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People's understanding of inflation ☆

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ABSTRACT

This paper studies people's understanding of inflation—their perceived causes, consequences, trade-offs-and the policies supported to mitigate its effects. We design a new, detailed online survey based on the rich existing literature in economics with two experimental components — a conjoint experiment and an information experiment — to examine how well public views align with established economic theories. Our key findings show that the major perceived causes of inflation include government actions, such as increased foreign aid and war-related expenditures, alongside rises in production costs attributed to recent events like the COVID-19 pandemic, oil price fluctuations, and supply chain disruptions. Respondents anticipate many negative consequences of inflation but the most noted one is the increased complexity and difficulty in household decision-making. Partisan differences emerge distinctly, with Republicans more likely to attribute inflation to government policies and foresee broader negative outcomes, whereas Democrats anticipate greater inequality effects. Inflation is perceived as an unambiguously negative phenomenon without any potential positive economic correlates. Notably, there is a widespread belief that managing inflation can be achieved without significant trade-offs, such as reducing economic activity or increasing unemployment. These perceptions are hard to move experimentally. In terms of policy responses, there is resistance to monetary tightening, consistent with the perceived absence of trade-offs and the belief that it is unnecessary to reduce economic activity to fight inflation. The widespread misconception that inflation rises following increases in interest rates even leads to support for *rate cuts* to reduce inflation. There is a clear preference for policies that are perceived to have other benefits, such as reducing government debt in progressive ways or increasing corporate taxes, and for support for vulnerable households, despite potential inflationary effects.

1. Introduction

Inflation is a complex phenomenon that is still being actively researched in economics. It affects people's daily lives deeply, often causing stress and strong emotional reactions (Stantcheva, 2024). Media coverage during the current inflationary episode highlights that it is also a salient policy issue.

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This paper aims to understand how people think about inflation—what they believe causes it, what consequences it has, and how it impacts different groups of people. It studies whether people understand the effects of various economic shocks and the trade-offs involved in anti-inflationary economic policies. It also examines what policies people support to fight inflation.

To do this, we conducted a large online survey with a representative group of people from the US. The questions in our survey build on the rich theoretical and empirical literatures in macroeconomics that propose models of inflation and its impacts, which helps us see how well people's views align with them. We ask about a broad range of policies, including traditional monetary and fiscal tools and less direct instruments, as well as redistributive policies to dampen the impacts of inflation on less well-off households. Furthermore, we carried out two experiments. The first is a conjoint experiment to estimate people's preferences over inflation and unemployment, i.e., how they balance their concerns about inflation against unemployment. The second is an information experiment that provided information about the trade-offs between inflation and economic activity, and the limitations policymakers face in managing these issues.

Our main findings are as follows. First, the main perceived causes of inflation by respondents are government actions, particularly increased foreign assistance including war-related expenditures, and rises in production costs due to the COVID-19 pandemic, oil price volatility, and supply chain disruptions.

Respondents indicate that inflation significantly complicates household decision-making, which is seen as its most critical consequence. This complexity affects daily economic choices, along with other impacts such as shoe leather costs and heightened economic uncertainty. This cognitive cost has not been at the forefront of the economics literature relative to other efficiency costs, yet it plays a predominant role in people's minds. Respondents also anticipate negative adverse distributional effects and that lower-income groups are more likely to lose from inflation.

Notably, there are significant partisan differences in how these aspects of inflation are perceived. Democrats tend to blame the government less and businesses more for inflation. Republicans anticipate overall more negative consequences of inflation, including on growth, the value of the dollar, resource misallocation, firms' decisions, trust in government, and national prestige. However, Democrats are more likely to anticipate negative inequality impacts from inflation.

Our findings also highlight a general perception of inflation as unequivocally negative, rarely associated with positive economic indicators or developments. In that sense, there is no perceived trade-off between inflation and economic activity or unemployment among respondents. There also appears to be a widespread belief that managing inflation does not require significant trade-offs, such as reducing economic activity or increasing unemployment.

Our information experiment aimed at explaining some potential trade-offs slightly improved understanding that inflation could result from positive developments, yet it failed to alter perceptions about the constraints faced by policymakers or to shift support for specific anti-inflationary policies. One interpretation of our findings is that there is a deeply ingrained perception among respondents that inflation is inherently negative, occurring concurrently with other adverse events. This belief is coupled with the expectation that inflation should be combated through policy measures that do not incur additional economic costs.

Furthermore, inflation is considered a high policy priority by respondents. In our conjoint experiment designed to estimate preferences over inflation and unemployment, respondents assign higher weight to inflation than unemployment, particularly so for very high values of inflation. Despite this focus on inflation, there is little support for monetary tightening measures, consistent with the perceived absence of trade-offs and the belief that it is unnecessary to reduce economic activity to combat inflation. This is also in line with the widespread misconception that inflation rises following increases in interest rates, leading to a preference for *rate cuts* as a measure to combat inflation. Instead, there is considerable support for policies targeting firms, such as increasing corporate taxes or tightening anti-trust regulation, as well as for freezing the prices of essentials. Finally, there is also support for reducing government debt by taxing top incomes, but not by reducing social spending. It is likely that these policies are considered to have additional benefits, other than reducing inflation. There is also strong backing for policies that assist vulnerable households in coping with inflation, even though such policies might themselves be inflationary.

What are the implications for economics research and policy-making from these results? First, in many economic models and empirical studies, beliefs shape behaviors, which in turn have real implications for people's lives and policies. Stantcheva (2024), for instance, shows that people's views on inflation translate into costly adjustments and behavioral changes. Second, diving into how people think and reason helps us better understand the concerns and constraints they face. Policymakers and researchers modeling the economy might consider some of these as fundamental "political economy" constraints to take into account in optimal policies. Third, in some cases, we identify clear misperceptions and misunderstandings, which would be beneficial to address, including by those who teach economics and provide public commentary.

Our paper contributes to several strands of the literature. First, our survey aims to elicit in detail people's perceptions of inflation's causes, consequences, distributional impacts, and induced trade-offs. Our survey questions are motivated by the rich theoretical and empirical literatures in macroeconomics. We will discuss these papers in each of the relevant sections below, instead of here. Whenever applicable, we also compare our findings on people's perceptions to the empirical findings from different papers, also presented in the corresponding sections.

In addition, our work relates to studies on attitudes towards inflation or policies to combat price increases, primarily using survey methods. Shiller (1997) and Stantcheva (2024) study why people dislike inflation, the latter focusing on people's personal impacts from and reactions to inflation. Inflation aversion is also documented in van Lelyveld (1999), Easterly and Fischer (2001), Scheve (2003), Scheve (2004), Howarth and Rommerskirchen (2016) and Aklin et al. (2022). Closely related are Andre et al. (2022) who study how people think about macroeconomic shocks, which we also ask about to assess people's knowledge of the dynamics of inflation. Andre et al. (2021) study people's narratives about the recent inflation episode. We focus specifically on people's

underlying understanding of the causes, consequences, and distributional impacts of inflation and the (lack of) perceived trade-offs, complementing the descriptive evidence with two experiments.

Our paper also relates to the literature on people's preferences over inflation and unemployment. Di Tella et al. (2001) correlate reported well-being with realized values of inflation and unemployment. They find that people report being happier when inflation and unemployment are low, and that at the margin, unemployment depresses reported well-being more than does inflation. This stands in contrast to the findings in our conjoint experiment, where the weight people put on inflation is larger than that on unemployment. Hofstetter and Rosas (2021) and Jayadev (2006) focus on preference heterogeneity across the income distribution, showing that lower-income respondents have a higher distaste for unemployment relative to inflation than higher-income ones. Other papers exploring inflation preferences are Coles and Chen (1990), Wolfers (2003), Jayadev (2008), Gandelman and Hernandez-Murillo (2009), Ruprah and Luengas (2011), Blanchflower et al. (2014), and Hübner and Klemm (2015). We do not use well-being or other indirect survey measures but instead a conjoint experiment to quantify people's preferences over inflation and unemployment.

Although we cover inflation expectations only briefly in this paper, there is a large literature on inflation expectations and their importance as a determinant of economic choices, recently reviewed in Weber et al. (2022), D'Acunto et al. (2023), Charalambakis et al. (2024), and Baumann et al. (2024). We make two contributions to this literature. First, we show that people's differential understanding of (the causes of) inflation helps explaining the cross-sectional heterogeneity in perceived and expected inflation, even conditional on observable characteristics. This evidence speaks to the hypothesis that heterogeneous interpretations and beliefs about the *same* economic phenomena could be an important determinant of the widely-documented disagreement in inflation expectations (Weber et al., 2022). Second, we shed light on the relation between households' perceptions and expectations about inflation and their economic choices. Some studies have recently documented a negative relation between inflation expectations and (durable) consumption, which is at odds with a standard Euler equation type mechanism and potentially explained by a "stagflationary view" of the economy or "supply side narrative" (Charalambakis et al., 2024). By asking households directly, we show that inflation is indeed perceived as an unambiguously negative economic phenomenon, almost never associated with a good economy or perceived as a side effect of positive economic developments. This evidence sheds light on the previously-documented negative comovement between inflation expectations and real income and economic growth expectations. More generally, we document that the major perceived consequence of inflation is the increased complexity and difficulty in household decision-making. This might help explaining why the precise "mechanisms and models households use when relating inflation expectations to consumption decisions" (Weber et al., 2022) have been difficult to grasp in a unifying framework.

Finally, our paper adds to the body of work using surveys to understand how people think about key economic phenomena and policies such as taxation (Stantcheva, 2021), climate change policies (Dechezleprêtre et al., 2022), and trade policy (Stantcheva, 2022).

The rest of the paper is organized as follows. Section 2 presents our sample and survey. Section 3 discusses people's perceptions of inflation's dynamics, causes, consequences, distributional impacts, and induced trade-offs. Section 4 presents respondents' preferences over inflation and unemployment, their policy views, and the results from the information experiment. Section 5 concludes.

