation between unobserved individual heterogeneity and covariates.

Second, we test for the joint significance of the Mundlak terms $\bar{X}_i$. Statistically significant result confirms the endogeneity of the individual effects and our time-varying covariates. In this case, using RE would yield biased results, while the CRE results are consistent.

Third, we test for multicollinearity using Variance Inflation Factors (VIF) to ensure that including both the time-varying covariates and their individual-level means does not inflate standard errors.

4.6 Hypotheses-Specific Models

Building on the general modelling framework described in Sections 4.1–4.5, we now go over model specification of all the hypotheses in this thesis. For each hypothesis, we specify the relevant covariates and interactions motivated in the Chapter 2.

4.6.1 Hypothesis 1

Hypothesis 1 *Women, single, low-income, and low-educated people have an upward bias in inflation expectations.*

To test this hypothesis, we use a CRE estimated by GLS. The main covariates are a dummy variable for female respondents, dummies for secondary and tertiary education—with primary education as the reference category—, and a dummy for a single-person household. The model also includes the baseline variables on perceived inflation, inflation uncertainty, household income, and unemployment expectations.

To see whether respondents within given subgroups have different average expectations, but also if their responsiveness to perceived inflation differs, we interact each demographic variable with the perceived inflation variable. These interaction terms make it possible to see whether, for example, women or less-educated individuals adjust their expectations more or less strongly in response to perceived inflation compared to others.

To reduce bias from unobserved heterogeneity, the model also includes individual-level means (Mundlak terms) of the key time-varying variables: perceived inflation, inflation uncertainty, and expected unemployment. A Hausman test confirms that the standard RE model is not appropriate,[1] and the joint significance of the Mundlak terms supports the use of the CRE specification.[2]

All models include month fixed effects to capture time-specific shocks and are estimated with robust standard errors clustered at the individual level.

[1]To see if CRE is justified, we estimated FE and RE models first. Table B.1 reports the results of these models. Both models yield similar results, but they differ in magnitude. A Hausman test rejected the null hypothesis ($\chi^2 = 182, p < 0.001$), which suggests that RE is biased and we are justified in using CRE.

[2]In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for all five models provide strong evidence in support of rejecting the null hypothesis at 1% significance.

Formally, the model takes the following form:

$$
\begin{aligned}
Y_{it} = \beta_0 &+ \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} + \beta_4 \text{UnempUp}_{it} \\
&+ \delta_1 \text{Female}_i + \delta_2 \text{Single}_i + \delta_3 \text{SecEdu}_i + \delta_4 \text{TerEdu}_i \\
&+ \theta_1 (\text{Female}_i \times \text{PercInfl}_{it}) + \theta_2 (\text{Single}_i \times \text{PercInfl}_{it}) \\
&+ \theta_3 (\text{SecEdu}_i \times \text{PercInfl}_{it}) + \theta_4 (\text{TerEdu}_i \times \text{PercInfl}_{it}) \\
&+ \bar{X}_i' \pi + \lambda_t + u_{it},
\end{aligned}
\tag{4.5}
$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i'$ represents the vector of individual-level means of time-varying covariates. λ_t denotes month fixed effects included to control for survey-wave-specific shocks.

4.6.2 Hypotheses 2 and 3

Hypothesis 2 *Higher inflation perceptions pass through higher inflation expectations.*

Hypothesis 3 *Short-term higher inflation expectations are associated with lower expected unemployment rates during the same period, testing an understanding of the short-term Phillips Curve.*

To test Hypotheses 2 and 3, we use a CRE model estimated by GLS. The main covariates are perceived inflation, inflation uncertainty, household income, and unemployment expectations. For Hypothesis 2, we focus on whether perceived inflation predicts one-year-ahead inflation expectations. For Hypothesis 3, we also use variables for expected unemployment increases and decreases to examine whether households associate inflation and unemployment in a way that reflects the logic of the short-run Phillips Curve.

We consider two complementary specifications: one where unemployment expectations are represented by a dummy for expected unemployment increases (*UnempUp*) and its mean; and another where unemployment expectations are represented by a dummy for expected unemployment decreases (*UnempDown*) and its mean.

To reduce bias from unobserved heterogeneity, the model also includes individual-level means (Mundlak terms) of the key time-varying variables: perceived inflation, inflation uncertainty, and expected unemployment. A Hausman test confirms that the standard RE model is not appropriate,[3] and the joint significance of the Mundlak terms supports the use of the CRE specification.[4]

All models include month fixed effects to capture time-specific shocks and are estimated with robust standard errors clustered at the individual level.

Formally, the model takes the following form:

$$\begin{aligned} Y_{it} = \beta_0 &+ \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} \\ &+ \beta_4 \text{UnempUp}_{it} + \beta_5 \text{UnempDown}_{it} + \bar{X}_i' \pi + \lambda_t + u_{it}, \end{aligned} \tag{4.5}$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i'$ represents the vector of individual-level means of time-varying covariates. λ_t denotes month fixed effects included to control for survey-wave-specific shocks.

In empirical estimation, two separate versions of this model are estimated:

(1) including UnempUp and its mean (excluding UnempDown), and
(2) including UnempDown and its mean (excluding UnempUp).

This allows testing for asymmetric perceptions of the inflation–unemployment relationship.

4.6.3 Hypothesis 4

Hypothesis 4 *While there is a heterogeneity of how households act on their inflation expectations, overall, households adjust their consumption as predicted*

[3] To see if CRE is justified, we estimated FE and RE models first. Table B.4 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[4] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that these individual means are jointly equal to zero in Model 3:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

And also the null hypothesis that these individual means are jointly equal to zero in Model 5:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ down} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for both models provide strong evidence in support of rejecting the null hypothesis at 1% significance.

by the consumer Euler equation.

To test Hypothesis 4, we use the GEE model with a binary dependent variable indicating whether respondents reported that they plan to save more (or less). The main covariate is the subjective real interest rate, calculated as the difference between expected mortgage or savings account rates and one-year-ahead inflation expectations. This setup allows us to evaluate whether households adjust their saving behaviour in a way consistent with intertemporal consumption theory and the consumption Euler equation.

To reduce bias from unobserved heterogeneity, the model also includes individual-level means (Mundlak terms) of the key time-varying variables: real interest rate, inflation uncertainty, and expected unemployment. The joint significance of the Mundlak terms supports the use of the CRE specification.

Unlike the other models in this thesis, the GEE model accounts for the panel structure of the data by estimating population-averaged effects rather than individual-specific trajectories. We use a logistic link function appropriate for the binary outcome and an exchangeable correlation structure to model the intra-individual correlation over time.

All models include month fixed effects to control for time-specific shocks and are estimated with robust standard errors clustered at the individual level.

Formally, the model takes the following form:

$$\begin{aligned}\operatorname{logit}\left(P\left(Y_{it}=1\right)\right) = {} & \beta_0 + \beta_1 \text{RealInterest}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} \\ & + \beta_4 \text{UnempUp}_{it} + \pi_1 \text{MeanRealInterest}_i + \pi_2 \text{MeanInflUncert}_i \\ & + \pi_3 \text{MeanUnempUp}_i + \gamma_1 \text{Female}_i + \gamma_2 \text{Age25–34}_i \\ & + \gamma_3 \text{Age35–44}_i + \gamma_4 \text{Age45–54}_i + \gamma_5 \text{Age55–64}_i + \gamma_6 \text{SecEdu}_i \\ & + \gamma_7 \text{TerEdu}_i + \lambda_t, \end{aligned} \tag{4.6}$$

where $Y_{it} = 1$ if household i at time t plans to save more (or less, in robustness specifications), RealInterest_{it} is the subjective real interest rate (expected nominal rate minus expected inflation), and λ_t denotes month fixed effects capturing survey-wave shocks. Mundlak terms (e.g., $\text{MeanRealInterest}_i$) control for unobserved heterogeneity correlated with covariates.

The main coefficient of interest is β_1, which measures the within-individual effect of the subjective real interest rate on the likelihood of planning to save more (or less). The coefficient on the Mundlak term for real interest rates (π_1) provides insight into between-individual differences (habitual perceptions).

4.6.4 Hypothesis 5

Hypothesis 5 *Systematic upward bias in inflation expectations of women disappears after controlling for who in the household buys groceries.*

To test Hypothesis 5, we use a CRE model estimated by GLS. The main covariates are a dummy for female respondents, and a dummy for whether the respondent is the primary grocery shopper in the household, and also their interactions. The model also includes perceived inflation, inflation uncertainty, household income, and unemployment expectations.

The inclusion of the interaction term between gender and shopping responsibility allows us to test whether the observed upward bias in women's inflation expectations can be explained by differences in their exposure to price-setting behaviour. Specifically, we examine whether women who do the grocery shopping themselves report higher inflation expectations than women who do not, and whether this shopping effect interacts with the previously identified gender gap.

To reduce bias from unobserved heterogeneity, the model includes Mundlak terms for the key time-varying covariates: perceived inflation, inflation uncertainty, and unemployment expectations. A Hausman test confirms that the standard RE model is not appropriate,[5] and the joint significance of the Mundlak terms supports the use of the CRE specification.[6]

All models include month fixed effects to capture time-specific shocks and are estimated with robust standard errors clustered at the individual level.

Formally, the model takes the following form:

$$\begin{aligned} Y_{it} = {} & \beta_0 + \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} + \beta_4 \text{UnempUp}_{it} \\ & + \gamma_1 \text{Female}_i + \gamma_2 \text{PrimaryShopper}_i + \theta_1 (\text{Female}_i \times \text{PrimaryShopper}_i) \\ & + \theta_2 (\text{Female}_i \times \text{PercInfl}_{it}) + \bar{X}_i' \pi + \lambda_t + u_{it}, \end{aligned} \tag{4.7}$$

[5] To see if CRE is justified, we estimated FE and RE models first. Table B.10 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[6] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for both models provide strong evidence in support of rejecting the null hypothesis at 1% significance.

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i$ represents the vector of individual-level means of time-varying covariates, and λ_t denotes month fixed effects capturing time-specific shocks. The coefficient θ_1 tests whether the gender gap varies with grocery shopping responsibility, while θ_2 captures heterogeneous responsiveness of women to perceived inflation.

4.6.5 Hypothesis 6

Hypothesis 6 *The type and frequency of media respondents consume have a statistically significant effect on their inflation expectations.*

To test Hypothesis 6, we use a CRE model estimated by GLS. The main covariates are the type and frequency of media respondents consume—specifically, self-reported use of television, internet, radio, and print newspapers. We also interact them with perceived inflation. Thanks to this, we can test whether media consumption affects inflation expectations, and also test how respondents translate perceived inflation into future expectations.

To reduce bias from unobserved heterogeneity, the model includes individual-level means (Mundlak terms) of perceived inflation, inflation uncertainty, and unemployment expectations. A Hausman test confirms that the standard RE model is not appropriate,[7] and the joint significance of the Mundlak terms supports the use of the CRE specification.[8]

All models include month fixed effects to control for time-specific shocks and are estimated with robust standard errors clustered at the individual level.

[7] To see if CRE is justified, we estimated FE and RE models first. Table B.13 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[8] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for all 7 models provide strong evidence in support of rejecting the null hypothesis at 1% significance.

Formally, the model takes the following form:

$$
\begin{aligned}
Y_{it} = {} & \beta_0 + \beta_1 \mathrm{PercInfl}_{it} + \beta_2 \mathrm{InflUncert}_{it} + \beta_3 \mathrm{HHIncome}_{it} + \beta_4 \mathrm{UnempUp}_{it} \\
& + \delta_1 \mathrm{InternetUse}_i + \delta_2 \mathrm{TVUse}_i + \delta_3 \mathrm{RadioUse}_i + \delta_4 \mathrm{NewspaperUse}_i \\
& + \theta_1 (\mathrm{InternetUse}_i \times \mathrm{PercInfl}_{it}) + \theta_2 (\mathrm{TVUse}_i \times \mathrm{PercInfl}_{it}) \\
& + \theta_3 (\mathrm{RadioUse}_i \times \mathrm{PercInfl}_{it}) + \theta_4 (\mathrm{NewspaperUse}_i \times \mathrm{PercInfl}_{it}) \\
& + \bar{X}_i' \pi + \lambda_t + u_{it}, \qquad (4.8)
\end{aligned}
$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i'$ represents individual-level means of time-varying covariates (perceived inflation, inflation uncertainty, and unemployment expectations), and λ_t denotes month fixed effects capturing time-specific shocks. The θ coefficients capture whether the responsiveness of inflation expectations to perceived inflation differs by type and frequency of media usage.

The primary coefficients of interest are δ_1 through δ_4 and θ_1 through θ_4, which capture the media type and frequency and also responsiveness of inflation expectations to perceived inflation grouped by frequency of using each of the media types, respectively.

4.6.6 Hypothesis 7

Hypothesis 7 *Respondents who voted for political parties currently in the government have lower inflation expectations.*

To test Hypothesis 7, we use a CRE model estimated by GLS. The main covariates include a dummy for government voters—respondents who reported voting for a governing coalition party—and also dummies for non-voters or those who refused to answer. Opposition voters are the reference category. The model also includes the standard set of covariates: perceived inflation, inflation uncertainty, household income, and unemployment expectations.

We also include three additional variables: a binary indicator for trust in the CNB and two proxies for monetary policy knowledge—one indicating whether respondents correctly identified the CNB's inflation target, and another testing their understanding of monetary policy transmission. The reason for including these variables is to test whether partisan differences in inflation expectations are linked to differences in CNB trust and economic knowledge.

We also interact the government voter status and non-voter/refuser status with perceived inflation and institutional trust. These interaction terms test whether partisan groups process information differently based on their trust in the CNB. Similarly, if voters with low knowledge or trust are less responsive to perceived inflation, this would suggest that there is partisan-motivated reasoning or limited policy literacy.

To reduce bias from unobserved heterogeneity, the model includes Mundlak terms (individual-level means) for all key time-varying variables. A Hausman test confirms that the standard RE model is not appropriate,[9] and the joint significance of the Mundlak terms supports the use of the CRE specification.[10]

All models include month fixed effects to control for time-specific shocks and are estimated with robust standard errors clustered at the individual level.

Formally, the model takes the following form:

$$\begin{aligned} Y_{it} = {} & \beta_0 + \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} + \beta_4 \text{UnempUp}_{it} \\ & + \gamma_1 \text{GovtVoter}_i + \gamma_2 \text{NonVoter}_i + \gamma_3 \text{Trust}_i + \gamma_4 \text{KnowsTarget}_i \\ & + \delta_5 \text{UnderstandsPolicy}_i + \theta_1 (\text{GovtVoter}_i \times \text{PercInfl}_{it}) \\ & + \theta_2 (\text{GovtVoter}_i \times \text{Trust}_i) + \theta_3 (\text{GovtVoter}_i \times \text{KnowsTarget}_i) \\ & + \theta_4 (\text{GovtVoter}_i \times \text{UnderstandsPolicy}_i) + \theta_5 (\text{NonVoter}_i \times \text{PercInfl}_{it}) \\ & + \theta_6 (\text{NonVoter}_i \times \text{Trust}_i) + \theta_7 (\text{NonVoter}_i \times \text{KnowsTarget}_i) \\ & + \theta_8 (\text{NonVoter}_i \times \text{UnderstandsPolicy}_i) + \bar{X}_i' \pi + \lambda_t + u_{it}, \end{aligned} \tag{4.9}$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i'$ represents individual-level means of time-varying covariates (perceived inflation, inflation uncertainty, and unemployment expectations), and λ_t denotes month fixed effects capturing time-specific shocks. The θ coefficients capture whether the responsiveness of inflation expectations to perceived inflation and trust/knowledge variables differs by political affiliation.

For Hypothesis 7, the primary coefficients of interest are γ_1 and θ_2–θ_4. The

[9] To see if CRE is justified, we estimated FE and RE models first. Table B.17 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[10] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for all 7 models provide strong evidence for rejecting the null hypothesis at the 1% significance.

parameter γ_1 tests whether government voters differ in their average inflation expectations relative to opposition voters (baseline). The interaction terms θ_2–θ_4 test whether the relationship between government voters and inflation expectations is affected by trust in the CNB, knowledge of the CNB's inflation target, and understanding of monetary policy transmission, respectively.

4.6.7 Hypothesis 8

Hypothesis 8 *Respondents with higher trust in the central bank and financial literacy have better-anchored inflation expectations.*

To test Hypothesis 8, we use a CRE model estimated by GLS, where the dependent variable is the absolute distance between the respondent's 1-year-ahead inflation expectations and the CNB's 2% inflation target. The main covariates are a binary indicator of trust in the CNB, and two measures of monetary policy knowledge—one capturing whether the respondent correctly identifies the CNB's target, and the other measuring whether the respondent correctly understands how monetary policy affects inflation.

The main goal is to examine whether higher trust and greater knowledge lead to better-anchored expectations. We included interactions between trust and both knowledge variables to see whether they reinforce or offset each other. For example, trust in the CNB may help anchor expectations, particularly among those who lack technical knowledge, or vice versa.

To reduce bias from unobserved heterogeneity, the model includes individual-level means (Mundlak terms) of perceived inflation, inflation uncertainty, and unemployment expectations. A Hausman test confirms that the standard RE model is not appropriate,[11] and the joint significance of the Mundlak terms supports the use of the CRE specification.[12]

All models include month fixed effects to control for time-specific shocks and are estimated with robust standard errors clustered at the individual level.

[11] To see if CRE is justified, we estimated FE and RE models first. Table B.21 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[12] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for all five models provide strong evidence in support of rejecting the null hypothesis at 1% significance.

Formally, the model takes the following form:

$$
\begin{aligned}
Y_{it} = \beta_0 &+ \beta_1 \mathrm{PercInfl}_{it} + \beta_2 \mathrm{InflUncert}_{it} + \beta_3 \mathrm{HHIncome}_{it} + \beta_4 \mathrm{UnempUp}_{it} \\
&+ \gamma_1 \mathrm{Trust}_i + \gamma_2 \mathrm{KnowsTarget}_i + \gamma_3 \mathrm{UnderstandsPolicy}_i \\
&+ \theta_1 (\mathrm{Trust}_i \times \mathrm{KnowsTarget}_i) + \theta_2 (\mathrm{Trust}_i \times \mathrm{UnderstandsPolicy}_i) \\
&+ \bar{\pi}' \bar{X}_i + \lambda_t + u_{it}, \qquad (4.10)
\end{aligned}
$$

where Y_{it} denotes the absolute deviation of expected inflation from the CNB's 2% target for individual i at time t, $\bar{X}_i$ represents individual-level means of time-varying covariates (perceived inflation, inflation uncertainty, and unemployment expectations), and λ_t denotes month fixed effects capturing wave-specific shocks.

The main coefficients of interest are γ_1, γ_2, and γ_3, which test the direct effects of trust and monetary policy knowledge on anchoring. The interaction coefficients θ_1 and θ_2 are also important, because they show what effect the combination of trust and knowledge has on expectation anchoring.

4.6.8 Hypothesis 9

Hypothesis 9 *Partisans with high trust and low knowledge hold similar inflation expectations. Partisans with low trust and high knowledge drive the differences in inflation expectations.*

To test Hypothesis 9, we use a CRE model estimated by GLS. The dependent variable is one-year-ahead inflation expectations, and the main covariate is a four-way typology ”Trust, Knowledge” based on respondents' trust in the CNB and their monetary policy knowledge. The knowledge dimension is captured through a composite indicator, which is 1 if the respondent both correctly identified the CNB's inflation target and understood how monetary policy transmission mechanism.

We also include interaction terms between this typology and voter status. This allows us to test whether partisan gaps in inflation expectations are primarily driven by voters who are either misinformed or mistrustful of the central bank. Specifically, the hypothesis predicts that inflation expectations should converge between partisans when trust is high but knowledge is low, and that the partisan gap should be highest for those with high knowledge but low trust.

The model controls for perceived inflation, inflation uncertainty, household income, and expected unemployment. To reduce bias from unobserved heterogeneity, it includes individual-level means (Mundlak terms) of the time-varying predictors. A Hausman test rejects the RE specification,[13] and the Mundlak terms are jointly significant.[14]

All models are estimated with robust standard errors clustered at the individual level and include month fixed effects to control for common macroeconomic shocks.

Formally, the model takes the following form:

$$\begin{aligned}
Y_{it} = {} & \beta_0 + \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} + \beta_4 \text{UnempUp}_{it} \\
& + \gamma_1 \text{GovtVoter}_i + \gamma_2 \text{NonVoter}_i \\
& + \gamma_3 \text{LowTrustHighKnowledge}_i + \gamma_4 \text{HighTrustLowKnowledge}_i \\
& + \gamma_5 \text{HighTrustHighKnowledge}_i \\
& + \theta_1 (\text{GovtVoter}_i \times \text{LowTrustHighKnowledge}_i) \\
& + \theta_2 (\text{GovtVoter}_i \times \text{HighTrustLowKnowledge}_i) \\
& + \theta_3 (\text{GovtVoter}_i \times \text{HighTrustHighKnowledge}_i) \\
& + \theta_4 (\text{NonVoter}_i \times \text{LowTrustHighKnowledge}_i) \\
& + \theta_5 (\text{NonVoter}_i \times \text{HighTrustLowKnowledge}_i) \\
& + \theta_6 (\text{NonVoter}_i \times \text{HighTrustHighKnowledge}_i) + \bar{X}_i' \pi + \lambda_t + u_{it}, \quad (4.11)
\end{aligned}$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, $\bar{X}_i$ represents individual-level means of time-varying covariates, and λ_t denotes month fixed effects capturing wave-specific shocks.

The primary coefficients of interest are θ_1–θ_3, which test whether partisan gaps in inflation expectations vary across the three trust–knowledge subgroups compared to the low trust–low knowledge reference group. Among these, θ_1 is

[13] To see if CRE is justified, we estimated FE and RE models first. Table B.25 reports the results of these models. A Hausman test of each of the model combinations rejected the null hypothesis, which suggests that RE is biased and we are justified in using CRE.

[14] In order to test the appropriateness of CRE models regarding whether unobserved heterogeneity is correlated with the covariates, we tested the joint significance of the Mundlak terms. Specifically, we tested the null hypothesis that individual means are jointly equal to zero:

$$H_0 : \beta_{Mean\ perc.\ infl.} = \beta_{Mean\ infl.\ uncer.} = \beta_{Mean\ unemp.\ up} = 0$$

We used a Wald-type linear hypothesis test, and the resulting test statistics for all three models provide strong evidence for rejecting the null hypothesis at 1% significance.

important, as the hypothesis predicts that low trust–high knowledge partisans will drive the partisan gap in inflation expectations.

4.6.9 Hypothesis 10

Hypothesis 10 *Individuals' inflation expectations systematically differ according to their personal values and personality traits.*

To test this hypothesis, we estimate a CRE model using GLS. The dependent variable is one-year-ahead inflation expectations. The main covariates are binary indicators for each of the sixteen value items, included separately to assess their unique effect on inflation expectations. They are also interacted with perceived inflation.

Control variables include perceived inflation, inflation uncertainty, household income, and unemployment expectations. To address potential bias from unobserved heterogeneity, we incorporate individual-level means (Mundlak terms) of the time-varying covariates (perceived inflation, inflation uncertainty, unemployment expectations). Month fixed effects are included to absorb common shocks, and robust standard errors are clustered at the individual level.

Formally, the model takes the following form:

$$\begin{aligned} Y_{it} = \beta_0 &+ \beta_1 \text{PercInfl}_{it} + \beta_2 \text{InflUncert}_{it} + \beta_3 \text{HHIncome}_{it} + \beta_4 \text{UnempUp}_{it} \\ &+ \sum_{k=1}^{16} \gamma_k \text{ValueItem}_{ik} + \sum_{k=1}^{16} \theta_k \left(\text{ValueItem}_{ik} \times \text{PercInfl}_{it} \right) \\ &+ \bar{X}_i' \pi + \lambda_t + u_{it}, \end{aligned} \tag{4.12}$$

where Y_{it} denotes expected one-year-ahead inflation for individual i at time t, ValueItem_{ik} are binary indicators for each personality/value trait, $\bar{X}_i$ represents the vector of individual-level means of time-varying covariates, and λ_t denotes month fixed effects capturing survey-wave shocks.

The main coefficients of interest are γ_k and θ_k for each value item k. The γ_k coefficients capture differences in inflation expectations by values. The θ_k coefficients test responsiveness to perceived inflation.

Chapter 5

Results

5.1 Hypothesis 1

5.1.1 Descriptive Statistics

Descriptive statistics reveal that there is a substantial heterogeneity in inflation expectations between various socio-economic groups. Table 5.1 reports mean and median values of expected inflation by income, education, age, gender and household type.

Both household income and education of the respondent are negatively related to the expected 1-year and 3-year ahead inflation. Respondents in the lowest income category report significantly higher expectations (means of 19.5% and 19.6% in Jan–Mar and Apr–Jun, respectively), compared to only 6.8% and 5.9% among high-income respondents. Likewise, individuals with only primary education report average expectations of 16.2% (Jan–Mar) and 15.7% (Apr–Jun), which is more than double the corresponding values for respondents with tertiary education (6.4% and 5.9%). Figure B.1 shows the combination of the two categories. One can see the downward trend—the more education and household income respondents have, the lower their mean one-year ahead inflation expectations.

Heterogeneity of inflation expectations is observed between the genders. In both quarters, women exhibit higher mean expectations (12.4% in Jan–Mar and 11.4% in Apr–Jun) than men (8.2% and 7.8%, respectively). Figure B.2 shows the distribution of one-year ahead inflation expectations by gender. The gender gap persists across educational categories (Figure B.3) and household income categories (Figure B.4).

Age and household type do not seem to have a clear relationship with inflation expectations.

Table 5.1: Inflation Expectations by Demographic Characteristics

	1-Year Ahead Expectations		3-Year Ahead Expectations	
Demographic Group	Jan–Mar	Apr–Jun	Jan–Mar	Apr–Jun
Household Income				
Low	19.5 (10.0)	19.6 (10.0)	24.9 (12.0)	24.6 (13.5)
Lower-Middle	12.7 (6.0)	12.1 (5.0)	15.5 (8.0)	14.2 (6.0)
Upper-Middle	8.2 (5.0)	7.6 (5.0)	10.3 (6.0)	9.8 (6.0)
High	6.8 (5.0)	5.9 (4.0)	8.2 (5.0)	7.4 (5.0)
Education				
Primary	16.2 (7.0)	15.7 (6.6)	20.2 (10.0)	18.5 (10.0)
Secondary	10.8 (5.0)	10.1 (5.0)	13.4 (6.3)	12.2 (6.0)
Tertiary	6.4 (5.0)	5.9 (4.0)	7.4 (5.0)	7.4 (5.0)
Age				
18–24	11.9 (5.0)	9.1 (4.5)	13.9 (5.0)	11.0 (5.0)
25–34	9.4 (5.0)	10.1 (4.5)	11.0 (6.0)	10.7 (5.0)
35–44	10.9 (6.0)	10.0 (5.0)	13.3 (7.0)	11.7 (6.0)
45–54	9.8 (5.0)	9.1 (5.0)	12.3 (6.0)	11.8 (5.0)
55–64	9.3 (5.0)	8.7 (5.0)	12.1 (6.5)	11.6 (6.0)
65+	NA (NA)	5.0 (5.0)	NA (NA)	3.0 (3.0)
Gender				
Female	12.4 (7.0)	11.4 (5.0)	15.0 (8.0)	13.7 (6.5)
Male	8.2 (5.0)	7.8 (4.0)	10.3 (5.0)	9.6 (5.0)
Household Type				
Not Single	10.1 (5.0)	9.4 (5.0)	12.5 (6.0)	11.3 (5.0)
Single	10.3 (5.0)	9.4 (5.0)	12.1 (6.0)	12.5 (6.0)

Note: Inflation expectations are reported as the mean and median of expected 1-year and 3-year ahead inflation rates, calculated for each subgroup and period. The sample is split into two periods: January–March 2024 and April–June 2024. Means are computed as simple averages within each demographic group and period; medians are shown in parentheses. No additional transformations (such as winsorization or trimming) were applied to the data for this table.

5.1.2 Empirical Analysis

The results of the CRE models for Hypothesis 1 are presented in Table 5.2. This hypothesis posits that women, single household individuals, low-income households, and individuals with low education have systematically higher inflation expectations.

The findings partially support this hypothesis. Across all specifications, the coefficient on the female dummy is positive and statistically significant. This indicates that women have higher expected 1-year inflation than men, controlling for other variables. In Model 5, being female is associated with a 1.26 percentage point increase in expected inflation. This result aligns with prior studies, which find that women have greater macroeconomic pessimism and greater perceived exposure to price increases.

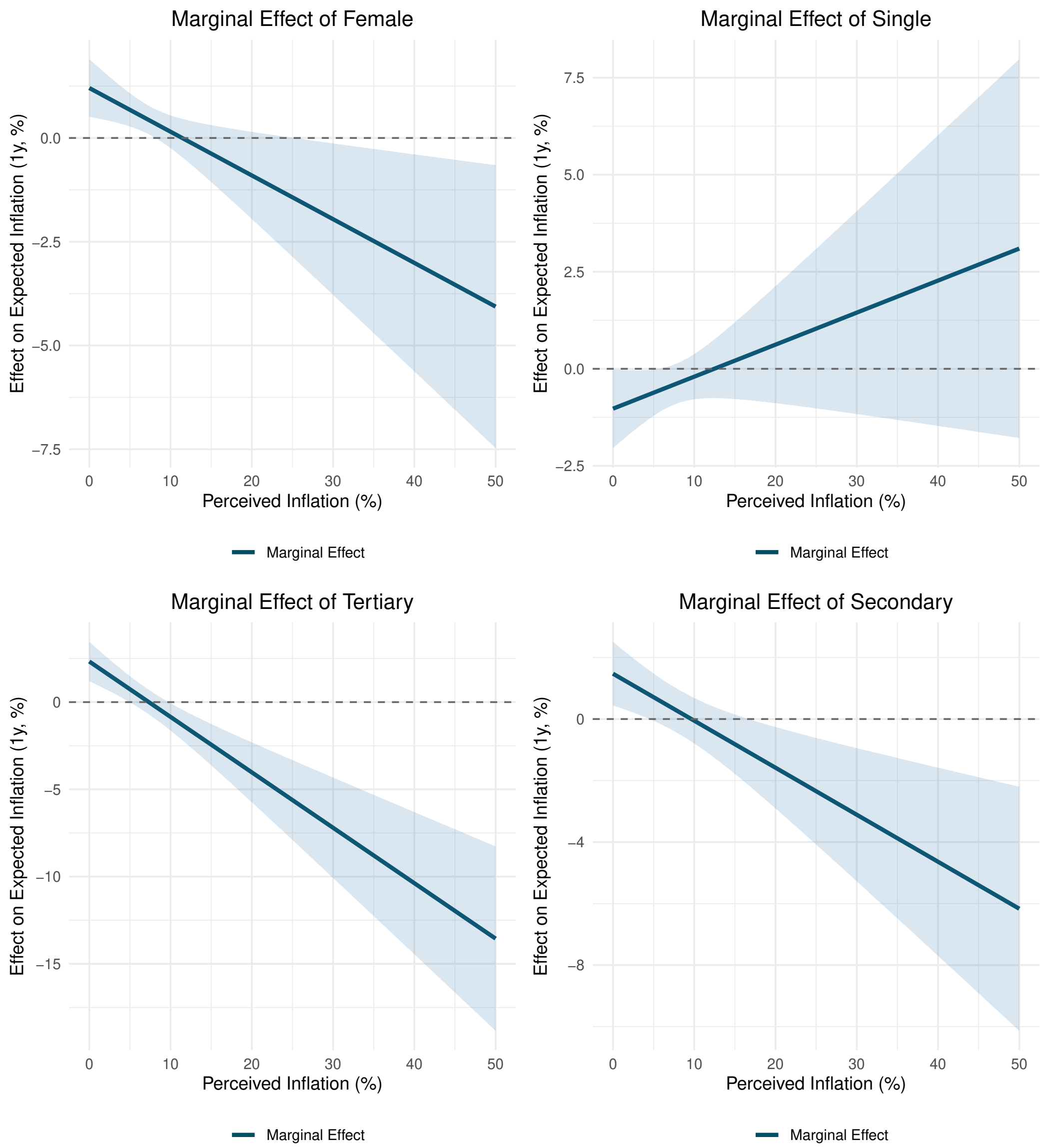
The same holds for household income, where the coefficient is negative and statistically significant across all models. In Model 5, each higher income bracket is associated with a 0.144 percentage point decrease in expected inflation. This supports the idea that low-income individuals anticipate higher inflation. This might be due to greater price sensitivity or reliance on less stable sources of income.

The results on education, however, run counter to the hypothesis. Both secondary and tertiary education are associated with significantly higher inflation expectations compared to the reference category (primary education). In Model 5, tertiary education corresponds to a 2.31 percentage point increase in expected inflation. This reverses the pattern observed in the unconditional means (see Appendix Figure B.1). It is possible that respondents with higher education might be more aware of structural issues like the government deficits or geopolitical instability. These might raise their inflation expectations. Alternatively, heterogeneity in consumption baskets might be responsible for this result. Higher-educated individuals often face higher living costs—housing, services—that might make perceived inflation more salient, thereby affecting their expectations.

The effect of being in a single-person household is negative and statistically significant at the 5% level only in Model 5, where it corresponds to a 1.02 percentage point reduction in expected inflation. This contradicts the hypothesis.

To test whether these demographic groups also differ in how they respond to perceived inflation, the model includes interaction terms between perceived inflation and each hypothesis variable. The results show that the interaction terms for female and perceived inflation, secondary education and perceived inflation, and tertiary education and perceived inflation are all negative and statistically significant at the 1% level. This suggests that, relative to their reference groups, women and more educated individuals adjust their expectations less strongly in response to perceived inflation.

Figure 5.1: Marginal Effect of Female, Single Household, Secondary and Tertiary Education on Expected Inflation by Perceived Inflation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure displays the estimated marginal effect of being a female, single household, secondary and tertiary education on one-year-ahead inflation expectations, as a function of perceived inflation. The solid line shows the marginal effect at different levels of perceived inflation, with the shaded area representing the 95% confidence interval.

These heterogeneous marginal effects are visualized in Figure 5.1. As shown in the top-left panel, the marginal effect of being female becomes increasingly negative at higher levels of perceived inflation. At 30% perceived inflation, the expected inflation for women becomes lower than that of men with the same perceptions at 5% statistical significance. A similar pattern holds for secondary and tertiary education, where higher perceived inflation is associated with lower marginal effects of education on expectations. By contrast, the marginal effect of being single (top-right panel) becomes more positive with increasing perceived inflation, although this interaction is not statistically significant in the main model.

These results suggest that while some groups (e.g. women, highly educated) have higher average inflation expectations, they are less responsive to perceived inflation shocks. This could mean that these groups have more stable belief updating or a more stable way of forming inflation expectations. On the other hand, low-education and male respondents seem to be more responsive to perceived inflation in their inflation expectations formation.

Beyond the primary variables of interest, several other covariates in the baseline model (Model 5, Table 5.2) give interesting results.

First, perceived inflation remains the strongest and most consistent predictor of expected inflation. The coefficient of 0.779^{***} implies that respondents increase their 1-year-ahead inflation expectations by approximately 0.78 percentage points for every percentage point increase in perceived inflation. This finding is consistent with adaptive expectations models, which suggest that past or current inflation perceptions inform future beliefs.

Second, inflation uncertainty shows an interesting finding: the within-person effect of inflation uncertainty is negative (-1.494^{**}), while the between-person effect (mean inflation uncertainty) is positive and significant at the 10% level (1.527^{*}). This suggests that individuals who temporarily increase their inflation uncertainty reduce their point forecasts—this could mean that these individuals have deflationary caution when uncertain—but individuals who are habitually uncertain tend to report higher average inflation expectations. This might suggest that these individuals have generalised macroeconomic pessimism. Taken together, these findings suggest that transitory and habitual uncertainty have opposite effects—the former may decrease expectations due to information noise, while the latter may increase expectations due to deeper scepticism about the economy or institutions.

Third, the mean value of expected unemployment increase (i.e., between-person variation) is positively and strongly associated with expected inflation

(2.050***), while at the same time the coefficient on within-person unemployment stays statistically insignificant. This pattern implies that respondents who are persistently pessimistic about unemployment also expect higher inflation, but also that within-person increases in expected unemployment do not have an effect on inflation expectations, even though the standard Phillips curve would predict the opposite relationship.

5.1.3 Robustness

We tested the VIF of the models to decide whether potential multicollinearity posed a problem, and although VIFs were slightly elevated, they do not pose a problem in the context of the CRE.[1]

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.2), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.3). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

In the balanced panel (Table B.2), many of the coefficients lose their magnitude and statistical significance.

While household income remains negative throughout the balanced panel models, it is slightly less significant (-0.144^{***} in the original CRE model 5, and -0.117^{*} in balanced CRE model 5).

The dummies for secondary and tertiary education become statistically insignificant, in contrast to their strong and significant effects in the full-sample model. This suggests that the positive education in inflation expectations is not robust and may be partly driven by respondents with incomplete panel participation, who might differ systematically from the participants with complete panel participation (e.g., in political interest, cognitive ability, or macroeconomic knowledge). The interaction terms between education and perceived

[1] The maximum VIF across the five models ranged between 5.3 and 5.4, with a mean VIF slightly below 3. While these values are below the conventional 10 that is often cited as an indicator of serious multicollinearity, it is higher than the rule of thumb level of 5. We do not consider this problematic, since in the context of CRE, time-varying covariates are purposefully included alongside their individual level means by design. Such multicollinearity is a methodological feature instead of a flaw.

Table 5.2: CRE Models of Expected 1-Year Ahead Inflation with Demographics and Interactions

	Dependent variable:				
	Expected 1-Year Inflation				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.579***	0.573***	0.646***	0.702***	0.779***
	(0.044)	(0.044)	(0.050)	(0.054)	(0.066)
Inflation uncertainty	−1.544**	−1.533**	−1.518**	−1.537**	−1.494**
	(0.689)	(0.688)	(0.680)	(0.686)	(0.675)
HH income	−0.174***	−0.189***	−0.162***	−0.158***	−0.150***
	(0.049)	(0.054)	(0.049)	(0.048)	(0.054)
Unemp. up	0.290	0.287	0.262	0.312	0.280
	(0.306)	(0.306)	(0.304)	(0.304)	(0.300)
Mean perc. infl.	0.263***	0.261***	0.263***	0.258***	0.257***
	(0.044)	(0.044)	(0.043)	(0.044)	(0.043)
Mean infl. uncer.	1.533*	1.566*	1.548*	1.431	1.527*
	(0.910)	(0.905)	(0.898)	(0.906)	(0.889)
Mean unemp. up	1.946***	1.956***	1.976***	2.017***	2.050***
	(0.409)	(0.409)	(0.406)	(0.406)	(0.404)
Single household		−0.880*			−1.027**
		(0.464)			(0.517)
Female			1.059***		1.204***
			(0.341)		(0.355)
Secondary edu.				1.203**	1.474***
				(0.501)	(0.528)
Tertiary edu.				2.294***	2.328***
				(0.569)	(0.574)
Single x perc. infl.		0.060			0.082
		(0.051)			(0.058)
Female x perc. infl.			−0.103***		−0.105***
			(0.039)		(0.041)
Secondary edu. x perc. infl.				−0.133***	−0.153***
				(0.044)	(0.047)
Tertiary edu. x perc. inlf.				−0.323***	−0.318***
				(0.063)	(0.062)
Constant	0.173	0.341	−0.560	−0.855	−1.769**
	(0.557)	(0.594)	(0.585)	(0.714)	(0.830)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842
R^2	0.747	0.748	0.750	0.753	0.756
Adjusted R^2	0.747	0.747	0.749	0.752	0.755

Note: The table shows results from CRE models predicting expected 1-year ahead inflation. All models include individual means of key time-varying covariates (Mundlak terms) to account for unobserved heterogeneity. The dependent variable is the respondent's expected inflation rate for the next year. All models include month dummies to control for time effects. Robust standard errors, clustered at the individual level, are reported in parentheses. *p<0.1; **p<0.05; ***p<0.01.

inflation remain negative, but most lose statistical significance or shrink in magnitude.

On the other hand, the female coefficient becomes larger and more significant (1.580***), which suggests that the gender gap in average inflation expectations is even wider among respondents with persistent panel presence. This could imply that more stable female respondents are especially inflation-pessimistic. This also goes for the interaction of female and perceived inflation, albeit at a lower level of statistical significance (5%).

Winsorization of Covariates

The second robustness check tests the sensitivity of the results to outliers in the covariates. We re-estimate the full model using covariates winsorized at the 1st/99th percentile and 5th/95th percentile, respectively (Table B.3).

Under 1% winsorization, results are nearly identical to the baseline model. All main effects and interaction terms keep their signs and statistical significance. This suggests that the baseline results are not driven by a few extreme observations.

Nevertheless, under 5% winsorization several main coefficients change a lot. The female coefficient becomes negative and statistically insignificant, in contrast to being positive and significant in the baseline model. This sign reversal implies that the gender gap in expected inflation is sensitive to trimming. It might be driven by a number of high outliers in among females. The interaction of females with inflation perceptions also changes signs and loses statistical significance.

The effects of both the secondary and tertiary education are more than double in magnitude. The same happens to their interaction with perceived inflation. These inflated estimates may reflect distortions from over-trimming, as too much information from the tails is removed.

Last but not least, the model fit worsens a lot. The adjusted R^2 falls from 0.757 to 0.628. This might suggest that outliers contain information that is relevant to inflation expectations.

Taken together, these findings suggest that several coefficients—for example gender and education—are sensitive to outliers. While mild winsorization at the 1% level preserves the overall direction of effects, the 5% winsorization does not. Outliers contribute to the estimation of some of our coefficients.

Nevertheless, we still keep the non-winsorized specification as the baseline (Table 5.2). We argue that extremely high or low inflation expectations reflect meaningful subjective beliefs rather than mere measurement error. With that being said, the sensitivity to winsorization means that the magnitude of the gender and education effects should be interpreted with caution.

5.1.4 Summary of Findings

Finding 1.1 *Women have significantly higher 1-year-ahead inflation expectations than men. This result is robust to model specification on a balanced panel and to 1% winsorization. The effect becomes statistically insignificant after 5% winsorization.*

Finding 1.2 *Lower household income is associated with higher inflation expectations. This result is robust to model specification on a balanced panel and to both 1% and 5% winsorization.*

Finding 1.3 *Individuals with higher levels of education (both secondary and tertiary) report higher inflation expectations than those with primary education at lower levels of inflation perceptions. At around 12-15% of perceived inflation, their inflation expectations are lower than those of respondents with primary education. This result is robust to model specification on a balanced panel and to both 1% and 5% winsorization.*

Finding 1.4 *Being in a single-person household is not robustly associated with higher inflation expectations. In fact, in the baseline model, it has a negative effect statistically significant at 5% level in the full-sample specification. This finding is not robust across models.*

5.2 Hypothesis 2 & 3

5.2.1 Descriptive Statistics

Table 5.3 shows the descriptive statistics for perceived and expected inflation. Perceived inflation over the past 12 months averages 11.28% (median 7%), while one year ahead inflation expectations average 9.78% (median 5%). Expected inflation over the three years remains similar to inflation perceptions, with a mean of 11.87% and a median of 6%. High mean values indicate the existence of a large number of outliers.

Table 5.3: Summary Statistics for Perceived and Expected Inflation

Variable	Mean	Median	SE	N
Perceived Inflation (Past 12 months)	11.28	7	0.231	4,590
Expected Inflation (1 year)	9.78	5	0.220	4,590
Expected Inflation (3 years)	11.87	6	0.248	4,590

Note: The table shows summary statistics for perceived and expected inflation rates. Perceived inflation refers to respondents' assessment of inflation over the past 12 months. Expected inflation refers to respondents' expectations for inflation over 1-year and 3-year horizons.

Figure B.5 describes the evolution of both perceived and expected 1-year ahead inflation rates over the six survey waves. Perceived inflation consistently exceeds one-year-ahead inflation expectations. While the gap between average inflation perceptions and expectations seems to be stable, the gap between median inflation perceptions and expectations narrows from the start of the survey to eventually disappear in the last two months.

