

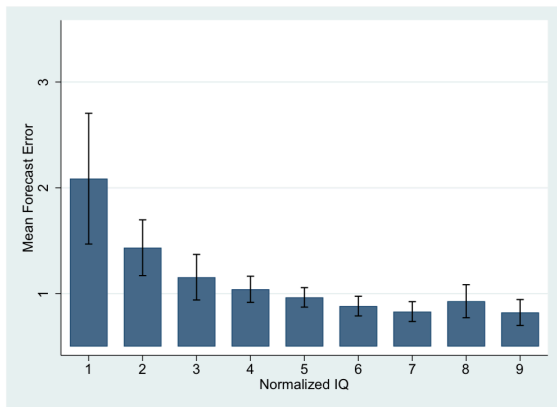
Discussion of: “IQ, Expectations and Choice”

by F. D’Acunto, D. Hoang, M. Paloviita and M. Weber

Stefano Eusepi

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Sept 28, 2019

Recap: IQ and Average Inflation Forecast Errors



Additional survey: low IQ → lower forecasting performance
(in stable regimes)

- IQ weakly related education and income.

Recap: Relation Between π^e and Readiness to Spend by IQ

Panel B	Abs Forecast Error $\leq Q50_t$		Abs Forecast Error $\leq Q25_t$	
	High IQ	Low IQ	High IQ	Low IQ
Expects Higher Inflation	0.0401** (0.0184)	0.0069 (0.0243)	0.0409 (0.0254)	0.0112 (0.0298)
Demographics	X	X	X	X
Year-Month FE	X	X	X	X
Nobs	9,699	8,694	5,869	5,262

Panel C	Economics Major		Engineering Major	
	High IQ	Low IQ	High IQ	Low IQ
Expects Higher Inflation	0.0619* (0.0330)	0.1059** (0.0475)	-0.0220 (0.0964)	-0.2886 (0.2782)
Demographics	X	X	X	X
Year-Month FE	X	X	X	X
Nobs	1,751	1,228	273	52

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Additional survey: lower IQ \rightarrow weaker understanding of “standard” macro

Implications: IQ (cognitive ability) vs. “Rational” Inattention? Kim (2019)

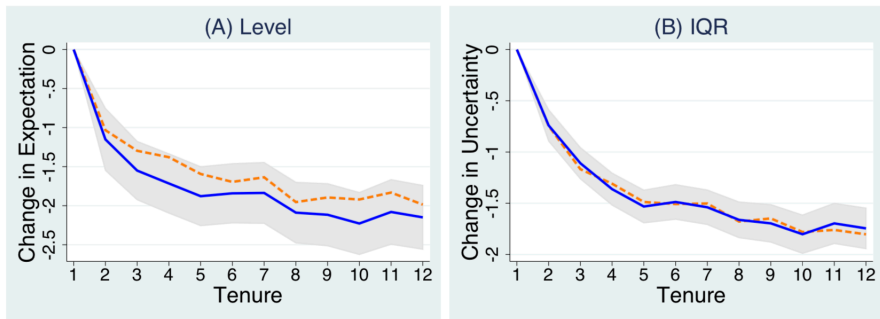


FIGURE 1. AVERAGE SURVEY EFFECTS ON INFLATION EXPECTATIONS IN THE SCE

- After participating 12 times, 2.1 p.p. lower π^e and 36% lower uncertainty.
(Note: $\pi \approx 1.5\%$; $\bar{\pi}^e > 2.5\%$)

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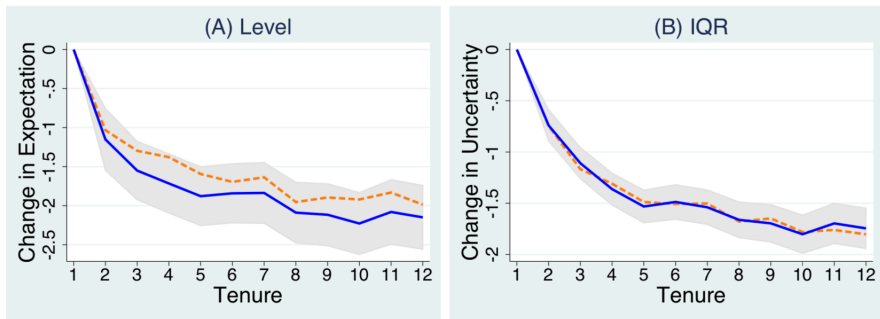


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- *“Self-employed workers and retirees who have economic incentive to be aware of inflation rates prior to the survey display smaller survey effects than other groups”*

Back to the Usual Question: What Does IQ Measure?

We learn that:

- 1 Both high- and low-IQ individuals can *learn* economics

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- 2 After new of higher future inflation should households save more?
- 3 Is a condition of persistent deflation desirable for the economy?

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Summung up: “*low-IQ survey participants seem to portray an understanding of the consequences of inflation on other macroeconomic variables that does not conform with **standard macroeconomic models***”

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- Is an elevated cognitive ability enough to get these answers right? It would seem the only way to get the “right answer” is to have learned it.
- do higher-IQ people self-select in careers that expose to economics? Are they better at processing available information? Are they more curious?