2. Sample and survey

2.1. Data collection and sample

We collected responses online between March and May 2024 via the survey platform Lucid.[1] These respondents are compensated based on their agreements with their respective survey panels, receiving rewards such as points, perks for partnering programs with hotels, stores, or airlines, or cash incentives. The survey took on average 33 min to complete, with a median time of 29 min.[2]

We obtained 3055 responses in total. We drop from the sample those who misreport their age or gender relative to the information provided by the survey company. Moreover, we manually check responses to open-ended questions and drop respondents providing bot-like or nonsensical answers. We also drop respondents providing identical values to the perception and expectation of both inflation and unemployment. Finally, we drop respondents saying that they want to both increase and decrease interest rates to combat inflation, leaving us with a final sample size of 2264. We established specific quotas, for age, income, gender, and race. We also included screening questions at the beginning of the survey to identify and filter out inattentive respondents. Individuals failing the screening check were promptly removed from the survey and were not permitted to continue. We also excluded respondents who did not reside in the United States.[3]

Table 1 presents a comparison between the characteristics of our sample and those of the US population. Our sample closely mirrors the targeted criteria by construction. Along non-targeted criteria, such as education status, family structure, employment status, political affiliations (Republicans, Independent, and Democrats), and voting preferences in the 2020 election (Biden vs. Trump), our sample aligns well with the US population. However, it is worth noting that, like most online surveys, there is a slight overrepresentation of unemployed respondents, as discussed in Stantcheva (2023). Additionally, the proportion of Democrat respondents in our sample is relatively higher compared to Independents than in the overall US population, although the voting behavior in the 2020 election closely matches.

[1] Lucid functions as a survey marketplace that aggregates respondents from diverse panels.

[2] See Appendix Section A.1 for the distribution of survey duration.

[3] An analysis of attrition is reported in Appendix Section A.7.

Table 1
Sample characteristics.

	Survey	US population
Targeted quotas		
Male	0.48	0.49
Female	0.51	0.51
18–29 years old	0.23	0.23
30–39 years old	0.20	0.21
40–49 years old	0.19	0.19
50–59 years old	0.19	0.19
60–69 years old	0.18	0.18
$0–$19,999	0.14	0.13
$20,000–$39,999	0.16	0.16
$40,000–$69,999	0.21	0.20
$70,000–$99,999	0.15	0.15
$100,000–$124,999	0.09	0.09
$125,000+	0.26	0.26
White	0.68	0.6
African-American/Black	0.13	0.13
Hispanic/Latino	0.10	0.19
Asian/Asian-American	0.04	0.06
Non-targeted characteristics		
Married	0.46	0.52
Single	0.37	0.35
Separated/Divorced	0.13	0.12
Widowed	0.04	0.02
Has children	0.59	0.40
Less than 4-year college	0.62	0.64
4-year college/Master's	0.34	0.32
Professional degree	0.04	0.03
Employed	0.66	0.70
Unemployed	0.10	0.03
Republican	0.28	0.26
Democrat	0.36	0.25
Independent & others	0.36	0.47
Voted in 2020 presidential election	0.74	0.61
Voted for Biden in 2020 presidential election	0.47	0.51
Voted for Trump in 2020 presidential election	0.43	0.47
Sample size	2264	

Notes. The table displays statistics for the overall U.S. population, as compared to the sample of respondents for the survey. Summary statistics for the U.S. population are constructed using IPUMS-CPS-ASEC data for 2022.

2.2. Survey structure

Appendix Figure A2 summarizes the survey structure. The full questionnaire can be found in Appendix Section A.8. The survey questions are designed to avoid priming respondents. For example, even if economic theory or evidence clearly indicates the direction of an effect, our survey questions include a bilateral scale that enables respondents to express their perspective on the direction of that effect. We now provide more details on each survey block. The survey starts with a consent form and basic demographic information that includes age, gender, income, and race.

1. Perceptions and expectations about inflation and unemployment. We collected information on the respondents' perceptions and expectations of inflation and unemployment in the US. To avoid variation in answers simply coming from a different understanding of the concepts of inflation and unemployment, in both cases we first provided a precise definition of these variables. This is important because there is a widespread confusion between unemployment rates and the share of people not working (which includes the unemployed and those out of the labor force, see Alesina et al. (2023)). To ensure comparability with previous work on inflation, we used the formulation of the Survey of Consumer Expectations.

2. Conjoint experiment: eliciting preferences over inflation and unemployment. We used a conjoint experiment to study the respondents' preferences for inflation and unemployment, i.e., how they trade them off. We describe this in detail in Section 4.1.

3. Understanding of inflation

3.1 Perceived conditional correlations between inflation and unemployment. We elicited the respondents' perceived conditional correlations between inflation and unemployment. Specifically, we asked them whether inflation and unemployment

would increase, stay the same, or decrease following an increase in: interest rates, government spending, oil prices, productivity (technological improvements), and wages.

3.2. Perceived causes of inflation. In this section, respondents were asked about the causes of inflation using both open- and closed-ended questions about specific events or economic phenomena traditionally viewed as inflationary. We discuss these questions and our elicitation methods in greater detail in Section 3.2.

3.3. Perceived distributional impacts of inflation This survey block asks people about the extent to which different socio-economic groups and firm types gain or lose from inflation. Specifically, we asked about income groups, age groups, occupation groups, groups defined by assets (savings and debt), and firms of different sizes.

3.4. Perceived consequences of inflation. We also ask respondents open- and closed-ended questions on the consequences of inflation on the US economy. We cover standard efficiency effects, effects on households or firms, and other effects on the US economy and discuss these questions in greater detail in Section 3.4.

4. Experimental information treatment. Half of the respondents were randomly shown a short video emphasizing the potential tradeoffs between the two objectives of price stability and output stabilization. This video is described in detail in Section 4.3.[4]

5. Perceived tradeoffs between inflation and unemployment. In this section, we study whether respondents perceive a trade-off between the two policy objectives of output and price stabilization. For instance, how necessary is it for policy makers to induce a decrease in households spending, or an increase in unemployment, in order to reduce inflation? How do policies designed to reduce unemployment typically affect inflation?

6. Policy views. This section investigates whether inflation is an important policy objective in people's minds and what their preferred policy instruments are. Specifically, respondents were asked about: (i) the importance of price stability relative to other economic and social objectives, such as low unemployment, economic growth, civil rights, and affordable healthcare, among others; (ii) their preferred policy tools to combat inflation, including standard monetary and fiscal policy tools, but also price or wage controls, trade policy, and anti-trust policy; (iii) their support for policies aimed at helping households deal with inflation.[5]

7. Background socioeconomic questions. Finally, we collected additional detailed information about the respondents' background socioeconomic characteristics, including: employment, education, family situation, political views, media exposure, and financial assets.

3. Understanding of inflation

This section discusses people's understanding of inflation ranging from basic knowledge to perceived causes, distributional impacts, and other consequences. For this section and the next ones, the main text presents figures with raw averages for groups defined by the respondents' political leaning. In Appendix Section A.3.1 we report the same averages for different age and income groups. In Appendix Section A.3.2 we report detailed regression results for all figures presented in the main text.

3.1. Knowledge of inflation

To first assess respondents' knowledge of inflation, we ask them questions on the impacts of a series of aggregate macroeconomic shocks (increases in government spending, interest rates, productivity, etc.) on inflation and unemployment.

Fig. 1 shows the perceived impacts on inflation and unemployment of different shocks.[6] We can compare these answers to those that would be predicted by a standard textbook model (e.g., Galí (2015)), bearing in mind that we are eliciting a perceived "empirical" link here rather than a clean model-simulated one.[7]

Perhaps the most striking finding is that almost 57% of respondents believe that inflation will increase following an increase in interest rates, and 44% believe unemployment will rise as well. The fraction of respondents who are accurate according to a textbook New-Keynesian model is only 13%. The share who believe that higher government spending used to finance support for low-income households will decrease unemployment and increase inflation is 14%.

However, 40% of respondents believe that both inflation and unemployment will increase following an oil shock. For technological improvements, one fifth of respondents believe this will result in higher inflation and 43% that it will increase unemployment. This shock is perhaps hardest to map in a clean way to a textbook TFP shock. Finally, 54% of respondents perceive wage increases (caused by changes in labor regulation and laws) to be inflationary, and 40% think they will increase unemployment. Around 26% of the respondents think both inflation and unemployment will increase.

Overall, Republican respondents are more likely to think that these shocks are inflationary and will increase unemployment, although the effects are significant mainly for the interest rate, government spending, and wage increases shocks. A similar pattern holds for Fox News viewers, even conditional on being Republican.

[4] Screenshots of the experiment video are in Appendix Figure A20 and the full script is in Appendix Section A.8.7.

[5] To avoid priming respondents about the importance of inflation we randomize the order in which we ask policy questions and the rest of the survey blocks. The results were not affected by this randomization.

[6] Appendix Figure A4 shows the corresponding results focusing on heterogeneity by age and income. For the full regression results, see Appendix Table A1.

[7] Questions related to the impacts of interest rates, oil prices, and government spending shocks were also asked in Andre et al. (2022), in a slightly different way: (i) they specified the intensity of the shocks, (ii) their increase in government spending was to finance a defense program, while ours is used to finance more support for low-income households. Appendix Table A2 reports a detailed comparison of our results with theirs.

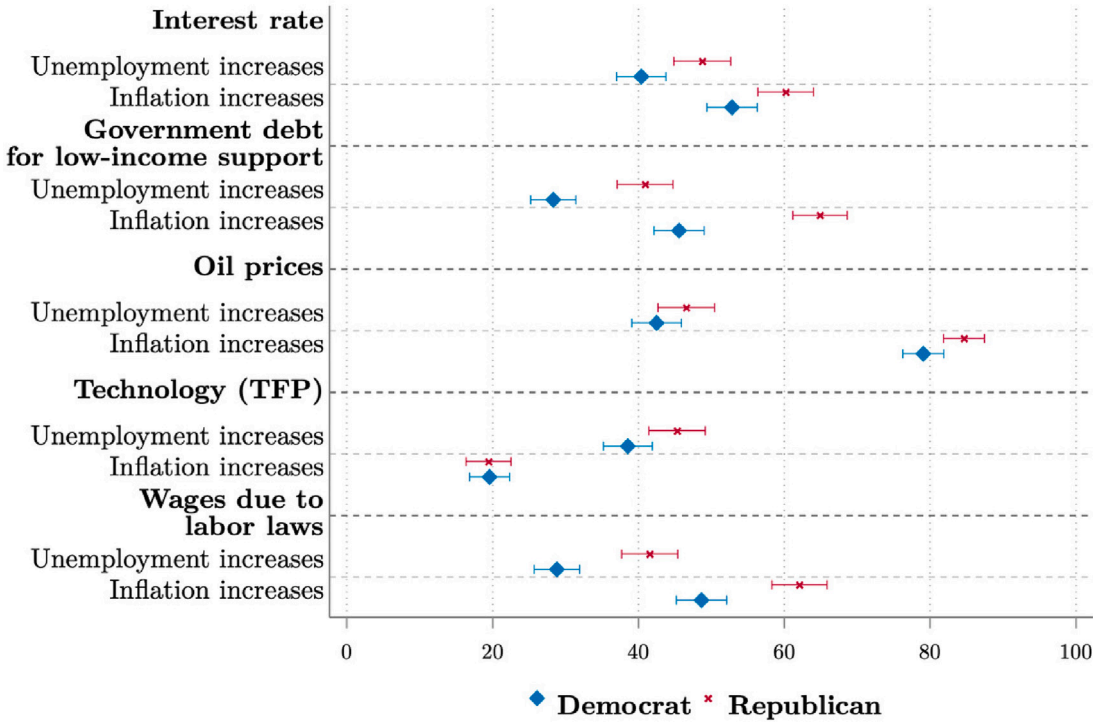


Fig. 1. Perceived conditional correlations between inflation and unemployment. Each dot represents the share of respondents saying that inflation or unemployment increase or increase a lot after an increase in the variable in the corresponding row, alongside 95% confidence intervals.