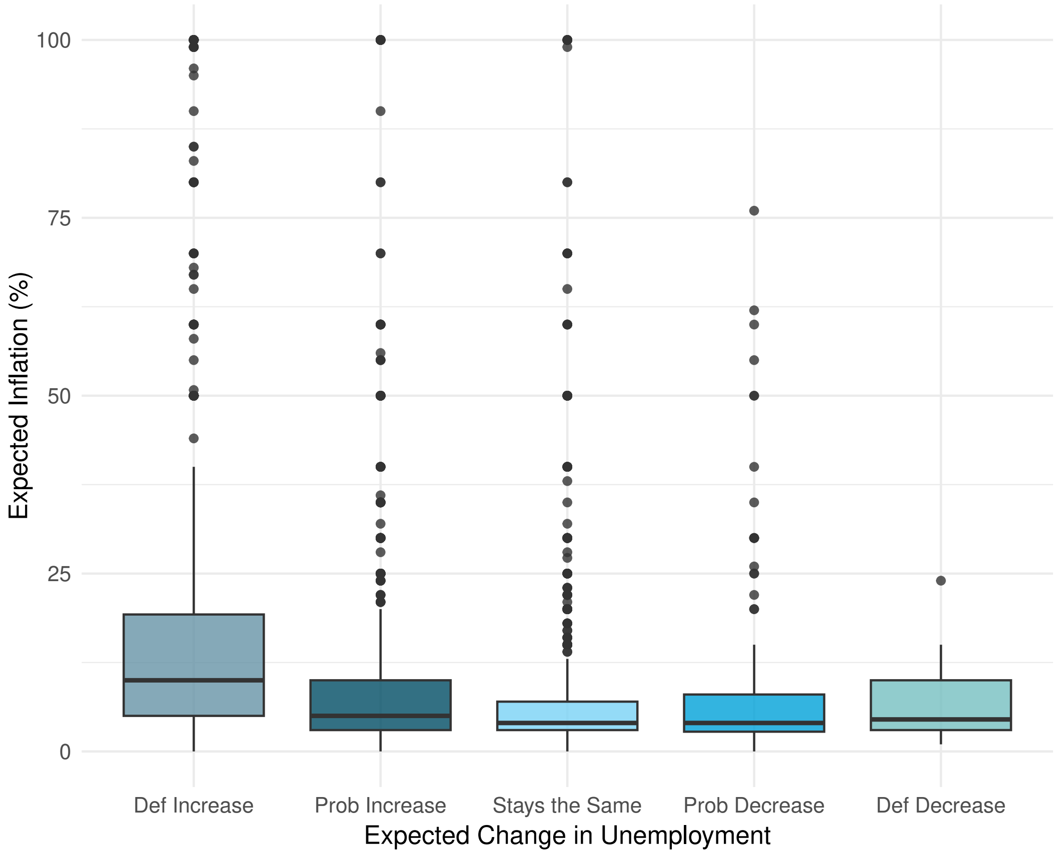
Table 5.4: Summary Statistics for Unemployment Expectations

Expectation	Count	%	Mean Inflation	SE
Definitely Increase	1,008	20.0	17.19	0.722
Probably Increase	1,667	33.0	9.26	0.309
Stay the Same	2,145	42.5	6.89	0.214
Probably Decrease	200	4.0	8.07	0.796
Definitely Decrease	24	0.5	6.96	1.173

Note: The table shows summary statistics for unemployment expectations and associated inflation expectations. Unemployment expectations are categorised into five ordered categories from "Definitely Increase" to "Definitely Decrease". Mean inflation expectations are calculated for each subcategory.

Contrary to the logic of the short-term Phillips curve, higher expected inflation is associated with higher expected unemployment. Descriptive statistics from Table 5.4 show that respondents expecting a definite increase in unemployment also report the highest inflation expectations (mean of 17.19%), whereas those expecting unemployment to stay the same (mean of 6.89%) or definitely decrease (mean of 6.96%) report significantly lower expected inflation. Figure 5.2 displays box plots of expected 1-year ahead inflation rates, grouped by respondents' expectations for the direction of unemployment over the next year. The distribution of expected inflation is notably right-skewed for respondents who report increases in unemployment. Rather than seeking a trade-off between inflation and unemployment, it seems that there is a co-movement between the two variables. This suggests that respondents might not view inflation and unemployment as trade-offs, but rather think in terms of general pessimism: those who think the economy will perform poorly overall (e.g., higher unemployment) also expect prices to rise. In other words, respondents hold a supply-side, stagflationary view of inflation and unemployment.

Figure 5.2: Expected Inflation by Unemployment Expectation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows box plots of expected 1-year ahead inflation rates, grouped by respondents' expectations for the direction of unemployment over the next year. Only respondents providing a substantive answer (excluding "Don't know") are included. Unemployment expectations are categorised as "Definitely Increase," "Probably Increase," "Stays the Same," "Probably Decrease," and "Definitely Decrease." No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

5.2.2 Empirical Analysis

Hypothesis 2

There is strong evidence that respondents' inflation perceptions influence their inflation expectations. Graphically, Figure B.5 shows the co-movement of inflation perceptions and expectations. Empirically, Table 5.5 shows that the coefficient on perceived inflation is consistently large and significant at 1% statistical significance across all five CRE model specifications. In Models 1 and 2, the estimated coefficient is approximately 0.8 ($p < 0.01$), which implies strong pass-through. After we added the Mundlak term and separated perceived inflation into within and between variation, the statistical significance of perceived inflation remains, although the magnitude decreases slightly. The reason for this might be the inclusion of mean perceived inflation, which is statistically significant at 1% in both Models 3 and 5.

The statistical significance of the Mundlak term suggests that there are individuals who habitually perceive inflation as higher, and that this then correlates with their pessimism about future inflation. This finding could hint at the existence of structural characteristics—cognitive biases, or demographic factors—that cause some respondents to chronically overperceive inflation.

Hypothesis 3

The evidence does not support the hypothesis that households form inflation expectations based on a perceived trade-off between inflation and unemployment. If households understood the logic of the short-run Phillips Curve, then we would expect that higher expected inflation would be associated with lower expected unemployment. In Table 5.5, Model 2 initially gives a high statistical significance on the coefficient of 'Unemp. up'. Nevertheless, after including the Mundlak term, the effect becomes statistically insignificant and the coefficients approach zero, while the coefficient of 'Mean unemp. up' becomes positive and statistically significant at 1%.

This suggests that individuals who generally expect higher future unemployment also tend to report higher inflation expectations (i.e., between individual variability). On the other hand, changes in unemployment expectations within individuals over time do not appear to systematically affect inflation expectations (i.e., within individual variability). This suggests that general pessimism about the labour market—rather than short-term revisions in expectations—drives inflation expectations.

The fact that higher unemployment is associated with higher inflation ex-

Table 5.5: CRE Models for Expected 1-Year Ahead Inflation

	Dependent variable:				
	Expected 1-Year Inflation				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.806***	0.791***	0.579***	0.797***	0.579***
	(0.021)	(0.021)	(0.044)	(0.021)	(0.044)
Inflation uncertainty	−0.527	−0.534	−1.540**	−0.626	−1.570**
	(0.415)	(0.412)	(0.689)	(0.414)	(0.698)
HH income		−0.267***	−0.174***	−0.313***	−0.230***
		(0.051)	(0.049)	(0.053)	(0.050)
Unemp. up		1.720***	0.290		
		(0.206)	(0.306)		
Mean perc. infl.			0.263***		0.273***
			(0.044)		(0.045)
Mean infl. uncer.			1.530*		1.430
			(0.910)		(0.914)
Mean unemp. up			1.950***		
			(0.409)		
Unemp. down				−0.473	−0.086
				(0.497)	(0.549)
Mean unemp. down					−0.877
					(0.985)
Constant	0.249	1.080**	0.173	2.330***	1.710***
	(0.419)	(0.551)	(0.557)	(0.576)	(0.561)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842
R^2	0.729	0.734	0.747	0.731	0.744
Adjusted R^2	0.728	0.733	0.747	0.730	0.743

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. No additional data transformations (such as winsorization or trimming) were applied prior to estimation. *p<0.1; **p<0.05; ***p<0.01.

pectations is supported by Figure 5.2, which shows that respondents who expect a ”definite increase” in unemployment also tend to report the highest expected inflation. On the other hand, neither ’Unemp. down’ or ’Mean unemp. down’ are statistically significant.

5.2.3 Robustness

We tested the VIF of the models to decide whether potential multicollinearity posed a problem, and although VIFs were slightly elevated for Models 3 and 5, they do not pose a problem in the context of the CRE.[2]

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.5), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.6). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

In the balanced panel (Table B.5), the coefficients on perceived inflation and its Mundlak term remain statistically significant and comparable in magnitude to the baseline results. For instance, the coefficient on perceived inflation remains at around 0.85 in Models 1, 2, and 4 and around 0.57 in Models 3 and 5.

The coefficient for the increased unemployment dummy is positive and highly statistically significant (1.110***). Nevertheless, after we introduce Mundlak terms into Model 3, this coefficient becomes statistically insignificant, and the mean term for increased unemployment becomes positive and significant (1.080**). We could see the same phenomenon in the baseline model—the inflation-unemployment relationship comes from between-person heterogeneity, not within-person change over time.

Winsorization of Covariates

The second robustness check tests the sensitivity of the results to outliers in the covariates. We re-estimate the full model using covariates winsorized at the 1st/99th percentile and 5th/95th percentile, respectively (Table B.6).

[2] The maximum VIFs were 5.30 and 5.28 for Models 3 and 5, respectively. While these values are below the conventional 10 that is often cited as an indicator of serious multicollinearity, it is higher than the rule of thumb level of 5. We do not consider this problematic, since in the context of CRE, time-varying covariates are purposefully included alongside their individual level means by design. Such multicollinearity is a methodological feature instead of a flaw.

The coefficient on perceived inflation remains positive, statistically significant, and is also largely stable in magnitude under 1% winsorization. Under 5% winsorization, the magnitude of the coefficient increases. Outliers in the previous specifications might have decreased the estimated effect of perceived inflation. The Mundlak term for perceived inflation is also highly significant in both winsorized specifications.

Similarly, the effect of increased unemployment stays positive and statistically significant, while the mean increased unemployment retains significance, even though the magnitude of this coefficient slightly decreases under the 5% winsorization. The variable on decreased unemployment still remains statistically insignificant across all robustness checks. There are no models showing 'Unemp. down' and its mean under the 5% winsorization.[3]

5.2.4 Summary of Findings

Finding 2.1 *There is evidence to support the finding that inflation perceptions affect inflation expectations, all else being equal. This result is robust to balanced-panel estimation and outlier adjustment (both 1% and 5% winsorization).*

Finding 3.1 *There is no empirical support for the hypothesis that households expect a Phillips Curve trade-off between inflation and unemployment. Respondents who report higher expected unemployment tend to report higher, not lower, expected inflation. This result is robust to balanced-panel estimation and outlier adjustment (both 1% and 5% winsorization).*

5.3 Hypothesis 4

5.3.1 Descriptive Statistics

Households' real interest rate expectations differ systematically with their saving behaviour, consistent with intertemporal consumption theory. Table 5.6 shows descriptive statistics for subjective one-year-ahead real interest rate expectations, grouped by whether respondents plan on saving more or less. For

[3]The variable 'Unemp. down' is highly imbalanced—over 95% of observations are zero, with only about 4.4% indicating an expected decrease in unemployment. As a result, when applying 5%/95% winsorization, all values were set to zero, which eliminated any variation in the variable.

example, the mean real interest rate derived from savings account expectations is −4.19% for those who reported saving more, compared to −5.18% among those who reported saving less. The same direction applies to mortgage-rate derived real interest rate—average of −4.04% for those who reported saving more and −4.58% for those who reported saving less. It is important to note that all averages and medians remain negative.

Table 5.6: Real Interest Rate Expectations by Saving Behavior

Variable	Saving Decision	Mean	Median	N	SE
Real Interest Expectation (SA)	Save Less	−5.18	−2	265	1.07
Real Interest Expectation (SA)	Save More	−4.19	−1	780	0.44
Real Interest Expectation (Mortgage)	Save Less	−4.58	−1	185	1.51
Real Interest Expectation (Mortgage)	Save More	−4.04	−1	475	0.69

Note: Table reports average, median, sample size, and standard error (SE) of real interest rate expectations across subgroups defined by saving behavior. Savings account (SA) and mortgage-based real interest expectations are presented separately.

There is heterogeneity in real interest rate expectations across demographic and socioeconomic subgroups. Table 5.7 shows that there are substantial differences in real interest rate expectations by gender, age, education, and income level. For example, women report significantly more negative real interest rates than men for both savings accounts and mortgage rates. Also, expectations vary by income—low-income households expect highly negative real rates (−14.24% for savings accounts), compared to −1.66% among high-income respondents. At the same time, individuals with tertiary education report less negative expectations compared to their counterparts with only primary education.

5.3.2 Empirical Analysis

Households' saving decisions are systematically associated with their subjective real interest rate expectations. Table 5.8 presents the main empirical results for Hypothesis 4.

In all five model specifications, the coefficient on the time-varying real interest rate is negative and statistically significant at the 5% level. This suggests that, within individuals, when respondents increase their expected real interest rates, it translates into a lower likelihood of intending to save more. This find-

Table 5.7: Heterogeneity in Real Interest Rate Expectations

Real Interest Expectations	**Mean**	**Median**	**N**	**SE**
Savings Account				
Gender				
Female	−5.82	−2.00	622	0.60
Male	−2.93	−1.00	778	0.41
Age				
18–34	−3.94	−0.50	422	0.68
35–54	−4.30	−1.50	676	0.49
55+	−4.41	−1.00	302	0.78
Education				
Primary	−3.78	−1.00	107	1.72
Secondary	−5.11	−1.00	919	0.48
Tertiary	−1.87	−1.00	356	0.35
Income				
Low	−14.24	−7.00	37	4.20
Middle	−4.80	−1.00	993	0.45
High	−1.66	−1.00	370	0.38
Mortgage				
Gender				
Female	−5.70	−2.00	346	0.94
Male	−3.05	−0.50	478	0.64
Age				
18–34	−3.50	−1.00	247	1.13
35–54	−4.79	−1.00	428	0.70
55+	−3.46	−1.00	149	1.23
Education				
Primary	−4.95	−4.00	55	2.92
Secondary	−5.13	−1.00	546	0.74
Tertiary	−1.44	−0.20	212	0.45
Income				
Low	−3.87	−1.00	19	7.31
Middle	−5.28	−1.00	572	0.68
High	−1.45	−0.20	233	0.74

Note: The table shows descriptive statistics for real interest rate expectations by demographic characteristics. Real interest expectations are calculated as the difference between the expected nominal interest rate in one year and 1-year ahead inflation expectations. Savings account and mortgage-based real interest expectations are presented separately. *Savings account* was calculated by using the expected nominal interest rate on savings accounts. *Mortgage* was calculated by using the expected nominal rate on mortgages. Standard errors (SE) are in parentheses. Sample sizes (N) vary across demographic groups due to survey response patterns and financial product ownership.

ing may seem somewhat counterintuitive because standard intertemporal consumption theory predicts that higher real interest rates should increase saving. Nevertheless, one possible interpretation is that short-run upward increases in interest rate expectations may be perceived as signals of tighter monetary conditions or greater uncertainty. This could discourage saving due to increased general pessimism.

At the same time, the individual-specific mean of real interest expectations is positive and significant at the 1% level. This means that individuals who habitually expect higher real interest rates are more likely to report plans to save more, while holding short-run variation constant. This is consistent with the theory.

These findings help reconcile an apparent inconsistency with the descriptive statistics in Table 5.7, which show that respondents who report plans to save less have more negative real interest rate expectations (-4.58) compared to those who plan to save more (-4.04). While the descriptive table might suggest a straightforward positive association between real interest rate expectations and saving, it does not account for the structure of the data or for other explanatory factors. In contrast, the GEE models make it possible to distinguish between within-person variation (how individuals change their saving plans when their expectations change over time) and between-person differences (how individuals with higher average expectations differ from those with lower ones). Once this distinction is made clear in the model specification, the contradiction disappears. It is the habitual perception of real interest rates—not temporary fluctuations—that drives the positive relationship with saving behaviour.

Finally, some control variables behave as expected. Older individuals (aged 55–64) are significantly less likely to report saving more than the 18–24 reference group. Other demographic factors, such as gender and household income, do not show statistically significant effects in this specification.

5.3.3 Robustness

We tested the VIF of the models to decide whether potential multicollinearity posed a problem, and although VIFs were slightly elevated, they do not pose a problem in the context of the CRE.[4]

[4]VIFs were elevated, with some models reaching 8 (for the Mundlak term for the real interest rate). We decided to keep the mean real interest rate in the models, because without

Table 5.8: GEE Models for Saving More Based on Mortgage Rate

	Dependent variable:				
	Saving More				
	(1)	(2)	(3)	(4)	(5)
Constant	0.173	0.055	0.353	0.053	0.053
	(0.322)	(0.334)	(0.418)	(0.488)	(0.488)
Real Interest	−0.022*	−0.022*	−0.024*	−0.023*	−0.023*
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Inf. Uncertainty	0.013	0.000	0.035	0.068	0.068
	(0.338)	(0.342)	(0.340)	(0.338)	(0.338)
HH Income	−0.008	−0.002	−0.017	−0.025	−0.025
	(0.036)	(0.036)	(0.037)	(0.037)	(0.037)
Unemp. Up	0.013	0.016	0.013	0.017	0.017
	(0.250)	(0.249)	(0.249)	(0.251)	(0.251)
Mean Real Interest	0.029*	0.030*	0.033**	0.032**	0.032**
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Mean Inf. Uncertainty	0.100	0.081	−0.123	−0.133	−0.133
	(0.442)	(0.446)	(0.450)	(0.449)	(0.449)
Mean Unemp. Up	0.328	0.322	0.387	0.417	0.417
	(0.310)	(0.309)	(0.312)	(0.313)	(0.313)
Female		0.250+	0.236	0.225	0.225
		(0.149)	(0.150)	(0.151)	(0.151)
Age 25-34			0.183	0.052	0.052
			(0.307)	(0.334)	(0.334)
Age 35-44			−0.210	−0.327	−0.327
			(0.295)	(0.313)	(0.313)
Age 45-54			−0.107	−0.235	−0.235
			(0.299)	(0.319)	(0.319)
Age 55-64			−0.611+	−0.737*	−0.737*
			(0.317)	(0.337)	(0.337)
Secondary Edu.				0.447	0.447
				(0.345)	(0.345)
Tertiary Edu.				0.540	0.540
				(0.382)	(0.382)
Num.Obs.	761	761	761	761	761
AIC	1042.1	1041.4	1038.0	1039.5	1039.5
BIC	1079.2	1083.1	1098.3	1109.1	1109.1
Log.Lik.	−513.061	−511.703	−506.013	−504.771	−504.771
F	1.360	1.539	1.903	1.939	1.939
RMSE	0.49	0.49	0.49	0.49	0.49

Note: This table presents the results of Generalised Estimating Equations (GEE). The dependent variable is a binary indicator for whether respondents reported saving more. Real Interest Rate Expectations are measured as the difference between the expected nominal mortgage rate and inflation expectations. Standard errors are robust and account for within-individual correlation across survey waves. Models are estimated using an exchangeable correlation structure and a logistic link function. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

To test the robustness, we used another dependent variable and an alternative real interest rate measurement. Table B.7 estimates the same GEE models, but with ”saving less” as the dependent variable. Across all models, both the within-individual variation in real interest rate expectations and the individual-specific mean remain statistically insignificant. This suggests that subjective real interest rates help explain the decision to save more, but not the decision to save less. Saving less may reflect short-run financial limitations or negative shocks (like, for example, job loss) rather than forward-looking interest rate expectations.

Table B.8 estimates the GEE models with ”saving more” as the dependent variable and real interest rate calculated from the expected interest rate on savings account in one year. The within-individual coefficient is negative across the models—which is the same for the mortgage-based models—but it is not statistically significant in any of them. The individual-level mean of expected real interest rates is positive and significant at the 5% level in Models 3–5. This pattern supports the idea that individuals who habitually expect higher real returns on savings—regardless of short-run fluctuations—are more inclined to report increased saving. These findings are consistent with theory (i.e. higher expected real returns increasing the utility of postponing consumption into the future).

Table B.9 estimates the GEE models with ”saving less” as the dependent variable and real interest rate calculated from the expected interest rate on a savings account in one year. Both the within–individual and between–individual coefficients remain statistically insignificant. A likely reason is that saving less is often not a deliberate choice, but rather is a forced decision stemming from short-term financial limits or shocks—like losing a job or having to deal with unanticipated expenses—that are not related to interest rate expectations per se. By contrast, the decision to save more is likely to be shaped more directly by forward-looking considerations, such as perceived returns to saving. This asymmetry might explain the results that real interest rate expectations matter more for encouraging higher saving than for explaining lower saving.

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it, the real interest rate becomes statistically insignificant (whereas previously, both real interest rate and its Mundlak term were statistically significant).

5.3.4 Summary of Findings

Finding 4.1 *Subjective real interest rate expectations are significantly associated with reported intentions to increase saving. While within-individual increases in real interest rate expectations are negatively associated with the probability of saving more, between-individual differences tell a different story. Respondents who habitually expect higher real interest rates are more likely to report plans to save more, consistent with the logic of the consumption Euler equation.*

Finding 4.2 *The inconsistency between the regression findings and descriptive statistics—where those who plan to save less report lower real interest rate expectations—is resolved once between- and within-person variations are separated. The GEE model shows that long-run differences in expectations (between individuals) are the driving factor behind respondents' decisions to save, not short-term fluctuations (within individuals).*

Finding 4.3 *The effect of real interest rate expectations is asymmetric. Regression models show that expectations about future real interest rates predict increases in saving, but not decreases. When "saving less" is used as the dependent variable, neither short-run changes nor long-term averages of real interest rate expectations are statistically significant. This asymmetry suggests that saving less is more likely influenced by short-term constraints or adverse shocks, while saving more reflects forward-looking behaviour based on perceived financial returns.*

5.4 Hypothesis 5

5.4.1 Descriptive statistics

Descriptive statistics reveal that there is a substantial heterogeneity in inflation expectations between men and women.

Table 5.9 summarizes the mean and median inflation expectations for four groups that are grouped by gender and self-reported grocery shopping responsibility: Female–Non Shopper (F–NS), Female–Shopper (F–S), Male–Non Shopper (M–NS), and Male–Shopper (M–S). On average, women tend to expect significantly higher inflation than men. Specifically, Female–Non Shoppers report the highest average expected inflation at 12.90%, while Male–Non Shoppers report the lowest at 7.79%. Female–Shoppers report a lower average (11.80%) than their non-shopping counterparts, but this is still higher than the averages for both male groups.

Table 5.9: Summary Statistics by Gender and Shopping Behavior

Group	N	Mean	Median	SE
F–NS	155	12.90	6.00	1.36
F–S	2124	11.80	6.00	0.368
M–NS	438	7.79	4.75	0.551
M–S	2327	8.08	5.00	0.263

Note: This table reports descriptive statistics of respondents' 1-year-ahead inflation expectations. "F–NS" refers to Female Non-Shoppers; "M–S" to Male Shoppers, etc. SE denotes the standard error of the mean.

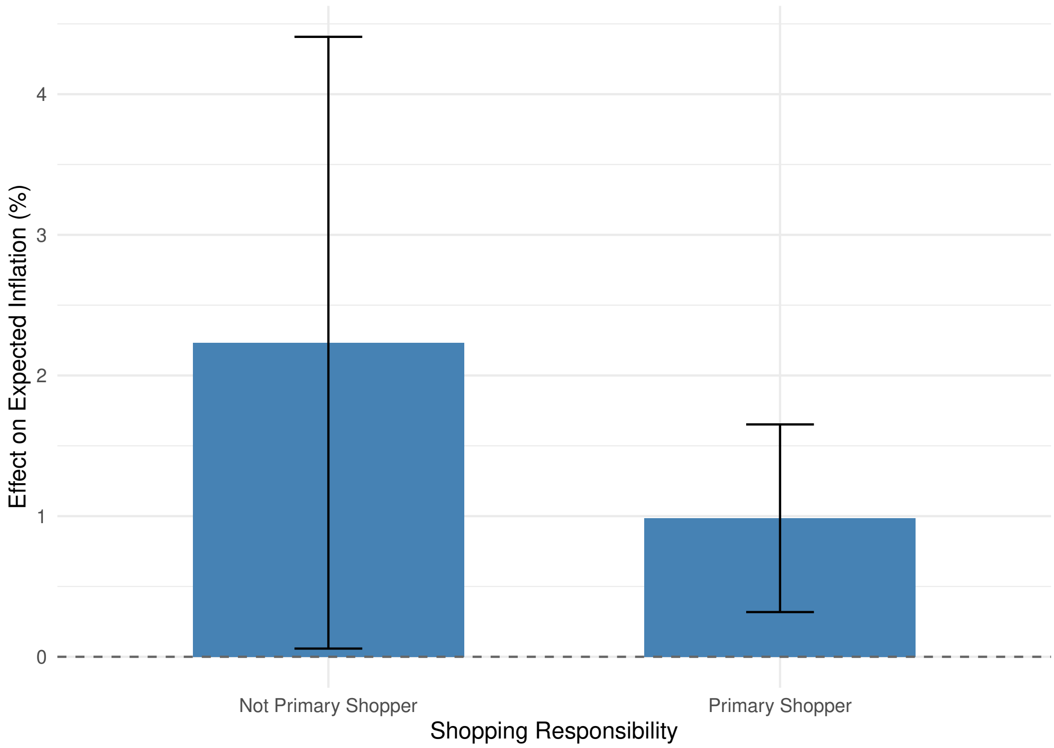
While medians among women are higher than among men, the difference narrows considerably. For example, Female–Shoppers have median expectations equivalent to Female–Non Shoppers, but with a significantly reduced variance (Figure B.6 and Figure B.7), that suggests outliers may be the reason for the wider gap in expectations between Female–Shoppers and Female–Non Shoppers.

5.4.2 Empirical Analysis

The results of the CRE models for Hypothesis 5 are presented in Table 5.10. In Model 1, we estimate the gender gap without interaction terms. The female coefficient is positive and statistically significant at the 1% level. This means that women report higher inflation expectations than men. This finding is consistent with the literature.

Model 2 includes the binary variable that measures whether the person is responsible for shopping in the household. It also includes an interaction between Female and Shopping Responsibility. Surprisingly, neither the main effect of shopping responsibility nor the interaction term is statistically significant. Nevertheless, the coefficient on female increases slightly in magnitude (while falling to the 5% significance level). This suggests that the inflation gap among women has not decreased among those who are not primarily responsible for household shopping. This goes against the intuitive theory that exposure to highly volatile grocery prices creates the gender inflation gap.

Figure 5.3: Marginal Effect of Being Female on Expected Inflation (%)

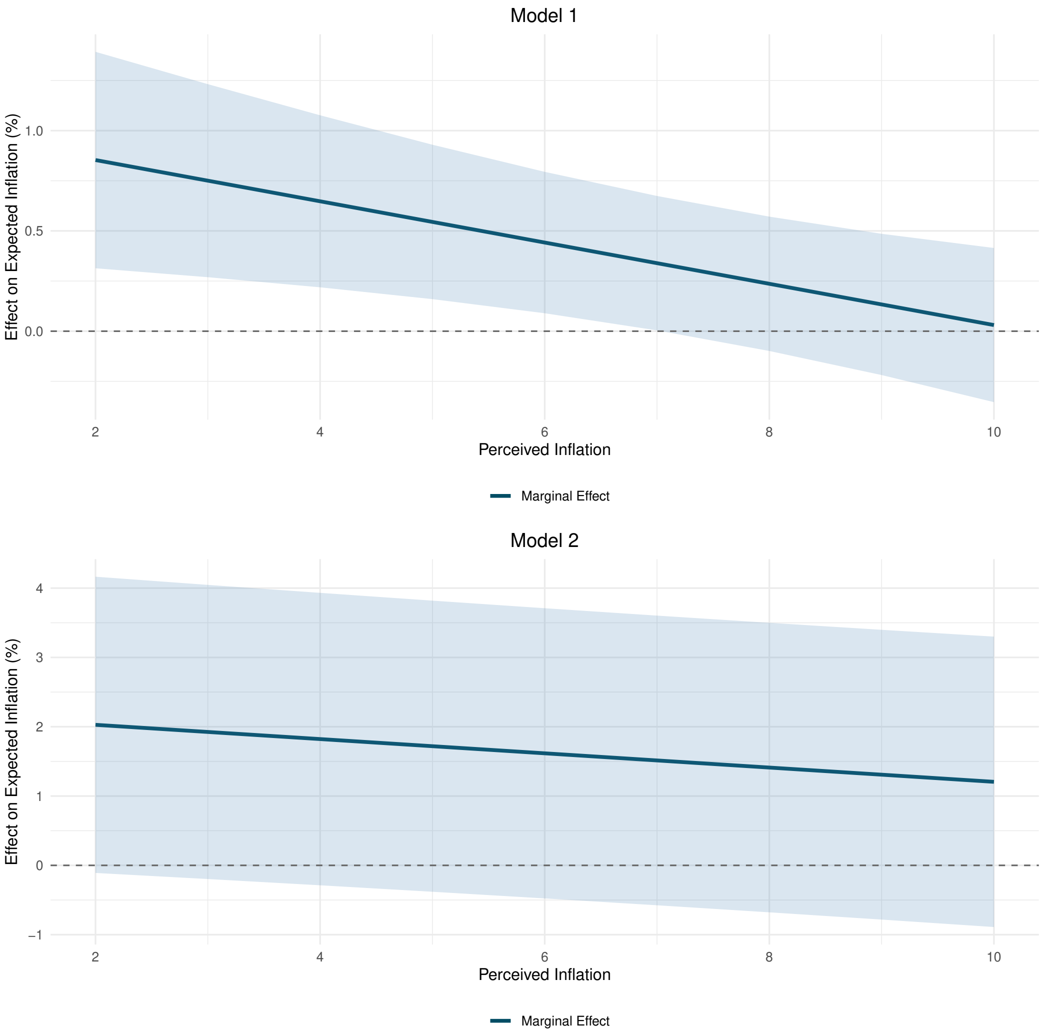


Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the estimated effect of being female (relative to male) on one-year-ahead inflation expectations, separately for respondents who are and are not primarily responsible for grocery shopping in their household. Bars represent point estimates; error bars indicate 95% confidence intervals.

This is further supported in the marginal plot in Figure 5.3. The marginal plot suggests that part of the gender gap in expected inflation shrinks after we control for shopping responsibility in the household. Nevertheless, women still exhibit higher inflation expectations than men, even when they are the ones who shop.

Once the interaction with shopping responsibility is introduced in model 2, the main effect of gender becomes statistically insignificant (Figure 5.4). This is not evidence against the gender gap as such, but rather a result of allowing the effect of gender to vary by shopping status. In this model, the coefficient female shows the effect only among non-primary shoppers. The marginal effects

Figure 5.4: Marginal Effect of Being Female on Expected Inflation across Levels of Perceived Inflation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the estimated effect of being female (relative to male) on one-year-ahead inflation expectations as a function of perceived inflation. Bars represent point estimates; error bars indicate 95% confidence intervals.

plot shows that women continue to report higher expected inflation than men, but the difference narrows among primary shoppers.

5.4.3 Robustness

We tested the VIF of the models to decide whether potential multicollinearity posed a problem, and although VIFs were slightly elevated, they do not pose a problem in the context of the CRE.[5]

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.11), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.12). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

In the balanced panel (Table B.11) model 2, female dummy remains positive and statistically significant at the 5% level. Nevertheless, the magnitude of its effect more than doubles (5.880**). Additionally, the interaction term Female × Perceived inflation remains negative and significant at the 5% level.

Importantly, while the coefficient on Primary shopper remains statistically insignificant, the interaction Female × Primary shopper now becomes negative and significant at the 10% level. This suggests that among consistent survey respondents, shopping responsibility among women may decrease the inflation expectations. One possible interpretation is that direct price exposure through shopping moderates higher inflation expectations for women.

Figure B.8 shows marginal plots for the robustness models. In the All Waves graph, one can see that among both shoppers and non-shoppers, women report higher inflation expectations than men, even though the effect is smaller for women who are the primary shoppers.

Winsorization of Covariates

Next, we examine the sensitivity of results to outliers in the covariates by winsorizing model 5 at both the 1st/99th and 5th/95th percentiles. Table Table B.12 presents the results from the same CRE specification with winsorized time-varying covariates.

[5] Although VIFs were slightly elevated, they do not pose a problem in the context of the CRE. The maximum VIF across both models is 5.32, with mean VIFs of 3.01 and 2.79 for Models 1 and 2, respectively.

Table 5.10: CRE Models for Expected 1-Year Ahead Inflation: Gender Interactions and Shopping Behavior

	Dependent variable:	
	Expected 1-Year Inflation	
	(1)	(2)
Perceived inflation	0.646***	0.647***
	(0.050)	(0.050)
Inflation uncertainty	−1.518**	−1.516**
	(0.680)	(0.679)
HH income	−0.162***	−0.169***
	(0.049)	(0.049)
Unemp. up	0.262	0.259
	(0.304)	(0.303)
Mean perc. infl.	0.263***	0.263***
	(0.043)	(0.043)
Mean infl. uncer.	1.548*	1.471*
	(0.898)	(0.893)
Mean unemp. up	1.976***	2.002***
	(0.406)	(0.407)
Female	1.059***	2.233**
	(0.341)	(1.110)
Primary shopper		−0.138
		(0.352)
Female × Perc. Inflation	−0.103***	−0.103***
	(0.039)	(0.039)
Female × Primary shopper		−1.248
		(1.089)
Constant	−0.560	−0.381
	(0.585)	(0.668)
Month dummies	Yes	Yes
Individual effects	No	No
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	4,842	4,842
R^2	0.750	0.750
Adjusted R^2	0.749	0.749

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. No additional data transformations (such as winsorization or trimming) were applied prior to estimation. *p<0.1; **p<0.05; ***p<0.01.

The winsorized models offer mixed results. Under 1% winsorization (Models 1–2), the interaction Female × Perceived inflation remains negative and statistically significant at the 1% level (-0.103). Nevertheless, in the 5% winsorization models (Models 3–4), the coefficient loses magnitude (-0.055) and statistical significance. This might mean that the gender difference in responsiveness to perceived inflation is not robust to more aggressive handling of outliers. The same applies to female dummy—in Models 1–2, it is positive and statistically significant, but in Models 3–4 loses all statistical significance. In contrast, the interaction Female × Primary shopper is statistically insignificant in all four models.

Figure B.8 shows the marginal plots of robustness models. In the 1% winsorization model, the gender gap between men and women persists even after controlling for shopping responsibility in the household. Nevertheless, the gap becomes statistically insignificant—for both women who are responsible for shopping and who are not—after 5% winsorization.

5.4.4 Summary of Findings

Finding 5.1 *Shopping responsibility does not explain the gender gap. While women who are primary shoppers report slightly lower expectations, the interaction between gender and primary shopping is insignificant and only marginally significant in the balanced panel.*

Finding 5.2 *Winsorization shows that gender-related inflation expectations are sensitive to outliers. Under 5% winsorization, the gender gap and its interaction with perceived inflation lose significance. This means that a small number of extreme values may be responsible for heterogeneity in inflation expectations.*

5.5 Hypothesis 6

5.5.1 Descriptive statistics

Inflation expectations differ substantially by the type of media respondents most frequently consume, although this heterogeneity might stem from under-representation in some groups. Table 5.11 summarises 1-year ahead inflation expectations across respondents grouped by their most frequently used source of information. Individuals who rely on print newspapers as their primary medium report higher expectations, with a mean of 23.60% and a median of 19%, which far exceeds any other media category. Though again, there are only 42 observations for this category. In contrast, those who primarily consume TV content report a mean expectation of 12.29%, and those relying on the Internet or radio report even lower averages (9.36% and 9.33%, respectively), both with medians of just 5%.

Table 5.11: Inflation Expectations by Most Frequently Used Medium

Medium	**Mean**	**Median**	**N**	**SE**
Print Newspapers	23.60	19	42	3.208
TV	12.29	5	525	0.847
Internet	9.36	5	4029	0.222
Radio	9.33	5	448	0.618

Note: This table presents summary statistics of respondents' 1-year-ahead inflation expectations, disaggregated by the most frequently used information medium. SE denotes the standard error of the mean.

5.5.2 Empirical Analysis

Table 5.12 shows the CRE models in which the key covariates are the frequency of media usage (TV, Internet, radio, newspapers) and their interactions with perceived inflation.

In the baseline specifications, none of the main effects for media usage nor their interactions with perceived inflation reach conventional levels of statistical significance at the 5% threshold. The only exception is the interaction between Internet usage and perceived inflation, which is positive and statistically significant at the 10% level in Model 2. This may suggest that the lower the frequency of internet consumption, the higher inflation expectations, but the evidence remains weak.

The fact that there is a lack of statistical significance in the baseline models may mean that either media consumption has a genuinely limited role in shaping inflation expectations or could mean that there are some measurement limitations, such as the self-reported nature of media use and variation in informational content across platforms. The most plausible explanation is that once inflation perceptions are included in the model, media variables add little explanatory power.

5.5.3 Robustness

We tested the models' VIF to decide whether potential multicollinearity posed a problem. Although the VIF was slightly elevated, it does not pose a problem in the context of the CRE.[6]

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.14), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.15 and Table B.16, respectively). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

The balanced panel results (Table B.14) reveal interesting changes. The coefficient on Radio frequency becomes negative and statistically significant at the 1% level. Once the interaction with perceived inflation is introduced (Model 6), the main effect of Radio usage becomes statistically insignificant, but the interaction term (Radio × Perceived Inflation) becomes negative and highly significant at the 1% level. This fact is also present in the full model (Model 9). This suggests that frequent radio users tend to report higher inflation expectations

Winsorization of Covariates

The winsorized models give us mixed results. Under 1% winsorization (Table B.15), none of the media variables or their interactions reach statistical significance at the 5% level, which suggests that the main findings are sensitive to extreme values in the covariates.

In contrast, the 5% winsorization models (Table B.16) offer more consistent patterns. TV usage becomes positive and statistically significant in several specifications (Models 4 and 9), as does the interaction term TV × Perceived Inflation, which is negative and significant at 5% and 1% levels in Models 4 and 9, respectively. This indicates that while frequent TV users may consume more inflation-related information, they exhibit a weaker inflation-expectation

[6]Maximum VIFs averaged 5.3, and mean VIF values averaged 3.0.

Table 5.12: CRE Models for Expected 1-Year Ahead Inflation: Media Usage

	Dependent variable:								
	Expected 1-Year Inflation								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Perceived inflation	0.579***	0.513***	0.579***	0.591***	0.579***	0.576***	0.579***	0.646***	0.562***
	(0.044)	(0.056)	(0.044)	(0.050)	(0.044)	(0.058)	(0.044)	(0.076)	(0.099)
Inflation uncertainty	−1.540**	−1.550**	−1.540**	−1.540**	−1.540**	−1.550**	−1.540**	−1.520**	−1.550**
	(0.689)	(0.683)	(0.689)	(0.689)	(0.689)	(0.687)	(0.690)	(0.689)	(0.681)
HH income	−0.172***	−0.170***	−0.175***	−0.178***	−0.175***	−0.175***	−0.173***	−0.174***	−0.175***
	(0.049)	(0.048)	(0.049)	(0.048)	(0.048)	(0.047)	(0.049)	(0.049)	(0.047)
Unemp. up	0.290	0.299	0.291	0.292	0.290	0.290	0.291	0.287	0.302
	(0.306)	(0.308)	(0.307)	(0.306)	(0.306)	(0.306)	(0.306)	(0.307)	(0.308)
Mean perc. infl.	0.263***	0.273***	0.263***	0.262***	0.263***	0.263***	0.263***	0.264***	0.271***
	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.045)	(0.044)	(0.044)	(0.044)
Mean infl. uncer.	1.530*	1.530*	1.550*	1.540*	1.540*	1.540*	1.500*	1.430	1.500*
	(0.909)	(0.904)	(0.911)	(0.910)	(0.913)	(0.913)	(0.910)	(0.910)	(0.907)
Mean unemp. up	1.920***	1.930***	1.960***	1.980***	1.950***	1.950***	1.920***	1.930***	1.960***
	(0.410)	(0.411)	(0.412)	(0.410)	(0.409)	(0.408)	(0.412)	(0.412)	(0.414)
Internet Usage	0.096	−0.244							−0.246
	(0.108)	(0.149)							(0.154)
TV Usage			0.034	0.075					0.110
			(0.043)	(0.067)					(0.072)
Radio Usage					−0.011	−0.017			−0.048
					(0.040)	(0.059)			(0.067)
Newspaper Usage							−0.049	0.049	0.021
							(0.053)	(0.072)	(0.084)
Internet × Perc. Inflation		0.026*							0.025
		(0.015)							(0.016)
TV × Perc. Inflation				−0.004					−0.007
				(0.007)					(0.008)
Radio × Perc. Inflation						0.0005			0.003
						(0.007)			(0.007)
Newspaper × Perc. Inflation								−0.008	−0.005
								(0.008)	(0.010)
Constant	−0.049	0.703	0.020	−0.102	0.235	0.264	0.587	−0.180	0.460
	(0.618)	(0.646)	(0.575)	(0.587)	(0.586)	(0.653)	(0.703)	(0.773)	(0.909)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.747	0.749	0.747	0.747	0.747	0.747	0.747	0.748	0.749
Adjusted R^2	0.747	0.748	0.747	0.747	0.747	0.747	0.747	0.747	0.748

Note: The table shows results from CRE models estimating the determinants of expected 1-year-ahead inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. Models 1-9 test different media channel frequencies (Internet, TV, Radio, Newspaper). These media variables have discrete values ranging from 1 (the respondent uses the medium for more than 6 hours a day) to 10 (the respondent never uses the medium). *p<0.1; **p<0.05; ***p<0.01.

response when they perceive higher inflation, perhaps reflecting framing effects or saturation in coverage.

The Radio × Perceived Inflation interaction remains negative and significant even under 5% winsorization, which confirms that the radio effect is not driven by outliers.

5.5.4 Summary of Findings

Finding 6.1 *The baseline results offer limited support for the hypothesis that the type and frequency of media consumption systematically shape respondents' inflation expectations. Most media-related variables and their interactions with perceived inflation are statistically insignificant. This suggests that media exposure, on its own, may not have a consistent or detectable impact across the full sample.*

Finding 6.2 *Robustness reveals that radio consumption shows a consistent relationship with inflation expectations. This is particularly true when using a balanced panel and models that get rid of extreme values (5% winsorization). In these specifications, respondents who frequently listen to the radio (lower radio score) tend to report significantly higher expected inflation.*

5.6 Hypothesis 7

5.6.1 Descriptive statistics

Descriptive evidence reveals the difference in inflation expectations by political affiliation.

Table 5.13 summarises inflation expectations by political affiliation. The mean expected inflation for government voters is 5.51%, with a median of 4%, while for opposition and other voters it is 10.5% and a median of 5%. This gap between group means—approximately five percentage points—is economically substantial and far exceeds the standard errors.

This partisan divide is also visible in the plots. While Figure 5.5 shows that both groups are right-skewed, the opposition/other voters distribution has a noticeably longer tail. Government voters' inflation expectations are more centred around the median, with fewer outliers. Figure B.10 confirms this observation—while the expectations of opposition voters are more spread out and fat-tailed, those of government voters have a tighter spread and peak at lower inflation levels.

Table 5.13: Summary Statistics by Political Affiliation

Group	**N**	**Mean**	**Median**	**SE**
Government Voter	1419	5.51	4	0.147
Opposition/Other Voter	2217	10.5	5	0.327

Note: This table reports descriptive statistics of respondents' 1-year-ahead inflation expectations. "Government Voter" refers to voters for parties in the government at the time of the survey; "Opposition/Other Voter" refers to supporters of parties that were not in the government at the time of the survey; SE denotes standard error of the mean.

Figure B.9 shows the time series of inflation expectations across all six months of the survey. It shows that mean inflation expectations among government voters remain well below those of opposition/other voters. Government voters consistently report 4–5 percentage points lower inflation.

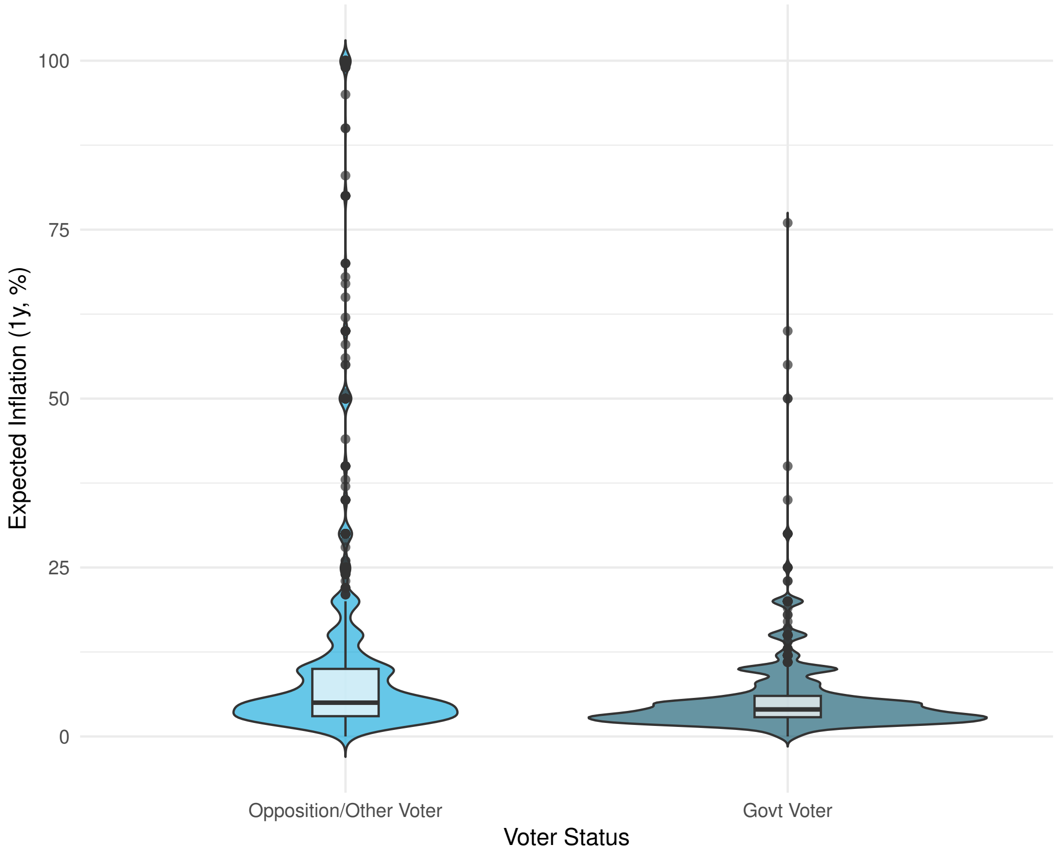
5.6.2 Empirical Analysis

The results of the CRE models for Hypothesis 7 are presented in Table 5.14. Across all specifications (Models 1–7), the results show that individuals who reported voting for a governing party tend to expect significantly lower inflation compared to opposition voters. In the baseline model (Model 1), the coefficient on the Govt Voter dummy is -0.708 and highly significant.

As we add additional controls—trust in the CNB (Model 2), knowledge of the CNB's inflation target, and understanding of monetary policy transmission (Model 3)—the negative effect of being a government voter becomes even stronger (ranging from -0.891^{***} to -1.040^{***}). This means that even when we account for people's trust in the CNB and how well they understand monetary policy, government voters still expect significantly lower inflation on average.

Nevertheless, this average effect becomes more complicated when we allow the effect of government voter status to vary with perceived inflation (Model 7). When we include the interaction term Govt Voter $\times$ Perceived Inflation, the coefficient on Govt Voter turns strongly positive (3.250^{***}), while the interaction term becomes significantly negative (-0.574^{***}). This model means that the link between political affiliation and inflation expectations varies based on individuals' perceived inflation.

Figure 5.5: Distribution of One-Year-Ahead Inflation Expectations by Political Affiliation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the distribution of one-year-ahead inflation expectations for respondents who voted for government parties ("Govt Voter") and those who voted for opposition or other parties ("Opposition/Other Voter"). The violin plots display the full distribution, while the embedded boxplots indicate the median and interquartile range. Non-voters and those who refused to answer are excluded.

Table 5.14: CRE Models Estimating The Effect of Political Affiliation, Trust, and Knowledge on Inflation Expectations

	Dependent variable:						
	Expected 1-Year Inflation						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Perceived inflation	0.579***	0.570***	0.657***	0.570***	0.655***	0.611***	0.783***
	(0.044)	(0.056)	(0.076)	(0.056)	(0.075)	(0.048)	(0.055)
Inflation uncertainty	−1.550**	−1.800**	−1.450	−1.800**	−1.420	−1.590**	−1.620
	(0.689)	(0.712)	(1.170)	(0.711)	(1.150)	(0.679)	(1.160)
HH income	−0.152***	−0.066	−0.124*	−0.075	−0.159**	−0.167***	−0.206***
	(0.048)	(0.048)	(0.070)	(0.049)	(0.073)	(0.047)	(0.070)
Unemp. up	0.292	0.295	0.310	0.290	0.307	0.231	0.156
	(0.306)	(0.311)	(0.469)	(0.312)	(0.470)	(0.296)	(0.465)
Mean perc. infl.	0.260***	0.328***	0.259***	0.328***	0.254***	0.240***	0.198***
	(0.044)	(0.053)	(0.073)	(0.053)	(0.072)	(0.041)	(0.055)
Mean infl. uncer.	1.470	1.410	2.190	1.320	1.830	1.480	2.240
	(0.910)	(0.994)	(1.550)	(0.989)	(1.520)	(0.899)	(1.520)
Mean unemp. up	1.820***	1.250***	1.510**	1.320***	1.490**	1.880***	1.840***
	(0.417)	(0.428)	(0.605)	(0.429)	(0.596)	(0.407)	(0.613)
Non-Voter/DK/Refused	0.110	−0.053	0.202	−0.835*	−1.410**	−0.092	−0.357
	(0.304)	(0.319)	(0.505)	(0.472)	(0.622)	(0.392)	(0.791)
Govt Voter	−0.708***	−0.891***	−1.070***	−1.040***	−1.340**	1.540***	3.250***
	(0.207)	(0.218)	(0.305)	(0.386)	(0.549)	(0.442)	(0.738)
Trust		−0.004		−0.497			0.173
		(0.235)		(0.371)			(0.497)
Knows Target			−0.703***		−1.390***		−0.949***
			(0.219)		(0.348)		(0.349)
Understands policy			0.741**		0.347		0.313
			(0.328)		(0.456)		(0.459)
Non-Voter/DK/Refused × Trust				1.530**			−0.020
				(0.653)			(1.140)
Govt Voter × Trust				0.349			−0.816
				(0.460)			(0.580)
Non-Voter/DK/Refused × Knows Target					−0.635		−1.380
					(0.924)		(0.924)
Govt Voter × Knows Target					1.950***		0.395
					(0.498)		(0.420)
Non-Voter/DK/Refused × Under. policy					3.490***		4.110***
					(1.110)		(1.240)
Govt Voter × Under. policy					−0.869		−0.052
					(0.612)		(0.562)
Non-Voter/DK/Refused × Perc. Inflation						0.012	−0.110**
						(0.040)	(0.045)
Govt Voter × Perc. Inflation						−0.298***	−0.574***
						(0.061)	(0.084)
Constant	0.345	−0.154	−0.883	0.165	−0.021	0.502	−0.404
	(0.555)	(0.609)	(0.796)	(0.667)	(0.889)	(0.576)	(0.967)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	3,502	1,881	3,502	1,881	4,842	1,785
R^2	0.748	0.779	0.811	0.779	0.814	0.754	0.832
Adjusted R^2	0.747	0.778	0.809	0.778	0.812	0.753	0.829

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. Baseline are people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the CNB; "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. *p<0.1; **p<0.05; ***p<0.01.

It is important to note that the main effect of Govt Voter in this model no longer represents a general average effect, but instead reflects the case where perceived inflation is zero—something that is not especially meaningful on its own. Therefore, to understand the real implications, we turn to the marginal effects.

Figure 5.6 illustrates how the relationship between being a government voter and expected inflation changes based on perceived inflation. At very low levels of perceived inflation, government voters actually expect slightly more inflation than opposition voters. But this reverses back as perceived inflation increases. From about 4%, the marginal effect becomes negative and keeps increasing in size. Around 8% perceived inflation, the difference becomes statistically significant at the 95% confidence level. This means that government voters expect significantly lower inflation than opposition voters at higher inflation levels.

These findings indicate that political affiliation influences how individuals interpret inflation information, particularly when inflation is high. Voters who support the government appear more likely to anchor their expectations or stay optimistic when inflation pressures are heightened.

5.6.3 Robustness

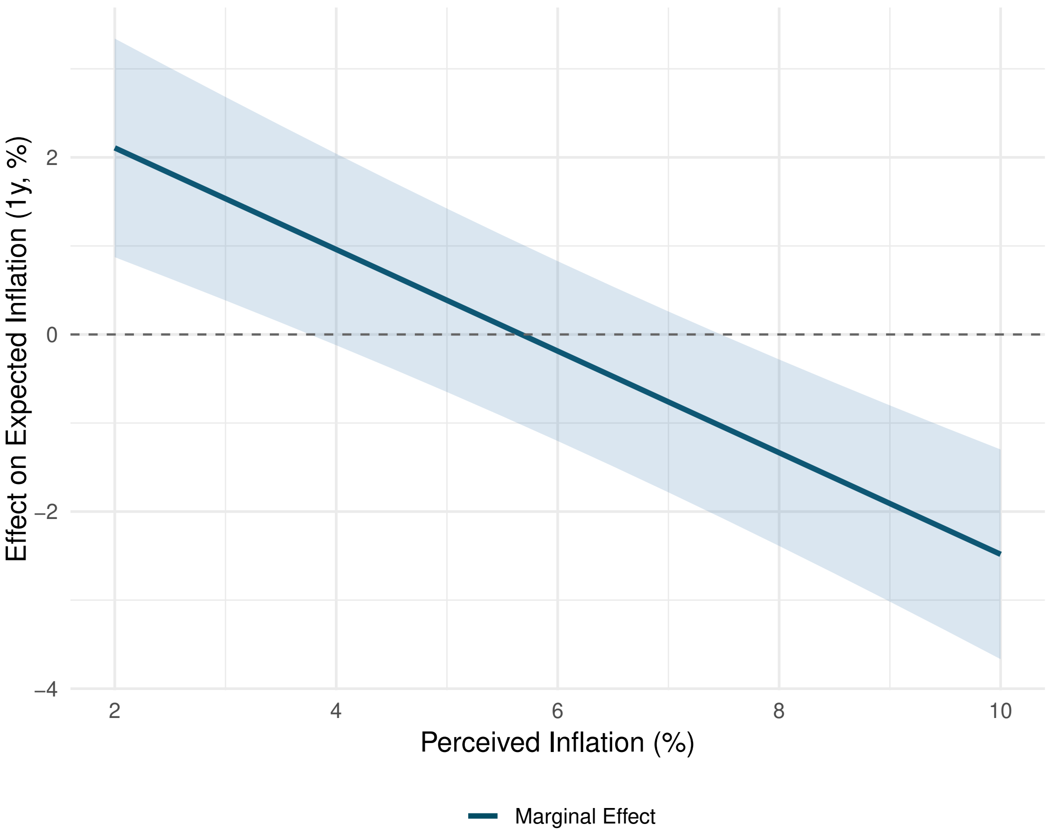
We tested the models' VIF to decide whether potential multicollinearity posed a problem. Although the VIF was slightly elevated, it does not pose a problem in the context of the CRE. The maximum VIF across models averages around 5, with the mean VIF across models averaging around 1.8. The only variable with a higher VIF than 3 is perceived inflation.

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.18), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.19 and Table B.20, respectively). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

The CRE models estimated on the balanced panel (Table B.18) give results that largely corroborate the baseline findings. The interaction term between Govt Voter and Perceived Inflation remains negative and highly significant, with

Figure 5.6: Marginal Effect of Government Voter by Perceived Inflation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure displays the estimated marginal effect of being a government voter (relative to an opposition/other voter) on one-year-ahead inflation expectations, as a function of perceived inflation. The solid line shows the marginal effect at different levels of perceived inflation, with the shaded area representing the 95% confidence interval. The effect is positive and statistically significant at lower levels of perceived inflation, but declines and becomes negative as perceived inflation increases.

comparable effect sizes. Moreover, the main effect of Govt Voter is statistically significant in Models 6 and 7 and even larger in magnitude than in the full-sample models. This suggests that respondents who do not finish all waves of the survey do not drive the heterogeneity in inflation expectations based on political affiliation.

Winsorization of Covariates

Winsorization also confirms the robustness of the previous findings. In both the 1% and 5% thresholds (Table B.19 and Table B.20, respectively), the interaction term Govt Voter $\times$ Perceived Inflation remains consistently negative and statistically significant. Notably, under the more conservative 5% winsorization, this interaction effect strengthens in both magnitude and significance, particularly in the full specification (Model 7), where the coefficient increases from -0.527 to -0.869. This supports the idea that the government voters become significantly less pessimistic than opposition voters when perceived inflation increases.

Interestingly, the main effect of Govt Voter varies across specifications. It becomes statistically insignificant in models without the interaction under the 5% winsorized specification, but turns strongly positive and significant in Models 6 and 7. This can be understood by looking at the interaction term with perceived inflation. Government voter status alone is associated with higher inflation expectations at low levels of perceived inflation, but this relationship reverses at higher inflation levels.

Figure B.11 show marginal plots for models 6 and 7 across all robustness specifications—both full sample and winsorized (1%/99% and 5%/95%). Across all specifications, at low levels of perceived inflation (around 2%–4%), government voters tend to expect slightly higher inflation than opposition voters. As perceived inflation increases (above 5%–6%), the marginal effect turns negative and statistically significant. This pattern is even more salient in the winsorized 5%/95% threshold models, where the marginal effects start higher and decline more steeply.

5.6.4 Summary of Findings

Finding 7.1 *There is evidence to support the hypothesis that respondents who voted for political parties in the government have lower inflation expectations. This is highlighted by a negative and statistically significant "Govt Voter" coef-*

ficient across baseline specifications, which do not include the interaction with perceived inflation. This result is robust to balanced-panel estimation and mild outlier adjustment (1% winsorization), but becomes statistically insignificant under 5% winsorization.

Finding 7.2 *The relationship in* **Finding 7.1** *is not uniform when we take perceived inflation into account. At lower levels of perceived inflation, government voters have higher inflation expectations. As perceived inflation increases, the effect of being a government voter becomes increasingly negative and statistically significant. This result is robust to balanced-panel estimation and outlier adjustment (both 1% and 5% winsorization).*

Finding 7.3 *The political gap in inflation expectations—between government and opposition voters—increases as perceived inflation increases. This result is robust to balanced-panel estimation and outlier adjustment (both 1% and 5% winsorization).*

5.7 Hypothesis 8

5.7.1 Descriptive statistics

Respondents who trust the CNB and know the inflation target exhibit better anchored inflation expectations. Table 5.15 shows that respondents with trust in the CNB and correct knowledge report mean absolute deviation from the CNB inflation target of 1.98 percentage points (median 1 p.p.), which is the lowest among all groups. On the other hand, people with distrust in the CNB and incorrectly identified inflation target report mean absolute deviation from the CNB inflation target of 11.91 p.p. (median 5.0 p.p.). Figure 5.7 confirms this observation. There, the "trust and correct knowledge" group has a tighter distribution and a lower median.

Trust in the CNB appears to lower the distance even among respondents with incorrect knowledge of the target. Table 5.15 shows that respondents who trust the CNB but do not know the correct inflation target still have better-anchored expectations (mean 7.60 p.p.) than their distrusting counterparts with the knowledge (mean 11.91 p.p.).

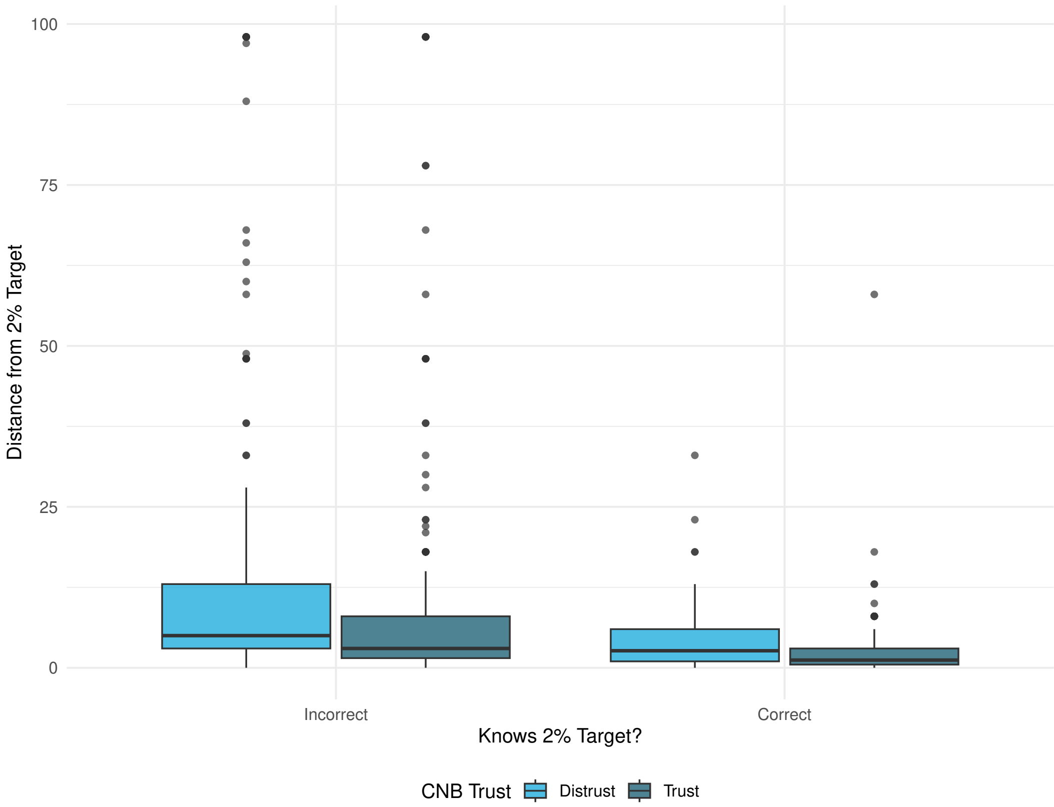
Understanding how monetary policy transmission works does not seem to affect the anchoring of inflation expectations. Table 5.16 shows that respondents who trust the CNB and correctly explain how monetary policy affects

Table 5.15: Deviation from Target by Trust and Knowledge

Trust	Target Knowledge	N	Mean	Median	SE
Distrust	Incorrect	581	11.91	5.0	0.865
Distrust	Correct	211	3.21	1.7	0.301
Trust	Incorrect	766	7.60	3.0	0.562
Trust	Correct	438	1.98	1.0	0.175

Note: This table reports descriptive statistics on the distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target, grouped by trust in the CNB and knowledge of the target. "Mean" and "Median" refer to the absolute deviation from the inflation target; SE denotes standard error of the mean.

Figure 5.7: Distance from 2% Inflation Target by Trust and Inflation Target Knowledge



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the distribution of the absolute distance between respondents' 1-year inflation expectations and the CNB's 2% target, grouped by their knowledge of the target (correct/incorrect) and their trust in the CNB (trust/distrust).

inflation have a mean absolute deviation from the CNB inflation target of 5.88 p.p. (median 2 p.p.), compared to respondents who trust the CNB and incorrectly explain how monetary policy affects inflation (mean 5.37 p.p. and median 2.6 p.p.). A similar pattern is shown among respondents who distrust the CNB—two who understand monetary policy transmission have mean absolute deviation from the CNB inflation target of 10.99 p.p. (median 3 p.p.); those who do not understand monetary policy transmission correctly have mean absolute deviation from the CNB inflation target of 10.05 p.p. (median 5 p.p.). As Figure 5.8 demonstrates, trust in the CNB seems to play a stronger role, compared to correct understanding.

Table 5.16: Deviation from Target by Trust and Policy Understanding

Trust	Policy Understanding	N	Mean	Median	SE
Distrust	Incorrect	994	10.05	5.0	0.547
Distrust	Correct	292	10.99	3.0	1.172
Trust	Incorrect	647	5.37	2.6	0.399
Trust	Correct	1102	5.88	2.0	0.374

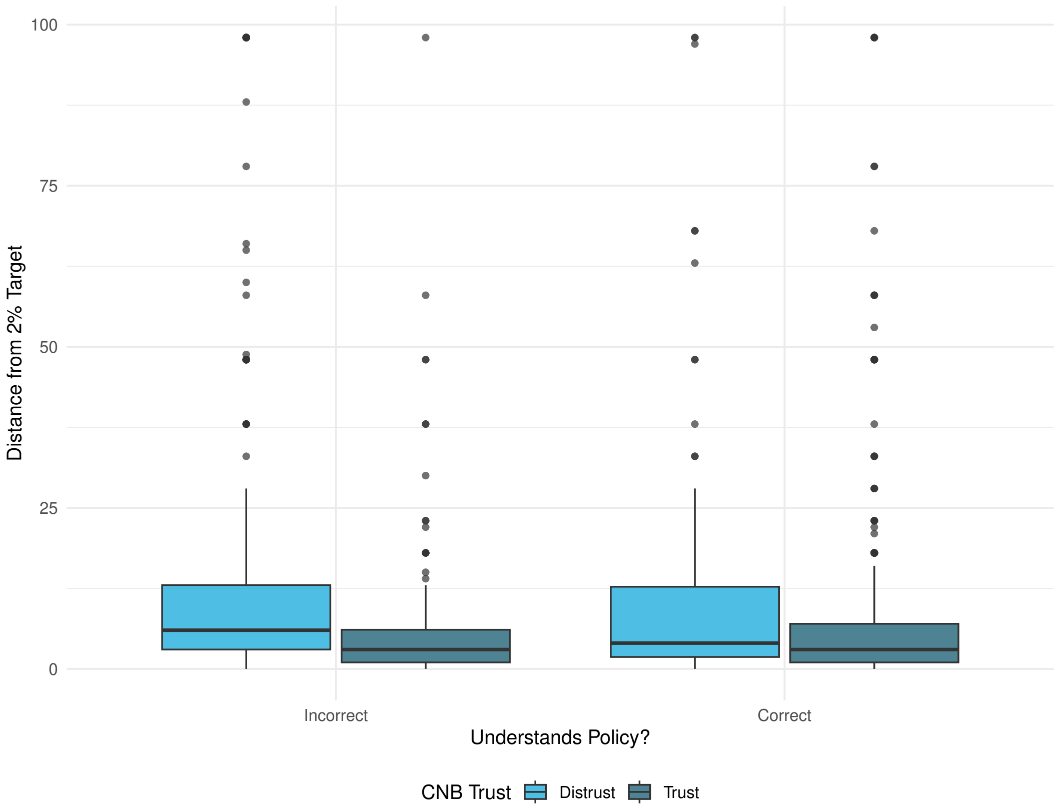
Note: This table reports descriptive statistics on the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target, grouped by trust in the CNB and understanding of monetary policy. "Mean" and "Median" refer to the deviation in percentage points; SE denotes the standard error of the mean.

5.7.2 Empirical Analysis

Correct knowledge of the CNB's inflation target has a negative and statistically significant effect on the distance from this target. Across all specifications in Table 5.17, "Knows target" is large, negative, and statistically significant at the 1% level in Models 2 and 3, and statistically significant at the 5% level in Models 4 and 5. In the full Model (5), the coefficient has a value of -0.931^{**}. Figure 5.9, bottom left, corroborates this interpretation—regardless of trust in the CNB, those who know the 2% target show lower mean distance from the target. The interpretation is straightforward—factual knowledge of the inflation target serves as a cognitive anchor that decreases bias in expectations.

Trust in the CNB does not have a strong effect on the distance from the target and is significant only when interactions are modelled. In the simple

Figure 5.8: Distance from 2% Inflation Target by Trust and Policy Understanding



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the distribution of the absolute distance between respondents' 1-year inflation expectations and the CNB's 2% target, grouped by their understanding of the monetary policy mechanism (correct/incorrect) and their trust in the CNB (trust/distrust).

Table 5.17: THE EFFECT OF CNB TRUST AND KNOWLEDGE ON DISTANCE FROM INFLATION TARGET (2%)

	Dependent variable:				
	Distance from Target				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.567***	0.653***	0.658***	0.658***	0.659***
	(0.056)	(0.076)	(0.079)	(0.079)	(0.078)
Inflation uncertainty	−1.790**	−1.420	−1.500	−1.490	−1.480
	(0.711)	(1.170)	(1.220)	(1.220)	(1.220)
HH income	−0.101**	−0.154**	−0.150**	−0.143*	−0.126*
	(0.049)	(0.071)	(0.075)	(0.076)	(0.074)
Unemp. up	0.312	0.345	0.334	0.342	0.351
	(0.310)	(0.469)	(0.497)	(0.495)	(0.491)
Mean perc. infl.	0.332***	0.264***	0.262***	0.264***	0.259***
	(0.053)	(0.073)	(0.076)	(0.076)	(0.075)
Mean infl. uncer.	1.460	2.360	2.500	2.660	2.470
	(0.994)	(1.560)	(1.640)	(1.650)	(1.630)
Mean unemp. up	1.390***	1.740***	1.690***	1.670***	1.480**
	(0.419)	(0.592)	(0.630)	(0.626)	(0.632)
Trust	−0.019		−0.139	−0.992*	−0.970*
	(0.233)		(0.386)	(0.545)	(0.534)
Knows target		−0.839***	−0.914***	−1.050**	−0.931**
		(0.220)	(0.229)	(0.436)	(0.426)
Understands policy		0.709**	0.879**	−0.157	0.005
		(0.326)	(0.361)	(0.659)	(0.657)
Non-Voter/DK/Refused					0.096
					(0.524)
Govt. voter					−1.140***
					(0.305)
Trust × Knows target				0.283	0.286
				(0.594)	(0.588)
Trust × Understands policy				1.700**	1.550**
				(0.792)	(0.783)
Constant	−2.250***	−3.050***	−3.070***	−2.860***	−2.490***
	(0.612)	(0.794)	(0.861)	(0.912)	(0.927)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	3,502	1,881	1,785	1,785	1,785
R^2	0.778	0.810	0.810	0.811	0.812
Adjusted R^2	0.777	0.808	0.809	0.809	0.810

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. Govt Voter is a dummy for respondents who reported voting for a government party; Non-Voter/DK/Refused is a dummy for respondents who are non-voters, did not know or refused to answer. Baseline are people who voted for parties not in the government. Trust is a dummy for respondents who report trusting the CNB; Knows Target indicates respondents who correctly identified the CNB's 2% inflation target; Understands policy indicates respondents who correctly answered a question about monetary policy transmission. *p<0.1; **p<0.05; ***p<0.01.

model specifications (Models 1 and 3 in Table 5.17), the coefficient on Trust is negative but insignificant. It only becomes significant in Models 4 and 5, but only at the 10% level. The top row in Figure 5.9 confirms that the effect of trust in the CNB is statistically insignificant at the 5% level. This suggests a weak anchoring role for trust when we consider it alone.

Understanding monetary policy transmission yields counterintuitive results and depends on trust in the CNB. When alone, the effect of Understands policy in Models 2 and 3 in Table 5.17 is positive and statistically significant at 5%. This means that respondents who understand monetary policy transmission have a higher mean distance from the target. After we introduce the interaction Trust × Understands policy, the coefficient Understands policy becomes statistically insignificant. Instead, Trust × Understands policy is positive and statistically significant at 5% level with an even greater magnitude. Bottom right marginal plot in Figure 5.9 visualises the interaction. It shows that understanding policy transmission results in an increased distance from the target for people who trust the CNB. There is no statistically significant effect for people who do not trust the CNB. This fact may possibly reflect the overconfidence of the respondents.

5.7.3 Robustness

We tested the models' VIF to decide whether potential multicollinearity posed a problem. Although the VIF was slightly elevated, it does not pose a problem in the context of the CRE.[7]

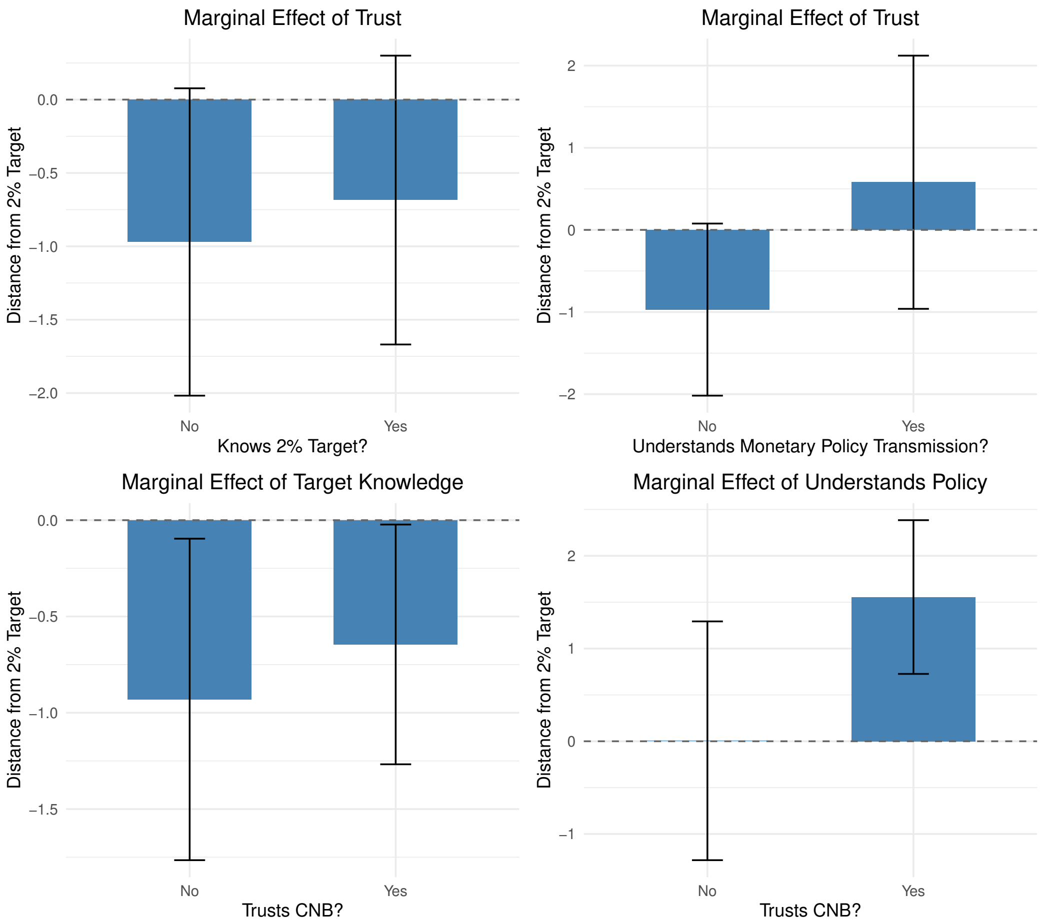
To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.22), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.23 and Table B.24, respectively). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

Table B.22 reports the results for a subsample of respondents who participated in all six waves of the survey. The core findings remain robust, with several changes. The coefficient on Knows target remains negative and becomes

[7] The maximum VIF across five models averaged 5.34, with mean VIFs for five models averaging 2.1.

Figure 5.9: Marginal Effects of CNB Trust and Monetary Policy Knowledge on Distance from the 2% Target



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: Each panel shows the estimated marginal effect on the distance of respondents' inflation expectations from the CNB's 2% target in Model 5 from Table 5.17. Error bars mean 95% confidence intervals. Top left: Effect of CNB trust, by knowledge of the target; Top right: Effect of CNB trust, by understanding of monetary policy transmission; Bottom left: Effect of knowing the target, by trust in the CNB; Bottom right: Effect of understanding policy, by trust in the CNB.

even higher in magnitude and is statistically significant across all specifications. Also, trust in the CNB—which was previously only marginally significant—becomes statistically significant at the 5% level in the full. This points to the conclusion that balanced panel strengthens the evidence that both correct knowledge and institutional trust reduce the deviation of inflation expectations from the target.

On the other hand, the coefficient for the Understands policy becomes statistically insignificant when estimated on the balanced panel across specifications. Nevertheless, the interaction term Trust $\times$ Understands policy remains statistically significant at the 5% level and increases in magnitude. This indicates that understanding the monetary policy transmission mechanism continues to de-anchor expectations only among respondents who trust the CNB, while this pattern does not exist among those who do not.

Visualisations in Figure B.12 support this interpretation. Marginal effect plots show that trust reduces the deviation from the inflation target among respondents who lack knowledge of the inflation target or the monetary policy transmission mechanism (top panels). Conversely, knowledge and understanding only anchor expectations for those with high institutional trust (bottom panels). These results make it clear that there is an interdependence between respondents' cognitive levels and their confidence in the institutions.

Winsorization of Covariates

Next, we examine the sensitivity of results to outliers in the covariates by winsorizing the models at both the 1st/99th (Table B.23) and 5th/95th percentiles (Table B.24).

Under 1% winsorization, the baseline model's primary findings stay consistent. Despite having somewhat smaller magnitudes, trust in the CNB and knowledge of the inflation target both maintain negative and statistically significant relationships. Marginal plots in Figure B.13 suggest, that knowledge of the target anchors inflation expectations regardless of the trust in the CNB. It also suggests that the understanding of monetary policy transmission de-anchors inflation expectations only for respondents who trust the CNB.

The results show a major divergence at 5% winsorization. Trust, knowledge of the target and understanding of the monetary policy transmission mechanism became statistically insignificant in the full specification. Marginal plots in Figure B.14 shows, that understanding of the monetary policy transmission mechanism de-anchors inflation expectations for respondents with trust in the CNB.

5.7.4 Summary of Findings

Finding 8.1 *Respondents who know the CNB's inflation target (2%) have better-anchored inflation expectations. This result is robust to balanced-panel estimation and mild outlier adjustment (1% winsorization), but becomes statistically insignificant under 5% winsorization.*

Finding 8.2 *The role of trust in the CNB is ambiguous. The variable was statistically significant at 5% only in the balanced panel estimation. In that specification, trust in the CNB helped to anchor inflation expectations only for people who did not know the target and did not understand the monetary policy transmission mechanism.*

Finding 8.3 *Understanding of the monetary policy transmission mechanism de-anchors inflation expectations, but only for respondents who trust the CNB. This result is robust to balanced-panel estimation and outlier adjustment (both 1% and 5% winsorization).*

5.8 Hypothesis 9

5.8.1 Descriptive Statistics

Table 5.18 and Figure B.15 show a clear heterogeneity in 1-year inflation expectations across the eight partisan-trust-knowledge subgroups. The greatest gap in inflation expectations between the two groups of partisans is found among respondents with low trust and low knowledge. Opposition voters report mean inflation expectations of 13.04%, while the government voters report 5.93% (gap exceeding 7 percentage points). The second greatest gap between opposition and government voters is in the high trust and low knowledge subgroup (3.6 percentage points). The gap in the high trust and high knowledge respondents was 0.83 percentage points, and the gap in the low trust and high knowledge respondents was 1.19 percentage points.

These descriptive statistics partially challenge the hypothesis—while knowledge tends to lower inflation expectations, partisan divergence is not lowest among high-trust, low-knowledge respondents. Instead, it seems as though low trust and low knowledge increase the polarisation in inflation expectations.

Table 5.18: Expected Inflation by Partisan Affiliation, Trust, and Composite Knowledge

Partisan Group	Trust	Knowledge	N	Mean	Median	SE
Opposition/Other	Distrust	Low	585	13.04	8.0	0.767
Opposition/Other	Distrust	High	17	4.59	3.5	0.683
Opposition/Other	Trust	Low	516	8.77	5.0	0.626
Opposition/Other	Trust	High	129	4.28	3.0	0.509
Government	Distrust	Low	255	5.93	4.5	0.299
Government	Distrust	High	50	3.40	3.0	0.370
Government	Trust	Low	360	5.17	4.0	0.278
Government	Trust	High	126	3.45	3.0	0.155

Note: This table shows summary statistics of respondents' 1-year-ahead inflation expectations by political affiliation, trust in the CNB, and composite knowledge dummy. The composite knowledge dummy is set to 1 if the respondent correctly identified the inflation target and understood the monetary policy transmission mechanism. "Mean" and "Median" are expressed in percentage points; SE denotes the standard error of the mean.

5.8.2 Empirical Results

The actual results do not support Hypothesis 9. Rather, the analysis shows that the partisan gap in inflation expectations does not disappear in the hypothesised group.

To assess this hypothesis, Model 3 of Table 5.19 estimates a CRE panel regression with interaction terms between voter status and a four-way typology of trust in the CNB and composite monetary knowledge. The baseline effect of being a government voter—excluding, for the moment, interaction terms—is negative and statistically significant (-1.220^{***}). This indicates that the government voters report lower one-year-ahead inflation expectations relative to opposition voters.

The results contradict the hypothesis in two ways. First, the group hypothesised to show similar expectations—partisans with high trust and low knowledge—display a statistically significant gap in expectations. The marginal effect for this group is negative and statistically significant at 5% level (Fig-

Table 5.19: CRE Model of CNB Trust, Knowledge, and Partisanship

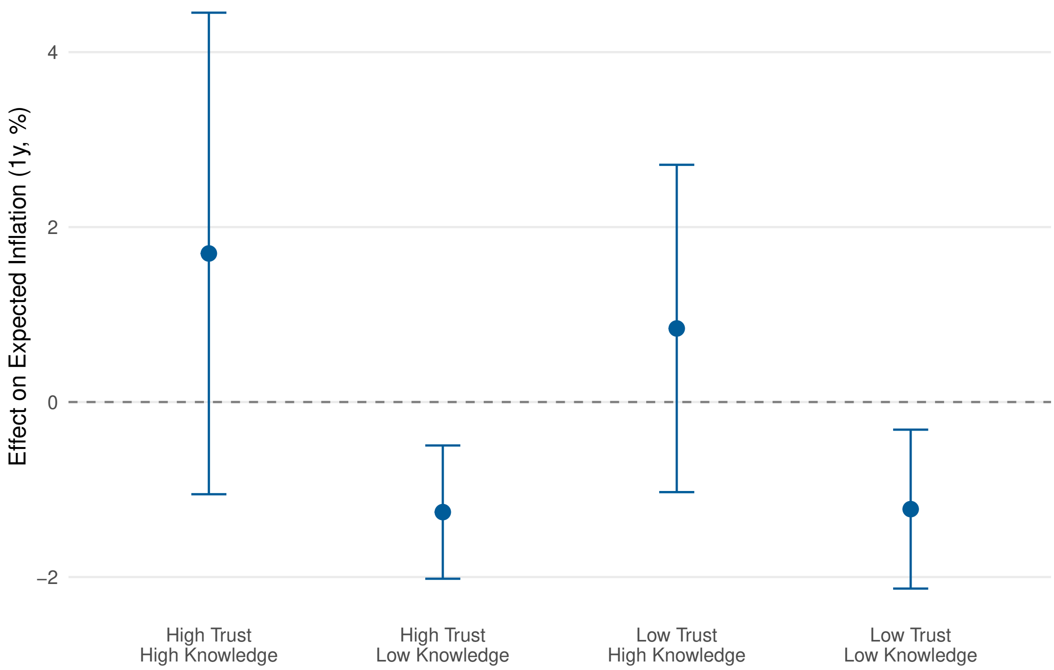
	Dependent variable:		
	Expected Inflation (1y, %)		
	(1)	(2)	(3)
Perceived inflation	0.610***	0.610***	0.610***
	(0.065)	(0.064)	(0.064)
Inflation uncertainty	−1.330*	−1.340*	−1.340*
	(0.802)	(0.800)	(0.800)
HH income	−0.113*	−0.089	−0.095*
	(0.057)	(0.055)	(0.057)
Unemp. up	0.231	0.234	0.228
	(0.391)	(0.388)	(0.390)
Mean perc. infl.	0.299***	0.296***	0.296***
	(0.061)	(0.060)	(0.060)
Mean infl. uncer.	0.775	0.660	0.563
	(1.170)	(1.170)	(1.160)
Mean unemp. up	1.360***	1.180**	1.250**
	(0.518)	(0.525)	(0.528)
Non-Voter/DK/Refused		−0.187	−0.775
		(0.373)	(0.519)
Govt Voter		−1.100***	−1.220***
		(0.262)	(0.463)
Low Trust, High Knowledge	−1.170***	−0.858**	−2.330***
	(0.430)	(0.432)	(0.880)
High Trust, Low Knowledge	0.058	0.104	−0.162
	(0.311)	(0.310)	(0.455)
High Trust, High Knowledge	−0.258	−0.164	−0.806*
	(0.283)	(0.286)	(0.456)
Non-Voter/DK/Refused × Low Trust, High Knowledge			1.290
			(1.190)
Govt Voter × Low Trust, High Knowledge			2.060*
			(1.060)
Non-Voter/DK/Refused × High Trust, Low Knowledge			1.130
			(0.850)
Govt Voter × High Trust, Low Knowledge			−0.034
			(0.605)
Non-Voter/DK/Refused × High Trust, High Knowledge			1.490**
			(0.658)
Govt Voter × High Trust, High Knowledge			0.891
			(0.552)
Constant	−0.398	−0.034	0.195
	(0.724)	(0.715)	(0.767)
Month dummies	Yes	Yes	Yes
Individual effects	No	No	No
Robust SEs	Yes	Yes	Yes
Clustering	Individual	Individual	Individual
Observations	2,673	2,673	2,673
R^2	0.803	0.804	0.804
Adjusted R^2	0.802	0.803	0.803

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. Govt Voter is a dummy for respondents who reported voting for a government party; Non-Voter/DK/Refused is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. The four-way typology of composite knowledge includes Low Trust, Low Knowledge as the baseline. *p<0.1; **p<0.05; ***p<0.01.

ure 5.10). This suggests that government partisans with high trust and low knowledge actually report even lower expectations than their opposition counterparts, increasing the partisan gap rather than decreasing it.

Second, the group expected to drive the gap—partisans with low trust and high knowledge—does not account for the largest difference in expectations. The marginal effect for government voters in this subgroup remains positive, but statistically insignificant at 5% (Figure 5.10). This is inconsistent with the hypothesis, which predicted that this group would widen the gap by holding significantly different expectations.

Figure 5.10: Marginal Effect of Government Voter on Inflation Expectations by Trust-Knowledge Group



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The graph shows the marginal effect of being a government voter on 1-year-ahead inflation expectations across four trust-knowledge groups. Each point represents the estimated marginal effect with 95% confidence intervals shown as vertical error bars. The dashed horizontal line at zero indicates no effect. The four groups are: High Trust, High Knowledge; High Trust, Low Knowledge; Low Trust, High Knowledge; and Low Trust, Low Knowledge. The marginal effects are calculated from linear combinations of coefficients from Model 3 in Table 5.19.

5.8.3 Robustness

We tested the VIF of the models to decide whether potential multicollinearity posed a problem. Although VIFs were slightly elevated, they do not pose a problem in the context of the CRE.[8]

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.26), and (2) models with winsorized continuous covariates at the 1% and 5% levels to reduce the influence of outliers (Table B.27 and Table B.28, respectively). These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

We estimated the CRE models using a balanced panel that includes only those respondents who participated in all 6 waves (Table B.26). This way, we can reduce the effects of survey attrition.

The Low Trust-High Knowledge subgroup, which Hypothesis 9 expected to drive partisan divergence, shows a large positive interaction for government voters (5.030***). This implies that in this subgroup, government voters expect higher inflation expectations than opposition voters, which supports the hypothesis that low trust and high knowledge drive the differences in inflation expectations.

The marginal effects plot (Figure B.21) reveals that the partisan gap is strongest in the Low Trust–High Knowledge subgroup, with government voters expecting higher inflation than opposition voters. In contrast, High Trust–Low Knowledge respondents show little to no partisan gap, which again supports the original hypothesis that high trust and low knowledge would converge expectations. Low trust and low knowledge voters also display a mild gap, but the effect is barely statistically significant at the 5% level.

Winsorization of Covariates

Next, we examine the sensitivity of results to outliers in the covariates by winsorizing the models at both the 1st/99th (Table B.27) and 5th/95th percentiles (Table B.28).

The results from the 1% winsorization generally support the baseline model. Government voters in both groups of low knowledge—one with high trust and

[8] The maximum VIF across the three models averaged 5.22, with mean VIFs for the three models averaging 1.87.

one with low trust—have statistically significantly lower inflation expectations than the opposition voters. Low trust and high knowledge partisans do not have statistically significantly different inflation expectations at 5% level.

Under the 5% winsorization, however, the marginal effect of a Low Trust, Low Knowledge government voter becomes statistically insignificant from 0. On the other hand, Low Trust, High Knowledge becomes positive and statistically significant at the 95% level.

5.8.4 Summary of Findings

Finding 9.1 *Partisans with high trust and low knowledge do not converge in their inflation expectations, contrary to the hypothesis. Government supporters in this group exhibit lower inflation expectations than opposition supporters. This effect remains statistically significant in the baseline CRE model but loses strength under some robustness checks (balanced panel estimation).*

Finding 9.2 *Partisans with low trust and high knowledge—predicted to drive partisan differences—display only a weak and statistically insignificant partisan gap in the baseline specification. Nevertheless, in the balanced panel, this subgroup shows the strongest partisan gap. There, the government voters are expecting higher inflation than the opposition voters. The effect also becomes statistically significant under 5% winsorization.*

5.9 Hypothesis 10

5.9.1 Descriptive Statistics

Table 5.20 summarises the descriptive statistics for each value orientation and personality trait. The most frequently endorsed characteristics are *Home Oriented* (38.6%), *Communicative* (36.7%), and *Close Relationships* (34.8%). Quite common are also values with stability, such as *Stability Seeking* (25.7%) and *Orderly* (26.5%). On the other hand, individualistic values—such as *Challenge Seeking* (12.3%), *Control Seeking* (13.7%), and *Expert Recognition* (15.1%)—are less common.