3.2. Perceived causes of inflation

We also ask respondents about their perceived causes of inflation. Given that there are many potential causes, we adopt a more sophisticated elicitation strategy described next.[8]

3.2.1. Survey methodology

Respondents were presented with a list of seven broad economic phenomena that are potentially inflationary drivers, according to the economics literature or public discourse. They were then asked to indicate whether or not these phenomena are important or unimportant causes of inflation.[9] Below we outline each item on the list. Appendix Section A.2 presents a detailed discussion of the rationale behind each item and of the relevant literature.

"***Government spending, debt, and taxation**, e.g., spending on social security, national defense, and healthcare, increases in government debt, or changes in the tax system*".

"***Actions by the Federal Reserve Bank**, such as printing money, changing interest rates, or making announcements about future inflation and rates*".

"***Increases in the costs of production**, due to e.g., increases in oil prices, energy prices, or to increases in the costs of inputs due to large-scale events in other countries, like wars or natural disasters, or to new laws and regulations*".

"***Changes in the labor market**, such as increases in unions' bargaining power or wage increases*".

"***Politicians and political interests**, e.g., politicians catering to special interest and lobby groups*".

"***Households spending more**, due to optimism about the economy, impatience, or expectations about future price increases*".

"***Actions by firms and businesses***".

We also asked respondents to select the two most important causes of inflation from the previous list. For each of these groups, we then presented them with a more detailed list of causes. For example, if a respondent chose "Government spending, debt, and taxation" as one of the two most important causes of inflation from the previous list, they were asked to assess whether tax cuts, increases in social security spending, increases in debt, or higher government spending were important factors contributing to inflation. Finally, respondents were asked to specify their top cause of inflation from this more specific list.

[8] Appendix Figure A3 presents more details on the elicitation strategy. We started by asking an open-ended question concerning the primary causes of inflation: "*In your opinion, what are the primary causes of inflation?*".

[9] Specifically, we inquired: "*We will now list various events and economic phenomena. For each of them, please indicate whether you consider them an important cause of inflation or not. [Not important at all; Only a little important; Very important; Extremely important]*".

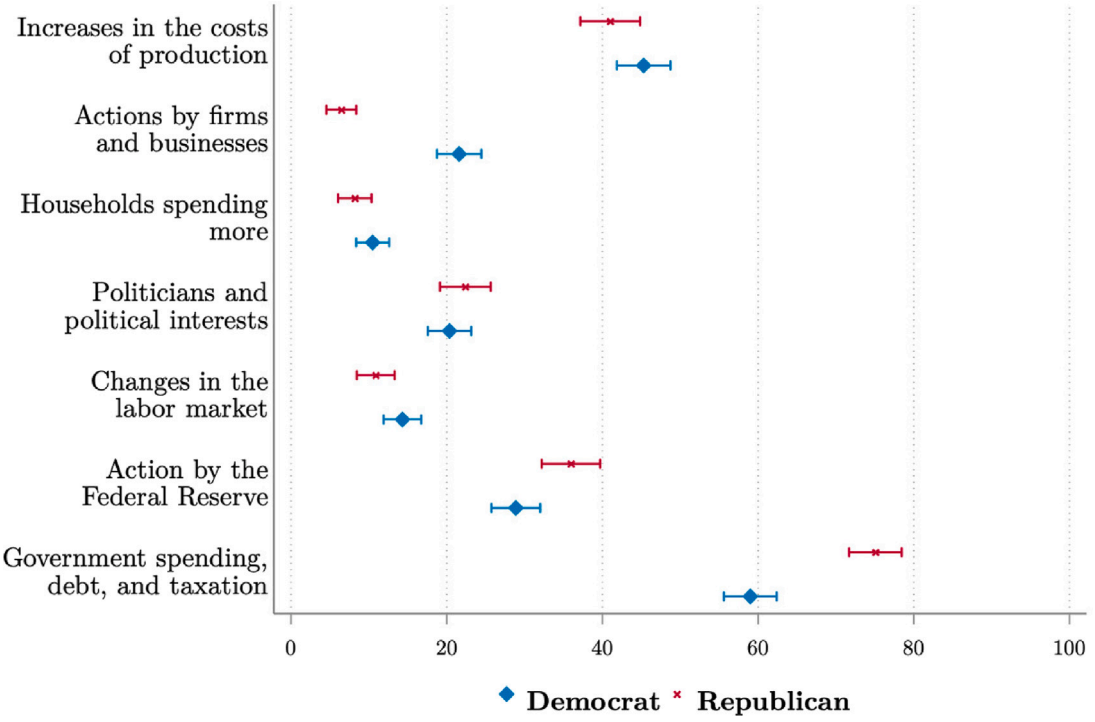


Fig. 2. Perceived causes of inflation. Each dot represents the share of respondents who chose a given cause as one of the top two causes of inflation, alongside 95% confidence intervals.

3.2.2. Results

Table 2 summarizes the key results.

Most important broad causes of inflation. Focusing on the broad sets of causes first, Fig. 2 shows that the two most commonly reported ones are "Government spending, debt, and taxation", (for around 67% of respondents) and "increases in the costs of production" (for around 43% of respondents).[10] The Federal Reserve is also relatively frequently mentioned (by around 31% of respondents). In order of importance, the remaining causes are ranked as: Politics and politicians (22%), businesses (15%), the labor market (13%), and households (10%).

Perceived causes are somewhat divided along partisan lines, with Republican repsondents more likely to attribute inflation to government and the Fed's policies, and less likely to mention actions by firms as a top cause. Democrats tend to blame the government and the Fed less and businesses much more than Republicans do. Labor market forces and household demand are not considered key causes by any political group. While there are no major heterogeneities in perceived causes by income, when controlling for other individual characteristics, older people are significantly less likely to mention the government or changes in the labor market as top causes of inflation, while more likely to mention politicians and actions of firms and businesses as major causes of inflation compared to young people.

Fig. 11 shows that respondents' main source of news is associated with their perceived causes of inflation, even conditional on the full array of individual characteristics. Thus, Fox News viewers are significantly more likely to blame the government and less likely to blame firms and businesses, even among Republicans. The opposite holds for NPR listeners. These results are summarized by Table 2.

Most important specific causes of inflation. Fig. 3 dives into the more specific causes within each category by depicting the share of respondents selecting each cause as the most important one, conditional on previously having selected the broader group as one of the top two.[11]

Under the header of government policies, increases in foreign assistance has played a major role according to people. Some partisan patterns emerge here too: Republicans are more likely to perceive redistributive-type spending, such as on social security, to be the most important cause of inflation, while Democrats are more likely to attribute it to tax cuts and other types of spending (on defense and infrastructure). Within monetary policy causes, people generally believe that top causes are increases in money supply

[10] Appendix Figure A5 shows the corresponding results focusing on heterogeneity by age and income. For the full regression results, see Appendix Table A3.
[11] For more detailed regression results, see Appendix Tables A4 and A5.

Table 2
Summary of results on the perceived causes of inflation.

Economics literature	Our findings
• **Phenomena with an inflationary potential emphasized by the economics literature:** • changes in fiscal policy (e.g., government spending, debt, and taxation); • monetary policy actions (e.g., increasing money supply, changing interest rates, and managing inflation expectations); • increases in the costs of production (i.e., cost-push shocks); • changes in the labor market (e.g., increases in labor market tightness, increase in union power, wage-price spirals); • politicians and political interests (e.g., political pressures on central banks, political instability, politicians catering to special interest); • increases in household demand (e.g., due to sentiment or inflation expectations changes); • firms' pricing decisions (e.g., in response to inflation expectation changes).	• **Perceived as most important causes** • Government spending, debt, and taxation (67%), increases in the costs of production (43%), actions by the Federal Reserve (31%), politics and politicians (22%), actions by firms and businesses (15%), changes in the labor market (13%), households spending more (10%). • **Relevant heterogeneity** • Republicans: ∗ blame the Government and Fed more; ∗ blame firms and businesses less. • Older respondents: ∗ more likely to blame politicians and political interests and actions of firms and businesses; ∗ less likely to blame the government or changes in the labor market. • Fox News viewers (opposite holds for NPR listeners): ∗ blame the Government more; ∗ blame firms and businesses less.

(especially among Republican respondents), *increases* in interest rates, and wrong actions by the Federal Reserve Bank (especially among Democrat respondents).

Among those who mention increases in the cost of production, the top reasons are supply chain disruptions, the pandemic, and increases in oil prices. Few respondents believe household demand is responsible for inflation, and among that group, it is by far increases in inflation expectations that are mentioned as the main cause rather than optimism. In the category of labor-market related causes, labor shortages and wage-price spirals are the most commonly chosen top causes, ahead of wage increases due to unions or labor rights.[12] A very polarized category by type of news source is the (less frequently selected) one of actions by firms and businesses. Republican respondents (and Fox News viewers) believe that firms increase prices due to higher inflation expectations rather than to increase profits, while the opposite is true for Democrat respondents (and CNN viewers).

The top perceived causes are broadly consistent with empirical studies on the recent surge in inflation that have highlighted the impact of aggregate demand and stimulus packages, supply chain bottlenecks, and war-related increases in the costs of production (di Giovanni et al., 2023; Blanchard and Bernanke, 2023; Bergholt et al., 2023; Eickmeier and Hofmann, 2022; Ascari et al., 2023; Rubbo, 2024; di Giovanni et al., 2022; Ascari et al., 2024; Bai et al., 2024) as well as with textbook models where government spending that pushes output above potential or cost-push shocks are inflationary (e.g., Galí (2015)).

3.3. Perceived distributional impacts of inflation

3.3.1. Survey methodology

Inflation potentially affects all parts of households' budget constraints, including consumption prices, nominal savings and debt positions, assets prices, and labor income. Households are differentially exposed to the effects of inflation based on their specific circumstances.