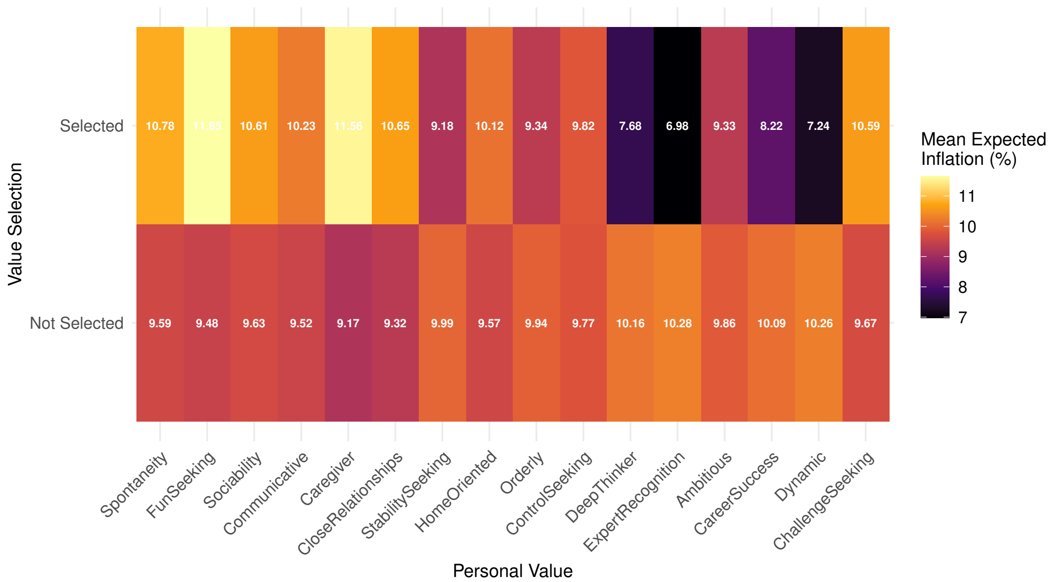
Figure 5.11 shows mean expected inflation (one-year horizon) grouped by personal values and their respective selection. Individuals choosing traits such as *Spontaneity*, *Fun Seeking*, and *Caregiver* report higher expected inflation (

Table 5.20: Summary of Individual Value Items (Binary Variables)

Value Item	**Mean**	**SE**	**Percentage (%)**
Spontaneity	0.159	0.005	15.9
Fun Seeking	0.140	0.005	14.0
Sociability	0.149	0.005	14.9
Communicative	0.367	0.007	36.7
Caregiver	0.255	0.006	25.5
Close Relationships	0.348	0.007	34.8
Stability Seeking	0.257	0.006	25.7
Home Oriented	0.386	0.007	38.6
Orderly	0.265	0.006	26.5
Control Seeking	0.137	0.005	13.7
Deep Thinker	0.154	0.005	15.4
Expert Recognition	0.151	0.005	15.1
Ambitious	0.157	0.005	15.7
Career Success	0.164	0.005	16.4
Dynamic	0.158	0.005	15.8
Challenge Seeking	0.123	0.005	12.3

Note: This table shows the proportion of respondents who endorsed each personal characteristic when asked how they would like others to describe them. Respondents were asked to select 3-5 statements from a list of 16 characteristics that best described their desired self-image. Values represent the percentage of respondents who selected each characteristic.

Figure 5.11: Mean Expected Inflation by Personal Value Selection



Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: The figure shows a heatmap with mean expected inflation (1-year horizon) for respondents who selected versus did not select each personal characteristic. Values represent the percentage of respondents who selected each characteristic when asked to describe their desired self-image.

with an average around 10–11%). On the other hand, respondents choosing more achievement-oriented traits, such as *Deep Thinker* and *Expert Recognition*, have a substantially lower average expected inflation (around 7–8%). It is important to note that individuals who do not select given traits typically have inflation expectations concentrated at around 9–10%.

5.9.2 Empirical Results

CRE models in that test the hypothesis are shown in Table 5.21 and Table 5.22.

A number of main coefficients have statistically significant effects on expected inflation. Individuals identifying as *Fun Seeking* exhibit significantly lower baseline expectations (-1.093^{***}). Those who identify as *Communicative* report higher expectations (0.827^{**}). *Stability Seeking* respondents are also associated with lower inflation expectations (-0.714^{**}). *Career Success* is negatively associated with expectations (-1.263^{***}). Other value clasifications were not statistically significant at 5% level.

Marginal plots in Figure 5.12 and Figure 5.13 show us how values shape responsiveness to perceived inflation. *Fun Seeking* respondents seem to have lower inflation expectations for lower levels of perceived inflation of up to 5%. After 5% of perceived inflation, the marginal effect becomes statistically insignificant. The same applies to *Stability Seeking*—respondents have lower inflation expectations at lower levels of perceived inflation, but this becomes statistically insignificant after 5% of perceived inflation. This could mean these people are more optimistic about price stability or simply pay less attention to inflation risks.

For *Communicative* respondents, at 0% perceived inflation, they have higher inflation expectations. But this effect becomes statistically insignificant soon. This might mean that socially outgoing people are more exposed to conversations about inflation and pick up on pessimistic narratives.

Expert Recognition respondents have lower inflation expectations, between 5% and 10% perceived inflation, but it's not very robust.

For respondents who identified with *Career Success*, the marginal plot shows that they have lower inflation perceptions for up to 5% of perceived inflation, and then after 10%, they show higher inflation expectations. This might mean that career-focused individuals are calm in normal times but react strongly to big inflation shocks.

Table 5.21: CRE Models of Expected Inflation with Individual Value Items and Interactions (1-8)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Perceived inflation	0.573***	0.569***	0.578***	0.628***	0.582***	0.593***	0.570***	0.587***
	(0.045)	(0.045)	(0.046)	(0.047)	(0.046)	(0.044)	(0.045)	(0.048)
Inflation uncertainty	−1.538**	−1.476**	−1.530**	−1.531**	−1.541**	−1.552**	−1.539**	−1.530**
	(0.689)	(0.688)	(0.688)	(0.679)	(0.690)	(0.688)	(0.691)	(0.688)
HH income	−0.175***	−0.173***	−0.173***	−0.165***	−0.173***	−0.172***	−0.177***	−0.176***
	(0.049)	(0.048)	(0.048)	(0.049)	(0.048)	(0.048)	(0.048)	(0.049)
Unemp. up	0.290	0.279	0.292	0.293	0.286	0.287	0.271	0.288
	(0.306)	(0.307)	(0.307)	(0.302)	(0.305)	(0.306)	(0.305)	(0.306)
Mean perc. infl.	0.265***	0.242***	0.263***	0.247***	0.263***	0.264***	0.254***	0.266***
	(0.044)	(0.045)	(0.045)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)
Mean infl. uncer.	1.527*	1.595*	1.540*	1.477*	1.533*	1.527*	1.603*	1.491
	(0.912)	(0.910)	(0.909)	(0.892)	(0.912)	(0.909)	(0.907)	(0.910)
Mean unemp. up	1.953***	1.997***	1.967***	1.976***	1.945***	1.963***	2.016***	1.942***
	(0.408)	(0.407)	(0.407)	(0.408)	(0.404)	(0.411)	(0.406)	(0.409)
Spontaneity	−0.358							
	(0.441)							
FunSeeking		−1.093***						
		(0.335)						
Sociability			0.419					
			(0.522)					
Communicative				0.827**				
				(0.374)				
Caregiver					0.211			
					(0.389)			
CloseRelationships						0.021		
						(0.345)		
StabilitySeeking							−0.714**	
							(0.333)	
HomeOriented								0.106
								(0.337)
Spontaneity × Perc. Inflation	0.019							
	(0.052)							
FunSeeking × Perc. Inflation		0.106***						
		(0.036)						
Sociability × Perc. Inflation			0.008					
			(0.061)					
Communicative × Perc. Inflation				−0.093**				
				(0.042)				
Caregiver × Perc. Inflation					−0.009			
					(0.043)			
CloseRelationships × Perc. Inflation						−0.033		
						(0.040)		
StabilitySeeking × Perc. Inflation							0.066	
							(0.041)	
HomeOriented × Perc. Inflation								−0.022
								(0.040)
Constant	0.239	0.367	0.086	−0.210	0.112	0.123	0.308	0.144
	(0.568)	(0.566)	(0.560)	(0.567)	(0.578)	(0.567)	(0.569)	(0.580)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Individual value items	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.747	0.750	0.748	0.750	0.747	0.748	0.748	0.748
Adjusted R^2	0.747	0.749	0.747	0.749	0.747	0.747	0.747	0.747

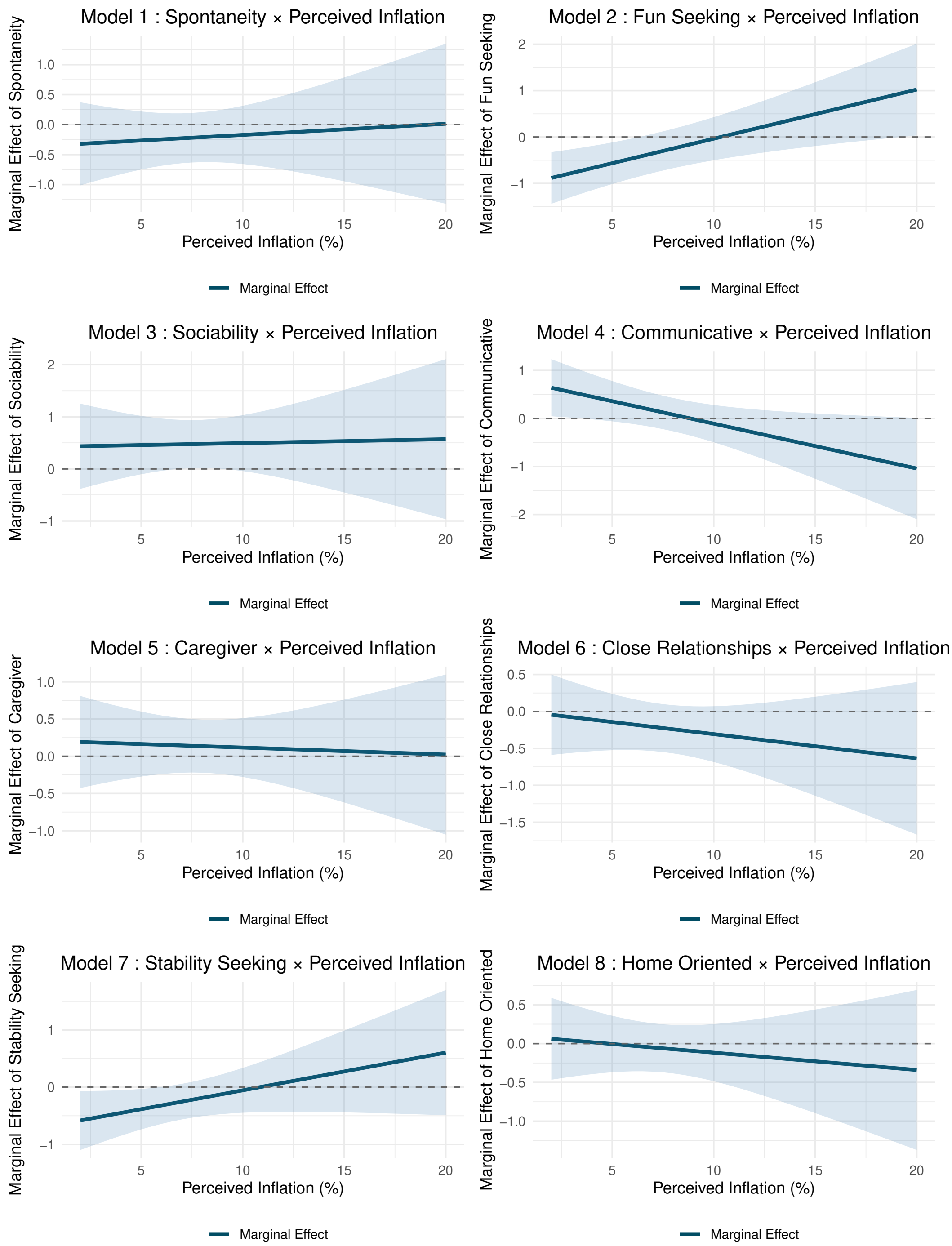
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (1)-(8) show models for individual value items: Spontaneity, FunSeeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table 5.22: CRE Models of Expected Inflation with Individual Value Items and Interactions (9-16)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Perceived inflation	0.601***	0.586***	0.585***	0.580***	0.571***	0.558***	0.580***	0.576***
	(0.048)	(0.045)	(0.045)	(0.045)	(0.046)	(0.043)	(0.045)	(0.045)
Inflation uncertainty	−1.542**	−1.538**	−1.556**	−1.540**	−1.547**	−1.504**	−1.548**	−1.542**
	(0.696)	(0.690)	(0.689)	(0.688)	(0.689)	(0.677)	(0.690)	(0.687)
HH income	−0.174***	−0.172***	−0.177***	−0.168***	−0.174***	−0.175***	−0.176***	−0.175***
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.048)	(0.048)	(0.048)
Unemp. up	0.292	0.290	0.279	0.292	0.278	0.265	0.292	0.291
	(0.308)	(0.308)	(0.306)	(0.307)	(0.304)	(0.304)	(0.307)	(0.306)
Mean perc. infl.	0.258***	0.263***	0.260***	0.262***	0.265***	0.266***	0.264***	0.264***
	(0.045)	(0.044)	(0.044)	(0.044)	(0.044)	(0.043)	(0.044)	(0.044)
Mean infl. uncer.	1.564*	1.521*	1.531*	1.513*	1.541*	1.484*	1.514*	1.477*
	(0.918)	(0.912)	(0.911)	(0.908)	(0.908)	(0.897)	(0.908)	(0.895)
Mean unemp. up	1.962***	1.945***	1.979***	1.935***	1.986***	1.949***	1.962***	1.938***
	(0.407)	(0.411)	(0.409)	(0.409)	(0.407)	(0.404)	(0.409)	(0.408)
Orderly	0.579							
	(0.381)							
ControlSeeking		0.435						
		(0.585)						
DeepThinker			0.678					
			(0.455)					
ExpertRecognition				−0.416				
				(0.483)				
Ambitious					0.045			
					(0.431)			
CareerSuccess						−1.263***		
						(0.325)		
Dynamic							0.541	
							(0.650)	
ChallengeSeeking								0.072
								(0.514)
Orderly × Perc. Inflation	−0.076*							
	(0.046)							
ControlSeeking × Perc. Inflation		−0.051						
		(0.064)						
DeepThinker × Perc. Inflation			−0.072					
			(0.060)					
ExpertRecognition × Perc. Inflation				−0.015				
				(0.067)				
Ambitious × Perc. Inflation					0.047			
					(0.054)			
CareerSuccess × Perc. Inflation						0.171***		
						(0.044)		
Dynamic × Perc. Inflation							−0.037	
							(0.091)	
ChallengeSeeking × Perc. Inflation								0.019
								(0.061)
Constant	0.015	0.146	0.138	0.232	0.156	0.346	0.122	0.197
	(0.570)	(0.565)	(0.555)	(0.559)	(0.556)	(0.556)	(0.555)	(0.558)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Individual value items	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.749	0.748	0.748	0.748	0.748	0.751	0.747	0.747
Adjusted R^2	0.748	0.747	0.747	0.747	0.747	0.750	0.747	0.747

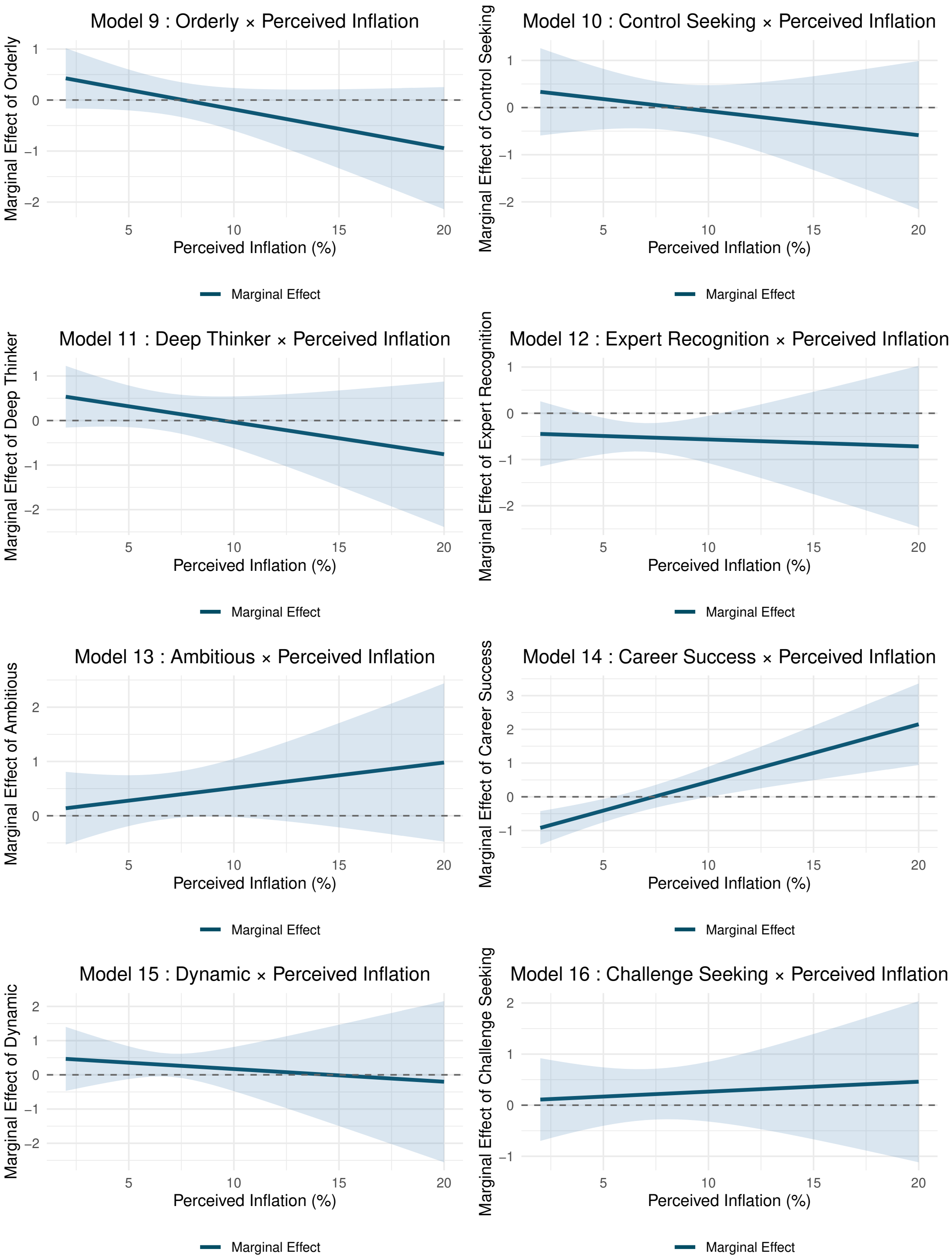
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (9)-(16) show models for individual value items: Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure 5.12: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 1-8



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Spontaneity, Fun Seeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented) on 1-year ahead expected inflation. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginal plots are derived from Models 1-8 from Table 5.21.

Figure 5.13: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 9-16



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking) on 1-year-ahead expected inflation. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginal plots are derived from Models 9-16 from Table 5.22.

5.9.3 Robustness

To assess the robustness of the baseline results, we estimate additional CRE models using (1) a balanced panel subsample consisting of respondents who participated in all six survey waves (Table B.29 and Table B.30), and (2) models with winsorized continuous covariates at the 1% (Table B.31 and Table B.32) and 5% (Table B.33 and Table B.34) levels to reduce the influence of outliers. These test whether the findings from the baseline model are sensitive to sample composition or extreme values in the covariates.

Balanced Panel

The balanced panel results (Table B.29 and Table B.30) are, for the most part, consistent with the baseline. The same value traits stand out, albeit at lower statistical significance: *Fun Seeking* and *Career Success* continue to show strong positive interactions with perceived inflation, while *Communicative* remains negatively moderated. *Dynamic* became positive and statistically significant in the balanced panel specification.

The marginal plots (Figure B.19 and Figure B.20) give the following results: while *Fun Seeking*is still negative at 0% perceived inflation, it becomes statistically insignificant sooner than in the baseline models; *Communicative* is not statistically significant at 5% level; *Stability Seeking* is negative and statistically significant up until 5% perceived inflation, then becomes insignificant; *Expert Recognision* loses statistical significance in the balanced models; *Career Success* is negative and statistically significant up to 5% perceived inflation—similarly to baseline models—but it also becomes positive and statistically significant with 10% and higher perceived inflation; and unlike in the baseline model, *Deep Thinker* is positive and statistically significant of up to 3% inflation expectations, and after 14% perceived inflation it becomes negative and statistically significant.

Winsorization of Covariates

When we winsorize at 1%/99% (Table B.31 and Table B.32), the coefficients overall look similar to the coefficients from the baseline models. The same applies to marginal effect plots. This could mean that outliers do not play a significant role.

Under the more aggressive 5%/95% winsorization (Table B.33 and Table B.34), some slopes get steeper. For instance, *Fun Seeking* begins negative (around –2 points) at very low perceived inflation but rises steeply, turning positive near 5% and climbing above +5 points by 20%. Fun-seeking individuals might have low inflation expectations when inflation feels low, but change expectations sharply upward once inflation cues exceed a modest threshold. For *Communicative*, at 0% perceived inflation, the marginal effect is slightly positive but decreasing. It becomes negative at mid-range inflation levels. One reading could be that highly communicative individuals become more pessimistic as inflation perceptions rise—maybe because they are exposed to negative information channels. *Stability Seeking* starts negative at low perceived inflation, turns neutral around 4%, and then rises steadily, ending above +2 points by 20%. A possible reason for this might be that these respondents are more sensitive to potential risks and increase inflation expectations as soon as they sense instability. *Orderly* starts mildly positive but steadily declines. It becomes neutral at around 3%. *Deep Thinker* starts positive at 0% inflation, and crosses into neural territory around 7%. After 10% of perceived inflation, it becomes negative and statistically significant. *Expert Recognition* becomes negative and statistically significant at around 10% inflation perceptions. *Dynamic* shows a downward pattern—positive at the 0% up to 7% perceived inflation. It turns negative and statistically significant at around 13%.

5.9.4 Summary of Findings

Finding 10.1 *Personal values have an effect on inflation expectations. Traits such as Fun Seeking and Career Success are associated with lower baseline expectations, while Communicative or Deep thinker tends to predict higher expectations. These effects persist across specifications, although magnitudes differ.*

Chapter 6

Discussion

This chapter discusses the interpretation of the results, implications, and the study's limitations.

6.1 Interpretation

Women have higher inflation expectations than men. One possible interpretation is that women have higher inflation expectations because, in contrast to men, they are responsible for household-level expenditures—groceries, childcare, utilities. This could make women more susceptible to experiencing price fluctuations. These findings are supported in the literature (for example D'Acunto *et al.* 2021b; Malmendier & Nagel 2016)

Nevertheless, our findings suggest that not only is the gender gap not diminished after controlling for shopping responsibility, but women who are primary shoppers report slightly lower expectations. Our finding is counter to the naive "exposure hypothesis," which suggests that more frequent shoppers have greater inflation expectations because they are more directly exposed to price change. To the contrary, our findings point to an adaptation effect—individuals who are more frequently in contact with prices update their beliefs more frequently to come up with improved (and possibly lower) rather than higher expectations. A second explanation is that the gender gap is less the product of overt exposure to prices and more one of overall psychological or informational distinction. For example, there might be institutional trust differences or differences in perceptions regarding risk between the two genders. The evidence of D'Acunto *et al.* (2021b) fits with this—they establish, using U.S. microdata, that consumers form expectations based on prices of goods they themselves buy and not on the general store basket, and that frequency-weighted CPI predicts more accurately than expenditure weights. That is, it is not exposure that is important, but personal frequency of purchase and salience. Their findings even indicate that repeated exposure can decrease bias—individuals who are exposed to grocery prices seem to ”average out” volatility in the long run, as opposed to overemphasising isolated instances of price spikes.

Alternative explanations for the gender gap are that differences in financial confidence—rather than direct exposure to prices—drive higher expectations among women. Reiche (2025) explains that the gap is created mainly by differences in financial confidence. According to the author, when women and men possess similar levels of confidence, the gender gap disappears fully. This implies that the mechanism is more a matter of the cognitive structure used in interpreting price changes rather than how frequently one sees price changes. It also allows for the evidence that women's inflation expectations are not systematically higher once controlling for financial literacy and confidence.

The fact that the gender gap disappears once 5% winsorization is applied hints that extreme forecasts—rather than a consistent difference across all men and women—might be driving much of the heterogeneity. Instead of systematic gender differences, we may be looking at a small group with unusually high (or low) forecasts skewing the results. These could be households experiencing sudden shocks in their own expenses or individuals with very low institutional trust and strong risk aversion.

Households at the lower end of the income distribution tend to expect higher inflation than their wealthier counterparts. This pattern holds even after trimming extreme values or restricting the sample to a balanced panel. One reason might be that lower-income families are operating on a tighter budget. A constrained budget makes the impacts of rising prices feel stronger. A rise in food or energy prices that is marginal to higher-income individuals feels more consequential to the paycheck-to-paycheck respondents. That psychological strain might contribute to more pessimistic inflation expectations overall. In the meantime, the fact that this trend persists even after trimming outliers suggests it is not merely a quirk of a few extremely pessimistic survey takers. Perhaps systematic differences in economic security, or risk exposure to price instability in essentials, play a role. Our finding agrees with the work of D'Acunto *et al.* (2022). They show that U.S. lower-income families systematically report higher inflation expectations. Bryan and Venkatu (2001) recommend that though consumption-basket effects do appear, they don't necessarily account for the size of the gap and imply that psychological or information effects—e.g., greater salience of price shocks—are at least partly responsible.

Those who have secondary or tertiary education have different inflation expectations from those who have only primary education. At low levels of perceived inflation, they actually expect more inflation than the less educated respondents, but this pattern is reversed as perceptions rise above some point around 12–15%, where their expectations dip below those of the least educated group. Thus, education does not always decrease expectations. We suggest that higher education moderates inflation expectations heterogeneously across inflation regimes. Higher education can equip individuals with more economic information. This makes them more responsive to early hints of price increases and thus quicker to raise their expectations when inflation is low. But once perceptions enter double digits, that same data—or possibly just greater confidence in monetary policy or understanding of the monetary transmission mechanism—can cause them to cut back on their inflation expectations. Perhaps such respondents are anticipating tighter monetary policy as a response to high perceived inflation, and they thus adjust their inflation expectations downwards. A third possible explanation is psychological. The less educated respondents might anchor on salient price rises in common consumables and build expectations of inflation on their basis. The better-educated respondents, who have a wider consumption diversity and a larger exposure to information, might end up ignoring extreme values. Our findings are supported by Weber *et al.* (2022b). In normal times, households are exposed to similar inflation rates, but during the 2020–21 peak, less educated households faced greater inflation and reacted by setting their expectations higher as well. The authors report a high positive relationship between the observed changes in prices and inflation expectations, particularly for less educated Americans. If less educated households see more inflation, they will have higher inflation expectations. Huber *et al.* (2023) find that German low-education consumers are less likely to use news or official sources of information about inflation and are more likely to use their own shopping experience in order to build an inflation perception. Consequently, less-educated groups—as well as individuals who emphasise their own experiences—have a much stronger pass-through from past to future inflation.

In our results, being in a single-person household is not robustly associated with higher inflation expectations. In fact, in the baseline model, it has a negative effect statistically significant at 5% level in the full-sample specification. This finding is not robust across models. One possible reason for this is that single-person households in the Czech Republic could disproportionately consist of youth or retired individuals, whose inflation expectations push into opposite directions. In essence, these could be cancelling one another out in aggregate projections

Inflation perceptions appear to play a central role in shaping how individuals forecast future price developments, even when other socioeconomic factors are accounted for. This is a conclusion which supports the idea that expectations are not derived individually or by pure rational models. Instead, they seem to be based upon people's concrete experience of the prices that prevail—what they're paying at the supermarket or seeing at the pump—rather than scholarly macroeconomic indicators. In practice, this means that apparent spikes in inflation perceptions can quickly become higher future expected inflation, potentially making it more difficult for central banks to fix inflation. It also leaves the risk that a portion of the variation in expectations is caused by misperceptions, rather than actual inflation. Individuals who consistently overestimate inflation will carry this bias on through to their expectations. There are plenty of papers supporting this mechanism. For example, Jonung (1981) found a strong correlation between perceived and expected inflation in Swedish households. Studies by Armantier *et al.* (2016) and Weber *et al.* (2022b) show that U.S. households similarly extrapolate from perceived inflation when forming expected inflation.

Rather than perceiving a Phillips Curve trade-off, respondents in our data seem to bundle unemployment and inflation together—those expecting higher unemployment also tend to expect higher inflation. Our results imply that households may be reading macroeconomic signals through the lens of a supply-side view of the economy or a stagflationary view of inflation. When households think of "bad times," unemployment and rising prices often coexist. That framing could explain why households interpret economic turbulence, regardless of its source, as jointly inflating both inflation and unemployment. This finding is consistent with the existing literature. Weber *et al.* (2022b) find—consistent with a stagflationary/supply side view—that respondents have a positive relationship between inflation expectations and expected unemployment rate. As already discussed earlier in the thesis, Coibion *et al.* (2019) find that Dutch households exhibit this stagflationary view of inflation—i.e. increased inflation expectations are associated with increased pessimism about their real incomes and lower planned consumption. Coibion & Gorodnichenko (2015) argue that

U.S. households generally project inflation to rise even during recessions, crediting this to large supply shocks rather than demand cycles.

Two important things need to be noted here. First, when we estimated the same model specification with unemployment down variables, there was no significant effect on inflation expectations. This suggests that there is an asymmetry in unemployment expectations—while higher expected unemployment increases inflation expectations, lower expected unemployment does not decrease inflation expectations. This asymmetry may point to a kind of loss aversion, a tendency to weigh negative signals more heavily than positive ones. For Czech households, the idea that unemployment might rise appears to increase fears about inflation. Yet falling unemployment does not seem to reassure them enough to lower those expectations. One way to read this is that downward revisions in inflation beliefs are sticky—people hold onto their higher expectations even as conditions improve.

Second, once we introduce the Mundlak term, within-individual change in expected unemployment has no effect on inflation expectations. This means that changes in unemployment expectations do not influence expected inflation, but that respondents who habitually expect higher unemployment have higher inflation expectations. It may suggest that expectation formation is anchored in a stable mindset of the respondent—habitual pessimism about the economy, or distrust of institutions—rather than responsive to new information.

Subjective real interest rate expectations are significantly associated with reported intentions to increase saving. While within-individual increases in real interest rate expectations are negatively associated with the probability of saving more, between-individual differences tell a different story. Respondents who habitually expect higher real interest rates are more likely to report plans to save more, consistent with the logic of the intertemporal Euler equation. The sign on within-person variation is counterintuitive. According to theory, increased expected real interest rates ought to discourage current consumption—that is, encourage saving. But this reverses at the between-person level. People who expect higher real rates generally also report saving more. That difference implies that short-run shocks may prompt respondents to precautionary behaviour while long-run perceptions of future real returns drive more general saving decisions. In essence, the same household may temporarily decrease savings when short-term interest rates rise—perhaps in reaction to uncertainty—but in the long run, lower baseline savers tend to view low expected real returns as a reason not to delay consumption. There is not much literature that decomposes changes in real interest rates into within and between components.[1]

The effect of real interest rate expectations is asymmetric. Our results show that expectations about future real interest rates predict increases in saving, but not decreases. When ”saving less” is used as the dependent variable, neither short-run changes nor long-term averages of real interest rate expectations are statistically significant. Two separate processes might be at play. When people foresee better real returns, it nudges them toward future-oriented behaviour: saving more feels rewarding, almost like an opportunity they do not want to miss. But when rates look less favourable, saving ”less” does not necessarily follow. In many households, the ability to reduce saving might be constrained. Another possibility is that cutting savings is less about interest-rate expectations and more about negative shocks. These could be, for example, unexpected expenses. This would explain why increases in saving track real interest rate expectations, but decreases do not. The asymmetric response is indirectly supported in Bachmann *et al.* (2015). The authors show that higher expected inflation slightly reduces readiness to spend—implying higher saving. The paper does not find symmetric positive correlations when expectations fall.

Our results suggest that media exposure does not translate into changes in inflation expectations. One possible explanation is that individuals selectively attend to or discount information that clashes with their prior beliefs or daily experiences. Another factor might be the heterogeneity of what content the specific medium produces—different outlets emphasise different drivers of inflation (supply chains vs. fiscal policy), which could average out in the data. The most plausible factor is that once the individual perceived inflation is already accounted for, the media does not seem to have an additional effect on inflation expectations. Dräger (2015) confirms this by noting that media coverage influences perceptions of current inflation, but once perceptions are controlled for, media coverage adds little additional explanatory power for expectations. Lamla & Lein (2008) supports the idea that media exposure's direct effect is limited.

Respondents who voted for political parties in government—during the time of the survey—have lower inflation expectations. This is in line with previous studies (Gillitzer *et al.* 2017; Bachmann *et al.* 2019). Individuals aligned with the ruling party may unconsciously interpret economic conditions more favourably, attributing price stability to their preferred government's compe-

[1]For general discussion about the consumption Euler equation, visit Section 2.2.

tence. This is connected to our discussion of the stagflationary view of the economy—voters of opposition might view the economy as such in a bad shape as a result of the government they did not vote for, and this includes higher inflation. This is well-documented in U.S. studies, where Democrats under Democratic administrations and Republicans under Republican ones systematically report lower inflation. What is interesting is that this gap in inflation expectations reverses once the favourable incumbent is in power (Binder 2023).

The partisan gap in inflation expectations depends on perceived inflation. The government voters start with higher expectations at low perceived inflation levels, but then their inflation expectations decline with increasing inflation perceptions. As perceived inflation increases, the gap between government and opposition voters widens. As actual inflation beliefs climb, opposition voters adjust upward more steeply, increasing the gap. When respondents update their beliefs, they respond to both economic signals and partisan identity. The same economic signals might be interpreted as more favourable if the incumbent is from the same party as the respondent, and vice versa. This is in line with existing literature. Jeong *et al.* (2025) find that partisanship systematically influences the perceived favorability of economic news. The authors argue that incumbent party supporters consistently perceive news more favorably than opposition party identifiers. Also, supporters of the incumbent revise expectations downward when news is interpreted as unfavourable, while opposition voters do not.

Respondents who know the CNB's inflation target (2%) have better-anchored inflation expectations. This can be due to having a reference point or an anchor to which respondents can compare inflation expectations. Respondents can mentally benchmark their forecasts against an official number. Studies on target awareness often highlight this mechanism—people who can recall the central bank's goal tend to forecast closer to it, particularly during periods of moderate inflation. This result is confirmed in the literature. For example, Coibion *et al.* (2022b) find that U.S. households aware of the Federal Reserve's inflation target anchor their forecasts closer to 2%. This effect is muted when controlling for highly pessimistic respondents.

Trust in the CNB shows an inconsistent relationship with anchored inflation expectations. The variable was statistically significant at 5% only in the balanced panel estimation. In that specification, trust in the CNB helped to anchor inflation expectations only for people who did not know the target and did not understand the monetary policy transmission mechanism. If individuals lack precise knowledge of monetary policy, then they may be using institutional credibility as a shortcut for expectations. The fact that the effect is statistically insignificant in other specifications suggests that trust alone is not enough to anchor expectations for everyone. Individuals who are aware of the target may not ”require” using trust to stabilise their expectations, but the unaware seem to use it more. The conflicting findings also raise questions as to whether reported trust is stable or changes a lot. In addition, some people might use trust in the CNB as a broader proxy for trust in the state apparatus, or perhaps even in the government. If this were true, the variable would not be related to the underlying perceptions of central bank competence.

Understanding of the monetary policy transmission mechanism de-anchors inflation expectations, but only for respondents who trust the CNB. This is very counterintuitive. Knowledge of the transmission mechanism should, in theory, help respondents understand policy decisions and how they relate to inflation. But our results show a different story. People who both trust the CNB and understand how policy mechanics work might ”read between the lines” of policy moves. A rate hike, for example, could be interpreted not just as a tool to cool inflation but as a signal that the bank expects inflation to spiral even higher—prompting these respondents to revise expectations upward. In this sense, trust may act less like blind faith and more like attentiveness—these respondents take the bank’s actions seriously and try to infer what the bank knows, rather than simply adopting its stated target. At the same time, the result might partly reflect how the model is set up. Our proxy for ”knowledge of transmission” is based on one survey item. This may not really reflect the true understanding of monetary policy. If our proxy is imperfect, the variable can behave strangely and can produce spurious results.

Partisans with high trust and low knowledge do not converge in their inflation expectations. Government supporters in this group exhibit lower inflation expectations than opposition supporters. The working assumption behind the hypothesis was simple—when people lack detailed knowledge, trust in an institution like the CNB should function as a shortcut for inflation expectations. In other words, they would ”borrow” the institution’s legitimacy, leaning on trust to form expectations closer to the official target, regardless of which party they support. But the data points in the opposite direction. Even within this supposedly ”low knowledge, high trust” group, partisan divides remain. One plausible explanation is that trust, at least in this context, may not mean confidence in monetary expertise at all—it might be shorthand for broader political loyalty or satisfaction with the government in power. If that's the case, the trust variable in the survey is capturing something more emotional and partisan rather than technocratic (we already discussed this earlier). Also, trust could operate differently when knowledge is low, making individuals more susceptible to partisan cues in media narratives or statements from politicians about inflation rather than the central bank's own guidance.

Partisans with low trust and high knowledge display only a weak and statistically insignificant partisan gap in the baseline specification. In the baseline specification, these respondents barely differ across partisan lines. Yet once the analysis is restricted to the balanced panel, the partisan gap not only appears but flips in direction: government supporters anticipate higher inflation than opposition voters. This reversal raises interesting questions. It could indicate a genuinely dynamic process—perhaps government supporters revise expectations upward when inflation news worsens, while opposition voters anchor to prior pessimism—or it might reflect the fact that once we use a balanced panel, attrition selectively removes less engaged respondents. Another factor could be measurement—the "knowledge" index in this dataset, based on one or two survey items, may fail to capture the actual economic literacy needed to moderate partisan bias.

Personal value orientations would appear to play an important role in shaping inflation expectations, even if the effects are far from homogeneous. The most striking example is for the respondents who identified themselves as fun-seekers, who repeatedly had lower base inflation expectations than the other groups. One explanation is that sensation-seeking or hedonic individuals place less value on macroeconomic risks and put less importance on negative financial news, which aligns with evidence that these personality traits are related to optimism in financial choices (Brown & Taylor 2014; Falk *et al.* 2018). But this optimism is seemingly conditional: when perceived inflation exceeds some 5%, their expectations converge to the mean, implying that fun-seekers will ignore minor price changes but react when inflation becomes too obvious to disregard.

Personality traits which reflect career ambition show a different pattern. Individuals who selected *Career Success* started with lower inflation expectations, but their expectations rose more sharply at higher levels of perceived inflation. This might likely reflect heightened sensitivity to macroeconomic circumstances when personal advancement or earnings security is seen to be threatened. Evidence for the communicative people contradicts both of these trends. This group began with slightly higher baseline expectations, but their expectations declined relative to others as perceived inflation increased. One plausible reason is social conversation exposure—communicative individuals are more embedded in discussions of economic situations and are thereby more prone to fall for pessimism during peaceful times but more likely to reset when dominant narratives shift (Shiller 2017). Stability-seeking respondents exhibit yet another pattern—starting with below-average expectations but growing progressively more responsive to inflation cues at higher levels, in line with psychological studies on security values and threat sensitivity (Schwartz 2012). Together, these results suggest that values are important in forming inflation expectations. This observation is related to behaviour models introducing selective attention and heterogeneous priors in expectations, discussed for example in Bordalo *et al.* (2022b).

6.2 Implications

There are a number of implications. Possibly the most direct lesson for policymakers is that household inflation expectations must not be viewed as a single indicator. The systematic differences across income groups, gender, and political affiliations imply that the "representative agent" assumption still used in forecasting models likely leaves out significant heterogeneity.

Simply publishing a numeric target, even consistently, appears not to be sufficient in anchoring expectations, particularly among low-financial-confidence and low-knowledge-of-monetary-policy respondents. At the same time, the finding that knowledge about the target anchors projections among particular groups means that targeted public education—or even straightforward outreach about the target—may modestly anchor household expectations. But the trust findings cloud this narrative. The CNB's trust is desirable, but not necessarily so in all instances, and sometimes is apparently confused with broader political loyalty rather than pure faith in the CNB's technocratic competence.

Not less significant is the result that many families frame macroeconomic shocks stagflationally—anticipating rising unemployment and inflation jointly rather than turning to the conventional Phillips Curve trade-off. This might lead them to interpret any economic distress, whether demand- or supply-driven, as "bad news" on all fronts. For monetary policymakers, those perceptions might have a significant effect on monetary policy—a rate hike meant to signal anti–inflationary resolve may instead be read as confirmation that the economy is entering deeper trouble. Addressing that disconnect may require investing more resources in financial education for the general public.

Demographic and value-based trends carry more complex but still important implications. For instance, the persistence of the gender gap, even controlling for responsibility for shopping, suggests that inflation narratives are filtered through different factors than just exposure to prices. Value orientations and psychological self-confidence likely influence how economic cues are processed. Recognising these mechanisms could help CNB design communication that addresses anxieties rather than only supplying data, which may be more effective for certain groups.

Finally, if inflation expectations are increasingly tied to political affiliation—as demonstrated by our findings—then central banks may lose their credibility not because they lack technical skills but because public confidence in general becomes polarised.

6.3 Limitations

There are a number of limitations of this research that should be noted in interpreting the results. Some of these directly result from the survey design, while others are more general problems of measurement and context that are typical of research on household expectations.

Missing data and item nonresponse were one major limitation. Key variables—most notably interest rate expectations—had a systematic nonresponse rate. A systematic nonresponse rate, specifically for demographic characteristics, means that certain groups—e.g., respondents with lower income and education—are underrepresented in parts of the analysis. This introduces the worry that estimated coefficients reflect the attitudes of more active subgroups rather than the overall population.

Another limitation is in the categorical nature of some variables. Unemployment expectations, for example, were measured in categories rather than on continuous scales. While this allowed for easy modelling, it inevitably limited precision. Similarly, value orientations were measured as self-reported binary indicators rather than ranked or continuous measures. This makes it harder to differentiate between weakly and strongly held values. At the same time, since one respondent could choose multiple values, we might be missing some important patterns in the value system by modelling each value in its own regression model. Also, value indicators assess self-reported ideal self-image instead of an objective criterion. This means that respondents could have chosen values that would make them (the respondents) look more favourable. Finally, the models cannot prove causal inference on whether values affect expectations or are themselves a product of inflationary experience. For example, a respondent with high perceived inflation may have security–seeking traits just as easily as pre–existing security values may fuel inflation concern. This is especially true when we consider our finding that respondents have a stagflationary view of the economy.

There is also an issue with how we constructed knowledge variables. The specific way in which it was constructed might not make it comparable with other studies. Thus, this makes results from hypothesis 9 incomparable with Struby & Farhart (2024). They discuss partisan differences among partisans with generalised trust in others and knowledge related to politics. In our paper, we use trust in the central bank and knowledge related to monetary policy.

Finally, political affiliation was assumed to be time-invariant throughout the six–month survey interval. However, some respondents' partisanship may have switched during that period.

Chapter 7

Conclusion

This thesis set out to ask a simple question: do people's values and perceptions meaningfully shape how households imagine future inflation? The question matters because central banks often rely on aggregate measures of expectations that do not account for individual differences. Yet survey evidence, including the one used here, suggests that household beliefs rarely align neatly with official targets and that differences in inflation expectations are not random. They cluster around traits—gender, income, education, even partisan identity—that most macroeconomic models tend to treat as irrelevant.

This thesis aimed to investigate these topics by analysing a recent IPSOS survey on household inflation expectations. To do this, we used Correlated Random Effects (CRE) models. CRE is very useful, because it can decompose variation into within and between. It can thus isolate individual changes in a variable from habitual beliefs.

The analysis revealed several interesting findings. Women expect higher inflation than men. But even after controlling for who actually buys the groceries—a plausible mechanism often cited in literature—the gap did not fully close. Lower–income households consistently projected higher inflation. Respondents who generally anticipated rising unemployment often simultaneously expected higher inflation—suggesting that respondents have a stagflationary view of the economy. We found no evidence that within-individual changes in unemployment expectations affect inflation expectations. There was no significant effect on inflation expectations once we used the expected decrease in unemployment as a variable. We found a strong pass-through from inflation perceptions to inflation expectations. Trust in the Czech National Bank emerged as a double–edged variable. Knowing the inflation target tended to anchor expectations, yet trust by itself did not always play this stabilising role. In some models, partisan loyalty seemed to overshadow technocratic trust—government supporters expected lower inflation regardless of their knowledge, while opposition voters remained sceptical even when well–informed. This blurs political and monetary responsibility. It also raises questions about the limits of central bank communication in polarised environments. Respondents who habitually expect higher real interest rates are more likely to report plans to save more, consistent with the logic of the consumption Euler equation. Although the effect of real interest rate expectations is asymmetric—expectations about future real interest rates predict increases in saving, but not decreases. Personality traits seem to play a role in inflation expectations formation processes. These effects were modest in scale, but their consistency across models hints that worldviews shape economic beliefs.

Our conclusions are limited. Some variables—monetary knowledge, for example—were measured narrowly; political affiliation was assumed stable even as politics changes. The data cover a period of unusually high inflation, raising the question of whether these dynamics would hold in calmer times. Still, the evidence does seem to suggest that household expectations are shaped heterogeneously based on lived experience and worldviews.

Future research can take this analysis in several different directions. For example, it could use experimental manipulations of information to test causal mechanisms, better measures of financial literacy and value hierarchies, or low-inflation setting replications to see if the results in this thesis are generalisable.

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Appendix A

Data Section

Table A.1: Description of Variables used in this Thesis

Variable	Definition
Expected 1-Year Inflation	Respondent's point expectation of inflation rate one year ahead (in percentage points).
Saving More	Binary indicator for whether a household reports adjusting consumption in the next 12 months. Coded as 1 if respondent indicates any saving-increasing behavior in survey questions $Q12_1 - Q12_4$ (January) or $Q12_5 - Q12_8$ (June), 0 otherwise.
Saving Less	Binary indicator for whether a household reports adjusting consumption in the next 12 months. Coded as 1 if respondent indicates saving-decreasing behavior in survey questions $Q12_5 - Q12_7$ (January) or $Q12_1 - Q12_4(June)$, 0 otherwise.
Distance from Target	Absolute value of distance between respondent's point expectation of inflation rate one year ahead and the inflation target (in percentage points)
Perceived inflation	Respondent's point perception of inflation rate over the past 12 months (in percentage points).

Variable	Definition
Inflation uncertainty	Measures respondent's subjective uncertainty about 1-year ahead expected inflation. It was created using survey questions $Q3_1$ to $Q3_8$, where respondents assign probabilities to different inflation rate bins. Higher values indicate greater uncertainty. Calculated using the Expected Ranked Probability Score (ERPS) method (Krüger & Pavlova 2024).
HH income	Net monthly household income measured on a categorical scale from 1 to 10. Derived from survey question XC11 ("Čistý měsíční příjem domácnosti"). Each category represents specific income brackets in Czech Koruna (Kč): 1 = up to $10,000$ Kč; 2 = $10,001 - 15,000$ Kč; 3 = $15,001 - 20,000$ Kč; 4 = $20,001 - 30,000$ Kč; 5 = $30,001 - 40,000$ Kč; 6 = $40,001 - 50,000$ Kč; 7 = $50,001 - 60,000$ Kč; 8 = $60,001 - 70,000$ Kč; 9 = $70,001 - 80,000$ Kč; 10 = $80,001$ Kč and more.
Unemp. up	Binary indicator for whether respondent expects unemployment to increase in the next 12 months. Coded as 1 if unemployment expectations (Q6) are 1 or 2 (definitely/probably increase), 0 otherwise.
Unemp. down	Binary indicator for whether respondent expects unemployment to decrease in the next 12 months. Coded as 1 if unemployment expectations (Q6) are 4 or 5 (definitely/probably decrease), 0 otherwise.
Mean perc. infl.	Individual-specific mean of perceived inflation over the survey period. Calculated as the average of each respondent's perceived inflation responses.

Variable	Definition
Mean infl. uncer.	Individual-specific mean of inflation uncertainty over the survey period. Calculated as the average of each respondent's inflation uncertainty measure.
Mean unemp. up	Individual-specific mean of unemployment increase expectations over the survey period. Calculated as the average of each respondent's binary unemployment increase expectations
Mean unemp. down	Individual-specific mean of unemployment decrease expectations over the survey period. Calculated as the average of each respondent's binary unemployment decrease expectations
Single household	Binary indicator for whether the household consists of only one person. Coded as 1 if household size ($XC7$) equals 1, 0 otherwise.
Female	Binary indicator for respondent's gender. Coded as 1 for female ($XC2 = 2$ "Žena"), 0 for male ($XC2 = 1$ "Muž").
Education	Categorical variable indicating respondent's highest level of education. Derived from survey question $XC5$ and categorized into three levels: Primary ($XC5 \leq 3$); Secondary ($XC5 = 4-7$), including post-secondary non-tertiary education; and Tertiary ($XC5 \geq 8$).
Real Interest (SA)	Real interest rate on savings accounts, calculated as the difference between expected nominal interest rate on savings and expected inflation. Derived from survey question $Q13$: "If you have a savings account, or are considering opening one, what interest rate do you expect on it for 12 months?"

Variable	Definition
Real Interest (Mortgage)	Real interest rate on mortgages, calculated as the difference between expected nominal interest rate on mortgages and expected inflation. Derived from survey question $Q14$: "If you have a mortgage, or are considering one, what mortgage interest rate do you expect for 12 months?"
Age	Respondent's age categorized into six age groups. The age variable is categorized into dummy variables with "18-24" as the reference group.
Primary shopper	Binary indicator for whether the respondent is the primary person responsible for grocery shopping in the household. Derived from survey question $XC21$.
Internet Usage	Categorical variable indicating frequency of internet usage in free time. Derived from survey question $XC95$ ("Jak často využíváte internet ve volném čase?"). Values range from 1 (more than 6 hours daily) to 10 (never), with intermediate categories for different usage frequencies.
TV Usage	Categorical variable indicating frequency of tv usage. Derived from survey question $XC97$ ("Jak často sledujete TV?"). Values range from 1 (more than 6 hours daily) to 10 (never), with intermediate categories for different usage frequencies.
Radio Usage	Categorical variable indicating frequency of radio usage. Derived from survey question $XC98$ ("Jak často posloucháte rádio?"). Values range from 1 (more than 6 hours daily) to 10 (never), with intermediate categories for different usage frequencies.

Variable	Definition
Newspaper Usage	Categorical variable indicating frequency of newspaper reading. Derived from survey question $XC274$ ("Čtete tištěné noviny či deníky?"). Values range from 1 (more than 6 hours daily) to 10 (never), with intermediate categories for different usage frequencies.
Political Affiliation	Categorical variable indicating respondent's voting behaviour in the Chamber of Deputies election. Derived from survey question $XC128$ ("Which party did you vote for in the Chamber of Deputies election?"). Categories: Govt Voter = Respondents who voted for government parties ($SPOLU = 11$, $Piráti + STAN = 12$); Opposition/Other Voter = Respondents who voted for opposition or other parties ($ANO = 1$, $ČSSD = 3$, $KSČM = 5$, $Zelení = 9$, $SPD = 13$, $Trikolora = 17$, $Přísaha = 18$, $Other = 19, 95$), reference category. Non-Voter/DK/Refused = Respondents who did not vote, do not know, and refused to answer.
Trust	Binary indicator for trust in the Czech National Bank (CNB). Derived from survey question $Q18$ asking about confidence in the CNB. Coded as "Trust" for responses 1-2 (definitely/rather yes) and "Distrust" for responses 3-4 (rather/definitely no), with "don't know" (99) treated as missing.
Knows Target	Binary indicator for knowledge of the CNB's inflation target. Derived from survey question $Q16_1$ asking for the numerical inflation target. Coded as "Correct" if respondent answers exactly 2%, "Incorrect" for any other numeric answer, with "don't know" (999) treated as missing.

Variable	Definition
Understands policy	Binary indicator for understanding of monetary policy transmission mechanism. Derived from survey question $Q17$ asking about understanding of how monetary policy affects inflation. Coded as ”Correct” for responses 1-2 (definitely/rather yes) and ”Incorrect” for responses 3-4 (rather/definitely no), with ”don’t know” (99) treated as missing.
Knowledge	Binary composite knowledge indicator combining ”Knows Target” and ”Understands policy” variables. Codded as ’High’ if the respondent knows the inflation target and at the same time understands the monetary policy transmission mechanism, ’Low’ otherwise.
Trust, Knowledge	Composite categorical indicator combining ”Trust” and ”Knowledge” variables. Created by cross-classifying respondents based on their trust level and composite knowledge, resulting in four distinct groups.
Spontaneity	Binary indicator for whether respondent identifies as someone ”who likes to do things spontaneously.” Derived from survey question $XC250_1$.
Fun Seeking	Binary indicator for whether respondent identifies as someone ”who wants to have as much fun in life as possible.” Derived from survey question $XC250_2$.
Sociability	Binary indicator for whether respondent identifies as someone ”who looks forward to meeting new people and friends.” Derived from survey question $XC250_3$.
Communicative	Binary indicator for whether respondent identifies as someone ”who is communicative and sociable.” Derived from survey question $XC250_4$.

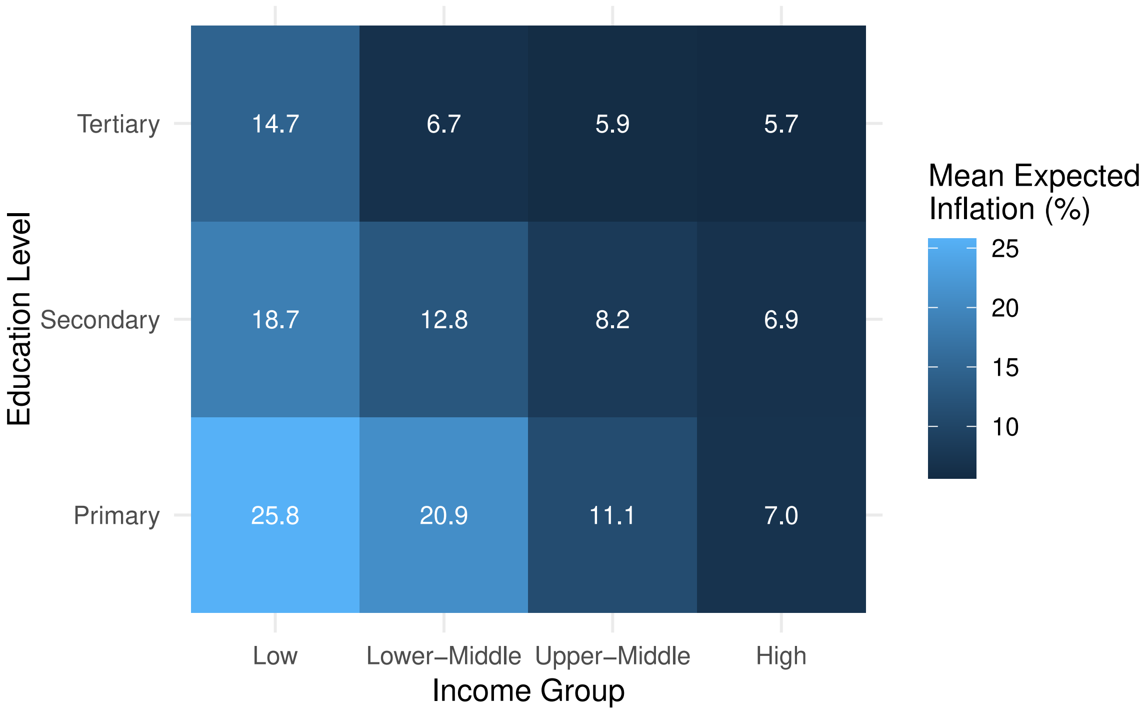
Variable	Definition
Caregiver	Binary indicator for whether respondent identifies as someone "who enjoys taking care of others." Derived from survey question $XC250_5$.
Close Relationships	Binary indicator for whether respondent identifies as someone "who has a strong bond with their loved ones." Derived from survey question $XC250_6$.
Stability Seeking	Binary indicator for whether respondent identifies as someone "who prefers a stable life without changes." Derived from survey question $XC250_7$.
Home Oriented	Binary indicator for whether respondent identifies as someone "who enjoys spending a quiet evening in the comfort of their home." Derived from survey question $XC250_8$.
Orderly	Binary indicator for whether respondent identifies as someone "who loves order and structure in life." Derived from survey question $XC250_9$.
Control Seeking	Binary indicator for whether respondent identifies as someone "who likes to keep things under control." Derived from survey question $XC250_{10}$.
Deep Thinker	Binary indicator for whether respondent identifies as someone "who understands topics in depth." Derived from survey question $XC250_{11}$.
Expert Recognition	Binary indicator for whether respondent identifies as someone "who stands out from others due to their strong expertise." Derived from survey question $XC250_{12}$.
Ambitious	Binary indicator for whether respondent identifies as someone "who is goal-oriented and ambitious." Derived from survey question $XC250_{13}$.

Variable	Definition
Career Success	Binary indicator for whether respondent identifies with as ”who is successful in their professional life.” Derived from survey question $XC250_{14}$.
Dynamic	Binary indicator for whether respondent identifies as someone ”who is active and dynamic.” Derived from survey question $XC250_{15}$.
Challenge Seeking	Binary indicator for whether respondent identifies as someone ”who enjoys challenges in life.” Derived from survey question $XC250_{16}$.

Appendix B

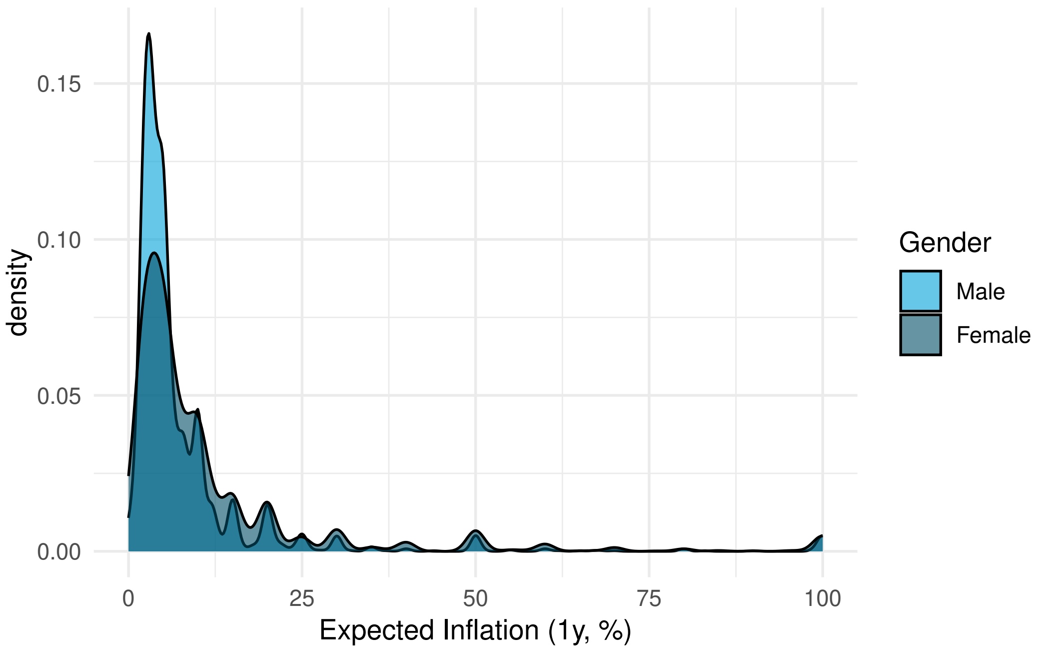
Results Section

Figure B.1: Mean Inflation Expectations by Education and Household Income



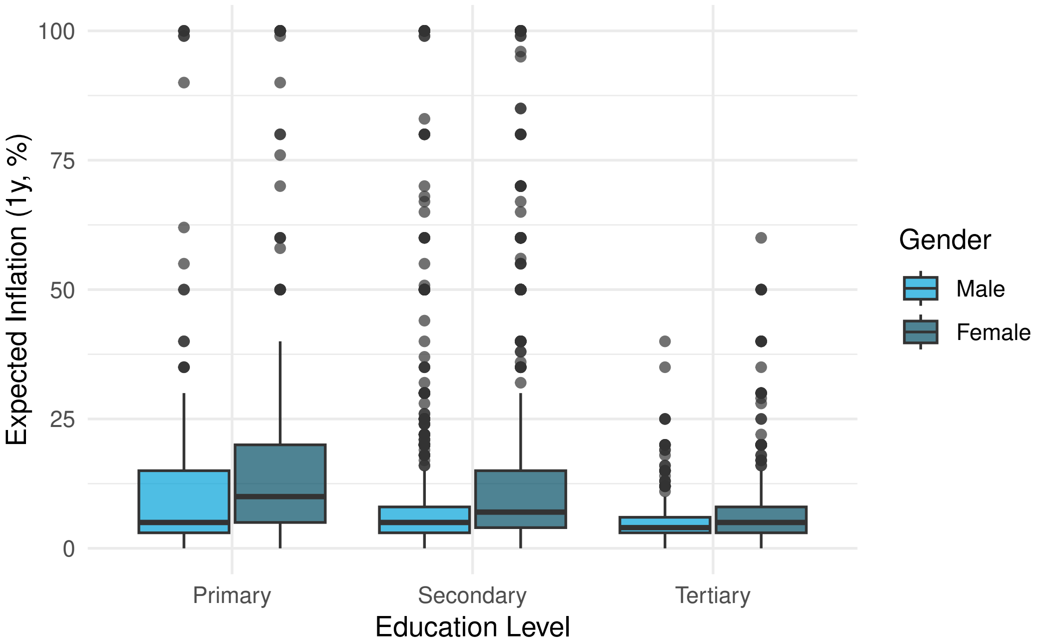
Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: The figure displays the mean expected 1-year ahead inflation rate for each combination of education level and household income group. Means are calculated as simple averages within each subgroup. No additional data transformations (such as winsorization or trimming) were applied prior to calculation.

Figure B.2: Distribution of Inflation Expectations by Gender



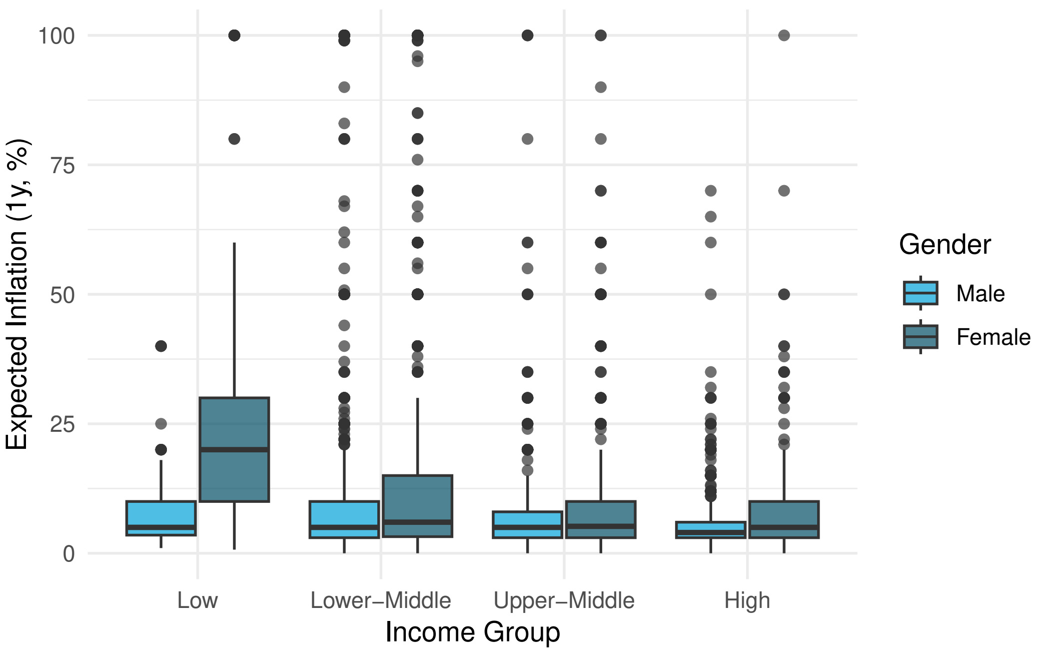
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the kernel density estimates of expected 1-year ahead inflation rates, separately for male and female respondents. No additional data transformations (such as winsorization or trimming) were applied. Overlapping areas indicate regions where the distributions for men and women coincide.

Figure B.3: INFLATION EXPECTATIONS BY GENDER AND EDUCATION



Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: The figure displays box plots of expected 1-year ahead inflation rates, grouped by gender and education. Only respondents with non-missing values are included. No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

Figure B.4: Inflation Expectations by Gender and Income



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure presents box plots of expected 1-year ahead inflation rates, grouped by gender and household income group. Only respondents with non-missing values for both income groups and expected inflation are included. No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

Table B.1: Random Effects and Fixed Effects Models

	Dependent variable:	
	Expected 1-Year Inflation	
	RE	FE
	(1)	(2)
Perceived inflation	0.728***	0.813***
	(0.029)	(0.027)
Inflation uncertainty	−0.743*	−1.460***
	(0.442)	(0.550)
HH income	−0.330***	−0.200***
	(0.073)	(0.069)
Unemp. up	1.290***	1.500***
	(0.215)	(0.294)
February	0.099	
	(0.352)	
March	0.545	
	(0.377)	
April	0.383	
	(0.402)	
May	0.669	
	(0.425)	
June	0.630*	
	(0.381)	
Constant	2.680***	
	(0.705)	
Month dummies	Yes	No (dropped)
Individual effects	No	Yes
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	4,842	4,842
R^2	0.633	0.759
Adjusted R^2	0.632	0.417

Note: The table shows results from random effects (RE) and fixed effects (FE) panel regression models of expected 1-year ahead inflation. The dependent variable is the respondent's expected inflation rate for the next year. The RE model includes month dummies to account for time effects, while the FE model absorbs individual-specific effects and drops time dummies. Robust standard errors, clustered at the individual level, are reported in parentheses. *p<0.1; **p<0.05; ***p<0.01.

Table B.2: CRE Models of Expected 1-Year Inflation for Respondents Completing All 6 Survey Waves

	Dependent variable:				
	Expected 1-Year Inflation				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.569***	0.568***	0.633***	0.582***	0.681***
	(0.059)	(0.060)	(0.060)	(0.084)	(0.107)
Inflation uncertainty	−2.240**	−2.230**	−2.160**	−2.500***	−2.380***
	(0.912)	(0.912)	(0.896)	(0.911)	(0.894)
HH income	−0.142**	−0.161**	−0.132**	−0.130**	−0.117*
	(0.056)	(0.064)	(0.057)	(0.057)	(0.063)
Unemp. up	0.197	0.196	0.151	0.152	0.103
	(0.349)	(0.349)	(0.346)	(0.352)	(0.349)
Mean perc. infl.	0.361***	0.358***	0.356***	0.358***	0.347***
	(0.056)	(0.055)	(0.053)	(0.058)	(0.055)
Mean infl. uncer.	1.250	1.260	1.370	1.340	1.590
	(1.420)	(1.390)	(1.390)	(1.440)	(1.370)
Mean unemp. up	1.080**	1.100**	1.130**	1.030**	1.110**
	(0.445)	(0.448)	(0.440)	(0.453)	(0.449)
Single household		−0.519			−0.705
		(0.392)			(0.467)
Female			1.310***		1.580***
			(0.383)		(0.457)
Secondary edu.				−0.911	−0.408
				(0.680)	(0.797)
Tertiary edu.				−0.192	−0.011
				(0.715)	(0.786)
Single × Perc. Inflation		0.023			0.057
		(0.034)			(0.045)
Female × Perc. Inflation			−0.105**		−0.117**
			(0.043)		(0.052)
Secondary edu. × Perc. Inflation				−0.008	−0.047
				(0.067)	(0.082)
Tertiary edu. × Perc. Inflation				−0.143*	−0.157*
				(0.083)	(0.091)
Constant	0.601	0.774	−0.162	1.550	0.272
	(0.766)	(0.815)	(0.753)	(1.060)	(1.220)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,442	2,442	2,394	2,394
R^2	0.805	0.806	0.808	0.808	0.811
Adjusted R^2	0.804	0.804	0.807	0.806	0.809

Note: The table shows results from CRE models, estimated on the subsample of respondents who participated in all six survey waves. The dependent variable is the expected 1-year-ahead inflation rate. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.3: CRE Models of Expected Inflation with Winsorized Covariates (1%/99% and 5%/95%)

	Dependent variable:		
	Expected 1-Year Inflation		
	Original	Winsorized 1%	Winsorized 5%
	(1)	(2)	(3)
Perceived inflation	0.776***	0.776***	1.110***
	(0.067)	(0.067)	(0.127)
Inflation uncertainty	−1.620**	−1.650**	−1.830**
	(0.676)	(0.692)	(0.864)
HH income	−0.144***	−0.144***	−0.305***
	(0.055)	(0.055)	(0.063)
Unemp. up	0.262	0.261	0.515
	(0.304)	(0.304)	(0.364)
Mean perc. infl.	0.262***	0.262***	0.497***
	(0.043)	(0.043)	(0.063)
Mean infl. uncer.	1.620*	1.670*	0.891
	(0.891)	(0.908)	(1.150)
Mean unemp. up	2.090***	2.080***	1.600***
	(0.410)	(0.411)	(0.468)
Single household	−1.020**	−1.010*	−0.982
	(0.518)	(0.519)	(0.799)
Female	1.260***	1.260***	−0.555
	(0.356)	(0.356)	(0.541)
Secondary edu.	1.480***	1.480***	3.030***
	(0.530)	(0.530)	(0.981)
Tertiary edu.	2.310***	2.310***	6.220***
	(0.575)	(0.576)	(0.973)
Single × Perc. Inflation	0.082	0.082	0.039
	(0.058)	(0.058)	(0.110)
Female × Perc. Inflation	−0.107***	−0.107***	0.046
	(0.041)	(0.041)	(0.077)
Secondary edu. × Perc. Inflation	−0.152***	−0.152***	−0.341***
	(0.048)	(0.048)	(0.118)
Tertiary edu. × Perc. Inflation	−0.317***	−0.317***	−0.790***
	(0.063)	(0.063)	(0.119)
Constant	−1.840**	−1.850**	−4.750***
	(0.836)	(0.837)	(1.200)
Month dummies	Yes	Yes	Yes
Individual effects	No	No	No
Robust SEs	Yes	Yes	Yes
Clustering	Individual	Individual	Individual
Observations	4,768	4,768	4,768
R^2	0.758	0.758	0.628
Adjusted R^2	0.757	0.757	0.627

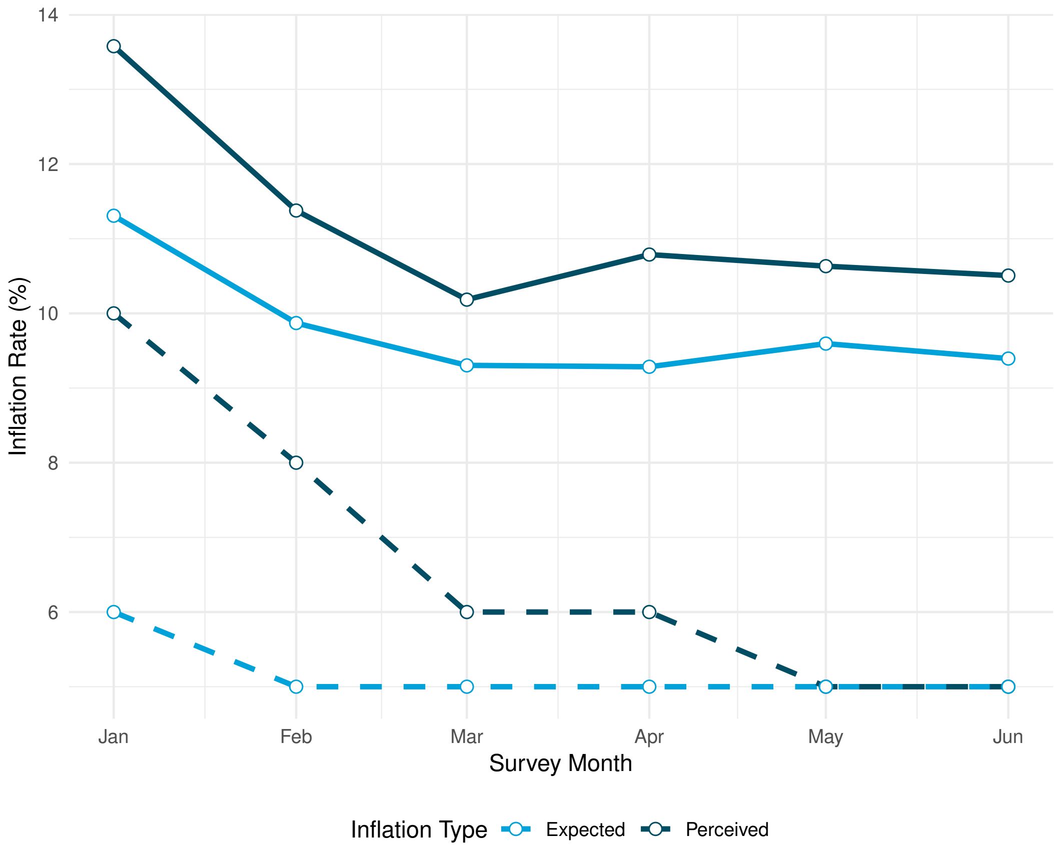
Note: The table presents results from CRE models predicting expected 1-year ahead inflation. The dependent variable is the respondent's expected inflation rate for the next year. The "Original" model uses untransformed covariates, while the "Winsorized 1%" and "Winsorized 5%" models apply winsorization to all time-varying covariates at the 1st/99th and 5th/95th percentiles, respectively. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.4: Random Effects vs Fixed Effects Models for Inflation Expectations

	Dependent variable:							
	Expected 1-Year Inflation							
	RE (1)	RE (2)	RE (3)	RE (4)	FE (5)	FE (6)	FE (7)	FE (8)
Perceived inflation	0.736***	0.736***	0.728***	0.729***	0.826***	0.826***	0.813***	0.819***
	(0.029)	(0.008)	(0.008)	(0.008)	(0.011)	(0.011)	(0.011)	(0.027)
Inflation uncertainty	−0.750*	−0.750**	−0.743**	−0.804**	−1.431***	−1.431***	−1.457***	−1.530***
	(0.445)	(0.367)	(0.365)	(0.366)	(0.485)	(0.485)	(0.484)	(0.556)
HH income			−0.330***	−0.371***			−0.200***	−0.231***
			(0.074)	(0.074)			(0.076)	(0.070)
Unemp. up			1.286***				1.504***	
			(0.240)				(0.316)	
Unemp. down				−0.282				−0.546
				(0.513)				(0.812)
February	0.115	0.115	0.099	0.101				
	(0.353)	(0.329)	(0.328)	(0.328)				
March	0.480	0.480	0.545	0.483				
	(0.378)	(0.333)	(0.332)	(0.332)				
April	0.315	0.315	0.383	0.285				
	(0.403)	(0.335)	(0.334)	(0.334)				
May	0.607	0.607*	0.669**	0.586*				
	(0.427)	(0.337)	(0.336)	(0.336)				
June	0.521	0.521	0.630*	0.512				
	(0.381)	(0.342)	(0.342)	(0.342)				
Constant	1.311***	1.311***	2.683***	3.680***				
	(0.475)	(0.342)	(0.606)	(0.584)				
Month dummies	Yes	Yes	Yes	Yes	No (dropped)	No (dropped)	No (dropped)	No (dropped)
Individual effects	No	No	No	No	Yes	Yes	Yes	Yes
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.626	0.626	0.633	0.629	0.755	0.755	0.759	0.756
Adjusted R^2	0.625	0.625	0.632	0.628	0.409	0.409	0.417	0.411

Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. All RE specifications include month fixed effects and use cluster-robust standard errors. Standard errors in parentheses. All combinations of RE and FE models (i.e. models 1 and 5, etc.) reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Figure B.5: Evolution of Perceived and Expected Inflation Rates



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the time series of perceived and expected 1-year ahead inflation rates over the six survey waves. For each month, the mean and median values are shown separately for perceived inflation and expected inflation. Solid lines represent means, and dashed lines represent medians. Only respondents with non-missing values for the relevant variables in each wave are included. No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

Table B.5: CRE Models of Expected 1-Year Inflation for Respondents Completing All 6 Survey Waves

	Dependent variable:				
	Expected 1-Year Inflation				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.868***	0.849***	0.569***	0.855***	0.570***
	(0.027)	(0.027)	(0.059)	(0.027)	(0.059)
Inflation uncertainty	−1.520**	−1.610**	−2.240**	−1.700**	−2.250**
	(0.659)	(0.663)	(0.912)	(0.669)	(0.921)
HH income		−0.311***	−0.142**	−0.330***	−0.161***
		(0.062)	(0.056)	(0.063)	(0.058)
Unemp. up		1.110***	0.197		
		(0.231)	(0.349)		
Mean perc. infl.			0.361***		0.368***
			(0.056)		(0.056)
Mean infl. uncer.			1.250		1.130
			(1.420)		(1.400)
Mean unemp. up			1.080**		
			(0.445)		
Unemp. down				−0.478	0.040
				(0.688)	(0.752)
Mean unemp. down					−1.180
					(1.140)
Constant	0.368	1.900**	0.601	2.650***	1.440*
	(0.611)	(0.797)	(0.766)	(0.838)	(0.764)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,442	2,442	2,442	2,442
R^2	0.780	0.783	0.805	0.782	0.804
Adjusted R^2	0.780	0.783	0.804	0.781	0.804

Note: The table reports results from CRE models, estimated on the subsample of respondents who participated in all six survey waves. The dependent variable is the expected 1-year-ahead inflation rate. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.6: CRE Models of Expected Inflation with Winsorized Covariates (1%/99% and 5%/95%)

	Dependent variable:							
	Expected 1-Year Inflation							
	Wins. 1% (1)	Wins. 1% (2)	Wins. 1% (3)	Wins. 1% (4)	Wins. 1% (5)	Wins. 5% (6)	Wins. 5% (7)	Wins. 5% (8)
Perceived inflation	0.807***	0.792***	0.579***	0.798***	0.579***	1.220***	1.190***	0.800***
	(0.021)	(0.021)	(0.044)	(0.021)	(0.044)	(0.039)	(0.038)	(0.055)
Inflation uncertainty	−0.534	−0.536	−1.580**	−0.632	−1.610**	−0.885	−0.896	−1.730**
	(0.422)	(0.419)	(0.704)	(0.422)	(0.713)	(0.553)	(0.553)	(0.872)
HH income		−0.267***	−0.174***	−0.313***	−0.230***		−0.396***	−0.292***
		(0.051)	(0.049)	(0.053)	(0.050)		(0.059)	(0.056)
Unemp. up		1.710***	0.289				1.710***	0.464
		(0.206)	(0.306)				(0.239)	(0.369)
Unemp. down				−0.470	−0.087			
				(0.497)	(0.549)			
Mean perc. infl.			0.263***		0.273***			0.493***
			(0.044)		(0.045)			(0.064)
Mean infl. uncer.			1.590*		1.480			1.210
			(0.925)		(0.929)			(1.160)
Mean unemp. up			1.940***					1.510***
			(0.409)					(0.471)
Mean unemp. down					−0.870			
					(0.985)			
Constant	0.240	1.080*	0.158	2.320***	1.690***	−3.270***	−1.460**	−2.400***
	(0.421)	(0.553)	(0.558)	(0.577)	(0.563)	(0.557)	(0.683)	(0.702)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.729	0.734	0.747	0.731	0.744	0.588	0.595	0.612
Adjusted R^2	0.728	0.733	0.747	0.730	0.743	0.587	0.594	0.611

Note: The table presents results from CRE models predicting expected 1-year ahead inflation. The dependent variable is the respondent's expected inflation rate for the next year. The "Original" model uses untransformed covariates, while the "Winsorized 1%" and "Winsorized 5%" models apply winsorization to all time-varying covariates at the 1st/99th and 5th/95th percentiles, respectively, to reduce the influence of extreme outliers. All models include individual means of key time-varying covariates (Mundlak terms) and month dummies. Robust standard errors, clustered at the individual level, are reported in parentheses. *p<0.1; **p<0.05; ***p<0.01.

Table B.7: GEE Models for Saving Less Based on Mortgage Rate

	Dependent variable:				
	Saving Less				
	(1)	(2)	(3)	(4)	(5)
Constant	−1.266**	−1.091**	−0.900+	−0.336	−0.336
	(0.385)	(0.399)	(0.468)	(0.533)	(0.533)
Real Interest	0.010	0.010	0.010	0.010	0.010
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Inf. Uncertainty	0.298	0.325	0.346	0.276	0.276
	(0.418)	(0.420)	(0.425)	(0.424)	(0.424)
HH Income	−0.130**	−0.139**	−0.147**	−0.125**	−0.125**
	(0.044)	(0.045)	(0.045)	(0.045)	(0.045)
Unemp. Up	−0.239	−0.237	−0.246	−0.246	−0.246
	(0.306)	(0.303)	(0.304)	(0.303)	(0.303)
Mean Real Interest	−0.007	−0.008	−0.008	−0.007	−0.007
	(0.015)	(0.015)	(0.016)	(0.015)	(0.015)
Mean Inf. Uncertainty	0.693	0.722	0.613	0.649	0.649
	(0.519)	(0.523)	(0.531)	(0.532)	(0.532)
Mean Unemp. Up	0.947*	0.962*	1.014**	0.935*	0.935*
	(0.385)	(0.382)	(0.388)	(0.385)	(0.385)
Female		−0.387*	−0.390*	−0.360+	−0.360+
		(0.184)	(0.183)	(0.184)	(0.184)
Age 25-34			−0.236	0.095	0.095
			(0.358)	(0.376)	(0.376)
Age 35-44			−0.020	0.264	0.264
			(0.339)	(0.355)	(0.355)
Age 45-54			0.004	0.320	0.320
			(0.345)	(0.370)	(0.370)
Age 55-64			−0.404	−0.106	−0.106
			(0.374)	(0.398)	(0.398)
Secondary Edu.				−0.925**	−0.925**
				(0.337)	(0.337)
Tertiary Edu.				−1.264**	−1.264**
				(0.395)	(0.395)
Num.Obs.	761	761	761	761	761
AIC	809.1	806.6	811.6	803.8	803.8
BIC	846.2	848.3	871.8	873.3	873.3
Log.Lik.	−396.542	−394.288	−392.777	−386.908	−386.908
F	5.056	4.980	3.607	3.469	3.469
RMSE	0.41	0.41	0.41	0.41	0.41

Note: This table shows the results of Generalised Estimating Equations (GEE). The dependent variable is a binary variable showing that respondents reported saving less. Real Interest Rate Expectations are calculated as the difference between the expected nominal mortgage rate and inflation expectations. Standard errors are robust and account for within-individual correlation across survey waves. Models are estimated using exchangeable correlations and a logistic link function. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.8: GEE Models for Saving More Based on Savings Account

	Dependent variable:				
	Saving More				
	(1)	(2)	(3)	(4)	(5)
Constant	0.200	0.085	0.380	0.075	0.075
	(0.326)	(0.336)	(0.416)	(0.485)	(0.485)
Real Interest	−0.016	−0.016	−0.016	−0.015	−0.015
	(0.010)	(0.010)	(0.011)	(0.011)	(0.011)
Inf. Uncertainty	0.041	0.030	0.067	0.099	0.099
	(0.337)	(0.340)	(0.338)	(0.336)	(0.336)
HH Income	−0.010	−0.005	−0.019	−0.028	−0.028
	(0.036)	(0.037)	(0.037)	(0.037)	(0.037)
Unemp. Up	0.016	0.019	0.017	0.020	0.020
	(0.251)	(0.250)	(0.249)	(0.251)	(0.251)
Mean Real Interest	0.024+	0.025+	0.026*	0.025*	0.025*
	(0.012)	(0.013)	(0.013)	(0.013)	(0.013)
Mean Inf. Uncertainty	0.067	0.045	−0.159	−0.168	−0.168
	(0.443)	(0.447)	(0.450)	(0.449)	(0.449)
Mean Unemp. Up	0.321	0.316	0.377	0.410	0.410
	(0.312)	(0.311)	(0.313)	(0.314)	(0.314)
Female		0.249+	0.235	0.224	0.224
		(0.150)	(0.151)	(0.153)	(0.153)
25-34			0.185	0.052	0.052
			(0.303)	(0.331)	(0.331)
35-44			−0.210	−0.328	−0.328
			(0.292)	(0.309)	(0.309)
45-54			−0.114	−0.244	−0.244
			(0.294)	(0.314)	(0.314)
55-64			−0.599+	−0.727*	−0.727*
			(0.314)	(0.334)	(0.334)
Secondary Edu.				0.455	0.455
				(0.344)	(0.344)
Tertiary Edu.				0.554	0.554
				(0.382)	(0.382)
Num.Obs.	761	761	761	761	761
AIC	1042.6	1041.9	1038.9	1040.3	1040.3
BIC	1079.7	1083.6	1099.1	1109.8	1109.8
Log.Lik.	−513.307	−511.964	−506.437	−505.127	−505.127
F	0.967	1.129	1.583	1.657	1.657
RMSE	0.49	0.49	0.49	0.49	0.49

Note: This table presents the results of Generalised Estimating Equations (GEE). The dependent variable is a binary indicator for whether respondents reported saving more. Real Interest Rate Expectations are measured as the difference between the expected nominal interest rate on a savings account and inflation expectations. Standard errors are robust and account for within-individual correlation across survey waves. Models are estimated using an exchangeable correlation structure and a logistic link function. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.9: GEE MODELS FOR SAVING LESS BASED ON SAVINGS ACCOUNT

	Dependent variable:				
	Saving Less				
	(1)	(2)	(3)	(4)	(5)
Constant	−1.238**	−1.071**	−0.871+	−0.318	−0.318
	(0.388)	(0.401)	(0.471)	(0.532)	(0.532)
Real Interest	−0.005	−0.005	−0.005	−0.005	−0.005
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Inf. Uncertainty	0.270	0.299	0.321	0.258	0.258
	(0.418)	(0.420)	(0.424)	(0.423)	(0.423)
HH Income	−0.133**	−0.142**	−0.149***	−0.127**	−0.127**
	(0.044)	(0.045)	(0.045)	(0.045)	(0.045)
Unemp. Up	−0.266	−0.262	−0.271	−0.267	−0.267
	(0.307)	(0.304)	(0.305)	(0.304)	(0.304)
Mean Real Interest	0.010	0.009	0.010	0.009	0.009
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Mean Inf. Uncertainty	0.716	0.743	0.632	0.666	0.666
	(0.517)	(0.521)	(0.529)	(0.531)	(0.531)
Mean Unemp. Up	0.984*	0.996**	1.046**	0.959*	0.959*
	(0.385)	(0.383)	(0.391)	(0.387)	(0.387)
Female		−0.382*	−0.386*	−0.356+	−0.356+
		(0.184)	(0.183)	(0.183)	(0.183)
25-34			−0.246	0.081	0.081
			(0.356)	(0.373)	(0.373)
35-44			−0.031	0.250	0.250
			(0.337)	(0.353)	(0.353)
45-54			−0.009	0.302	0.302
			(0.343)	(0.368)	(0.368)
55-64			−0.413	−0.115	−0.115
			(0.374)	(0.398)	(0.398)
Secondary Edu.				−0.919**	−0.919**
				(0.335)	(0.335)
Tertiary Edu.				−1.255**	−1.255**
				(0.391)	(0.391)
Num.Obs.	761	761	761	761	761
AIC	809.1	806.8	811.7	804.1	804.1
BIC	846.2	848.5	872.0	873.6	873.6
Log.Lik.	−396.567	−394.375	−392.868	−387.055	−387.055
F	5.073	4.977	3.640	3.500	3.500
RMSE	0.41	0.41	0.41	0.41	0.41

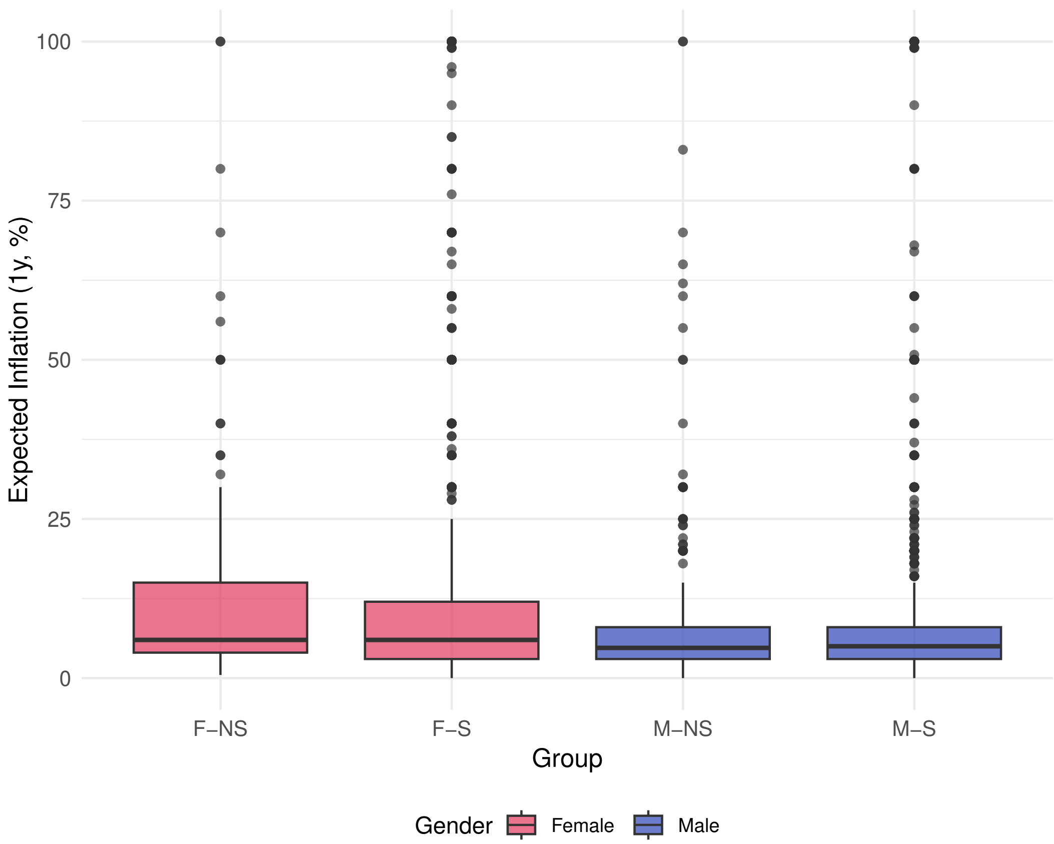
Note: This table shows the results of Generalised Estimating Equations (GEE). The dependent variable is a binary indicator for whether respondents reported saving less. Real Interest Rate Expectations are measured as the difference between the expected nominal interest rate on a savings account and inflation expectations. Standard errors are robust and account for within-individual correlation across survey waves. Models are estimated using an exchangeable correlation structure and a logistic link function. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.10: Gender and Shopping Responsibility - Random Effects vs Fixed Effects

	Dependent variable:			
	Expected 1-Year Inflation			
	RE	RE	FE	FE
	(1)	(2)	(3)	(4)
Perceived inflation	0.785***	0.784***	0.862***	0.862***
	(0.049)	(0.015)	(0.018)	(0.040)
Inflation uncertainty	−0.733*	−0.752**	−1.418***	−1.435***
	(0.436)	(0.365)	(0.483)	(0.539)
HH income	−0.314***	−0.319***	−0.180**	−0.174**
	(0.073)	(0.074)	(0.076)	(0.072)
Unemp. up	1.295***	1.309***	1.509***	1.488***
	(0.214)	(0.240)	(0.316)	(0.295)
Female	1.130**	0.966	1.179***	2.328*
	(0.532)	(0.981)	(0.394)	(1.265)
Primary shopper		−0.627		0.648
		(0.559)		(0.501)
Female × Perc. Inflation	−0.084	−0.084***	−0.077***	−0.077
	(0.059)	(0.018)	(0.022)	(0.052)
Female × Primary shopper		0.231		−1.295
		(1.011)		(1.164)
February	0.140	0.138		
	(0.359)	(0.328)		
March	0.578	0.579*		
	(0.381)	(0.332)		
April	0.441	0.435		
	(0.406)	(0.334)		
May	0.718*	0.720**		
	(0.430)	(0.336)		
June	0.705*	0.707**		
	(0.388)	(0.342)		
Constant	1.896**	2.464***		
	(0.798)	(0.810)		
Month dummies	Yes	Yes	No (dropped)	No (dropped)
Individual effects	No	No	Yes	Yes
Robust SEs	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842
R^2	0.636	0.636	0.761	0.761
Adjusted R^2	0.635	0.635	0.421	0.421

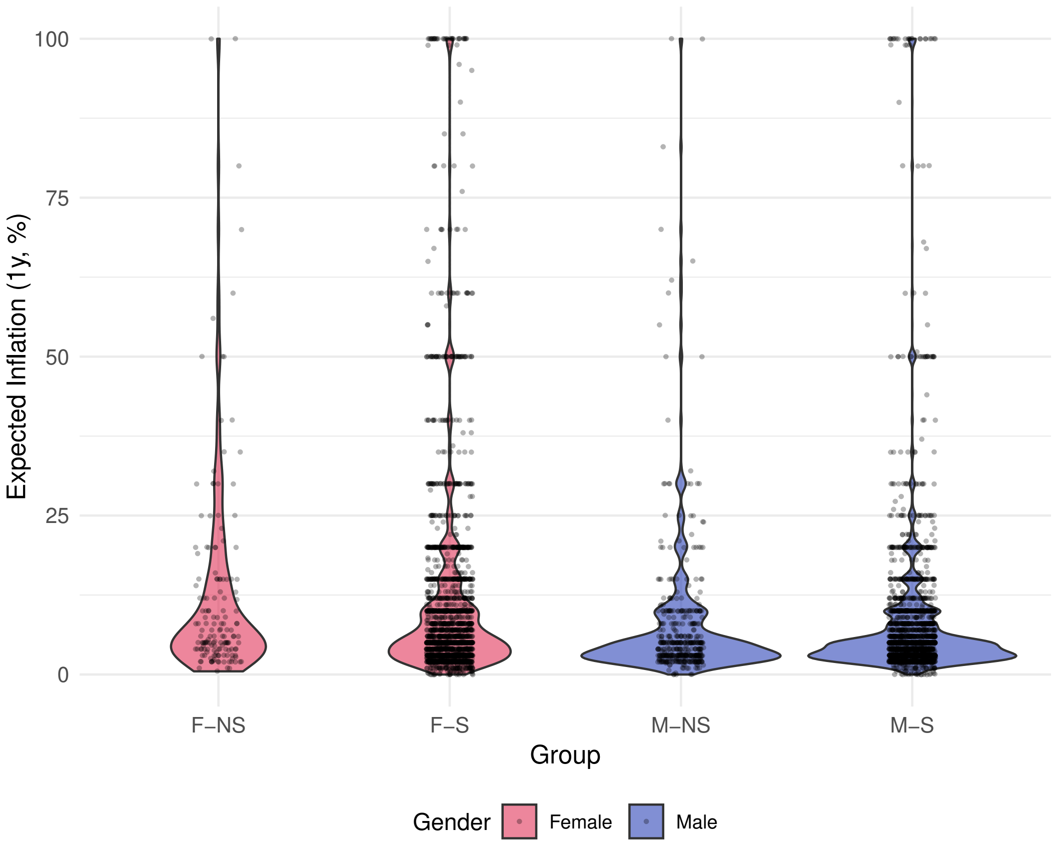
Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. All RE specifications include month fixed effects and use cluster-robust standard errors. Standard errors in parentheses. All combinations of RE and FE models (i.e. models 1 and 3, etc.) reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Figure B.6: INFLATION EXPECTATIONS BY GENDER AND SHOPPING RESPONSIBILITY (BOXPLOT)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: The figure displays box plots of expected 1-year ahead inflation rates. It is grouped by gender and primary shopping responsibility. Respondents are grouped as Female–Not Shopper (F-NS), Female–Shopper (F-S), Male–Not Shopper (M-NS), and Male–Shopper (M-S), according to their gender and whether they are primarily responsible for grocery shopping. Only respondents with non-missing values are included. No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

Figure B.7: Inflation Expectations by Gender and Shopping Responsibility (Violin plot)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: The figure shows violin plots of expected 1-year ahead inflation rates. It is grouped by gender and primary shopping responsibility. Respondents are grouped as Female–Not Shopper (F-NS), Female–Shopper (F-S), Male–Not Shopper (M-NS), and Male–Shopper (M-S), according to their gender and whether they are primarily responsible for grocery shopping. Only respondents with non-missing values are included. No additional data transformations (such as winsorization or trimming) were applied prior to plotting.