The recent literature has focused on different channels through which inflation might amplify inequalities. First, the relative consumption channel (heterogeneous consumption baskets) suggests that inflation will affect households differently because of the basket of goods they consume, leading to a potential "inflation inequality". Jaravel (2021) provides an extensive review of this literature. Second, the debt devaluation (or Fisher) channel highlights that existing debt positions will matter (Doepke and Schneider, 2006; Adam and Zhu, 2016; Auclert, 2019). Third, the labor income channel arises because the incomes of different households might be adjusted for inflation to different extents, so that there will be differential impacts on their real income (Cardoso et al., 2022). Fourth, asset prices and dividend streams in response to inflationary shocks can evolve differentially and have heterogenous impacts on households based on their portfolio composition (Del Canto et al., 2023). Cardoso et al. (2022) and Del Canto et al. (2023) compare the relative importance of the different channels and find that the consumption channel appears less important. Motivated by the above literature, we ask respondents about the differential impacts of inflation on households with different incomes, ages, occupations, and assets, and on firms of different sizes.

3.3.2. Results

Fig. 4 summarizes the key findings.[13] Respondents believe that low-income people are much more likely to lose from inflation as compared to high-income people. 84% believe low-income people lose, while only 25% believe that high income people will.

[12] Tight labor markets have been recently emphasized as an important driver of inflation (Blanchard and Bernanke, 2023; Benigno and Eggertsson, 2023).

[13] Appendix Figure A6 shows the corresponding results focusing on heterogeneity by age and income. For more detailed regression results, see Appendix Tables A6–A8.

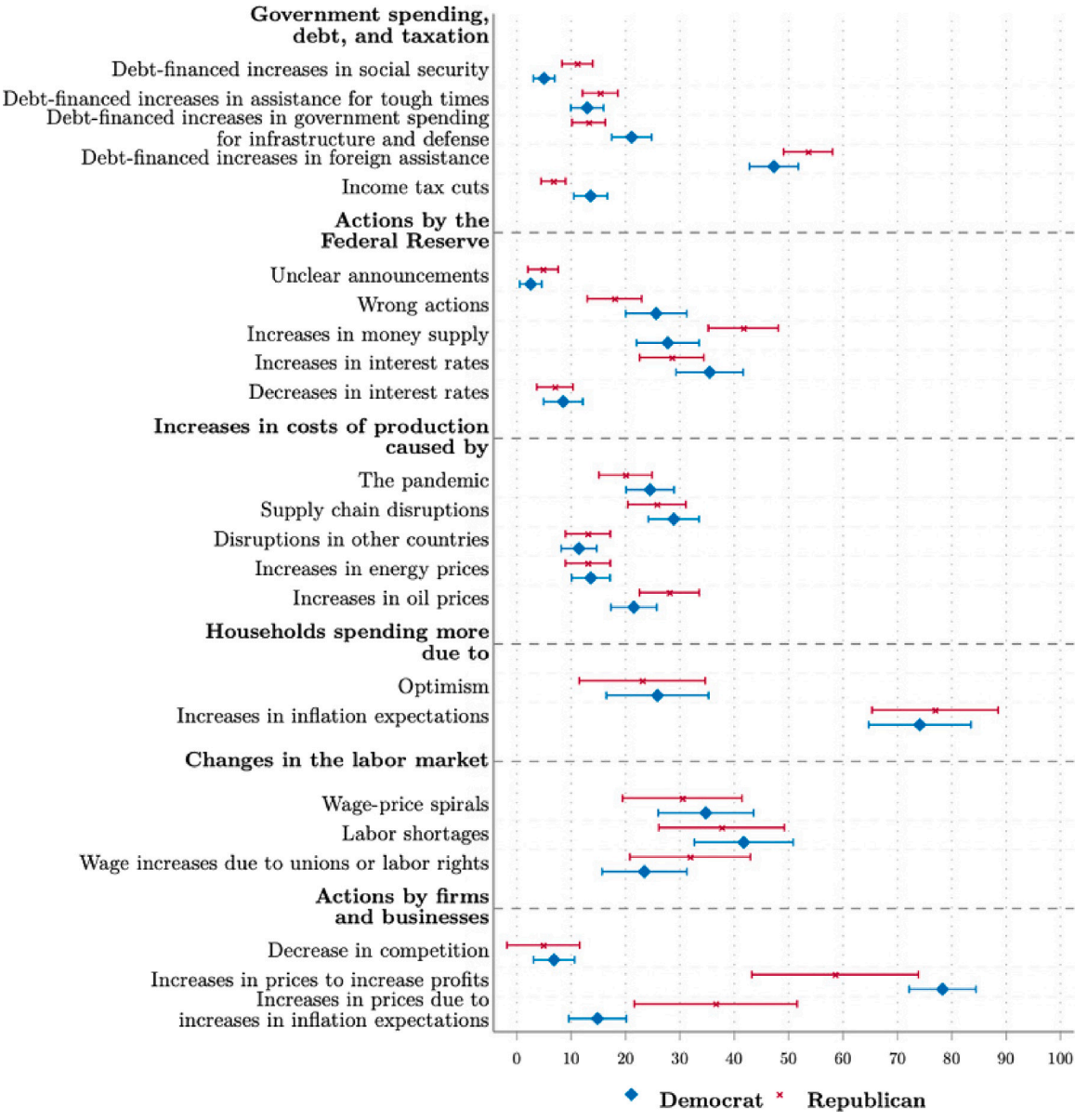


Fig. 3. Most important causes of inflation. Each dot represents the share of respondents indicating a specific cause as the most important cause of inflation within its category, conditional on having previously selected the category (cause in the header) as one of the two most important causes of inflation, alongside 95% confidence intervals. Respondents were shown only the two subcategories they selected before as most important.

Interestingly, this is true even among high-income respondents. These perceptions can be rationalized by (at least) two different hypotheses. On the one hand, they are consistent with the literature on inflation inequality going through the consumption channel. For instance, Jaravel (2018) shows that between 2004 and 2015, inflation rates declined linearly across income deciles using CEX-CPI data. Orchard (2022), Kaplan and Schulhofer-Wohl (2017), and Argente and Lee (2020) also show that inflation rates have been lower for higher-income households than lower-income ones.[14] On the other hand, these beliefs are also consistent with people appraising winners and losers from inflation based on (ex-ante) *levels* of, rather than *changes* in, welfare. Respondents do not believe that inflation impacts different age groups heterogeneously. Similarly, they do not perceive retirees, the employed, and the unemployed to be affected differently. However, there are theoretical and empirical reasons to believe that inflation affects older and

[14] It is less clear whether these unequal impacts are consistent with the other channels, depending on, for instance, how wages adjust for different income groups.

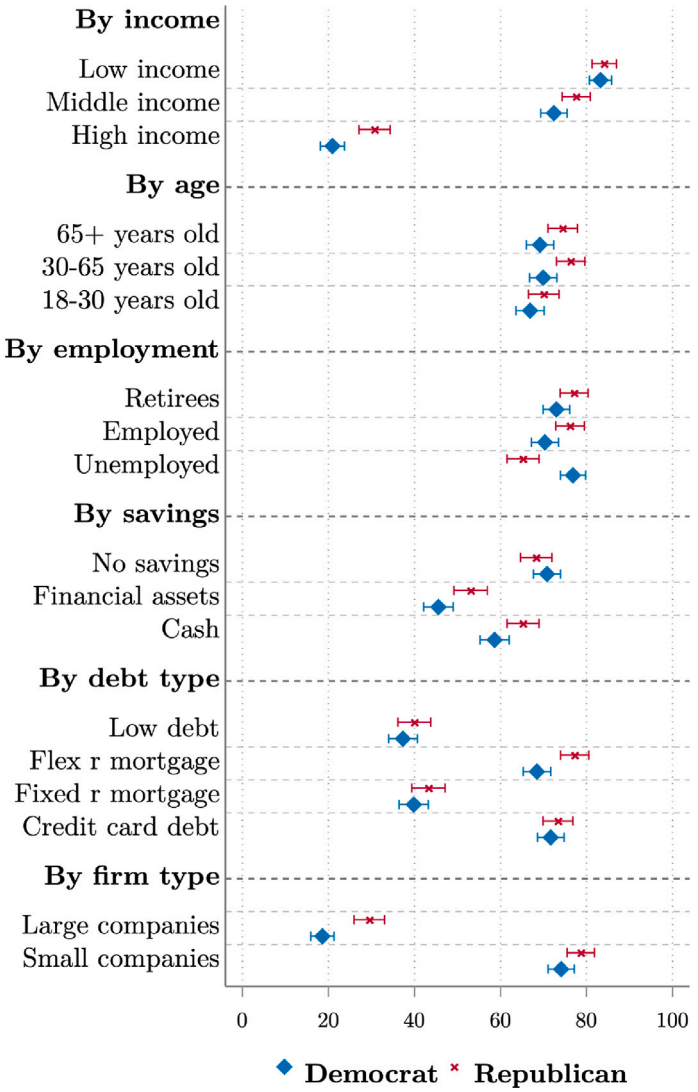


Fig. 4. Perceived distributional impacts of inflation. Each dot represents the share of respondents saying that the corresponding group loses somewhat or a lot because of inflation, alongside 95% confidence intervals.

younger people differentially. Del Canto et al. (2023) find substantial heterogeneity in welfare effects across the age distribution in response to oil-shock supply contractions. For Spain, Cardoso et al. (2022) also find strong heterogeneous exposure of age groups to the aforementioned channels. Older people are more exposed because they are more likely to have a positive net nominal position, so that inflation tends to redistribute wealth from the older to the young via the Fisher channel. Furthermore, older people who work have on average higher wages which, if sticky, imply that the income channel also works in the direction of hurting older people more.

Respondents believe that those without savings suffer more than others from inflation and perceive those with more cash savings as losing a little bit more than those with financial assets. Inconsistent with the debt-devaluation channel (Fisher channel), they also perceive that those with no or low debt are less likely to lose from inflation. They correctly perceive that flexible-rate mortgage owners are more negatively affected than fixed-rate ones and that credit-card debt owners might be particularly affected.

Finally, the perceived impacts on large and small firms are quite distinct. Around 20% of respondents believe that big firms will lose from inflation (in fact, 56% believe that these firms will benefit from inflation), while around 75% say small firm lose out of inflation.

There are some partisan gaps in the perceived impacts on households and firms: Republican respondents are generally more likely to believe that different groups lose from inflation, particularly so when considering the impacts on high-income people, people with savings in cash and with flexible rate mortgages, and big firms. They are also less likely to think that the unemployed lose from inflation. Even conditional on political leaning, Fox News viewers are less likely to think that inflation has adverse distributional

Table 3
Summary of results related to the perceived distributional impacts of inflation.