Table B.11: CRE Models for Expected 1-Year Ahead Inflation: Gender Interactions and Shopping Behaviour (Only Respondents with All Survey Waves)

	Dependent variable:	
	Expected 1-Year Inflation	
	Model 1	Model 2
	(1)	(2)
Perceived inflation	0.633***	0.631***
	(0.060)	(0.060)
Inflation uncertainty	−2.160**	−2.180**
	(0.896)	(0.891)
HH income	−0.132**	−0.142**
	(0.057)	(0.059)
Unemp. up	0.151	0.152
	(0.346)	(0.344)
Mean perc. infl.	0.356***	0.356***
	(0.053)	(0.053)
Mean infl. uncer.	1.370	1.150
	(1.390)	(1.360)
Mean unemp. up	1.130**	1.120**
	(0.440)	(0.439)
Female	1.310***	5.880**
	(0.383)	(2.700)
Primary shopper		0.560
		(0.352)
Female × Perc. Inflation	−0.105**	−0.102**
	(0.043)	(0.043)
Female × Primary shopper		−4.850*
		(2.700)
Constant	−0.162	−0.465
	(0.753)	(0.868)
Month dummies	Yes	Yes
Individual effects	No	No
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	2,442	2,442
R^2	0.808	0.809
Adjusted R^2	0.807	0.808

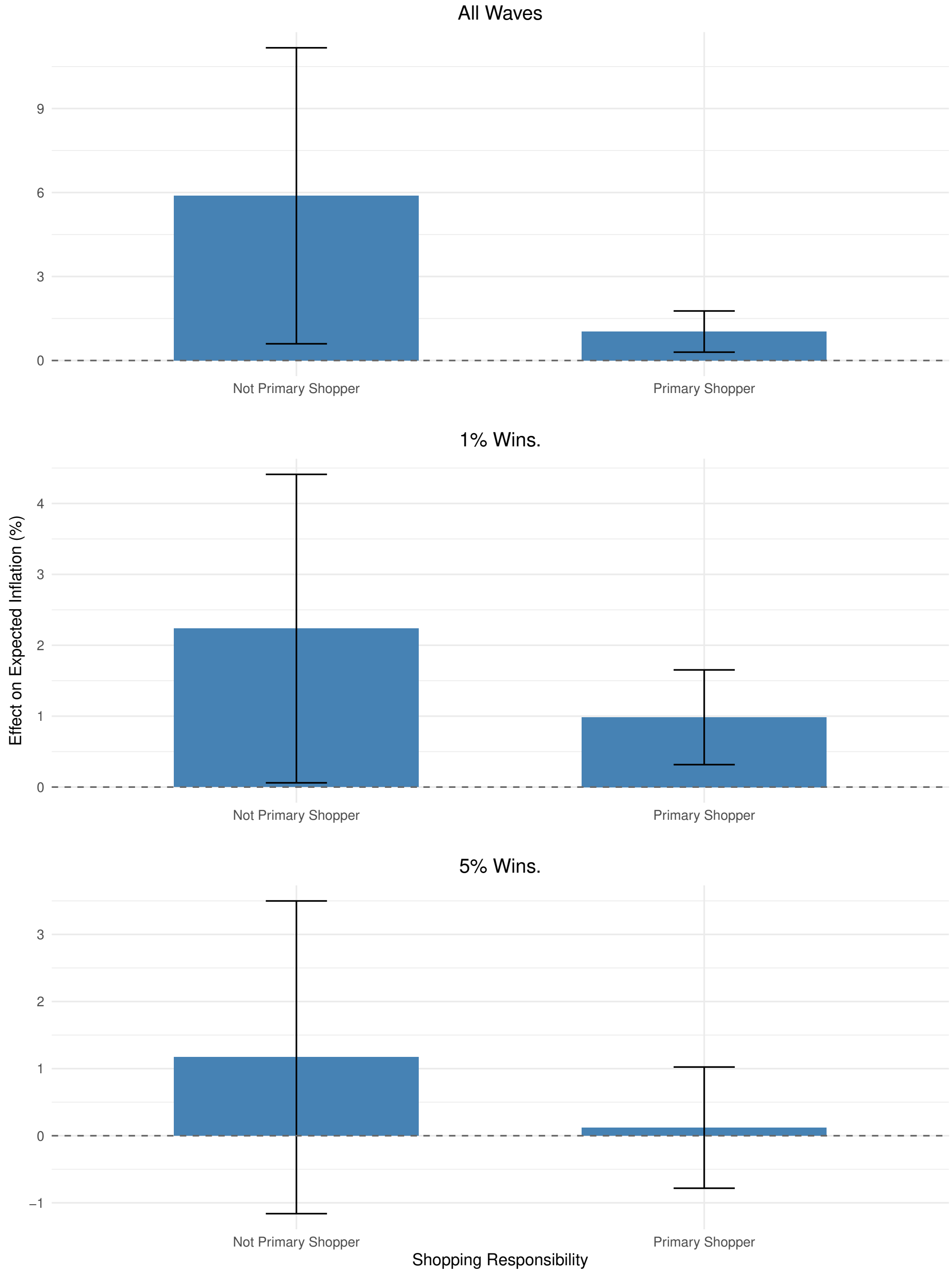
Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Only includes respondents who participated in all waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. *p<0.1; **p<0.05; ***p<0.01.

Table B.12: CRE Models for Expected 1-Year Ahead Inflation: Gender Interactions and Shopping Behavior (Winsorized Models (1%/99% and 5%/95%))

	Dependent variable:			
	Expected 1-Year Inflation			
	Wins. 1%	Wins. 1%	Wins. 5%	Wins. 5%
	(1)	(2)	(3)	(4)
Perceived inflation	0.647***	0.647***	0.483***	0.483***
	(0.050)	(0.050)	(0.058)	(0.058)
Inflation uncertainty	−1.510**	−1.510**	−1.820**	−1.820**
	(0.693)	(0.692)	(0.822)	(0.821)
HH income	−0.162***	−0.169***	−0.148***	−0.152***
	(0.049)	(0.049)	(0.051)	(0.051)
Unemp. up	0.261	0.259	0.366	0.364
	(0.303)	(0.303)	(0.327)	(0.326)
Mean perc. infl.	0.263***	0.263***	0.605***	0.606***
	(0.043)	(0.043)	(0.037)	(0.037)
Mean infl. uncer.	1.530*	1.450	1.580*	1.530
	(0.902)	(0.897)	(0.958)	(0.955)
Mean unemp. up	1.970***	1.990***	1.490***	1.500***
	(0.406)	(0.407)	(0.425)	(0.427)
Female	1.060***	2.230**	0.197	1.170
	(0.341)	(1.110)	(0.460)	(1.190)
Primary shopper		−0.142		0.093
		(0.352)		(0.356)
Female × Perc. Inflation	−0.103***	−0.103***	−0.055	−0.055
	(0.039)	(0.039)	(0.063)	(0.063)
Female × Primary shopper		−1.250		−1.050
		(1.090)		(1.140)
Constant	−0.558	−0.377	−1.030	−1.070
	(0.585)	(0.668)	(0.692)	(0.771)
Month dummies	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842
R^2	0.750	0.750	0.704	0.704
Adjusted R^2	0.749	0.749	0.703	0.703

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Continuous covariates in models (1) and (2) are winsorized at 1%/99% level. Continuous covariates in models (3) and (4) are winsorized at 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity *p<0.1; **p<0.05; ***p<0.01.

Figure B.8: Marginal Effect of Being Female on Expected Inflation by Shopping Responsibility



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the estimated effect of being female (relative to male) on one-year-ahead inflation expectations, separately for respondents who are and are not primarily responsible for grocery shopping in their household. Bars represent point estimates; error bars indicate 95% confidence intervals. 'All Waves' figure shows Model 2 from Table B.11; '1% Wins.' figure shows Model 2 from Table B.12; and '5% Wins.' figure shows Model 4 from Table B.12.

Table B.13: MEDIA CONSUMPTION - RANDOM EFFECTS VS FIXED EFFECTS

	Dependent variable:	
	Expected 1-Year Inflation	
	RE	FE
	(1)	(2)
Perceived inflation	0.850^{***}	0.694^{***}
	(0.120)	(0.119)
Inflation uncertainty	-0.796^{*}	-1.435^{***}
	(0.441)	(0.541)
HH income	-0.320^{***}	-0.202^{***}
	(0.072)	(0.069)
Unemp. up	1.249^{***}	1.532^{***}
	(0.214)	(0.295)
Internet Usage	0.046	−0.153
	(0.211)	(0.213)
TV Usage	0.080	0.038
	(0.136)	(0.094)
Radio Usage	0.069	0.048
	(0.104)	(0.089)
Newspaper Usage	0.071	−0.116
	(0.137)	(0.107)
Internet × Perc. Inflation	0.013	0.023
	(0.022)	(0.021)
TV × Perc. Inflation	−0.013	0.003
	(0.016)	(0.009)
Radio × Perc. Inflation	0.003	−0.006
	(0.010)	(0.010)
Newspaper × Perc. Inflation	−0.016	0.012
	(0.014)	(0.012)
February	−0.002	
	(0.354)	
March	0.474	
	(0.385)	
April	0.315	
	(0.409)	
May	0.612	
	(0.430)	
June	0.543	
	(0.384)	
Constant	1.475	
	(1.197)	
Month dummies	Yes	No (dropped)
Individual effects	No	Yes
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	4,842	4,842
R^2	0.634	0.761
Adjusted R^2	0.633	0.419

Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. RE specification includes month fixed effects. Both specifications use cluster-robust standard errors. Standard errors in parentheses. We reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Table B.14: CRE Models for Expected 1-Year Ahead Inflation: Media Usage (Balanced Panel)

	Dependent variable:								
	Expected 1-Year Inflation								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Perceived inflation	0.569***	0.499***	0.569***	0.580***	0.569***	0.686***	0.569***	0.601***	0.473***
	(0.059)	(0.088)	(0.059)	(0.062)	(0.059)	(0.063)	(0.059)	(0.090)	(0.133)
Inflation uncertainty	−2.240**	−2.190**	−2.240**	−2.240**	−2.230**	−2.130**	−2.240**	−2.210**	−2.150**
	(0.913)	(0.903)	(0.912)	(0.912)	(0.909)	(0.891)	(0.912)	(0.915)	(0.880)
HH income	−0.141**	−0.135**	−0.143**	−0.149***	−0.148***	−0.169***	−0.143**	−0.145**	−0.164***
	(0.057)	(0.056)	(0.057)	(0.055)	(0.056)	(0.057)	(0.057)	(0.057)	(0.056)
Unemp. up	0.197	0.198	0.198	0.197	0.196	0.175	0.197	0.198	0.165
	(0.349)	(0.351)	(0.349)	(0.349)	(0.347)	(0.343)	(0.349)	(0.349)	(0.345)
Mean perc. infl.	0.361***	0.374***	0.361***	0.361***	0.366***	0.376***	0.361***	0.363***	0.390***
	(0.056)	(0.056)	(0.056)	(0.056)	(0.055)	(0.053)	(0.056)	(0.056)	(0.055)
Mean infl. uncer.	1.260	1.180	1.270	1.270	1.340	1.210	1.260	1.180	1.600
	(1.420)	(1.410)	(1.420)	(1.420)	(1.410)	(1.380)	(1.420)	(1.450)	(1.400)
Mean unemp. up	1.040**	1.040**	1.100**	1.120**	1.100**	1.110**	1.090**	1.080**	1.200***
	(0.452)	(0.456)	(0.449)	(0.449)	(0.442)	(0.433)	(0.449)	(0.453)	(0.447)
Internet Usage	0.082	−0.232							−0.336
	(0.151)	(0.232)							(0.222)
TV Usage			0.030	0.069					0.022
			(0.049)	(0.055)					(0.072)
Radio Usage					−0.136***	0.078			0.099
					(0.052)	(0.068)			(0.081)
Newspaper Usage							0.016	0.062	−0.071
							(0.064)	(0.082)	(0.090)
Internet × Perc. Inflation		0.027							0.035
		(0.025)							(0.026)
TV × Perc. Inflation				−0.003					0.003
				(0.005)					(0.006)
Radio × Perc. Inflation						−0.019***			−0.025***
						(0.007)			(0.008)
Newspaper × Perc. Inflation								−0.004	0.019*
								(0.009)	(0.011)
Constant	0.424	1.110	0.466	0.363	1.250	0.108	0.475	0.132	0.984
	(0.840)	(0.947)	(0.783)	(0.802)	(0.805)	(0.788)	(0.907)	(0.887)	(1.100)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
R^2	0.805	0.806	0.805	0.806	0.806	0.810	0.805	0.806	0.812
Adjusted R^2	0.804	0.805	0.804	0.804	0.805	0.809	0.804	0.804	0.810

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. The dependent variable is expected 1-year inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. Models (1)-(9) test different media channel frequencies (Internet, TV, Radio, Newspaper). These media variables have discrete values ranging from 1 (the respondent uses the medium for more than 6 hours a day) to 10 (the respondent never uses the medium). Models are estimated with respondents who completed all six survey waves. *p<0.1; **p<0.05; ***p<0.01.

Table B.15: CRE Models for Expected 1-Year Ahead Inflation: Media Usage (1%/99% Winsorization)

	Dependent variable:								
	Expected 1-Year Inflation								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Perceived inflation	0.579***	0.514***	0.579***	0.591***	0.579***	0.577***	0.579***	0.647***	0.563***
	(0.044)	(0.056)	(0.044)	(0.050)	(0.044)	(0.058)	(0.044)	(0.076)	(0.099)
Inflation uncertainty	−1.580**	−1.590**	−1.580**	−1.580**	−1.580**	−1.580**	−1.580**	−1.560**	−1.590**
	(0.704)	(0.698)	(0.704)	(0.704)	(0.705)	(0.702)	(0.705)	(0.704)	(0.696)
HH income	−0.171***	−0.169***	−0.174***	−0.178***	−0.175***	−0.175***	−0.173***	−0.174***	−0.175***
	(0.049)	(0.048)	(0.049)	(0.048)	(0.048)	(0.047)	(0.049)	(0.049)	(0.047)
Unemp. up	0.289	0.298	0.290	0.291	0.289	0.289	0.290	0.286	0.301
	(0.306)	(0.308)	(0.306)	(0.306)	(0.306)	(0.306)	(0.306)	(0.307)	(0.308)
Mean perc. infl.	0.263***	0.273***	0.263***	0.262***	0.263***	0.263***	0.263***	0.264***	0.271***
	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.045)	(0.044)	(0.044)	(0.044)
Mean infl. uncer.	1.590*	1.580*	1.600*	1.600*	1.590*	1.600*	1.560*	1.490	1.560*
	(0.925)	(0.919)	(0.926)	(0.926)	(0.928)	(0.929)	(0.925)	(0.926)	(0.922)
Mean unemp. up	1.910***	1.920***	1.960***	1.970***	1.940***	1.940***	1.920***	1.920***	1.950***
	(0.410)	(0.411)	(0.412)	(0.410)	(0.409)	(0.408)	(0.412)	(0.413)	(0.414)
Internet Usage	0.100	−0.240							−0.241
	(0.108)	(0.149)							(0.154)
TV Usage			0.035	0.076					0.110
			(0.043)	(0.067)					(0.072)
Radio Usage					−0.010	−0.015			−0.047
					(0.040)	(0.059)			(0.067)
Newspaper Usage							−0.047	0.052	0.023
							(0.053)	(0.072)	(0.085)
Internet × Perc. Inflation		0.025*							0.025
		(0.015)							(0.016)
TV × Perc. Inflation				−0.004					−0.007
				(0.007)					(0.008)
Radio × Perc. Inflation						0.0004			0.003
						(0.007)			(0.007)
Newspaper × Perc. Inflation								−0.008	−0.005
								(0.008)	(0.010)
Constant	−0.072	0.678	−0.0001	−0.122	0.215	0.240	0.557	−0.218	0.406
	(0.620)	(0.648)	(0.577)	(0.588)	(0.587)	(0.653)	(0.704)	(0.776)	(0.913)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.747	0.749	0.747	0.747	0.747	0.747	0.747	0.748	0.749
Adjusted R^2	0.747	0.748	0.747	0.747	0.747	0.747	0.747	0.747	0.748

Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. The dependent variable is expected 1-year inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. Models (1)-(9) test different media channel frequencies (Internet, TV, Radio, Newspaper). These media variables have discrete values ranging from 1 (the respondent uses the medium for more than 6 hours a day) to 10 (the respondent never uses the medium). Continuous covariates are winsorized at 1%/99% level. *p<0.1; **p<0.05; ***p<0.01.

Table B.16: CRE Models for Expected 1-Year Ahead Inflation: Media Usage (5%/95% Winsorization)

	Dependent variable: Expected 1-Year Inflation								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Perceived inflation	0.800***	0.755***	0.800***	0.952***	0.800***	0.711***	0.800***	0.784***	0.800***
	(0.055)	(0.087)	(0.055)	(0.089)	(0.055)	(0.092)	(0.055)	(0.142)	(0.193)
Inflation uncertainty	−1.730**	−1.740**	−1.740**	−1.670*	−1.740**	−1.780**	−1.730**	−1.740**	−1.740**
	(0.873)	(0.869)	(0.872)	(0.867)	(0.872)	(0.876)	(0.872)	(0.875)	(0.868)
HH income	−0.294***	−0.294***	−0.290***	−0.307***	−0.295***	−0.287***	−0.291***	−0.291***	−0.298***
	(0.056)	(0.056)	(0.056)	(0.055)	(0.056)	(0.056)	(0.056)	(0.056)	(0.055)
Unemp. up	0.464	0.469	0.461	0.455	0.464	0.465	0.464	0.464	0.465
	(0.369)	(0.370)	(0.368)	(0.361)	(0.369)	(0.371)	(0.369)	(0.369)	(0.365)
Mean perc. infl.	0.493***	0.499***	0.493***	0.488***	0.495***	0.491***	0.493***	0.493***	0.495***
	(0.064)	(0.064)	(0.064)	(0.064)	(0.064)	(0.064)	(0.064)	(0.064)	(0.064)
Mean infl. uncer.	1.210	1.220	1.180	1.160	1.230	1.300	1.190	1.200	1.260
	(1.160)	(1.160)	(1.160)	(1.150)	(1.160)	(1.160)	(1.150)	(1.150)	(1.150)
Mean unemp. up	1.520***	1.530***	1.470***	1.570***	1.510***	1.510***	1.500***	1.500***	1.580***
	(0.471)	(0.471)	(0.474)	(0.463)	(0.471)	(0.472)	(0.472)	(0.473)	(0.467)
Internet Usage	−0.049	−0.253							−0.333
	(0.130)	(0.236)							(0.239)
TV Usage			−0.085	0.335**					0.425***
			(0.059)	(0.140)					(0.137)
Radio Usage					−0.034	−0.196**			−0.260***
					(0.050)	(0.092)			(0.095)
Newspaper Usage							−0.034	−0.054	−0.004
							(0.068)	(0.114)	(0.120)
Internet × Perc. Inflation		0.018							0.032
		(0.029)							(0.029)
TV × Perc. Inflation				−0.041**					−0.049***
				(0.019)					(0.018)
Radio × Perc. Inflation						0.016			0.023*
						(0.012)			(0.013)
Newspaper × Perc. Inflation								0.002	−0.004
								(0.016)	(0.017)
Constant	−2.290***	−1.820**	−2.030***	−3.530***	−2.220***	−1.360	−2.110**	−1.950*	−1.660
	(0.786)	(0.843)	(0.729)	(0.867)	(0.724)	(0.898)	(0.872)	(1.160)	(1.460)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.612	0.612	0.612	0.615	0.612	0.613	0.612	0.612	0.618
Adjusted R^2	0.611	0.611	0.611	0.614	0.611	0.612	0.611	0.611	0.616

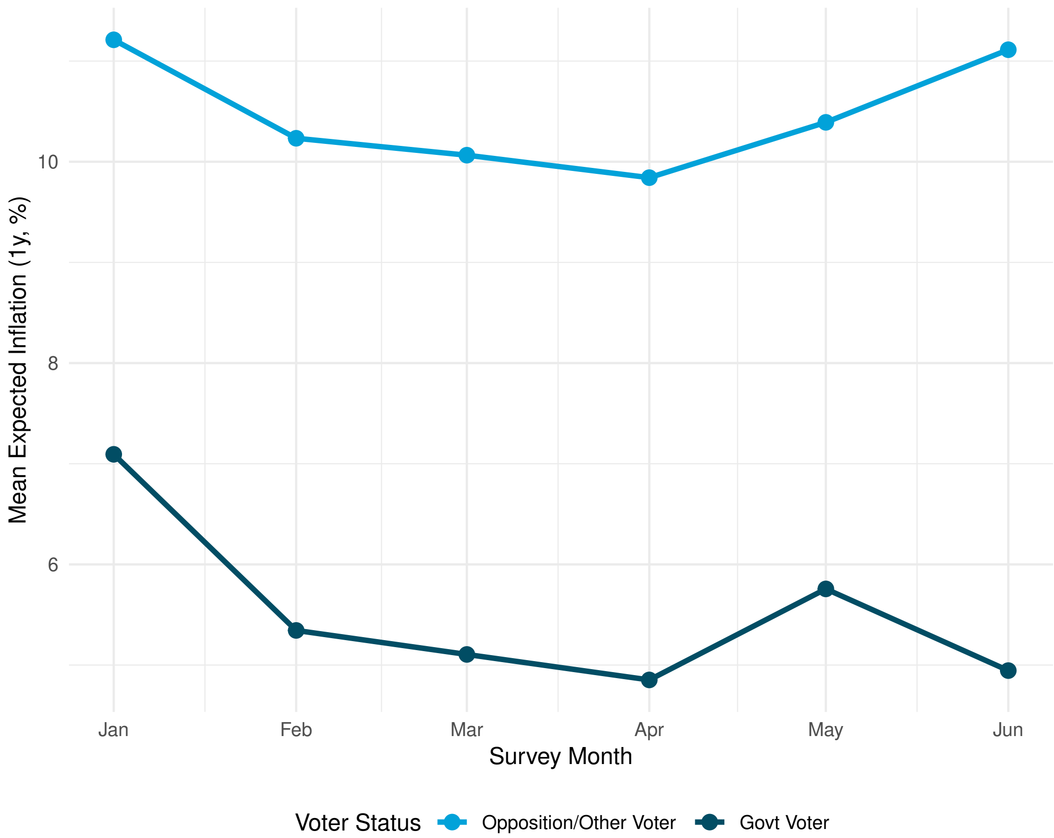
Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. The dependent variable is expected 1-year inflation. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. The dependent variable is the respondent's expected inflation rate one year ahead. Models (1)-(9) test different media channel frequencies (Internet, TV, Radio, Newspaper). These media variables have discrete values ranging from 1 (the respondent uses the medium for more than 6 hours a day) to 10 (the respondent never uses the medium). Continuous covariates are winsorized at 1%/99% level. *p<0.1; **p<0.05; ***p<0.01.

Table B.17: Political Affiliation, Trust, and Knowledge - Random Effects vs Fixed Effects

	Dependent variable:	
	Expected 1-Year Inflation	
	RE	FE
	(1)	(2)
Perceived inflation	0.929***	0.900***
	(0.027)	(0.054)
Inflation uncertainty	−0.697	−1.530
	(0.622)	(1.160)
HH income	−0.346***	−0.167
	(0.097)	(0.120)
Unemp. up	0.934***	1.530***
	(0.344)	(0.517)
Non-Voter/DK/Refused	0.311	−1.340
	(1.310)	(1.430)
Govt Voter	3.010***	2.880**
	(0.973)	(1.260)
Trust	−0.165	−0.123
	(0.646)	(0.802)
Knows Target	−1.490***	−1.140
	(0.442)	(0.892)
Understands policy	0.593	0.335
	(0.617)	(0.684)
Non-Voter/DK/Refused × Trust	−0.140	0.124
	(1.510)	(1.810)
Govt Voter × Trust	−0.215	−1.790*
	(0.803)	(1.050)
Non-Voter/DK/Refused × Knows Target	−1.880	0.005
	(1.380)	(1.330)
Govt Voter × Knows Target	0.830	−0.277
	(0.604)	(1.030)
Non-Voter/DK/Refused × Under. policy	3.970**	4.320***
	(1.660)	(1.630)
Govt Voter × Knows Target	−0.292	0.332
	(0.806)	(0.920)
Non-Voter/DK/Refused × Perc. Inflation	−0.129*	−0.070
	(0.068)	(0.077)
Govt Voter × Perc. Inflation	−0.647***	−0.494***
	(0.099)	(0.133)
February	0.054	
	(0.536)	
March	0.321	
	(0.627)	
April	0.209	
	(0.571)	
May	0.711	
	(0.664)	
June	0.513	
	(0.631)	
Constant	2.080*	
	(1.070)	
Month dummies	Yes	No (dropped)
Individual effects	No	Yes
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	1,785	1,785
R^2	0.758	0.853
Adjusted R^2	0.755	0.468

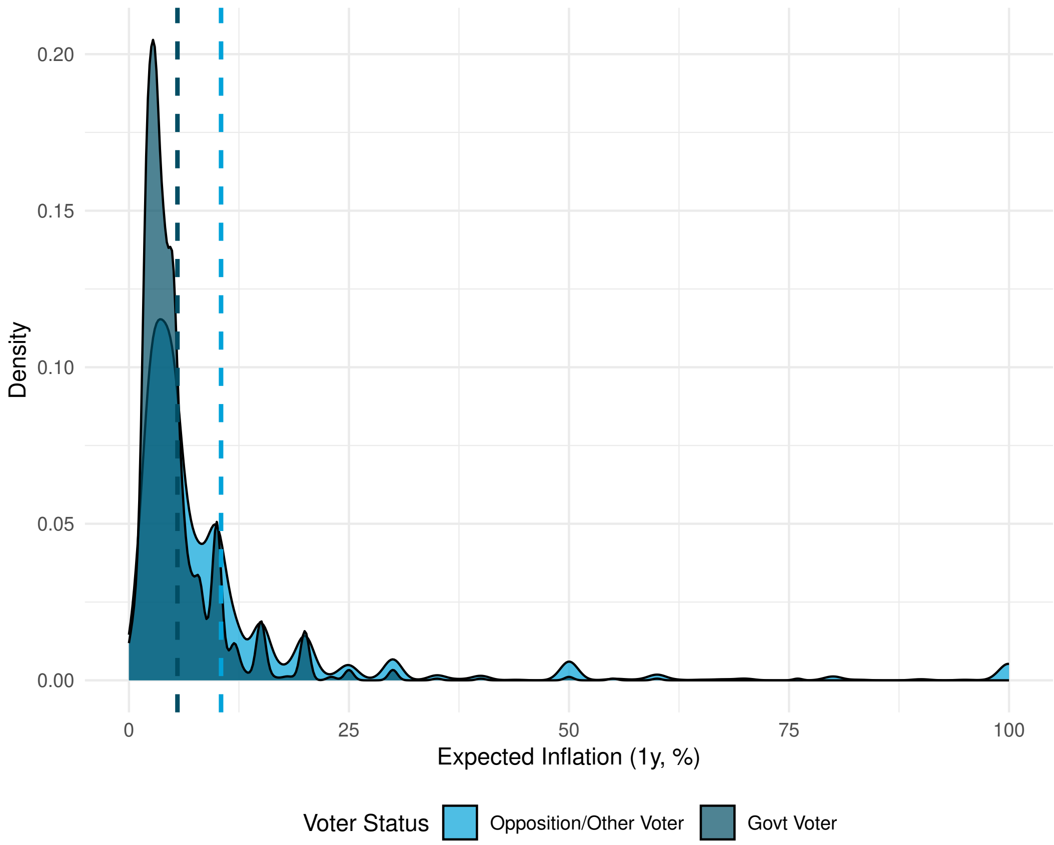
Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. RE specification includes month fixed effects. Both use cluster-robust standard errors. Standard errors in parentheses. We reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Figure B.9: Mean One-Year-Ahead Inflation Expectations by Political Affiliation Over Time



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure displays the monthly evolution of mean one-year-ahead inflation expectations for government voters ("Govt Voter") and opposition/other voters ("Opposition/Other Voter") from January to June 2024. Means are calculated for each group and month, excluding non-voters and those who refused to answer.

Figure B.10: Distribution of One-Year-Ahead Inflation Expectations by Political Affiliation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure displays kernel density estimates of one-year-ahead inflation expectations for respondents who voted for government parties ("Govt Voter") and those who voted for opposition or other parties ("Opposition/Other Voter"). Non-voters and those who refused to answer are excluded. Vertical dashed lines indicate the group means.

Table B.18: CRE Models of Expected 1-Year Inflation for Respondents Completing All 6 Survey Waves

	Dependent variable:						
	Expected 1-Year Inflation						
	Baseline	+ Trust	+ Knowledge	+ Trust Int.	+ Knowl. Int.	+ Perc. Infl. Int.	Full Model
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Perceived inflation	0.569***	0.561***	0.675***	0.561***	0.675***	0.618***	0.771***
	(0.059)	(0.064)	(0.085)	(0.064)	(0.084)	(0.066)	(0.069)
Inflation uncertainty	−2.240**	−2.590***	−2.040	−2.590***	−2.040	−2.240**	−2.080
	(0.911)	(0.929)	(1.490)	(0.925)	(1.450)	(0.902)	(1.440)
HH income	−0.125**	−0.055	−0.063	−0.069	−0.109	−0.149***	−0.212***
	(0.057)	(0.050)	(0.063)	(0.051)	(0.068)	(0.056)	(0.077)
Unemp. up	0.198	0.091	0.170	0.091	0.179	0.143	0.122
	(0.348)	(0.375)	(0.528)	(0.377)	(0.522)	(0.337)	(0.516)
Mean perc. infl.	0.358***	0.369***	0.268***	0.369***	0.252***	0.322***	0.225***
	(0.055)	(0.060)	(0.083)	(0.060)	(0.081)	(0.054)	(0.071)
Mean infl. uncer.	1.180	1.650	2.880	1.480	2.170	1.390	2.540
	(1.410)	(1.420)	(2.140)	(1.400)	(2.050)	(1.400)	(2.000)
Mean unemp. up	0.995**	1.040**	1.170*	1.120**	1.420**	1.120**	1.860***
	(0.455)	(0.508)	(0.631)	(0.517)	(0.637)	(0.446)	(0.650)
Non-Voter/DK/Refused	0.164	0.367	0.525	−0.567	−2.340***	0.228	−0.211
	(0.408)	(0.408)	(0.659)	(0.588)	(0.828)	(0.466)	(0.914)
Govt Voter	−0.549**	−0.579**	−0.439	−0.942**	−0.979**	1.600***	3.160***
	(0.237)	(0.245)	(0.313)	(0.452)	(0.495)	(0.548)	(0.690)
Trust		−0.263		−0.935**			0.396
		(0.298)		(0.443)			(0.523)
Knows Target			−0.819***		−1.340***		−0.655**
			(0.231)		(0.347)		(0.323)
Understands policy			0.364		−0.757		−0.791*
			(0.391)		(0.477)		(0.469)
Non-Voter/DK/Refused × Trust				1.840**			−0.786
				(0.858)			(1.540)
Govt Voter × Trust				0.689			−0.798
				(0.536)			(0.628)
Non-Voter/DK/Refused × Knows Target					−0.821		−2.440*
					(1.280)		(1.300)
Govt Voter × Knows Target					1.540***		0.090
					(0.536)		(0.439)
Non-Voter/DK/Refused × Under. policy					6.070***		6.820***
					(1.550)		(1.710)
Govt Voter × Under. policy					−0.050		0.759
					(0.600)		(0.586)
Non-Voter/DK/Refused × Perc. Inflation						−0.009	−0.137***
						(0.047)	(0.051)
Govt Voter × Perc. Inflation						−0.311***	−0.527***
						(0.084)	(0.076)
Constant	0.723	0.299	−1.110	0.786	0.166	0.759	−0.207
	(0.782)	(0.773)	(0.959)	(0.836)	(1.050)	(0.779)	(1.100)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,244	1,256	2,244	1,256	2,442	1,206
R^2	0.806	0.815	0.839	0.815	0.845	0.811	0.856
Adjusted R^2	0.805	0.814	0.837	0.814	0.842	0.810	0.853

Note: The table reports results from CRE models estimating the determinants of expected 1-year ahead inflation for respondents who participated in all 6 waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. Interaction terms show how the effect of government voting status varies by trust, knowledge, and perceived inflation. Robust standard errors are clustered at the individual level. *p<0.1; **p<0.05; ***p<0.01.

Table B.19: CRE Models Estimating The Effect of Political Affiliation, Trust, and Knowledge on Inflation Expectations (1%/99% Winsorization)

	Dependent variable:						
	Expected 1-Year Inflation						
	Baseline	+ Trust	+ Knowledge	+ Trust Int.	+ Knowl. Int.	+ Perc. Infl. Int.	Full Model
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Perceived inflation (w)	0.579***	0.570***	0.657***	0.570***	0.655***	0.611***	0.783***
	(0.044)	(0.056)	(0.076)	(0.056)	(0.075)	(0.048)	(0.055)
Inflation uncertainty (w)	−1.590**	−1.850**	−1.470	−1.840**	−1.450	−1.620**	−1.620
	(0.704)	(0.728)	(1.190)	(0.726)	(1.180)	(0.695)	(1.180)
HH income (w)	−0.151***	−0.066	−0.124*	−0.075	−0.159**	−0.167***	−0.204***
	(0.048)	(0.048)	(0.070)	(0.049)	(0.073)	(0.047)	(0.071)
Unemp. up (w)	0.291	0.294	0.308	0.289	0.305	0.230	0.155
	(0.306)	(0.311)	(0.469)	(0.312)	(0.470)	(0.296)	(0.465)
Mean perc. infl. (w)	0.260***	0.328***	0.259***	0.328***	0.254***	0.240***	0.198***
	(0.044)	(0.053)	(0.073)	(0.053)	(0.072)	(0.041)	(0.055)
Mean infl. uncer. (w)	1.520*	1.470	2.260	1.380	1.890	1.520*	2.290
	(0.925)	(1.010)	(1.570)	(1.000)	(1.540)	(0.916)	(1.550)
Mean unemp. up (w)	1.810***	1.240***	1.480**	1.300***	1.460**	1.880***	1.820***
	(0.417)	(0.428)	(0.605)	(0.430)	(0.596)	(0.407)	(0.614)
Non-Voter/DK/Refused	0.108	−0.057	0.194	−0.837*	−1.420**	−0.093	−0.355
	(0.304)	(0.319)	(0.505)	(0.472)	(0.622)	(0.393)	(0.791)
Govt Voter	−0.708***	−0.894***	−1.070***	−1.040***	−1.330**	1.540***	3.260***
	(0.207)	(0.218)	(0.305)	(0.386)	(0.549)	(0.444)	(0.740)
Trust		−0.014		−0.503			0.166
		(0.235)		(0.371)			(0.497)
Knows Target			−0.704***		−1.380***		−0.940***
			(0.218)		(0.348)		(0.349)
Understands policy			0.726**		0.335		0.304
			(0.328)		(0.456)		(0.459)
Non-Voter/DK/Refused × Trust				1.530**			−0.030
				(0.653)			(1.140)
Govt Voter × Trust				0.338			−0.821
				(0.461)			(0.580)
Non-Voter/DK/Refused × Knows Target					−0.624		−1.370
					(0.924)		(0.924)
Govt Voter × Knows Target					1.920***		0.373
					(0.497)		(0.420)
Non-Voter/DK/Refused × Under. policy					3.490***		4.110***
					(1.110)		(1.240)
Govt Voter × Under. policy					−0.874		−0.047
					(0.612)		(0.562)
Non-Voter/DK/Refused × Perc. Inflation (w)						0.011	−0.110**
						(0.040)	(0.045)
Govt Voter × Perc. Inflation (w)						−0.298***	−0.573***
						(0.061)	(0.084)
Constant	0.330	−0.155	−0.892	0.161	−0.033	0.487	−0.432
	(0.556)	(0.611)	(0.797)	(0.669)	(0.891)	(0.578)	(0.971)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	3,502	1,881	3,502	1,881	4,842	1,785
R^2	0.748	0.779	0.811	0.779	0.814	0.754	0.831
Adjusted R^2	0.747	0.778	0.809	0.778	0.812	0.753	0.829

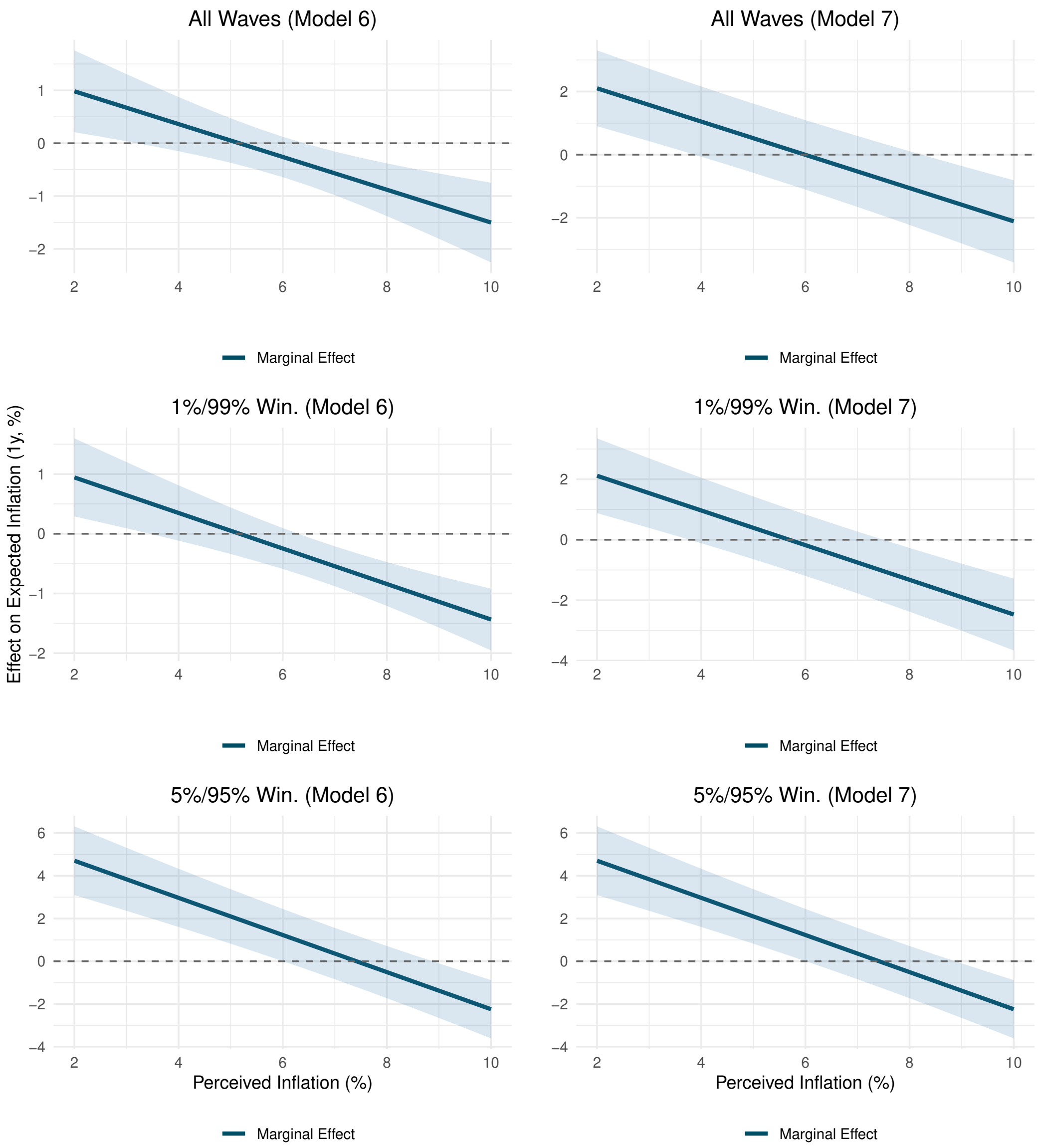
Note: The table shows results from CRE models estimating the determinants of expected 1-year ahead inflation. Continuous covariates were winsorized at 1%/99%. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. Interaction terms show how the effect of government voting status varies by trust, knowledge, and perceived inflation. *p<0.1; **p<0.05; ***p<0.01.