Economics literature	Our findings
• **Channels through which inflation or inflationary shocks might have unequal impacts** • Relative consumption channel (or "inflation inequality"): households with different consumption baskets experience heterogeneous inflation rates. • Debt devaluation (or "Fisher") channel: inflation redistributes real wealth from lenders to borrowers. • Labor income channel: inflation erodes nominal income and, if wages are sticky, inflation will have larger % impact on higher-incomes. • Asset channel: heterogeneous responses of asset prices and dividends to various types of inflation shocks affect households differently based on their portfolio composition.	• **Perceived distributional impacts of inflation within specific groups** • *Income groups*: low-income people thought to lose more (84%) than high-income people (25%). • *Age groups*: perceived to lose uniformly. • *Retirees/employed/unemployed*: perceived to lose uniformly. • *Asset position groups*: people without savings perceived to lose more than those with savings; people with little/no debt perceived to lose less than those with debt. • *Firm size groups*: small firms thought to lose more (75%) than big corporations (25%). • **Relevant heterogeneity** • Republicans: ∗ more likely to think some groups lose from inflation (high-income people, people with savings in cash, people with flexible-rate mortgages, big firms). • High-income respondents: ∗ systematically perceive more adverse impacts across different groups. • Fox News viewers: ∗ less likely to perceive adverse distributional impacts (even conditional on political leaning).

impacts (see Fig. 11). Older respondents and (to a less extent) respondents out of the labor force also systematically perceive more adverse impacts from inflation across different groups. These results are summarized in Table 3.

3.4. Perceived consequences

3.4.1. Survey methodology

To elicit respondents' perceived consequences from inflation, we ask an open ended question[15] and a series of closed-ended ones, motivated by the theoretical and empirical literatures. As for the causes of inflation, we ask respondents to both rate the importance of different consequences and then to select their most important one. The list of consequences includes items pertaining to the following categories, suitably explained to the respondents: "shoe-leather costs", "resource misallocation", "uncertainty and unpredictability", "complexity", and "broader social and economic costs".[16]

3.4.2. Results

Around 85% of respondents perceive shoe-leather costs and complexity in daily economic decisions to be major consequences of inflation. Around 70% of respondents think that inflation leads to a decreased trust in the government and that it leads to lower GDP growth. Households generally also worry about the other listed consequences.[17]

Fig. 5 shows the share that rank each consequence as the most important one.[18] The most important perceived consequence is by far (35%) the increased complexity in daily economic decisions. This is perhaps a cost that has received relatively less attention in the economics literature, yet is first-order in people's minds. Linking to the results in Stantcheva (2024), it is likely that the increased complexity comes in part from households' perceived decline in living standards, which forces them to rethink economic decisions and deal with tougher budgeting choices. The second most important perceived consequence of inflation is a decrease in social cohesion (15%). Republican respondents appear more concerned with adverse effects for households and businesses, such as more difficult decision-making, and with the broader economic consequences. They are significantly less likely to perceive increases in inequality as important (consistent with their lower likelihood of perceiving adverse distributional consequences from inflation). High-income respondents are more likely to mention increases in inequality and a decrease in trust for the government. Overall, lower-income respondents are less likely to perceive negative impacts from inflation, which may a priori seem puzzling. But Stantcheva (2024) finds that when it comes to personal impacts, lower-income respondents report many more negative consequences. Table 4 summarizes these results.

[15] "*If prices increased by 10% over the next year, what would the major consequences for the US economy be?*".
[16] Appendix Section A.2.2 explains in greater detail the motivation behind our choices.
[17] See Appendix Figures A7 and A8. For the full regression results, see Appendix Tables A9 and A10.
[18] Appendix Figure A9 focuses on heterogeneity by age and income. For the full regression tables, see Appendix Tables A11 and A12.

Table 4
Comparing our results to the economics literature on the consequences of inflation.

Economics literature	Our findings
• **Most-studied consequences:** • shoe-leather costs; • resource misallocation. • **Less-studied consequences:** • uncertainty and unpredictability; • decision-making complexity; • broader social and economic costs (decreases in trust in government, social cohesion, the value of the dollar, national prestige, GDP growth, and increases in inequality).	• **Top 5 most-perceived consequences:** • complexity in economic decisions (85%), shoe-leather costs (80%), decreased trust in government (70%), lower GDP growth (70%), uncertainty for households (70%). • **Relevant heterogeneity** • Republicans: ∗ perceive more adverse effects for households and businesses, and broader economic costs; ∗ perceive less increases in inequality. • High-income respondents: ∗ perceive more increases in inequality and a decrease in trust for government.

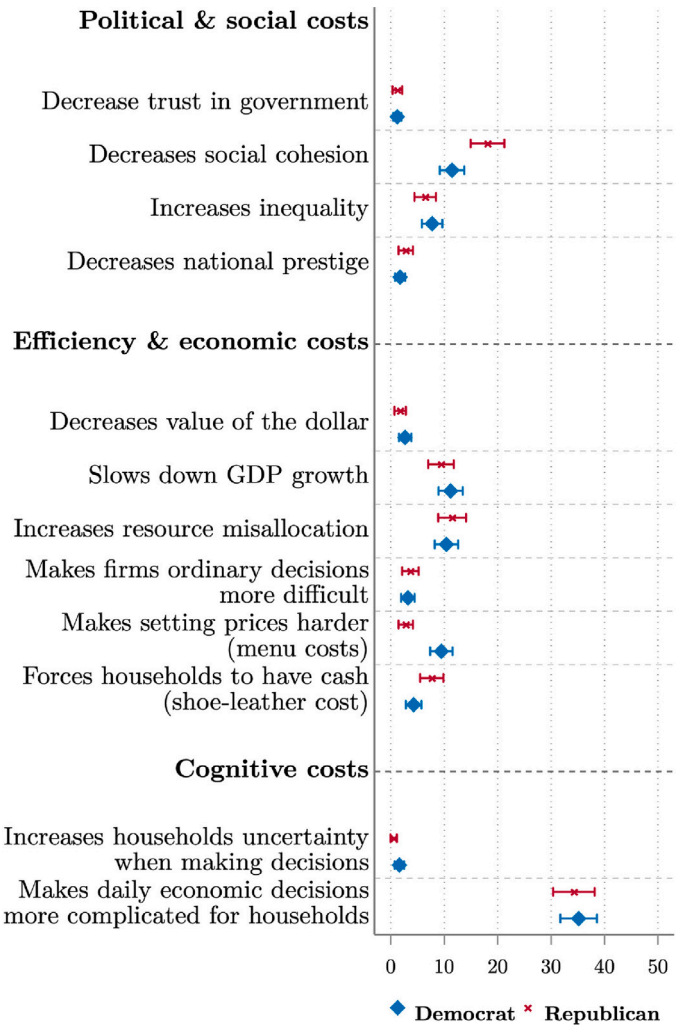


Fig. 5. Most important perceived consequences of inflation. Each dot represents the share of respondents saying that the consequence on the row is the most important consequence of inflation, alongside 95% confidence intervals. Respondents could only select consequences that, in earlier questions, were indicated as important.

3.5. Perceived trade-offs

3.5.1. Survey methodology

What is the relation between inflation and economic activity? Does policy face a tradeoff between stabilizing inflation and stabilizing unemployment and economic activity? These issues have been at the core of macroeconomic research for a long time and it is important to study how people understand these trade-offs.

The perceived link between inflation and unemployment or economic activity. We ask respondents a series of qualitative questions on the relation between inflation and economic activity. Specifically: "*How do you think policies designed to reduce unemployment typically affect inflation?*", "*Do you think that inflation is most often a sign of a good, a bad economy, or neither?*", "*In general, do you think inflation occurs more frequently during times of economic growth (booms) or economic downturns (recessions)?*", and "*To what extent do you agree with the statement that inflation is an unfortunate side effect of positive economic developments, like higher employment and increased economic activity?*".

In the theoretical macroeconomic literature, the relation between inflation and unemployment (or economic activity) has been formalized by the Phillips curve (hereafter, PC), which has become a fundamental building block of forecasting and monetary policy. According to a standard textbook version of the PC, inflation is determined in equilibrium by inflation expectations, the output gap (or some measure of economic slack), and cost-push shocks.[19]

Our specific aforementioned survey questions ask people about their "reduced-form view" of the link between inflation and unemployment or economic activity (in contrast with the questions asking about the conditional impacts of specific shocks explored in Section 3.1). As is clear from the textbook version of the New-Keynesian Phillips Curve (NKPC), realized inflation depends not only on unemployment or other measures of economic slack, but also on inflation expectations and cost-push shocks. Respondents' answers will reflect their views about these other factors and capture their generally perceived "empirical link".

Policy tradeoffs. Respondents were also asked a series of questions about the tradeoffs faced by policymakers when trying to decrease inflation, specifically the extent to which it is "necessary", when trying to reduce inflation, to (i) reduce household spending, (ii) reduce GDP growth, (iii) reduce government debt, or (iv) increase unemployment.

Recent years have witnessed changes in the perceived trade-offs by both academics and policy-makers. Indeed, rather than thinking that "*managing inflation is about moving up and down a steep Phillips curve*" (Hazell et al., 2022), there has been an emphasis on the importance of alternative, complementary instruments, such as managing long-run inflation expectations (Coibion et al., 2020).[20]

Nevertheless, there is widespread agreement that combating inflationary pressures can be costly for policymakers, especially when price increases are caused by cost-push shocks (Blanchard and Galí, 2007). In such cases, policymakers might have to trade off lower inflation for costly decreases in output and employment, which can be achieved through standard (demand-side) monetary and fiscal policy instruments analyzed by the macroeconomics literature (see, e.g., Galí (2015)). Supply-side interventions in response to such shocks, which might imply different types of trade-offs, have been less studied in this context. However, both public discourse and the media have recently emphasized a series of non-conventional policies, including supply-side ones, that might be salient to the general public (e.g., in the context of "greedflation"). For this reason, we also asked respondents about their support for non-standard policies, discussed in Section 4.2.

3.5.2. Results

Perceived link between inflation and economic activity. Fig. 6 shows that 30% of respondents believe that inflation happens more often in a boom than in a recession, 32% believe that inflation is a side effect of positive economic developments, and only 10% associate inflation with a good economy.[21] Democrats are more likely to believe that inflation can be a side effect of positive economic developments. Even conditional on political leaning, New York Times readers and CNN viewers are more likely to consider inflation a potential by-product of a good economy while Fox News viewers are less likely to believe this (see Fig. 11). 35% of respondents believe that policies designed to reduce unemployment may increase inflation. These perceptions are consistent with a generally more "stagflation"-oriented view of inflation, as also shown in Shiller (1997) and Stantcheva (2024).

Overall, we capture a nuanced view of inflation: some people do believe that inflation *can* be associated with positive economic developments, but it is not generally perceived to be a sign of a good economy.

Policy tradeoffs. Consistent with these findings, only a minority of respondents (between 30% and 40%) think that it is necessary for policy makers to induce a slowdown in economic activity to keep the inflation rate under control. Thus, respondents do not seem to think that policymakers face sharp tradeoffs when dealing with inflation. The one exception appears to be government debt, with around 62% of respondents think it is necessary to reduce government debt to reduce inflation.[22] Table 5 summarizes the results of this Section.

[19] Appendix Section A.2.3 presents a brief discussion about the empirical evidence on the Phillips Curve.

[20] See also an IMF summary of the role of expectations in the history of policy making.

[21] Appendix Figure A10 shows the corresponding results focusing on heterogeneity by age and income. For more detailed regression results, see Appendix Table A13.

[22] Appendix Table A14 shows that those who believe that the government is among the most important causes of inflation are much more likely to perceive an inflation-debt tradeoff (column 4). The construction of the variables in the Table is explained in Section 4.2, while Appendix Table A15 reports the Romano Wolf adjusted p-value for each regressor.

Table 5
Comparing our results to the economics literature on the relation between inflation and economic activity.

Economics literature	Our findings
• **Relation between inflation and economic activity**	• **Perceived reduced-form relation between inflation and economic activity**
• Equilibrium relation between inflation and economic activity formalized by the New-Keynesian Phillips Curve. In equilibrium, inflation determined by: ∗ inflation expectations; ∗ economic slack (e.g. output gap, gap between current and potential level of unemployment); ∗ cost-push shocks.	• Few respondents believe that inflation happens more often in booms than in recessions (30%), that it might be a side effect of positive economic developments (32%), or that it can be associated with a good economy (10%). • Few respondents believe policies designed to reduce unemployment increase inflation (35%).
• **Policy tradeoffs**	• **Perceived policy tradeoffs**
• When confronted with high inflation, policy-makers can: ∗ induce a slowdown in economic activity (e.g., increase interest rates, announce future increases in interest rates, decrease spending/debt, increase taxes); ∗ manage inflation expectations. • Supply side interventions in response to adverse supply shocks less studied in this context.	• A minority of respondents believe it is necessary for policy makers to induce slow downs in economic activity to decrease inflation (30%–40%). • A majority of respondents (62%) believe it is necessary to reduce government debt to reduce inflation.
	• **Relevant heterogeneity**
	• Republicans: ∗ less likely to think inflation can be a side effects of positive economic development. • NYT readers and CNN viewers (opposite for Fox News viewers): ∗ more likely to consider inflation a potential by-product of a good economy.

3.6. (Mis-)perceived and expected inflation and unemployment

To study the correlation between inflation and unemployment perceptions and expectations and personal characteristics and beliefs, we use Huber (1964) robust regressions and different censoring levels. Table 6 shows the results for personal characteristics and Appendix Table A16 the correlations with underlying beliefs.

Older, higher-income respondents, NPR listeners, and NYT readers perceive and expect lower inflation; female respondents, Republican respondents, Fox News viewers, and those with children perceive and expect higher inflation. There is a positive correlation between expected inflation and unemployment, and the groups that perceive higher inflation also generally perceive and expect higher unemployment. Note that, although we provide the correct definition to all respondents as described in Section 2, they still substantially overestimate current unemployment (the average perceived unemployment rate is 19%). Respondents who believe the government to be one of the most important causes of inflation both perceive and expect inflation to be higher (Appendix Table A16).

4. Policy views

4.1. Preferences over inflation and unemployment

We elicit people's preferences over inflation and unemployment using a conjoint experiment. Conjoint experiments are especially valuable in contexts of multidimensional choices to understand how different choice attributes affect people's decisions. In a conjoint design, respondents are typically asked to evaluate different alternatives ("profiles") characterized by features ("attributes") which are experimentally manipulated. Because of this random variation, researchers are able to estimate the causal effect of changes in attributes on choices. Conjoint experiments have been widely used in marketing (Raghavarao et al., 2010), political science (Bansak et al., 2021), and sociological research (Wallander, 2009). Hainmueller et al. (2014) discuss causal identification in conjoint analysis through the lenses of the potential outcomes framework. Stantcheva (2023) presents a broader overview of factorial designs and reviews some applications in economics.

As the next paragraph explains in greater detail, in our experiment we ask people to choose between pairs of economies (profiles) characterized by values of inflation and unemployment (attributes). This exercise allows us to causally identify people's aversion to inflation and unemployment in our experimental environment.[23]

[23] Relative to a more direct survey question about preferences for inflation and unemployment, our conjoint approach allows us to collect a greater deal of information. For instance, we are able to identify people's aversion to *different* levels of inflation and unemployment. See Hainmueller et al. (2014) for a broader discussion of the advantages of using conjoint designs over more traditional survey methods in contexts of multidimensional choices.

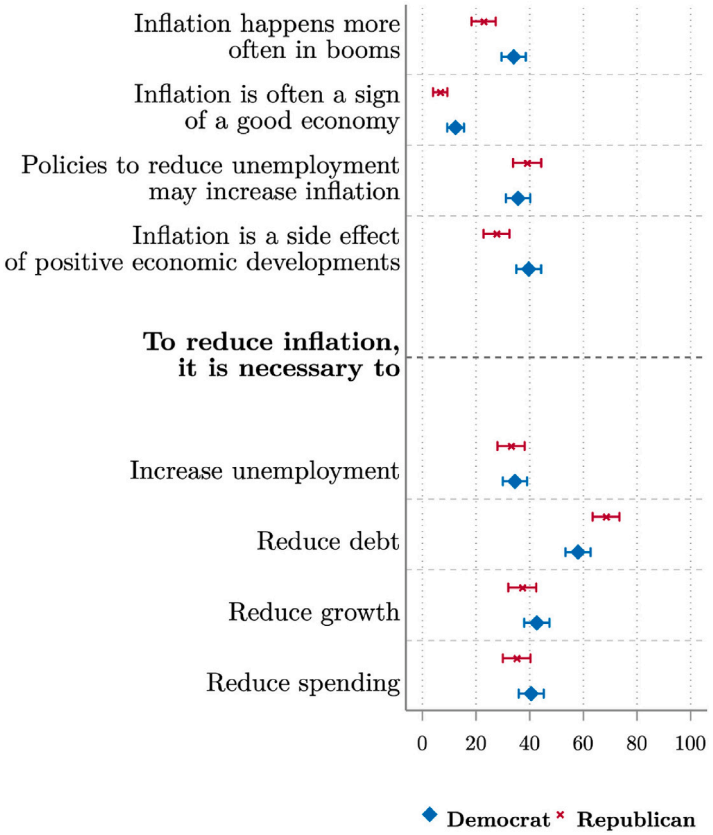


Fig. 6. Perceived trade-offs between inflation and other economic outcomes. Each dot represents the share of respondents who agree with the statement on the corresponding row, alongside 95% confidence intervals. "Inflation happens more often in booms" is an indicator equal to one if the respondent says that inflation happens mostly or slightly more often in booms. "Policies to reduce unemployment may increase inflation" is an indicator equal to one if the respondent says that these policies increase or significantly increase inflation. "Inflation is a side effect of positive economic development" is an indicator equal to one if the respondent agrees or strongly agrees with the statement. All the variables in the second panel are indicators equal to one if the respondent says that the trade-off listed in the row is very or extremely necessary. The sample includes only respondents who were not shown the video on the trade-offs between inflation and unemployment.

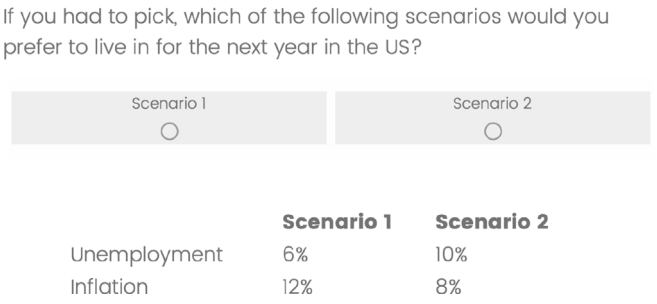


Fig. 7. Example question of the conjoint experiment.

The conjoint experiment. Fig. 7 provides a screenshot of a typical survey page from this experiment. Each respondent saw five questions, each describing two hypothetical economic scenarios characterized by a pair of values of inflation and unemployment. Respondents were then asked which of the scenarios they would prefer ("*If you had to pick, which of the following scenarios would you prefer to live in for the next year in the US?*"). We randomized the order in which we presented information about the values of inflation and the unemployment rate for each economic scenario and always control for this order in the analysis below. The values

Table 6
Correlates of perceptions and expectations.

	Perceived inflation	Perceived unemployment	Expected inflation	Expected unemployment
	(1)	(2)	(3)	(4)
Female	1.229***	4.529***	1.002***	3.979***
	(0.294)	(0.613)	(0.297)	(0.639)
30–49 years old	−0.166	−5.261***	−0.933**	−4.234***
	(0.429)	(0.853)	(0.430)	(0.889)
50–69 years old	−1.218**	−10.684***	−1.532***	−9.257***
	(0.483)	(0.985)	(0.485)	(1.026)
Independent	0.808**	1.806**	0.998***	2.377***
	(0.340)	(0.711)	(0.344)	(0.742)
Republican	1.077***	1.752**	1.412***	1.780**
	(0.379)	(0.789)	(0.383)	(0.822)
College Degree	−0.346	−3.295***	−0.324	−3.663***
	(0.333)	(0.713)	(0.338)	(0.742)
Studied economics	0.187	−0.650	−0.045	0.222
	(0.365)	(0.770)	(0.372)	(0.803)
Income between 40k and 125k	−1.418***	−5.698***	−1.276***	−4.798***
	(0.371)	(0.747)	(0.377)	(0.779)
Income >125k	−1.858***	−5.243***	−2.068***	−4.696***
	(0.460)	(0.953)	(0.466)	(0.993)
Has children	0.789**	1.091	0.822**	1.055
	(0.346)	(0.707)	(0.348)	(0.737)
Unemployed	−1.599***	1.682	−0.636	1.050
	(0.521)	(1.040)	(0.526)	(1.085)
Out of labor force	−0.785**	−2.167***	−0.271	−1.945**
	(0.367)	(0.778)	(0.372)	(0.812)
CNN	−0.645*	−1.751**	−0.378	−1.477*
	(0.354)	(0.740)	(0.361)	(0.772)
Fox News	1.086***	3.046***	1.302***	2.884***
	(0.333)	(0.687)	(0.337)	(0.716)
Social media	0.715**	0.054	0.907***	0.716
	(0.337)	(0.704)	(0.338)	(0.734)
NPR	−0.840**	−2.834***	−0.858**	−2.996***
	(0.416)	(0.882)	(0.423)	(0.919)
NYT	−1.069**	1.426	−0.809*	2.646***
	(0.421)	(0.873)	(0.426)	(0.910)
WSJ	−0.094	−2.809***	0.393	−3.310***
	(0.426)	(0.891)	(0.431)	(0.928)
Observations	1763	2240	1781	2239
Adj. R^2	0.069	0.219	0.081	0.180
$\mathbb{E}$(Dependent variable)	8.113	18.419	6.547	18.918
Mean income <40	9.179	24.897	7.810	25.333
Mean income >125k	7.177	13.889	5.349	14.578
Mean democrat	7.325	16.836	5.460	16.581
Mean republican	8.711	18.646	7.456	18.887
Mean 18–29 years old	8.986	27.267	8.003	27.997
Mean 30–49 years old	8.358	18.764	6.485	19.326
Mean 50–69 years old	7.464	12.633	5.870	12.955
Dependent variable std. dev.	5.899	18.253	6.213	19.203

Notes: Controls not reported in the regression are race and marital status. Omitted categories are: male (for gender), 18–29 years old (for age), Democrat (for political affiliation), no college (for education), income below 40k (for income), employed (for employment status), all other news sources not reported in the table. Inflation perceptions and expectations are censored at −10 and +25.