Table B.20: CRE Models Estimating The Effect of Political Affiliation, Trust, and Knowledge on Inflation Expectations (5%/95% Winsorization)

	Dependent variable:						
	Expected 1-Year Inflation						
	Baseline	+ Trust	+ Knowledge	+ Trust Int.	+ Knowl. Int.	+ Perc. Infl. Int.	Full Model
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Perceived inflation (w5)	0.800***	0.759***	0.842***	0.759***	0.840***	0.860***	1.000***
	(0.055)	(0.066)	(0.102)	(0.066)	(0.101)	(0.069)	(0.125)
Inflation uncertainty (w5)	−1.740**	−1.980**	−1.640	−1.980**	−1.600	−1.710**	−1.950
	(0.872)	(0.935)	(1.510)	(0.931)	(1.490)	(0.859)	(1.510)
HH income (w5)	−0.279***	−0.238***	−0.302***	−0.247***	−0.360***	−0.293***	−0.346***
	(0.056)	(0.058)	(0.084)	(0.059)	(0.089)	(0.055)	(0.086)
Unemp. up (w5)	0.464	0.433	0.431	0.430	0.440	0.368	0.200
	(0.369)	(0.367)	(0.545)	(0.369)	(0.546)	(0.360)	(0.548)
Mean perc. infl. (w5)	0.489***	0.630***	0.696***	0.631***	0.688***	0.468***	0.656***
	(0.064)	(0.079)	(0.115)	(0.079)	(0.113)	(0.062)	(0.115)
Mean infl. uncer. (w5)	1.170	0.088	0.657	0.005	0.063	1.050	0.395
	(1.160)	(1.270)	(2.000)	(1.260)	(1.960)	(1.140)	(1.970)
Mean unemp. up (w5)	1.460***	1.160**	1.200*	1.220**	1.200*	1.490***	1.440**
	(0.479)	(0.494)	(0.711)	(0.500)	(0.705)	(0.469)	(0.718)
Non-Voter/DK/Refused	0.117	−0.263	0.626	−0.967	−2.150**	−0.478	−1.610
	(0.380)	(0.430)	(0.721)	(0.695)	(0.931)	(0.640)	(1.480)
Govt Voter	−0.349	−0.475*	−0.552	−0.446	−0.529	3.560***	6.450***
	(0.237)	(0.261)	(0.359)	(0.464)	(0.607)	(0.502)	(0.980)
Trust		0.668**		0.303			1.730**
		(0.301)		(0.468)			(0.733)
Knows Target			−0.118		−0.645		−0.438
			(0.275)		(0.447)		(0.445)
Understands policy			1.350***		0.592		0.017
			(0.438)		(0.618)		(0.677)
Non-Voter/DK/Refused × Trust				1.380			−1.970
				(0.872)			(1.490)
Govt Voter × Trust				0.047			−2.330***
				(0.556)			(0.796)
Non-Voter/DK/Refused × Knows Target					−2.020*		−1.740*
					(1.190)		(1.020)
Govt Voter × Knows Target					2.170***		0.474
					(0.614)		(0.491)
Non-Voter/DK/Refused × Under. policy					6.490***		7.850***
					(1.500)		(1.660)
Govt Voter × Under. policy					−1.510**		0.087
					(0.754)		(0.742)
Non-Voter/DK/Refused × Perc. Inflation (w5)						0.043	−0.038
						(0.082)	(0.142)
Govt Voter × Perc. Inflation (w5)						−0.537***	−0.869***
						(0.072)	(0.109)
Constant	−2.320***	−2.720***	−4.060***	−2.480***	−2.810***	−2.260***	−4.180***
	(0.701)	(0.738)	(1.000)	(0.790)	(1.080)	(0.772)	(1.380)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	3,502	1,881	3,502	1,881	4,842	1,785
R^2	0.612	0.625	0.664	0.625	0.673	0.624	0.699
Adjusted R^2	0.611	0.623	0.661	0.624	0.670	0.623	0.694

Note: The table reports results from CRE models estimating the determinants of expected 1-year ahead inflation. Continuous covariates were winsorized at 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. Interaction terms show how the effect of government voting status varies by trust, knowledge, and perceived inflation. *p<0.1; **p<0.05; ***p<0.01.

Figure B.11: Marginal Effect of Being a Government Voter on Inflation Expectations across Levels of Perceived Inflation



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The figure shows the estimated marginal effect of being a government voter (relative to an opposition/other voter) on one-year-ahead inflation expectations, as a function of perceived inflation. The upper two graphs show marginal plots from Table B.18 models 6 and 7; the middle two graphs show marginal plots from Table B.19 models 6 and 7; the bottom two graphs show marginal plots from Table B.20 models 6 and 7. The solid line shows the marginal effect at different levels of perceived inflation, with the shaded area representing the 95% confidence interval. The effect is positive and statistically significant at lower levels of perceived inflation, but declines and becomes negative as perceived inflation increases.

Table B.21: Distance from Target Model - Random Effects vs Fixed Effects

	Dependent variable:	
	Distance from Target	
	RE	FE
	(1)	(2)
Perceived inflation	0.830***	0.847***
	(0.043)	(0.037)
Inflation uncertainty	−0.368	−1.430
	(0.642)	(1.200)
HH income	−0.306***	−0.075
	(0.115)	(0.109)
Unemp. up	1.030***	1.610***
	(0.362)	(0.505)
Trust	−1.240	−1.060
	(0.791)	(0.889)
Knows target	−1.760***	−1.120
	(0.547)	(0.699)
Understands policy	0.418	0.698
	(0.767)	(0.939)
Non-Voter/DK/Refused	0.343	0.335
	(0.743)	(0.707)
Govt. voter	−1.630***	−1.140**
	(0.392)	(0.537)
Trust × Knows target	0.803	0.096
	(0.755)	(0.976)
Trust × Understands policy	1.140	0.835
	(0.942)	(1.170)
February	0.654	
	(0.556)	
March	1.060*	
	(0.637)	
April	1.020*	
	(0.596)	
May	1.560**	
	(0.703)	
June	1.250**	
	(0.635)	
Constant	0.380	
	(1.200)	
Month dummies	Yes	No (dropped)
Individual effects	No	Yes
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	1,785	1,785
R^2	0.725	0.844
Adjusted R^2	0.722	0.443

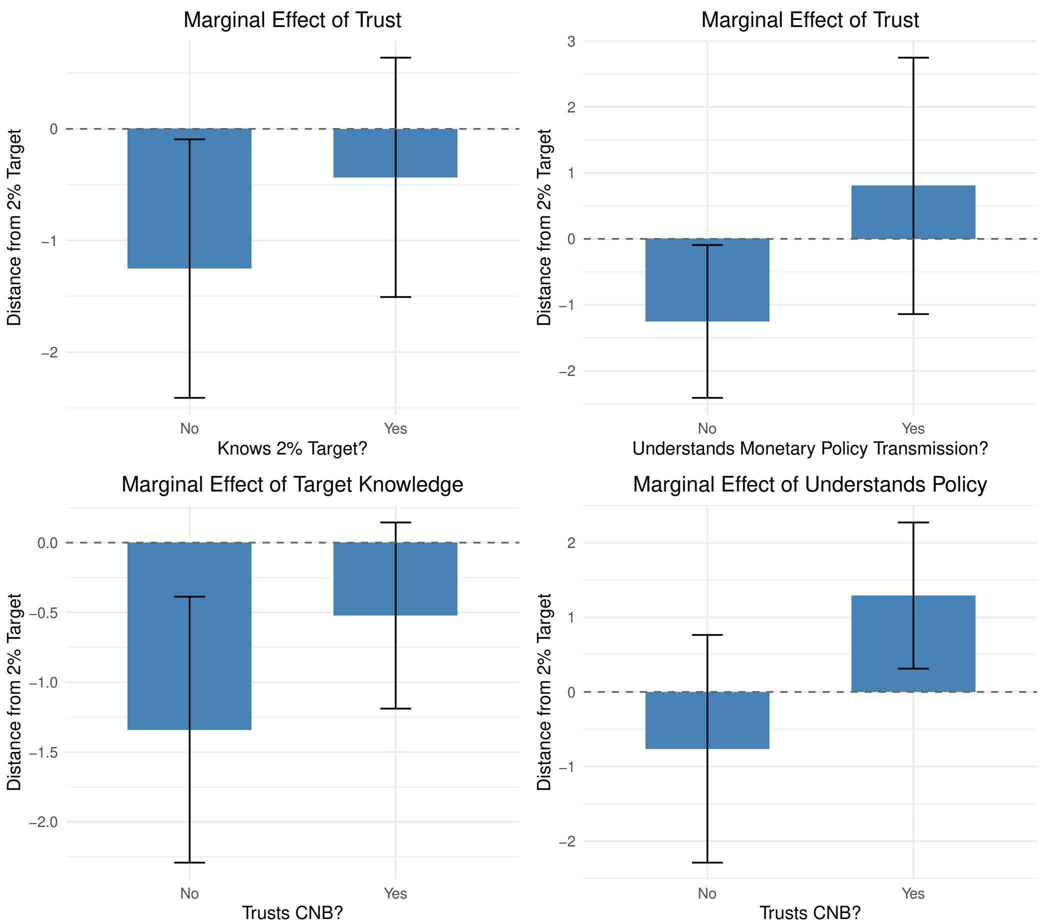
Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. RE specification includes month fixed effects. Both use cluster-robust standard errors. Standard errors in parentheses. We reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Table B.22: The Effect of CNB Trust and Knowledge on Distance from Inflation Target (2%) (Balanced Panel)

	Dependent variable:				
	Distance from Target				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.560***	0.674***	0.676***	0.676***	0.676***
	(0.065)	(0.086)	(0.086)	(0.086)	(0.085)
Inflation uncertainty	−2.600***	−2.000	−1.990	−1.980	−1.980
	(0.928)	(1.490)	(1.530)	(1.520)	(1.520)
HH income	−0.102*	−0.106	−0.091	−0.088	−0.063
	(0.052)	(0.067)	(0.071)	(0.072)	(0.067)
Unemp. up	0.107	0.185	0.147	0.156	0.164
	(0.376)	(0.528)	(0.552)	(0.546)	(0.545)
Mean perc. infl.	0.371***	0.268***	0.266***	0.270***	0.265***
	(0.061)	(0.083)	(0.084)	(0.084)	(0.084)
Mean infl. uncer.	1.690	2.950	2.970	3.180	2.950
	(1.430)	(2.190)	(2.250)	(2.260)	(2.200)
Mean unemp. up	1.060**	1.290**	1.490**	1.530**	1.450**
	(0.497)	(0.624)	(0.667)	(0.660)	(0.664)
Trust	−0.268		−0.048	−1.210**	−1.250**
	(0.295)		(0.468)	(0.598)	(0.591)
Knows target		−0.869***	−0.890***	−1.290***	−1.340***
		(0.230)	(0.232)	(0.490)	(0.486)
Understands policy		0.420	0.476	−0.806	−0.763
		(0.395)	(0.439)	(0.788)	(0.779)
Non-Voter/DK/Refused					0.588
					(0.674)
Govt. voter					−0.527*
					(0.311)
Trust × Knows target				0.687	0.817
				(0.697)	(0.678)
Trust × Understands policy				2.110**	2.060**
				(0.933)	(0.925)
Constant	−1.460*	−2.940***	−3.050***	−2.740***	−2.650**
	(0.781)	(0.960)	(1.000)	(1.050)	(1.070)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	2,244	1,256	1,206	1,206	1,206
R^2	0.814	0.839	0.839	0.840	0.841
Adjusted R^2	0.813	0.837	0.837	0.838	0.838

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target for respondents who participated in all 6 waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. *p<0.1; **p<0.05; ***p<0.01.

Figure B.12: Marginal Effects of CNB Trust and Monetary Policy Knowledge on Distance from the 2% Target (Balanced Panel)



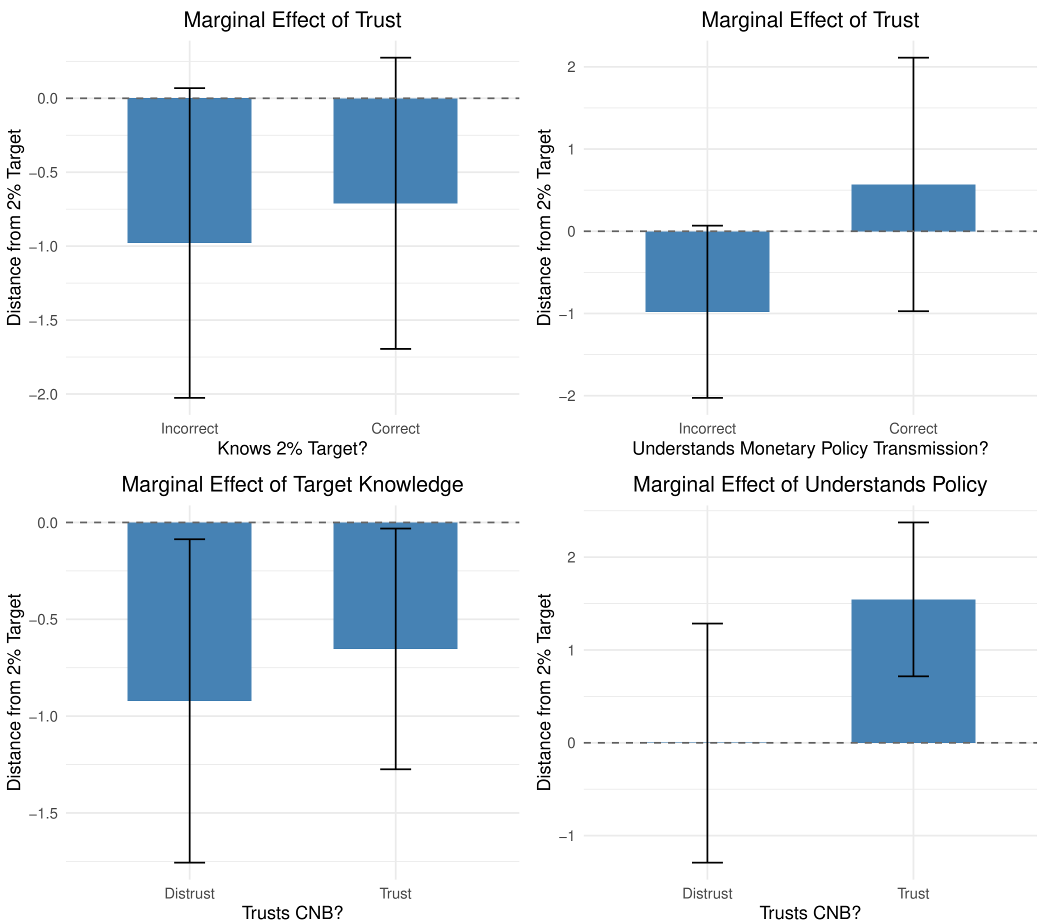
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: Each panel shows the estimated marginal effect on the distance of respondents' inflation expectations from the CNB's 2% target in Model 5 from Table B.22. Error bars mean 95% confidence intervals. Top left: Effect of CNB trust, by knowledge of the target; Top right: Effect of CNB trust, by understanding of monetary policy transmission; Bottom left: Effect of knowing the target, by trust in the CNB; Bottom right: Effect of understanding policy, by trust in the CNB.

Table B.23: The Effect of CNB Trust and Knowledge on Distance from Inflation Target (2%) (1%/99% Winsorization)

	Dependent variable:				
	Distance from Target				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.567***	0.653***	0.658***	0.658***	0.659***
	(0.056)	(0.076)	(0.079)	(0.079)	(0.078)
Inflation uncertainty	−1.830**	−1.450	−1.530	−1.520	−1.510
	(0.727)	(1.190)	(1.250)	(1.250)	(1.240)
HH income	−0.101**	−0.154**	−0.150**	−0.143*	−0.125*
	(0.049)	(0.071)	(0.075)	(0.076)	(0.074)
Unemp. up	0.311	0.342	0.333	0.341	0.350
	(0.310)	(0.469)	(0.498)	(0.495)	(0.491)
Mean perc. infl.	0.332***	0.264***	0.262***	0.264***	0.259***
	(0.053)	(0.073)	(0.076)	(0.076)	(0.076)
Mean infl. uncer.	1.520	2.430	2.580	2.740	2.550
	(1.010)	(1.580)	(1.660)	(1.670)	(1.650)
Mean unemp. up	1.370***	1.710***	1.660***	1.640***	1.450**
	(0.419)	(0.592)	(0.631)	(0.626)	(0.632)
Trust	−0.028		−0.154	−1.000*	−0.979*
	(0.233)		(0.385)	(0.545)	(0.534)
Knows target		−0.840***	−0.917***	−1.050**	−0.922**
		(0.219)	(0.229)	(0.436)	(0.426)
Understands policy		0.694**	0.869**	−0.167	−0.003
		(0.327)	(0.360)	(0.659)	(0.657)
Non-Voter/DK/Refused					0.084
					(0.523)
Govt. voter					−1.150***
					(0.305)
Trust × Knows target				0.268	0.269
				(0.594)	(0.588)
Trust × Understands policy				1.700**	1.550**
				(0.793)	(0.783)
Constant	−2.260***	−3.070***	−3.080***	−2.880***	−2.500***
	(0.614)	(0.796)	(0.862)	(0.914)	(0.928)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	3,502	1,881	1,785	1,785	1,785
R^2	0.778	0.810	0.810	0.811	0.812
Adjusted R^2	0.777	0.808	0.809	0.809	0.810

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Continuous covariates were winsorized at the 1%/99% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. *p<0.1; **p<0.05; ***p<0.01.

Figure B.13: Marginal Effects of CNB Trust and Monetary Policy Knowledge on Distance from the 2% Target (1%/99% Winsorization)



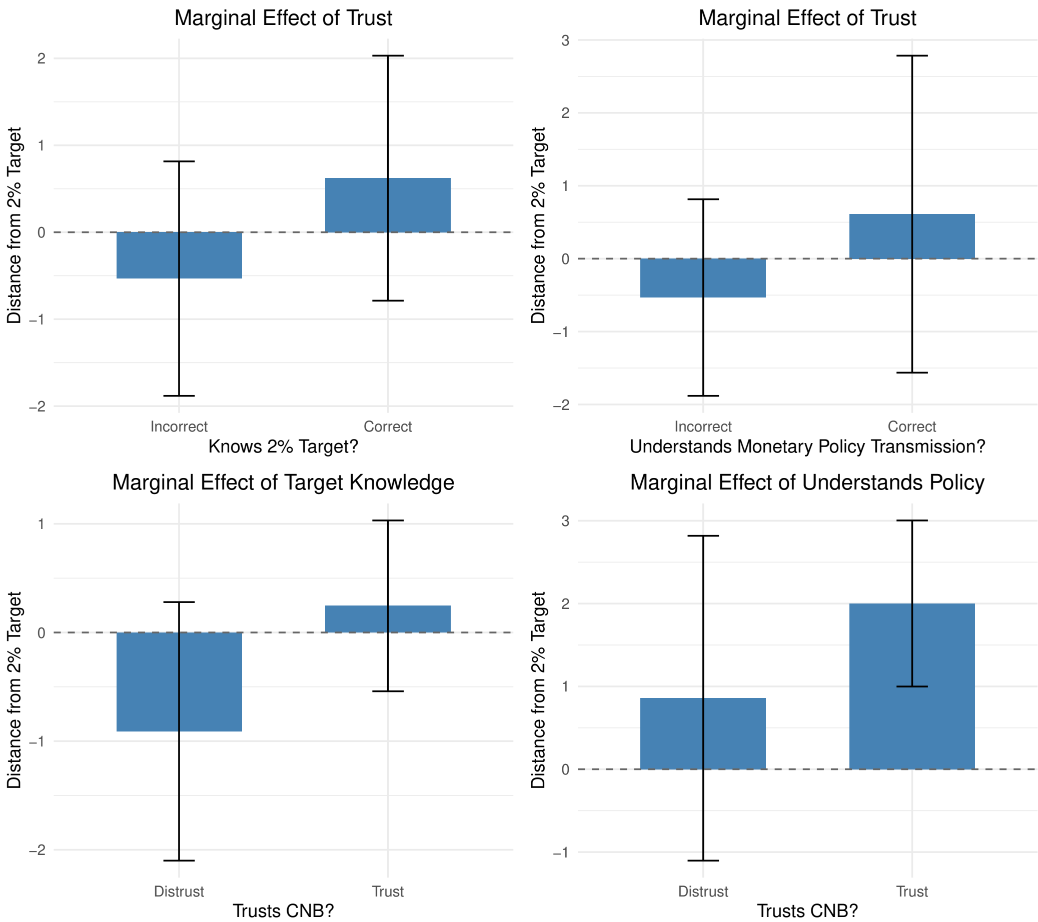
Source: Author's calculations based on the IPSOS survey, waves January–June 2024. Note: Each panel shows the estimated marginal effect on the distance of respondents' inflation expectations from the CNB's 2% target in Model 5 from Table B.23. Error bars mean 95% confidence intervals. Top left: Effect of CNB trust, by knowledge of the target; Top right: Effect of CNB trust, by understanding of monetary policy transmission; Bottom left: Effect of knowing the target, by trust in the CNB; Bottom right: Effect of understanding policy, by trust in the CNB.

Table B.24: The Effect of CNB Trust and Knowledge on Distance from Inflation Target (2%) (5%/95% Winsorization)

	Dependent variable:				
	Distance from Target				
	(1)	(2)	(3)	(4)	(5)
Perceived inflation	0.754***	0.837***	0.849***	0.849***	0.850***
	(0.066)	(0.102)	(0.107)	(0.107)	(0.107)
Inflation uncertainty	−1.970**	−1.630	−1.740	−1.740	−1.730
	(0.933)	(1.510)	(1.580)	(1.580)	(1.570)
HH income	−0.260***	−0.332***	−0.309***	−0.312***	−0.297***
	(0.059)	(0.086)	(0.090)	(0.093)	(0.090)
Unemp. up	0.446	0.462	0.440	0.443	0.447
	(0.366)	(0.543)	(0.568)	(0.566)	(0.566)
Mean perc. infl.	0.631***	0.704***	0.740***	0.741***	0.730***
	(0.079)	(0.115)	(0.122)	(0.122)	(0.122)
Mean infl. uncer.	0.065	0.891	0.724	0.797	0.497
	(1.260)	(1.980)	(2.070)	(2.100)	(2.120)
Mean unemp. up	1.230**	1.320*	1.190*	1.180	1.130
	(0.485)	(0.693)	(0.720)	(0.718)	(0.731)
Trust	0.680**		0.394	−0.487	−0.533
	(0.299)		(0.494)	(0.690)	(0.688)
Knows target		−0.205	−0.258	−0.900	−0.910
		(0.276)	(0.287)	(0.602)	(0.607)
Understands policy		1.350***	1.500***	0.779	0.857
		(0.440)	(0.487)	(1.000)	(1.000)
Non-Voter/DK/Refused					0.721
					(0.756)
Govt. voter					−0.504
					(0.356)
Trust × Knows target				1.050	1.160
				(0.809)	(0.822)
Trust × Understands policy				1.210	1.140
				(1.150)	(1.140)
Constant	−4.730***	−5.980***	−6.490***	−6.120***	−5.960***
	(0.747)	(1.030)	(1.120)	(1.180)	(1.170)
Month dummies	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual
Observations	3,502	1,881	1,785	1,785	1,785
R^2	0.624	0.663	0.669	0.669	0.670
Adjusted R^2	0.622	0.660	0.666	0.666	0.666

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Continuous covariates were winsorized at the 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. "Govt Voter" is a dummy for respondents who reported voting for a government party; "Non-Voter/DK/Refused" is a dummy for respondents who are non-voters, did not know or refused to answer. The baseline is people who voted for parties not in the government. "Trust" is a dummy for respondents who report trusting the Czech National Bank (CNB); "Knows Target" indicates respondents who correctly identified the CNB's 2% inflation target; "Understands policy" indicates respondents who correctly answered a question about monetary policy transmission. *p<0.1; **p<0.05; ***p<0.01.

Figure B.14: Marginal Effects of CNB Trust and Monetary Policy Knowledge on Distance from the 2% Target (5%/95% Winsorization)



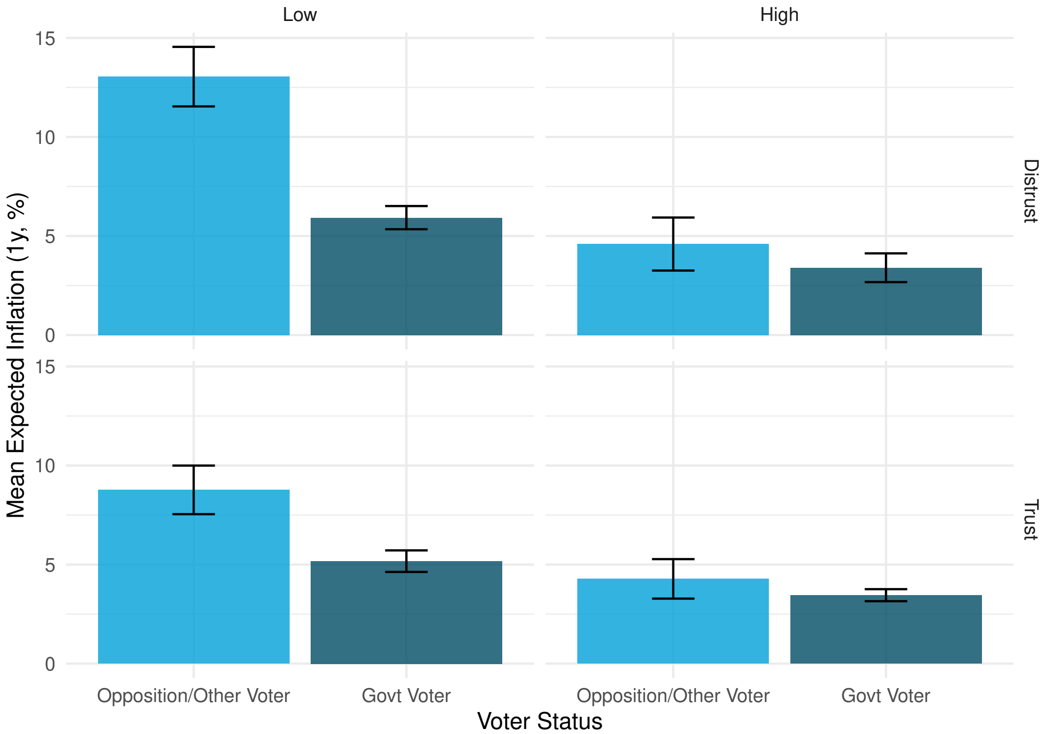
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: Each panel shows the estimated marginal effect on the distance of respondents' inflation expectations from the CNB's 2% target in Model 5 from Table B.24. Error bars mean 95% confidence intervals. Top left: Effect of CNB trust, by knowledge of the target; Top right: Effect of CNB trust, by understanding of monetary policy transmission; Bottom left: Effect of knowing the target, by trust in the CNB; Bottom right: Effect of understanding policy, by trust in the CNB.

Table B.25: Trust-Knowledge Groups and Political Affiliation - Random Effects vs Fixed Effects

	Dependent variable:	
	Expected 1-Year Inflation	
	RE	FE
	(1)	(2)
Perceived inflation	0.795***	0.850***
	(0.041)	(0.030)
Inflation uncertainty	−1.140**	−1.640**
	(0.523)	(0.780)
HH income	−0.255***	−0.042
	(0.088)	(0.083)
Unemp. up	0.923***	0.877**
	(0.289)	(0.370)
Non-Voter/DK/Refused	−0.709	−0.454
	(0.756)	(0.765)
Govt Voter	−1.990***	−1.140
	(0.562)	(0.801)
Low Trust, High Knowledge	−3.060**	−0.640
	(1.290)	(1.350)
High Trust, Low Knowledge	−0.525	−0.217
	(0.642)	(0.673)
High Trust, High Knowledge	−1.620***	−0.552
	(0.587)	(0.853)
Non-Voter/DK/Refused × Low Trust, High Knowledge	1.250	−1.070
	(1.450)	(1.970)
Govt Voter × Low Trust, High Knowledge	2.610*	−0.356
	(1.370)	(1.680)
Non-Voter/DK/Refused × High Trust, Low Knowledge	1.010	0.495
	(1.200)	(1.170)
Govt Voter × High Trust, Low Knowledge	0.177	0.077
	(0.770)	(1.060)
Non-Voter/DK/Refused × High Trust, High Knowledge	1.100	1.350
	(0.878)	(1.410)
Govt Voter × High Trust, High Knowledge	1.670**	−0.561
	(0.697)	(1.080)
Constant	2.620***	
	(0.970)	
February	0.640	
	(0.421)	
March	1.040**	
	(0.476)	
April	1.000**	
	(0.462)	
May	1.330***	
	(0.516)	
June	1.280***	
	(0.458)	
Month dummies	Yes	No (dropped)
Individual effects	No	Yes
Robust SEs	Yes	Yes
Clustering	Individual	Individual
Observations	2,673	2,673
R^2	0.699	0.824
Adjusted R^2	0.697	0.508

Note: The table compares Random Effects (RE) and Fixed Effects (FE) specifications for inflation expectations models. RE specification includes month fixed effects. Both use cluster-robust standard errors. Standard errors in parentheses. We reject the null hypothesis of the Hausman test, thus justifying the usage of CRE. *p<0.1; **p<0.05; ***p<0.01.

Figure B.15: Mean 1-year Inflation Expectations by Voter Status, Trust in the CNB, and Composite Knowledge



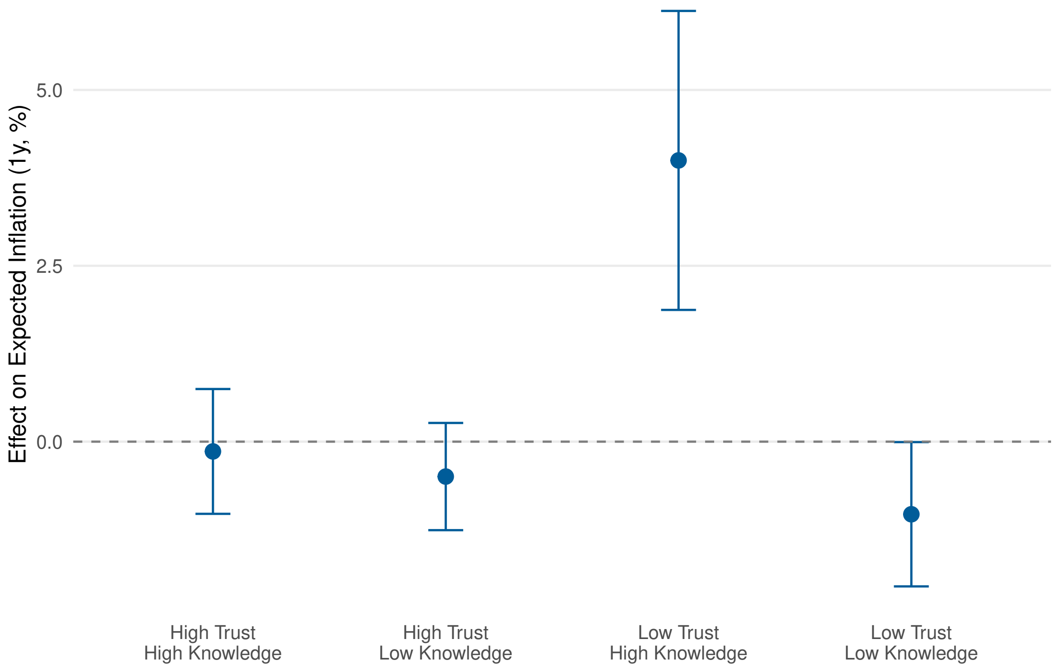
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure illustrates how inflation expectations differ across combinations of political partisanship (government vs. opposition voter), trust in the central bank, and composite knowledge dummy. Columns indicate the composite knowledge dummy. Composite knowledge dummy is set to ´High´ if the respondent correctly identified the inflation target and at the same time understands the monetary policy transmission mechanism, and ´Low´ otherwise. Rows indicate the respondent´s trust in the CNB. Error bars mean 95% confidence intervals.

Table B.26: CRE Models of Expected Inflation with Trust–Knowledge–Voter Interactions (Balanced Panel)

	Dependent variable:		
	Expected Inflation (1y, %)		
	(1)	(2)	(3)
Perceived inflation	0.604***	0.605***	0.605***
	(0.075)	(0.074)	(0.074)
Inflation uncertainty	−1.820*	−1.820*	−1.830*
	(1.010)	(1.010)	(1.010)
HH income	−0.111**	−0.070	−0.085
	(0.055)	(0.052)	(0.055)
Unemp. up	0.057	0.059	0.061
	(0.461)	(0.459)	(0.460)
Mean perc. infl.	0.332***	0.328***	0.327***
	(0.070)	(0.069)	(0.069)
Mean infl. uncer.	0.508	0.305	0.234
	(1.650)	(1.630)	(1.610)
Mean unemp. up	1.030*	0.965	1.070*
	(0.606)	(0.616)	(0.627)
Non-Voter/DK/Refused		0.703	0.180
		(0.471)	(0.630)
Govt Voter		−0.616**	−1.030**
		(0.288)	(0.523)
Low Trust, High Knowledge	−1.380***	−1.270**	−5.090***
	(0.491)	(0.504)	(0.962)
High Trust, Low Knowledge	−0.100	−0.088	−0.469
	(0.381)	(0.383)	(0.523)
High Trust, High Knowledge	−0.562*	−0.511	−1.020**
	(0.334)	(0.337)	(0.518)
Non-Voter/DK/Refused × Low Trust, High Knowledge			3.590***
			(1.320)
Govt Voter × Low Trust, High Knowledge			5.030***
			(1.190)
Non-Voter/DK/Refused × High Trust, Low Knowledge			0.978
			(1.140)
Govt Voter × High Trust, Low Knowledge			0.536
			(0.658)
Non-Voter/DK/Refused × High Trust, High Knowledge			1.250
			(0.785)
Govt Voter × High Trust, High Knowledge			0.893
			(0.657)
Constant	0.432	0.332	0.652
	(0.905)	(0.890)	(0.952)
Month dummies	Yes	Yes	Yes
Individual effects	No	No	No
Robust SEs	Yes	Yes	Yes
Clustering	Individual	Individual	Individual
Observations	1,760	1,760	1,760
R^2	0.840	0.841	0.842
Adjusted R^2	0.839	0.840	0.840

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. The models were estimated using respondents who participated in all survey waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.16: Marginal Effect of Government Voter on Inflation Expectations by Trust-Knowledge Group (Balanced Panel)



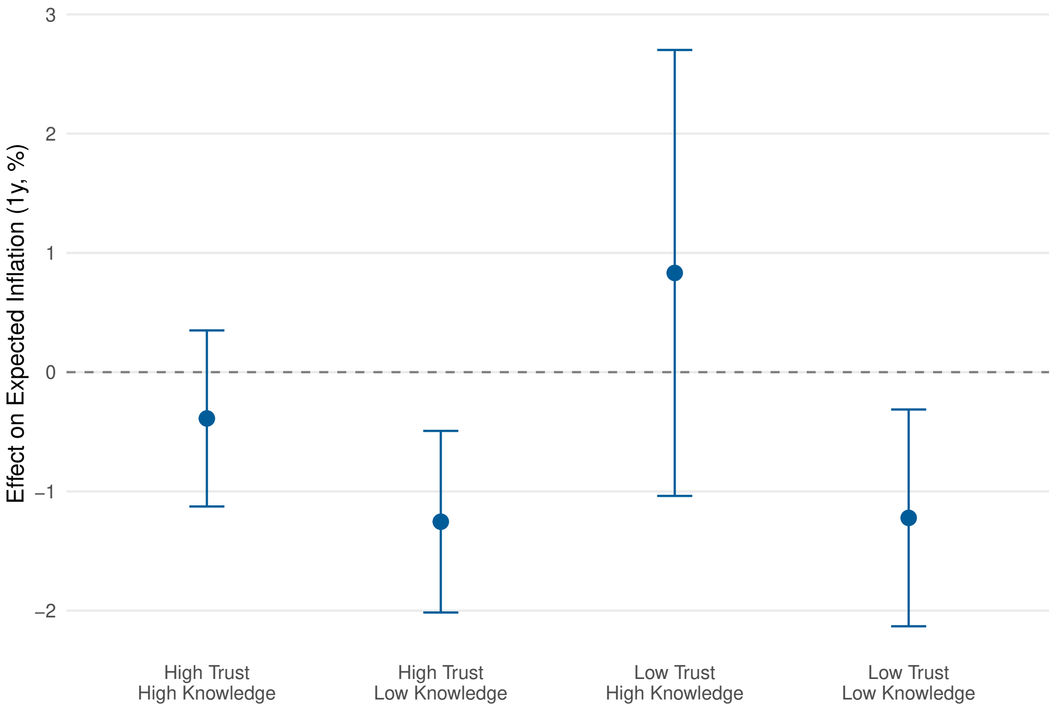
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The graph shows the marginal effect of being a government voter on 1-year-ahead inflation expectations across four trust-knowledge groups. Each point represents the estimated marginal effect with 95% confidence intervals shown as vertical error bars. The dashed horizontal line at zero indicates no effect. The four groups are: High Trust, High Knowledge; High Trust, Low Knowledge; Low Trust, High Knowledge; and Low Trust, Low Knowledge. The marginal effects are calculated from linear combinations of coefficients from Model 3 in Table B.26.

Table B.27: CRE MODELS OF EXPECTED INFLATION WITH TRUST–KNOWLEDGE–VOTER INTERACTIONS (1%/99% WINSORIZATION)

	Dependent variable:		
	Expected Inflation (1y, %)		
	(1)	(2)	(3)
Perceived inflation (w1)	0.610***	0.610***	0.610***
	(0.065)	(0.064)	(0.064)
Inflation uncertainty (w1)	−1.380*	−1.390*	−1.390*
	(0.823)	(0.822)	(0.821)
HH income (w1)	−0.113**	−0.089	−0.096*
	(0.057)	(0.055)	(0.057)
Unemp. up (w1)	0.229	0.232	0.226
	(0.391)	(0.388)	(0.390)
Mean perc. infl. (w1)	0.299***	0.296***	0.296***
	(0.061)	(0.060)	(0.060)
Mean infl. uncer. (w1)	0.838	0.719	0.623
	(1.190)	(1.190)	(1.180)
Mean unemp. up (w1)	1.340***	1.150**	1.220**
	(0.519)	(0.525)	(0.528)
Non-Voter/DK/Refused		−0.189	−0.772
		(0.373)	(0.519)
Govt Voter		−1.110***	−1.220***
		(0.261)	(0.464)
Low Trust, High Knowledge	−1.170***	−0.860**	−2.330***
	(0.430)	(0.432)	(0.879)
High Trust, Low Knowledge	0.047	0.093	−0.172
	(0.311)	(0.310)	(0.456)
High Trust, High Knowledge	−0.288	−0.193	−0.810*
	(0.283)	(0.285)	(0.456)
Non-Voter/DK/Refused × Low Trust, High Knowledge			1.260
			(1.190)
Govt Voter × Low Trust, High Knowledge			2.050*
			(1.060)
Non-Voter/DK/Refused × High Trust, Low Knowledge			1.120
			(0.850)
Govt Voter × High Trust, Low Knowledge			−0.032
			(0.605)
Non-Voter/DK/Refused × High Trust, High Knowledge			1.490**
			(0.658)
Govt Voter × High Trust, High Knowledge			0.834
			(0.552)
Constant	−0.394	−0.026	0.201
	(0.727)	(0.716)	(0.770)
Month dummies	Yes	Yes	Yes
Individual effects	No	No	No
Robust SEs	Yes	Yes	Yes
Clustering	Individual	Individual	Individual
Observations	2,673	2,673	2,673
R^2	0.803	0.804	0.804
Adjusted R^2	0.802	0.803	0.803

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Continuous covariates were winsorized at the 1%/99% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.17: MARGINAL EFFECT OF GOVERNMENT VOTER ON INFLATION EXPECTATIONS BY TRUST-KNOWLEDGE GROUP (1%/99% WINSORIZATION)



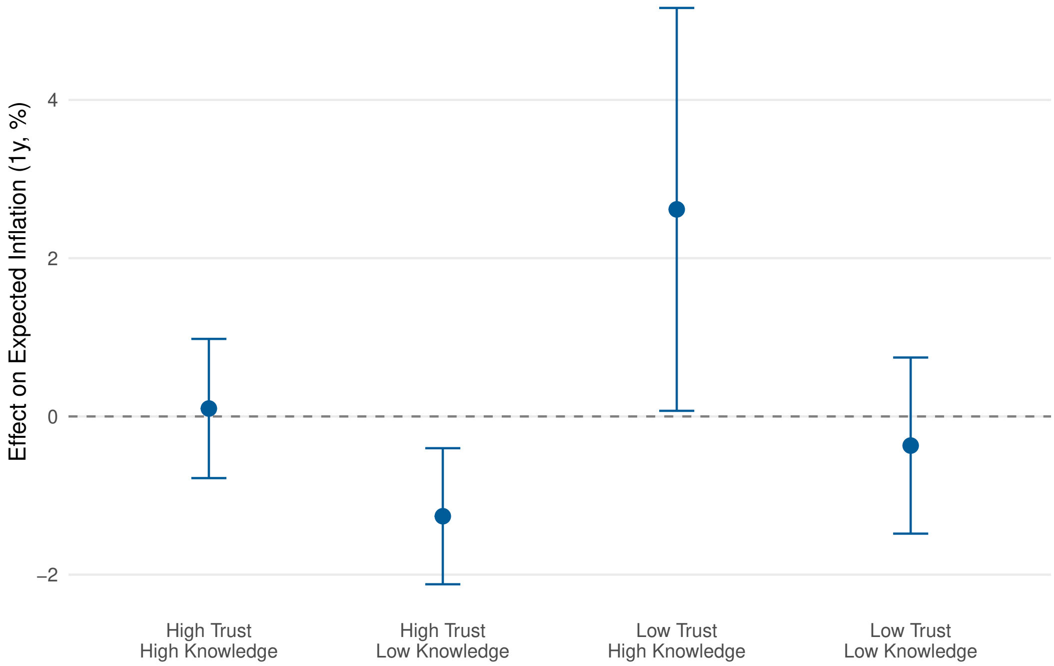
Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The graph shows the marginal effect of being a government voter on 1-year-ahead inflation expectations across four trust-knowledge groups. Each point represents the estimated marginal effect with 95% confidence intervals shown as vertical error bars. The dashed horizontal line at zero indicates no effect. The four groups are: High Trust, High Knowledge; High Trust, Low Knowledge; Low Trust, High Knowledge; and Low Trust, Low Knowledge. The marginal effects are calculated from linear combinations of coefficients from Model 3 in Table B.27.

Table B.28: CRE MODELS OF EXPECTED INFLATION WITH TRUST–KNOWLEDGE–VOTER INTERACTIONS (5%/95% WINSORIZATION)

	Dependent variable:		
	Expected Inflation (1y, %)		
	(1)	(2)	(3)
Perceived inflation (w5)	0.820***	0.820***	0.820***
	(0.080)	(0.080)	(0.080)
Inflation uncertainty (w5)	−1.680	−1.680	−1.680
	(1.070)	(1.070)	(1.070)
HH income (w5)	−0.347***	−0.341***	−0.349***
	(0.071)	(0.070)	(0.072)
Unemp. up (w5)	0.381	0.386	0.377
	(0.457)	(0.457)	(0.458)
Mean perc. infl. (w5)	0.686***	0.684***	0.687***
	(0.092)	(0.092)	(0.092)
Mean infl. uncer. (w5)	−0.921	−0.914	−1.050
	(1.470)	(1.480)	(1.470)
Mean unemp. up (w5)	1.260**	1.130*	1.190*
	(0.596)	(0.604)	(0.616)
Non-Voter/DK/Refused		−0.444	−0.821
		(0.513)	(0.810)
Govt Voter		−0.677**	−0.369
		(0.306)	(0.568)
Low Trust, High Knowledge	0.045	0.222	−2.120*
	(0.551)	(0.555)	(1.140)
High Trust, Low Knowledge	1.000**	1.020***	1.170**
	(0.390)	(0.391)	(0.580)
High Trust, High Knowledge	1.730***	1.750***	1.110*
	(0.370)	(0.374)	(0.588)
Non-Voter/DK/Refused × Low Trust, High Knowledge			2.140
			(1.520)
Govt Voter × Low Trust, High Knowledge			2.980**
			(1.390)
Non-Voter/DK/Refused × High Trust, Low Knowledge			0.416
			(1.110)
Govt Voter × High Trust, Low Knowledge			−0.893
			(0.730)
Non-Voter/DK/Refused × High Trust, High Knowledge			2.460**
			(0.957)
Govt Voter × High Trust, High Knowledge			0.469
			(0.709)
Constant	−3.200***	−2.870***	−2.790***
	(0.874)	(0.850)	(0.894)
Month dummies	Yes	Yes	Yes
Individual effects	No	No	No
Robust SEs	Yes	Yes	Yes
Clustering	Individual	Individual	Individual
Observations	2,673	2,673	2,673
R^2	0.655	0.655	0.656
Adjusted R^2	0.653	0.653	0.653

Note: The table shows results from CRE models estimating the determinants of the absolute distance between respondents' 1-year-ahead inflation expectations and the CNB's inflation target. Continuous covariates were winsorized at the 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.18: MARGINAL EFFECT OF GOVERNMENT VOTER ON INFLATION EXPECTATIONS BY TRUST-KNOWLEDGE GROUP (5%/95% WINSORIZATION)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: The graph shows the marginal effect of being a government voter on 1-year-ahead inflation expectations across four trust-knowledge groups. Each point represents the estimated marginal effect with 95% confidence intervals shown as vertical error bars. The dashed horizontal line at zero indicates no effect. The four groups are: High Trust, High Knowledge; High Trust, Low Knowledge; Low Trust, High Knowledge; and Low Trust, Low Knowledge. The marginal effects are calculated from linear combinations of coefficients from Model 3 in Table B.28.