* $p < 0.1$.

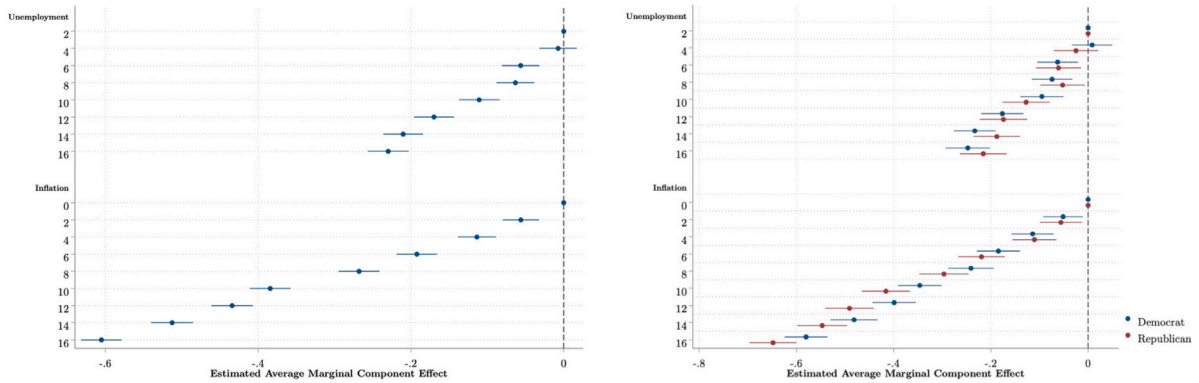
** $p < 0.05$.

*** $p < 0.01$.

of inflation and unemployment were chosen from the universe of monthly realized values for each variable from the 1970s to today to ensure meaningful comparisons were asked.[24]

The main causal quantity of interest in a conjoint experiment is the Average Marginal Component Effect (AMCE). Formally, in the context of conjoint designs introduced in the previous paragraph, the AMCE represents the marginal effect of an attribute on the respondents' stated preferences over profiles averaged over the joint distribution of the *other* attributes (Hainmueller et al.,

[24] In the experiment, we randomize the unemployment rate between multiples of 2 in the interval $[2, 16]$ and the inflation rate between multiples of two in the interval $[0, 16]$. Pairs are drawn fully randomly to allow for accurate identification, which means that some respondents can see choices where one economy is strictly dominated by the other one, i.e., it has both higher unemployment and higher inflation.



(a) Full sample (b) By political leaning

Fig. 8. Conjoint experiment: Average Marginal Component Effect estimation. Each dot represents the AMCE for the corresponding level of inflation or unemployment estimated with the `conjoint` command introduced in Frith (2021).

2014). In our framework, the AMCE describes the change in the probability that an economy - a profile - would be selected if the value of its inflation (unemployment) rate - the attribute - increased, averaging over the possible values of unemployment (inflation) using the joint distribution of inflation and unemployment. Perhaps more intuitively, the AMCE can be understood via the following thought experiment proposed by Hainmueller et al. (2014) and herein adapted to our framework. For simplicity, suppose that inflation can only take two values (high and low). Start by computing the probability that a high-inflation economy is chosen over a competing economy with given values of inflation and unemployment. Proceed by computing the probability that a low-inflation (but otherwise identical) economy is chosen over the *same* competing economy. Take the difference between two such probabilities. Subsequently, compute the same difference in probabilities between high and low-inflation economies for different values of unemployment in all economies (i.e., the high- and low inflation economies, and the competing economy) and for a different value of inflation in the competing economy. Finally, take the average of all these differences according to the joint distribution of inflation and unemployment. Then, it is clear why we can think about the AMCE of inflation as an estimate of people's inflation *aversion* (and similarly for the AMCE of unemployment). Importantly, as recognized by Hainmueller et al. (2014), the conjoint design approach is agnostic about the respondents' underlying behavioral model (i.e., the process through which they decide which economy they would prefer to live in). Irrespective of such model, our conjoint experiment allows us to causally identify the effect of (changes in) inflation and unemployment on the respondents' stated preferences.

Finally, given the misperceptions about the levels of inflation and, especially, unemployment that we will document, we might wonder whether providing respondents with the actual levels of these variables would matter for their choices. Therefore, we randomly provided half of the respondents with the true values of inflation and unemployment before the conjoint experiment.

Results. Fig. 8 reports the estimated AMCE for different levels of inflation and unemployment, for different population groups.[25] The values reported in the figure can be interpreted as the change in the probability that an economy is selected when comparing a given value of inflation (unemployment) on the y-axis to its corresponding baseline value, which we set to the minimum value of monthly realized inflation (unemployment) between 1970 and 2024. Overall, the AMCE of inflation is larger than the AMCE of unemployment, especially for larger values of these variables, indicating a greater aversion to inflation than unemployment.[26] For instance, an economy with a 10% inflation rate is 40% less likely to be selected than an economy with a 0% inflation rate on average (remember that the average is taken over the joint distribution of profile attributes, as explained above). By contrast, an economy with a 10% unemployment rate is only about 10% less likely to be selected compared to an economy with a 2% unemployment rate, on average. Republicans tend to put more weight on inflation than Democrats, especially for values of the inflation rate higher than 10 (Fig. 8(b)). Higher-income respondents and older respondents put a larger weight on inflation. Providing information on the current levels of inflation or unemployment seems to slightly decrease the negative marginal effect of inflation (consistent with the fact that people tend to vastly overestimate current unemployment rates). Finally, under additional simplifying assumptions on the respondents' preferences, our approach also allows us to recover the - more easily interpretable - Marginal Rate of Substitution between inflation and unemployment. Appendix Section A.4 describes this approach in greater detail and reports results which are conceptually very similar to the ones described in this Section.

[25] Appendix Figures A11–A13 focus on heterogeneity by age, income, and whether the respondent has received information on current levels of inflation and unemployment.

[26] Using a different elicitation strategy, Pfajfar and Winkler (2024) estimate an "acceptable sacrifice ratio", (ASR) measuring the increase in unemployment that respondents find acceptable to reduce inflation by one percentage point. They find that respondents put a higher weight on unemployment than on inflation. Beyond the differences in elicitation strategies and in quantities of interest (we causally identify the AMCE in a cojoint experiment rather than the ASR), our analyses also differ in that they restrict their question to a much narrower set of couples of inflation and unemployment values.

4.2. Preferred policies

Priority of inflation over other issues. Inflation is consistently ahead of other issues, including healthcare, growth, and low unemployment.[27] This is consistent with the results of our conjoint experiment. Interestingly, gaps between different groups appear when thinking about social issues. Thus, Democrats will tend to rank inflation as a lower priority than Republicans among social issues (but not among economic ones) and younger respondents will tend to rank it lower than older ones.

One might worry that if respondents see these questions after answering multiple questions on inflation, they might simply answer that inflation is important because the issue has been made salient to them through the survey. Therefore, we randomized the order in which respondents were asked these questions. The subsample that was asked policy views questions at the start of the survey and the subsample who was asked towards the end had very similar rankings.

Open-ended question about preferred policies to fight inflation. Before asking respondents closed-ended questions about their support for various policies to fight inflation, we included an open-ended question to elicit the policies that were top of mind for them. We manually categorized answers into topics reflecting different policies, each defined by a set of keywords.[28] For instance, the *Expansionary monetary policy* topic includes answers like "Decrease interest rates" and "Print more money out perhaps". The *Contractionary fiscal policy* topic includes responses as "reduce spending and increase taxes" and "Cut down on social programs that provide money, food and housing assistance to people that are able to work but just will not". The most prevalent topic is *Contractionary fiscal policy*, which is more mentioned across Republicans than Democrats. Partisan divides also emerge when mentioning policies to combat inflation related to protectionism, expansionary monetary policy, immigration, fighting greedflation, and changing President. These results are broadly consistent with the analysis of closed-ended questions reported below.

Monetary, fiscal, and other policies. We ask respondents about their support for a variety of policies to fight inflation. It is important to note that we explicitly repeated that respondents should pick policies they believe will reduce inflation. Therefore, the support stated also informs us about respondents' perceived effectiveness of these policies to reduce inflation. Fig. 9 summarizes the findings, grouping policies into different categories.[29]

First, consistent with the misunderstanding of the effects of interest rates documented in Section 3.5, 50% of all respondents support *decreasing* interest rates to fight inflation. The share supporting increases in interest rates is significantly lower, below 20%. Support for announcing interest rate increases is somewhat higher than that for outright rate increases. Decreasing money supply is supported by around 30% of all respondents. Contractionary monetary policy is significantly less supported among low-income respondents and, to a lesser extent, among Republican respondents.

Second, 60% of respondents support reducing government debt by increasing taxes on high incomes. As one might have expected, there are clear partisan gaps along these dimensions, with Democrats significantly more supportive of tax increases on high-incomes to finance debt reductions. While most respondents do not support reducing spending on social programs to finance reductions in government debt, the dislike is particularly pronounced among Democrats. Republican respondents and Fox News viewers are more supportive of such cuts. Nevertheless, even among Republican respondents support is higher in absolute terms for financing debt reductions by taxes on high incomes than by reducing spending on social programs (which include Medicare).

Third, policies that target companies, such as by tightening anti-trust rules or increasing corporate taxes generate high support among Democrats and have just around majority support among Republicans too. Freezing the prices of essentials garners relatively bipartisan support. There is significantly less support for regulating wage growth. Restricting imports to curb inflation is supported by only one-third of Democrat respondents but close to one-half of Republican ones.