Table B.29: CRE Models of Expected Inflation with Individual Value Items and Interactions (1-8) (Balanced Panel)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Perceived inflation	0.579***	0.562***	0.564***	0.625***	0.572***	0.560***	0.566***	0.575***
	(0.061)	(0.061)	(0.065)	(0.057)	(0.065)	(0.060)	(0.061)	(0.065)
Inflation uncertainty	−2.244**	−2.179**	−2.223**	−2.255**	−2.233**	−2.248**	−2.243**	−2.224**
	(0.911)	(0.915)	(0.904)	(0.905)	(0.916)	(0.912)	(0.914)	(0.907)
HH Income	−0.135**	−0.148***	−0.139**	−0.139**	−0.141**	−0.145***	−0.146***	−0.142**
	(0.056)	(0.056)	(0.054)	(0.056)	(0.057)	(0.055)	(0.056)	(0.056)
Unemp. up	0.193	0.183	0.198	0.209	0.192	0.198	0.187	0.195
	(0.350)	(0.351)	(0.349)	(0.345)	(0.348)	(0.349)	(0.348)	(0.348)
Mean perc. infl.	0.357***	0.340***	0.364***	0.344***	0.360***	0.360***	0.356***	0.365***
	(0.057)	(0.058)	(0.059)	(0.054)	(0.056)	(0.056)	(0.055)	(0.055)
Mean infl. uncer.	1.393	1.397	1.238	1.177	1.262	1.265	1.262	1.231
	(1.434)	(1.403)	(1.418)	(1.396)	(1.424)	(1.423)	(1.364)	(1.389)
Mean unemp. up	1.089**	1.199***	1.073**	1.147**	1.083**	1.090**	1.121***	1.081**
	(0.445)	(0.433)	(0.450)	(0.448)	(0.441)	(0.451)	(0.434)	(0.444)
Spontaneity	−0.266							
	(0.540)							
FunSeeking		−0.810**						
		(0.369)						
Sociability			−0.131					
			(0.569)					
Communicative				0.854*				
				(0.451)				
Caregiver					0.149			
					(0.435)			
Close relationships						−0.275		
						(0.394)		
Stability seeking							−0.596*	
							(0.336)	
Home oriented								0.370
								(0.392)
Spontaneity × Perc. Inflation	−0.027							
	(0.072)							
FunSeeking × Perc. Inflation		0.067*						
		(0.039)						
Sociability × Perc. Inflation			0.021					
			(0.074)					
Communicative × Perc. Inflation				−0.100**				
				(0.049)				
Caregiver × Perc. Inflation					−0.009			
					(0.052)			
Close relationships x Perc. Inflation						0.024		
						(0.048)		
Stability seeking × Perc. Inflation							0.025	
							(0.040)	
Home oriented × Perc. Inflation								−0.017
								(0.047)
Constant	0.525	0.782	0.596	0.224	0.550	0.720	0.777	0.429
	(0.774)	(0.790)	(0.763)	(0.732)	(0.814)	(0.752)	(0.783)	(0.811)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
R^2	0.806	0.806	0.805	0.808	0.805	0.806	0.806	0.806
Adjusted R^2	0.805	0.805	0.804	0.807	0.804	0.804	0.805	0.804

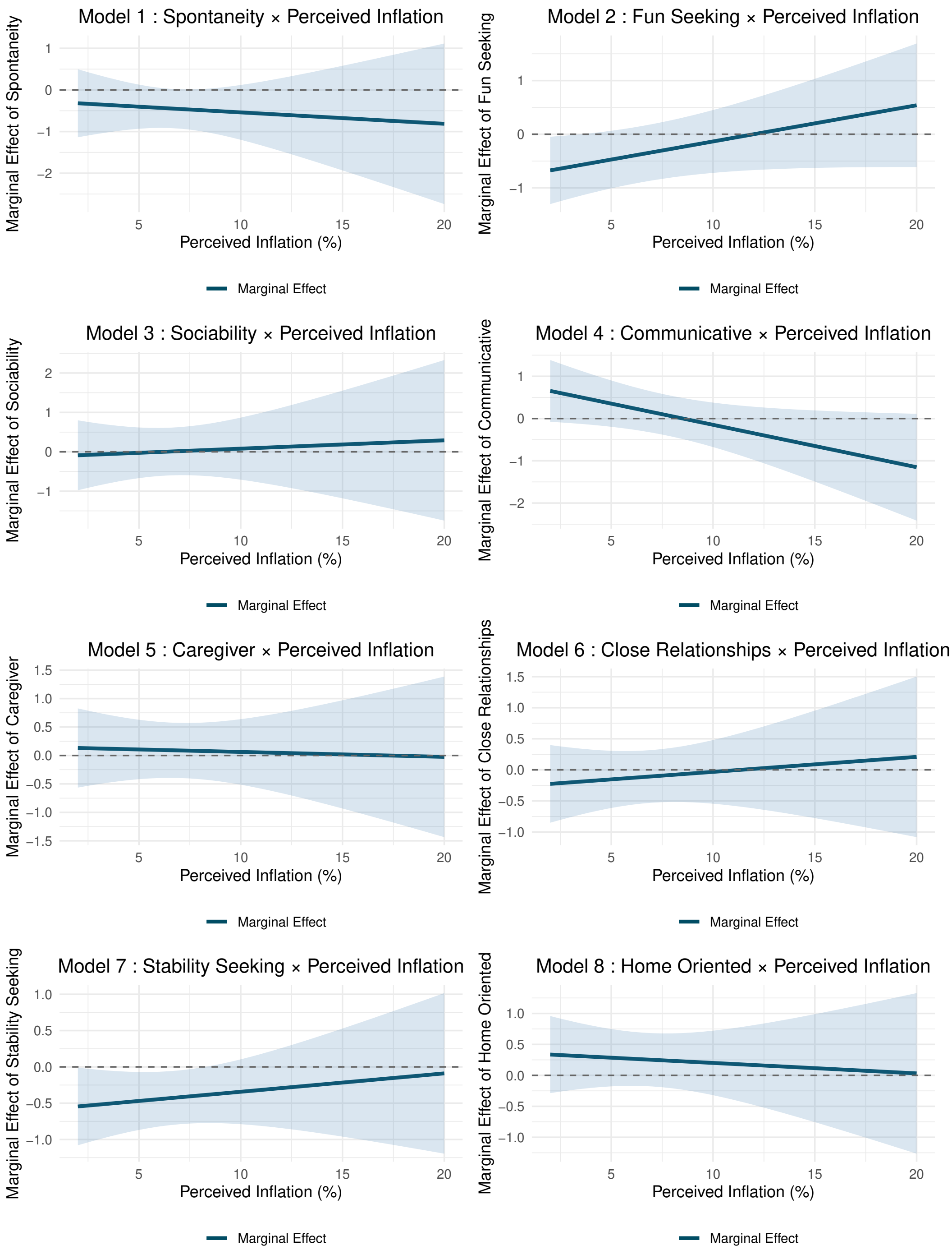
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (1)-(8) show models for individual value items: Spontaneity, FunSeeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented. Models are estimated using only respondents who completed all survey waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.30: CRE Models of Expected Inflation with Individual Value Items and Interactions (9-16) (Balanced Panel)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Perceived inflation	0.575***	0.574***	0.582***	0.571***	0.563***	0.560***	0.575***	0.589***
	(0.065)	(0.057)	(0.062)	(0.060)	(0.061)	(0.058)	(0.060)	(0.061)
Inflation uncertainty	−2.240**	−2.251**	−2.238**	−2.245**	−2.264**	−2.186**	−2.266**	−2.263**
	(0.913)	(0.911)	(0.911)	(0.912)	(0.917)	(0.895)	(0.911)	(0.912)
HH Income	−0.140**	−0.135**	−0.151***	−0.141**	−0.138**	−0.137**	−0.151***	−0.158***
	(0.057)	(0.055)	(0.056)	(0.056)	(0.055)	(0.057)	(0.057)	(0.057)
Unemp. up	0.196	0.189	0.185	0.192	0.179	0.146	0.215	0.213
	(0.348)	(0.348)	(0.349)	(0.350)	(0.346)	(0.346)	(0.350)	(0.350)
Mean perc. infl.	0.361***	0.361***	0.351***	0.359***	0.360***	0.357***	0.358***	0.349***
	(0.056)	(0.055)	(0.057)	(0.056)	(0.056)	(0.054)	(0.056)	(0.057)
Mean infl. uncer.	1.309	1.211	1.244	1.225	1.227	1.246	1.197	1.452
	(1.430)	(1.427)	(1.422)	(1.411)	(1.417)	(1.398)	(1.412)	(1.391)
Mean unemp. up	1.083**	1.120**	1.112**	1.076**	1.136**	1.136**	1.056**	1.057**
	(0.443)	(0.449)	(0.445)	(0.447)	(0.443)	(0.443)	(0.444)	(0.448)
Orderly	0.360							
	(0.407)							
ControlSeeking		0.658						
		(1.043)						
DeepThinker			1.156*					
			(0.623)					
ExpertRecognition				−0.068				
				(0.449)				
Ambitious					0.010			
					(0.366)			
CareerSuccess						−1.128***		
						(0.382)		
Dynamic							1.045**	
							(0.436)	
ChallengeSeeking								1.036
								(0.768)
Orderly × Perc. Inflation	−0.022							
	(0.050)							
ControlSeeking × Perc. Inflation		−0.041						
		(0.112)						
DeepThinker × Perc. Inflation			−0.090					
			(0.075)					
ExpertRecognition × Perc. Inflation				−0.051				
				(0.073)				
Ambitious × Perc. Inflation					0.052			
					(0.047)			
CareerSuccess × Perc. Inflation						0.112**		
						(0.054)		
Dynamic × Perc. Inflation							−0.154**	
							(0.064)	
ChallengeSeeking × Perc. Inflation								−0.099
								(0.098)
Constant	0.470	0.476	0.529	0.715	0.579	0.711	0.723	0.516
	(0.802)	(0.753)	(0.759)	(0.753)	(0.762)	(0.761)	(0.762)	(0.775)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
R^2	0.806	0.806	0.806	0.806	0.806	0.807	0.806	0.807
Adjusted R^2	0.804	0.804	0.805	0.805	0.805	0.806	0.805	0.805

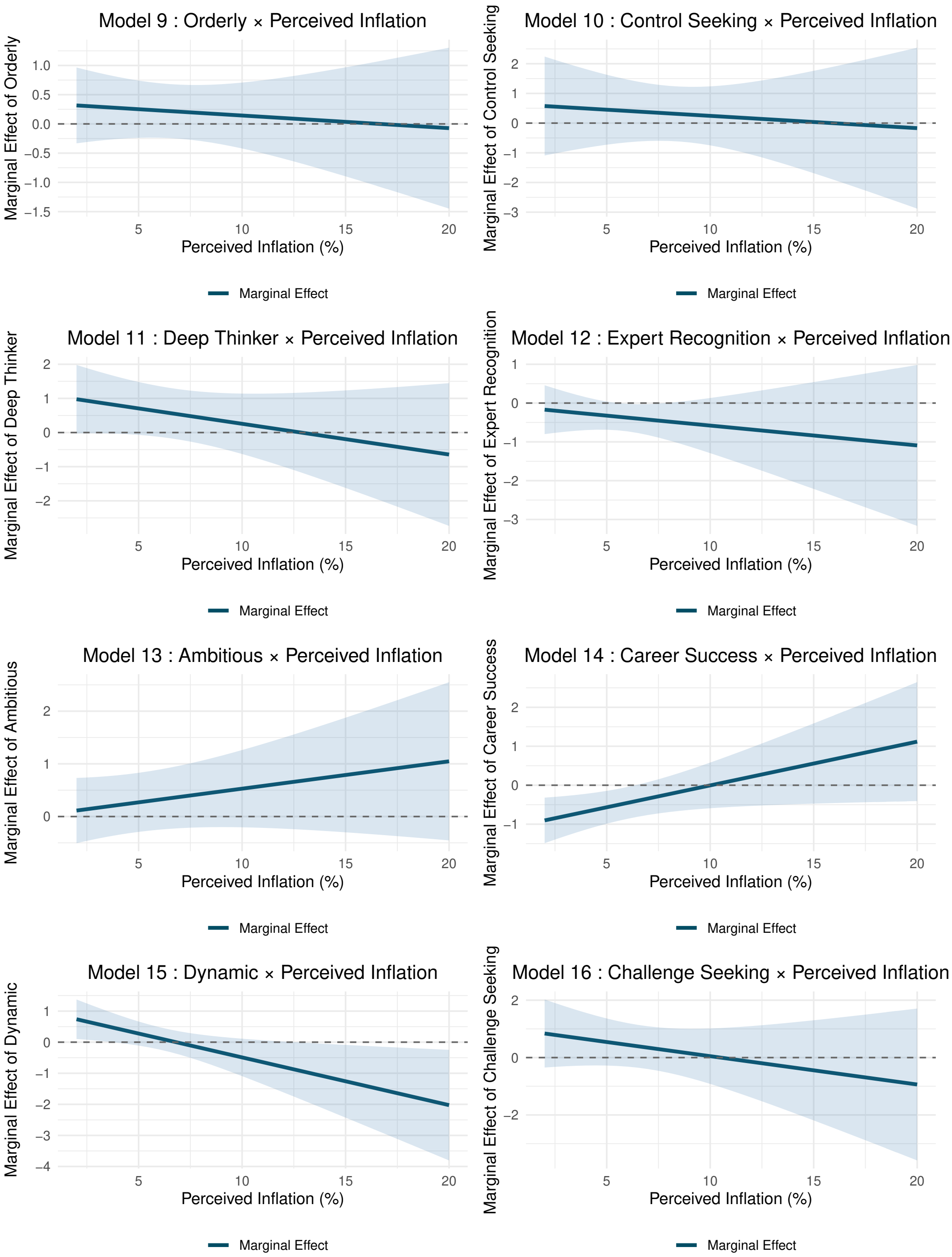
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (9)-(16) show models for individual value items: Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking. Models are estimated using only respondents who completed all survey waves. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.19: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 1-8 (Balanced Panel)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Spontaneity, Fun Seeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented) on 1-year ahead expected inflation. It shows only respondents who completed all survey waves. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 1-8 from Table B.29.

Figure B.20: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 9-16 (Balanced Panel)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking) on 1-year ahead expected inflation. It shows only respondents who completed all survey waves. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 9-16 from Table B.30.

Table B.31: CRE Models of Expected Inflation with Individual Value Items and Interactions (1-8) (1%/99% Winsorization)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Perceived inflation	0.574***	0.570***	0.578***	0.629***	0.582***	0.593***	0.570***	0.588***
	(0.045)	(0.045)	(0.046)	(0.047)	(0.046)	(0.044)	(0.045)	(0.048)
Inflation uncertainty	−1.577**	−1.514**	−1.569**	−1.569**	−1.580**	−1.591**	−1.577**	−1.569**
	(0.704)	(0.704)	(0.703)	(0.695)	(0.705)	(0.702)	(0.706)	(0.703)
HH Income	−0.174***	−0.173***	−0.173***	−0.165***	−0.172***	−0.171***	−0.177***	−0.176***
	(0.049)	(0.048)	(0.048)	(0.049)	(0.048)	(0.048)	(0.048)	(0.048)
Unemp. up	0.289	0.278	0.291	0.292	0.285	0.286	0.270	0.287
	(0.306)	(0.307)	(0.307)	(0.302)	(0.305)	(0.306)	(0.305)	(0.306)
Mean perc. infl.	0.265***	0.242***	0.263***	0.247***	0.263***	0.264***	0.254***	0.266***
	(0.044)	(0.045)	(0.045)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)
Mean infl. uncer.	1.582*	1.660*	1.595*	1.530*	1.587*	1.581*	1.656*	1.544*
	(0.928)	(0.925)	(0.925)	(0.908)	(0.927)	(0.924)	(0.923)	(0.925)
Mean unemp. up	1.945***	1.990***	1.959***	1.967***	1.937***	1.954***	2.008***	1.934***
	(0.408)	(0.407)	(0.408)	(0.408)	(0.405)	(0.411)	(0.406)	(0.409)
Spontaneity	−0.371							
	(0.442)							
FunSeeking		−1.104***						
		(0.335)						
Sociability			0.413					
			(0.523)					
Communicative				0.827**				
				(0.375)				
Caregiver					0.209			
					(0.390)			
Close relationships						0.027		
						(0.346)		
Stability seeking							−0.708**	
							(0.333)	
Home oriented								0.114
								(0.338)
Spontaneity × Perc. Inflation	0.019							
	(0.052)							
FunSeeking × Perc. Inflation		0.106***						
		(0.036)						
Sociability × Perc. Inflation			0.008					
			(0.061)					
Communicative × Perc. Inflation				−0.093**				
				(0.042)				
Caregiver × Perc. Inflation					−0.009			
					(0.043)			
Close relationships × Perc. Inflation						−0.033		
						(0.040)		
Stability seeking × Perc. Inflation							0.066	
							(0.041)	
Home oriented × Perc. Inflation								−0.023
								(0.040)
Constant	0.225	0.347	0.071	−0.224	0.097	0.106	0.290	0.125
	(0.570)	(0.567)	(0.561)	(0.568)	(0.579)	(0.568)	(0.571)	(0.581)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.747	0.750	0.748	0.750	0.747	0.748	0.748	0.748
Adjusted R^2	0.747	0.749	0.747	0.749	0.747	0.747	0.747	0.747

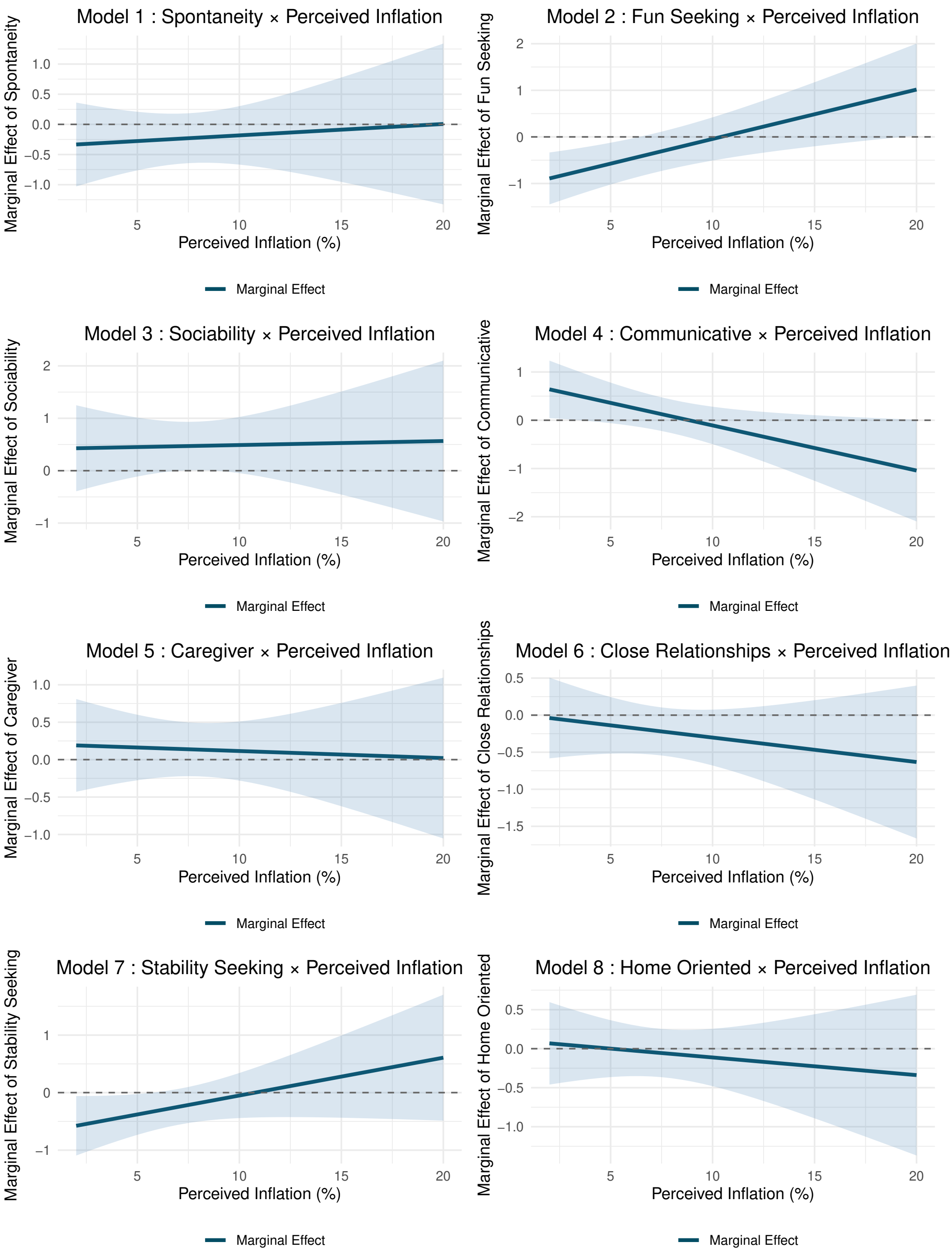
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (1)-(8) show models for individual value items: Spontaneity, FunSeeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented. Continuous covariates were winsorized at the 1%/99% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.32: CRE Models of Expected Inflation with Individual Value Items and Interactions (9-16) (1%/99% Winsorization)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Perceived inflation	0.602***	0.586***	0.585***	0.580***	0.571***	0.558***	0.581***	0.576***
	(0.048)	(0.045)	(0.045)	(0.045)	(0.046)	(0.043)	(0.045)	(0.045)
Inflation uncertainty	−1.582**	−1.577**	−1.595**	−1.579**	−1.586**	−1.543**	−1.587**	−1.580**
	(0.712)	(0.705)	(0.704)	(0.703)	(0.704)	(0.691)	(0.705)	(0.702)
HH Income	−0.173***	−0.171***	−0.177***	−0.168***	−0.174***	−0.175***	−0.175***	−0.175***
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.048)	(0.048)	(0.048)
Unemp. up	0.291	0.289	0.278	0.291	0.277	0.264	0.291	0.290
	(0.308)	(0.308)	(0.306)	(0.307)	(0.304)	(0.304)	(0.307)	(0.306)
Mean perc. infl.	0.258***	0.263***	0.260***	0.262***	0.265***	0.266***	0.264***	0.264***
	(0.045)	(0.044)	(0.045)	(0.045)	(0.045)	(0.043)	(0.044)	(0.044)
Mean infl. uncer.	1.618*	1.576*	1.585*	1.568*	1.595*	1.537*	1.570*	1.530*
	(0.934)	(0.927)	(0.927)	(0.923)	(0.924)	(0.912)	(0.924)	(0.910)
Mean unemp. up	1.954***	1.938***	1.971***	1.927***	1.978***	1.941***	1.953***	1.930***
	(0.407)	(0.412)	(0.409)	(0.409)	(0.407)	(0.404)	(0.409)	(0.408)
Orderly	0.580							
	(0.381)							
ControlSeeking		0.440						
		(0.586)						
DeepThinker			0.664					
			(0.456)					
ExpertRecognition				−0.407				
				(0.484)				
Ambitious					0.031			
					(0.432)			
CareerSuccess						−1.256***		
						(0.325)		
Dynamic							0.523	
							(0.654)	
ChallengeSeeking								0.057
								(0.516)
Orderly × Perc. Inflation	−0.076*							
	(0.046)							
ControlSeeking × Perc. Inflation		−0.051						
		(0.064)						
DeepThinker × Perc. Inflation			−0.071					
			(0.060)					
ExpertRecognition × Perc. Inflation				−0.015				
				(0.067)				
Ambitious × Perc. Inflation					0.047			
					(0.054)			
CareerSuccess × Perc. Inflation						0.171***		
						(0.044)		
Dynamic × Perc. Inflation							−0.036	
							(0.091)	
ChallengeSeeking × Perc. Inflation								0.020
								(0.061)
Constant	0.0001	0.129	0.123	0.215	0.143	0.330	0.107	0.182
	(0.572)	(0.566)	(0.556)	(0.561)	(0.558)	(0.557)	(0.557)	(0.559)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.749	0.748	0.748	0.748	0.748	0.751	0.747	0.747
Adjusted R^2	0.748	0.747	0.747	0.747	0.747	0.750	0.747	0.747

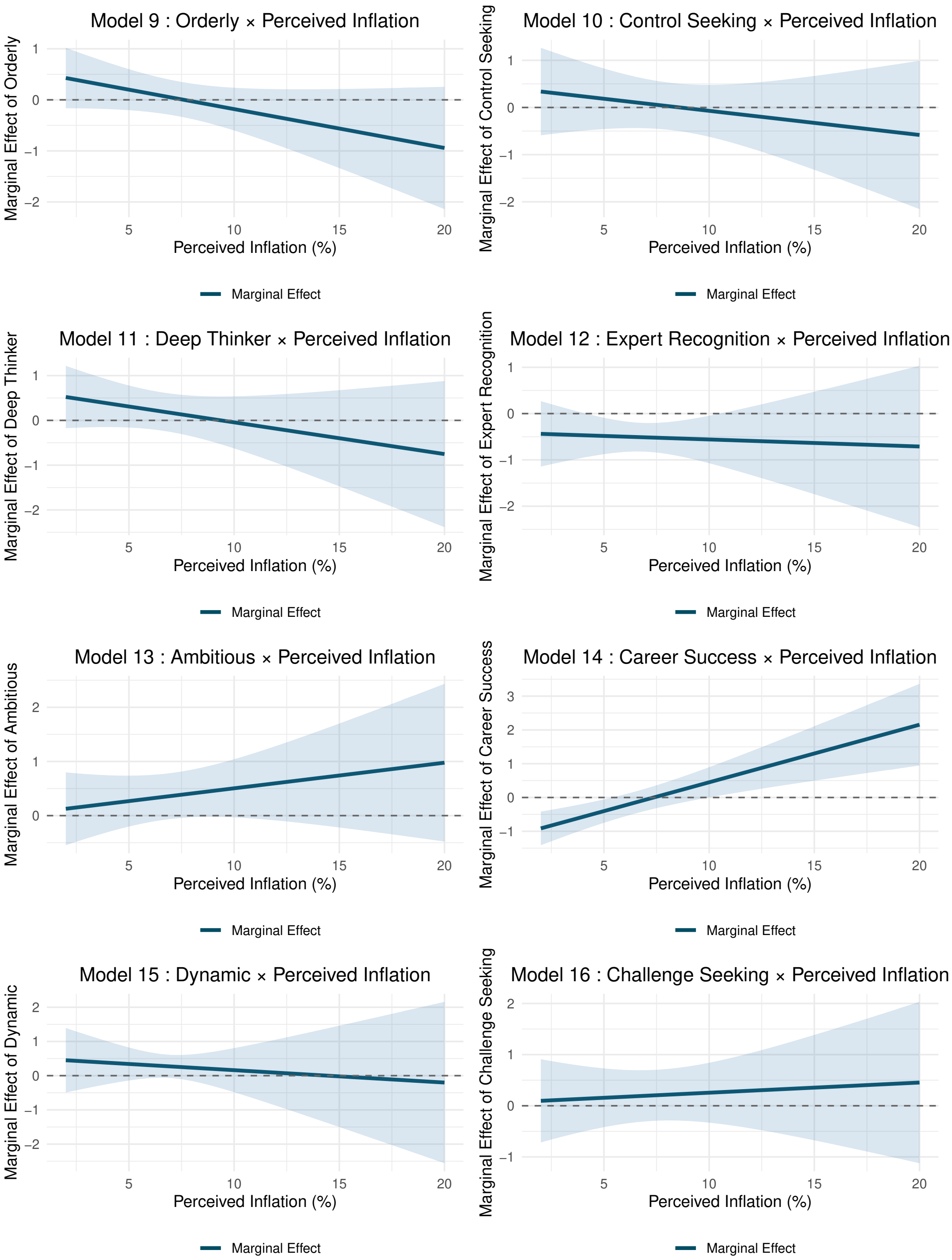
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (9)-(16) show models for individual value items: Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking. Continuous covariates were winsorized at the 1%/99% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.21: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 1-8 (1%/99% Winsorization)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Spontaneity, Fun Seeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented) on 1-year ahead expected inflation. Continuous covariates were winsorized at 1%/99% the level. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 1-8 from Table B.31.

Figure B.22: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 9-16 (1%/99% Winsorization)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking) on 1-year ahead expected inflation. Continuous covariates were winsorized at 1%/99% the level. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 9-16 from Table B.32.

Table B.33: CRE Models of Expected Inflation with Individual Value Items and Interactions (1-8) (5%/95% Winsorization)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Perceived inflation	0.788***	0.756***	0.795***	0.856***	0.816***	0.781***	0.764***	0.778***
	(0.058)	(0.059)	(0.058)	(0.065)	(0.060)	(0.064)	(0.060)	(0.065)
Inflation uncertainty	−1.726**	−1.584*	−1.722**	−1.728**	−1.717**	−1.738**	−1.703*	−1.764**
	(0.872)	(0.875)	(0.872)	(0.861)	(0.871)	(0.875)	(0.871)	(0.877)
HH Income	−0.293***	−0.282***	−0.291***	−0.286***	−0.294***	−0.294***	−0.293***	−0.286***
	(0.056)	(0.055)	(0.056)	(0.056)	(0.056)	(0.056)	(0.056)	(0.055)
Unemp. up	0.465	0.482	0.464	0.451	0.458	0.464	0.435	0.462
	(0.368)	(0.367)	(0.369)	(0.367)	(0.367)	(0.370)	(0.365)	(0.370)
Mean perc. infl.	0.495***	0.462***	0.493***	0.485***	0.498***	0.492***	0.487***	0.490***
	(0.064)	(0.063)	(0.064)	(0.064)	(0.065)	(0.064)	(0.064)	(0.064)
Mean infl. uncer.	1.175	1.188	1.218	1.176	1.281	1.261	1.391	1.287
	(1.155)	(1.159)	(1.155)	(1.137)	(1.154)	(1.156)	(1.148)	(1.157)
Mean unemp. up	1.518***	1.548***	1.524***	1.565***	1.546***	1.540***	1.611***	1.521***
	(0.470)	(0.470)	(0.468)	(0.474)	(0.468)	(0.473)	(0.461)	(0.473)
Spontaneity	−0.429							
	(0.639)							
FunSeeking		−2.801***						
		(0.764)						
Sociability			−0.095					
			(0.679)					
Communicative				0.591				
				(0.542)				
Caregiver					0.033			
					(0.566)			
Close relationships						−0.689		
						(0.557)		
Stability seeking							−1.456**	
							(0.663)	
Home oriented								−0.345
								(0.545)
Spontaneity × Perc. Inflation	0.052							
	(0.093)							
FunSeeking × Perc. Inflation		0.399***						
		(0.107)						
Sociability × Perc. Inflation			0.031					
			(0.093)					
Communicative × Perc. Inflation				−0.122*				
				(0.074)				
Caregiver × Perc. Inflation					−0.054			
					(0.075)			
Close relationships × Perc. Inflation						0.054		
						(0.077)		
Stability seeking × Perc. Inflation							0.207**	
							(0.098)	
Home oriented × Perc. Inflation								0.060
								(0.076)
Constant	−2.295***	−2.024***	−2.392***	−2.702***	−2.496***	−2.178***	−2.274***	−2.318***
	(0.715)	(0.715)	(0.718)	(0.750)	(0.749)	(0.727)	(0.718)	(0.741)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.612	0.622	0.612	0.614	0.612	0.612	0.615	0.612
Adjusted R^2	0.611	0.621	0.611	0.612	0.611	0.611	0.613	0.611

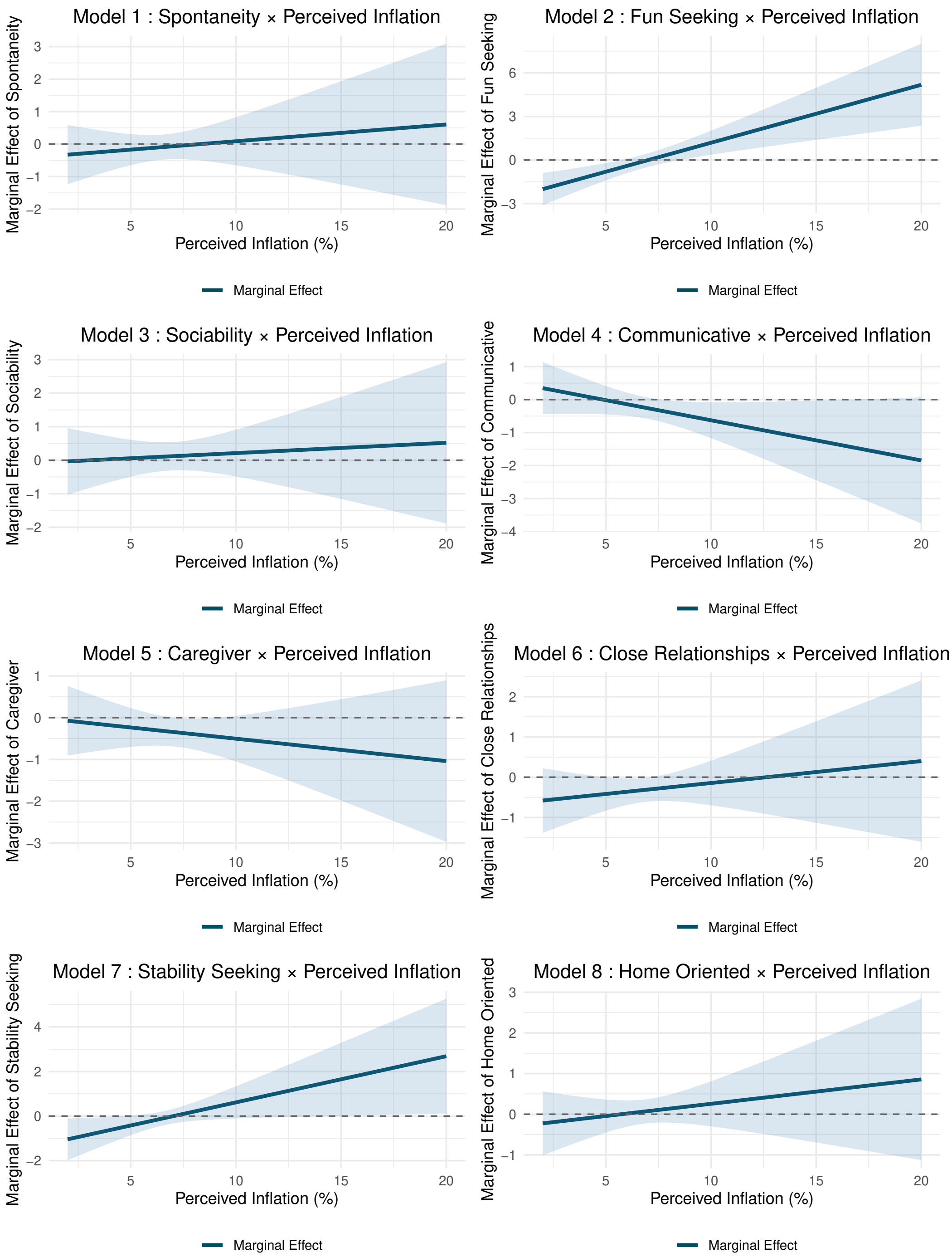
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (1)-(8) show models for individual value items: Spontaneity, FunSeeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented. Continuous covariates were winsorized at the 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Table B.34: CRE Models of Expected Inflation with Individual Value Items and Interactions (9-16) (5%/95% Winsorization)

	Dependent variable:							
	Expected Inflation (1y, %)							
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Perceived inflation	0.840***	0.804***	0.838***	0.821***	0.794***	0.776***	0.825***	0.817***
	(0.058)	(0.058)	(0.057)	(0.056)	(0.057)	(0.054)	(0.057)	(0.055)
Inflation uncertainty	−1.759**	−1.729**	−1.796**	−1.716**	−1.743**	−1.687*	−1.735**	−1.751**
	(0.878)	(0.872)	(0.871)	(0.867)	(0.874)	(0.865)	(0.871)	(0.874)
HH Income	−0.291***	−0.291***	−0.298***	−0.288***	−0.296***	−0.301***	−0.284***	−0.296***
	(0.056)	(0.056)	(0.057)	(0.056)	(0.056)	(0.056)	(0.056)	(0.057)
Unemp. up	0.473	0.465	0.414	0.462	0.458	0.460	0.487	0.460
	(0.369)	(0.370)	(0.368)	(0.370)	(0.367)	(0.365)	(0.369)	(0.369)
Mean perc. infl.	0.490***	0.493***	0.484***	0.494***	0.494***	0.500***	0.496***	0.493***
	(0.064)	(0.064)	(0.064)	(0.065)	(0.064)	(0.063)	(0.064)	(0.064)
Mean infl. uncer.	1.226	1.202	1.174	1.160	1.196	1.127	1.151	1.375
	(1.159)	(1.156)	(1.152)	(1.152)	(1.154)	(1.148)	(1.149)	(1.139)
Mean unemp. up	1.501***	1.513***	1.610***	1.520***	1.550***	1.487***	1.480***	1.505***
	(0.470)	(0.473)	(0.468)	(0.471)	(0.469)	(0.468)	(0.473)	(0.472)
Orderly	1.114**							
	(0.545)							
ControlSeeking		0.251						
		(0.758)						
DeepThinker			2.731***					
			(0.680)					
ExpertRecognition				1.397**				
				(0.695)				
Ambitious					0.227			
					(0.783)			
CareerSuccess						−1.013		
						(0.912)		
Dynamic							2.301***	
							(0.670)	
ChallengeSeeking								0.768
								(0.798)
Orderly × Perc. Inflation	−0.143*							
	(0.078)							
ControlSeeking × Perc. Inflation		−0.026						
		(0.102)						
DeepThinker × Perc. Inflation			−0.365***					
			(0.098)					
ExpertRecognition × Perc. Inflation				−0.227**				
				(0.108)				
Ambitious × Perc. Inflation					0.042			
					(0.114)			
CareerSuccess × Perc. Inflation						0.195		
						(0.138)		
Dynamic × Perc. Inflation							−0.283***	
							(0.100)	
ChallengeSeeking × Perc. Inflation								−0.112
								(0.106)
Constant	−2.690***	−2.425***	−2.582***	−2.527***	−2.418***	−2.258***	−2.671***	−2.555***
	(0.721)	(0.710)	(0.699)	(0.705)	(0.710)	(0.700)	(0.710)	(0.694)
Month dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Individual effects	No	No	No	No	No	No	No	No
Robust SEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Individual	Individual	Individual	Individual	Individual	Individual	Individual	Individual
Observations	4,842	4,842	4,842	4,842	4,842	4,842	4,842	4,842
R^2	0.613	0.612	0.616	0.614	0.612	0.613	0.614	0.612
Adjusted R^2	0.612	0.611	0.615	0.613	0.611	0.612	0.613	0.611

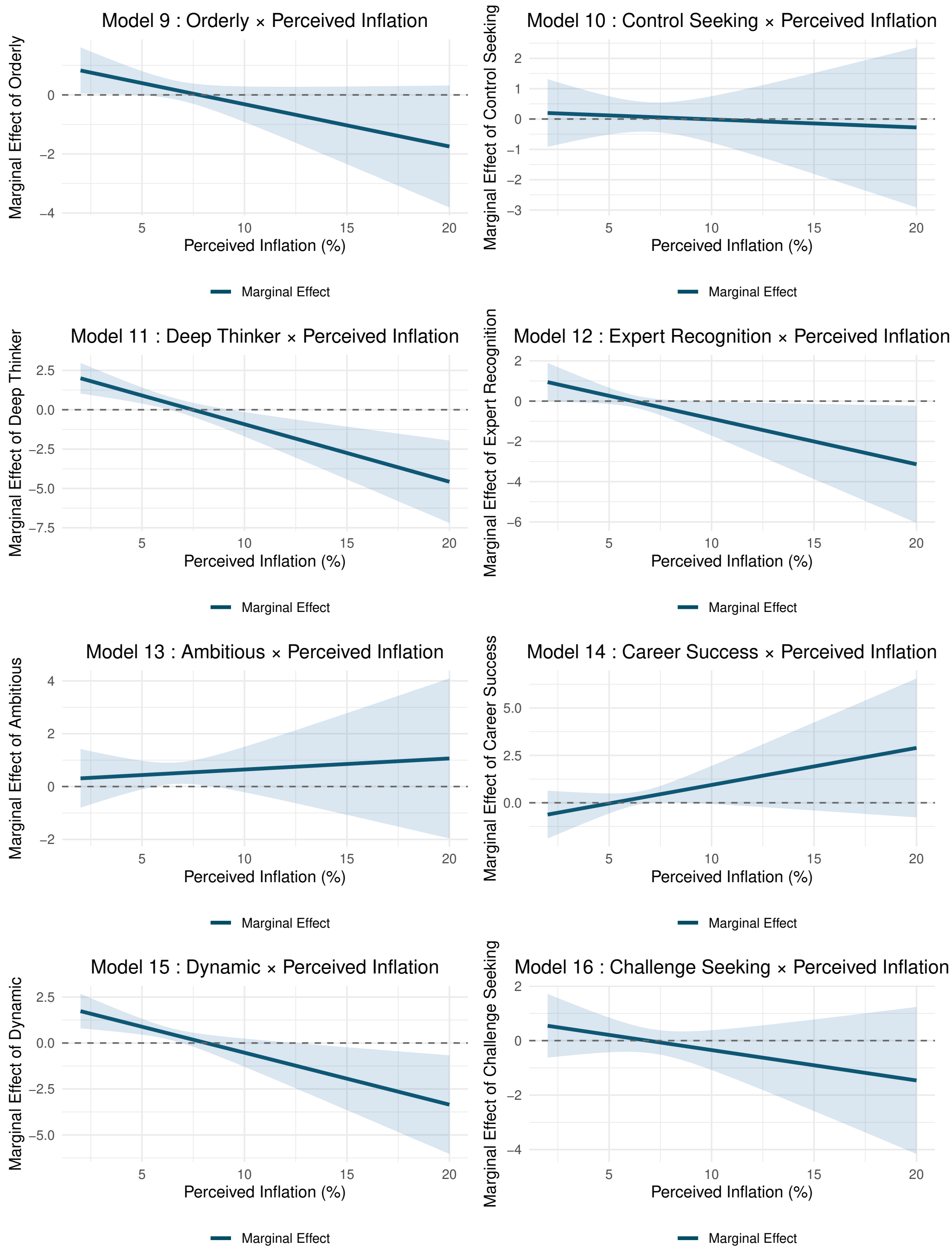
Note: This table presents CRE models estimating 1-year-ahead expected inflation. Columns (9)-(16) show models for individual value items: Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking. Continuous covariates were winsorized at the 5%/95% level. Robust standard errors are clustered at the individual level. Month dummies are included in all models but omitted from the table for brevity. *p<0.1; **p<0.05; ***p<0.01.

Figure B.23: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 1-8 (5%/95% Winsorization)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Spontaneity, Fun Seeking, Sociability, Communicative, Caregiver, Close Relationships, Stability Seeking, and Home Oriented) on 1-year ahead expected inflation. Continuous covariates were winsorized at 5%/95% the level. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 1-8 from Table B.33.

Figure B.24: Marginal Effects of Individual Value Items on Expected Inflation Across Perceived Inflation Levels for Models 9-16 (5%/95% Winsorization)



Source: Author's calculations based on the IPSOS survey, waves January–June 2024.
Note: This figure shows the marginal effect of eight individual value items (Orderly, Control Seeking, Deep Thinker, Expert Recognition, Ambitious, Career Success, Dynamic, and Challenge Seeking) on 1-year ahead expected inflation. Continuous covariates were winsorized at 5%/95% the level. It is conditional on perceived inflation (0% to 20%). Each plot displays the estimated marginal effect (solid blue line) with 95% confidence intervals (shaded area) and a zero reference line (dashed grey). These eight marginals plots are derived from Models 9-16 from Table B.34.