One policy with high support is noteworthy – increasing taxes on high-incomes to fund transfers to lower-incomes. Respondents seem to consider this policy to be anti-inflationary, perhaps because they think that higher-income people spend more. This policy garners 55% of overall support (69% among Democrats, and 44% among Republicans), but lower support among Fox News viewers.

The overall finding is that respondents support policies that are perceived to have incidental benefits such as, for instance, reducing government debt or redistributing income (by increasing taxes on high-incomes). They are much less supportive of monetary policies that directly tackle inflation such as increasing interest rates or reducing money supply. These policies perhaps appear costly to respondents and, in light of the fact that few acknowledge policy trade-offs, probably not very beneficial.

Redistributive policies. An important pillar of policies to tackle inflation are measures to dampen its impacts on households and its redistributive effects. We ask respondents about five policies to "help the most vulnerable groups after a rise in the cost of living:" (i) increasing the minimum wage, (ii) providing more vouchers for fuel, gas, and electricity to low-income people, (iii) providing vouchers for fuel, gas, and electricity to middle-income people, (iv) expanding the food stamps program, and (v) increasing cash transfers to low-income families. Fig. 10 presents the key findings.[30] There is consistently at least majority support for these policies but support is significantly higher among Democrat and lower-income respondents and, to a lesser extent, among younger respondents. It is an open empirical question how inflationary these policies are.

[27] Appendix Figures A13 and A14 show the share of respondents who rank various economic and social issues as the most important policy priority.

[28] Appendix Figures A15 and A16 show the distribution of topics. Appendix Section A.6 shows example answers for all topics.

[29] Appendix Figure A17 shows the corresponding results focusing on heterogeneity by age and income. For more detailed regression results, see Appendix Tables A18 and A19.

[30] Appendix Figure A18 shows the corresponding results focusing on heterogeneity by age and income. The more detailed regressions are in Appendix Table A20.

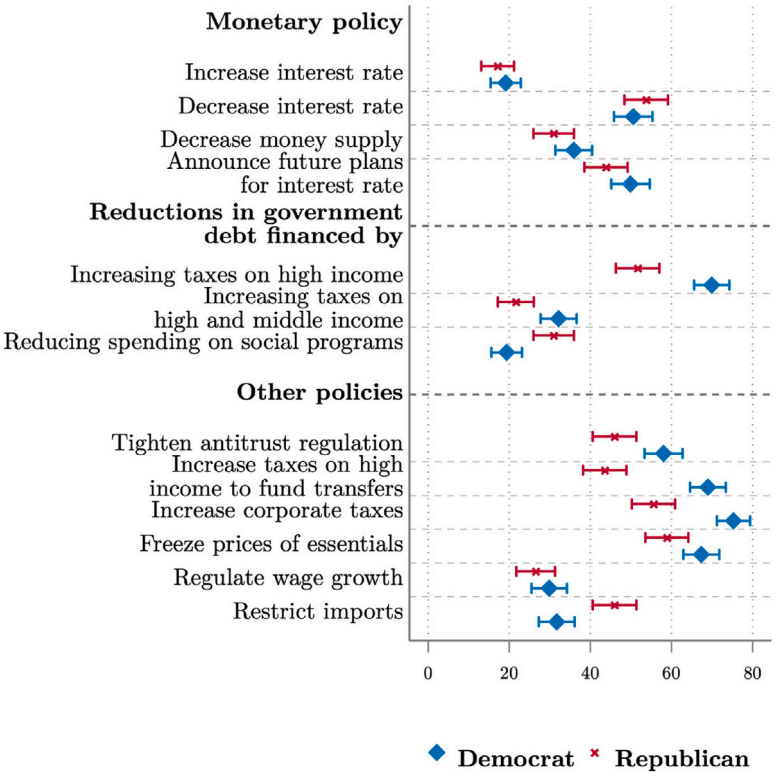


Fig. 9. Views on policies to combat inflation. Each dot represents the share of respondents who support or strongly support the policy listed in the corresponding row, alongside 95% confidence intervals. The sample includes only respondents who were not shown the video on the trade-offs between inflation and unemployment.

Policy support and beliefs about inflation. We now investigate which underlying beliefs about inflation are most strongly associated with policy support. To do so, we correlate policy support with perceived causes, consequences, distributional impacts, trade-offs, and knowledge. We capture the strength of perceived consequences in three categories: *(i)* efficiency and economic costs (lower dollar value, lower GDP growth, more resource misallocation, menu costs, shoe leather costs, difficult firm decisions), *(ii)* broader social and economic costs (lower trust in government, social cohesion, national prestige, and higher inequality), and *(iii)* cognitive costs (higher uncertainty and complexity for households). Following the methodology in Kling et al. (2007), for each category we take the average of the z-scores of all the underlying dummy variables, and further standardize this sum to have a standard deviation of one. We similarly create two additional indices to capture people's perceived trade-offs, namely whether they perceive inflation as a by-product of a good economy and whether it is necessary for policy to reduce economic activity to fight inflation. We also construct a new variable proxying for knowledge about inflation that counts how many questions respondents answer correctly when asked about the effects of specific shocks on unemployment and inflation (according to the standard textbook models discussed in Section 3.1), excluding the productivity shock which is more ambiguous. Finally, we build an index measuring a respondent's asset exposure to inflation as captured by (a proxy of) their net nominal position. The index uses information about a respondent's short term savings, house value, assets invested in mutual funds, checking accounts, mortgages, and rent.

Table 7 shows the correlation between policy views and underlying beliefs about inflation.[31] Respondents with better knowledge of inflation (i.e., those who are better able to answer the questions on how specific shocks affect inflation and unemployment according to a textbook New-Keynesian model) are more supportive of policies that reduce money supply, increase interest rates, or increase taxes on high- and middle-income people, and less supportive of policies such as decreasing interest rates, price controls on essentials, and overall redistributive policies. Perceiving more costly consequences of inflation is generally associated with higher support for policies to reduce it (even with likely misguided ones, such as reducing interest rates). Perceived cognitive, social, and political costs seem to be more strongly linked to policy views than efficiency costs. Respondents who believe that inflation has inequality impacts because it hurts lower-income people more than higher-income ones are generally more supportive

[31] Appendix Tables A21 and A22 focus on additional policies and redistributive policies, respectively, while Appendix Tables A23–A25 report the Romano Wolf adjusted *p*-value for these results.

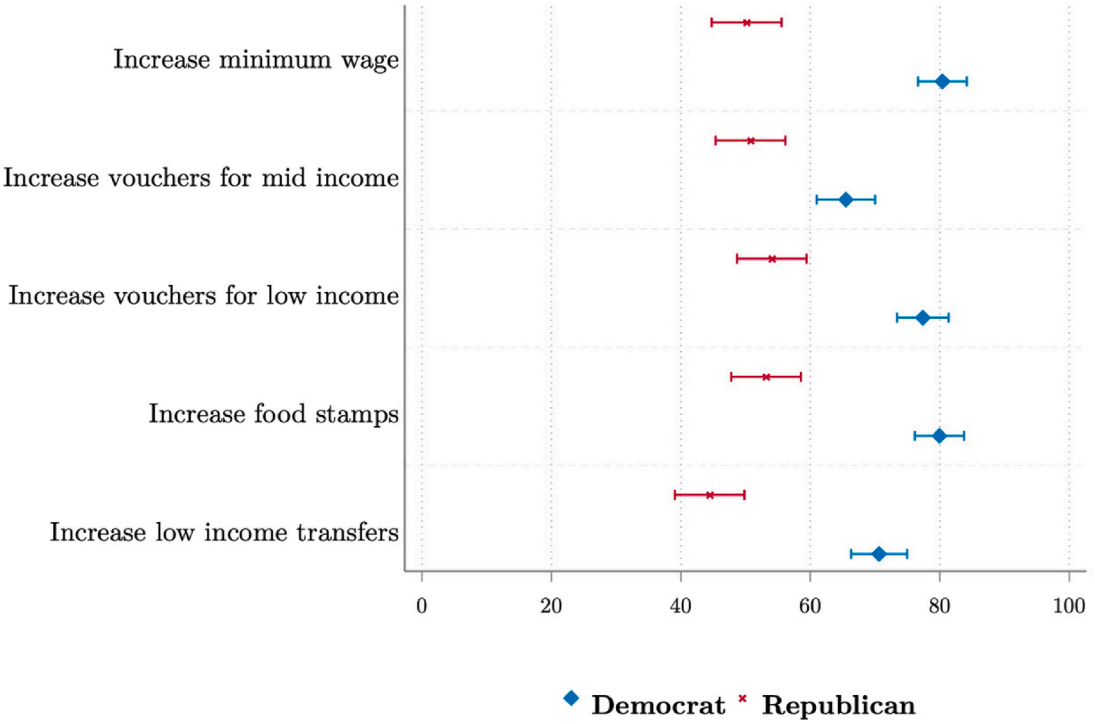


Fig. 10. Views on policies to combat the redistributive impacts of inflation. Each dot represents the share of respondents who support or strongly support the policy listed in the corresponding row, alongside 95% confidence intervals. The sample includes only respondents who were not shown the video on the trade-offs between inflation and unemployment.

of all redistributive policies, including of debt reductions financed in progressive ways (e.g., taxing higher-incomes). Regarding the perceived causes of inflation, there seems to be some logical link to policy views, although it is not very clear-cut. For instance, respondents who blame inflation on firms and businesses support increasing corporate taxes, imposing price controls, and increasing anti-trust.

Importantly, respondents who perceive inflation as a by-product of a good economy are generally more supportive of a variety of policies, such as increasing interest rates (and do not support decreasing interest rates), reducing money supply, reducing government debt through taxes on high-incomes and the middle class, increasing corporate taxes, imposing wage controls, and increasing anti-trust. They are also more supportive of redistributive policies to compensate for the effects of inflation. Respondents who believe that policy faces trade-offs between reducing inflation and maintaining economic activity are also more supportive of all the policies to fight inflation, but they support decreasing instead of increasing interest rates.

4.3. Experimental effects of highlighting trade-offs

As the previous sections have shown, respondents do not generally perceive stark trade-offs between reducing inflation and hurting the economy. On the contrary, only a minority views inflation as a sign of a good economy. Those who perceive the trade-offs more starkly are more supportive of a broad range of policies to fight inflation. But this link is merely a correlation. Therefore, we implement an experimental information treatment to inform a randomly selected 50% of respondents about potential trade-offs. All results pertaining this section are reported in Appendix Section A.5

Information treatment. Respondents saw a video explaining, in simple terms, that inflation could arise as a byproduct of positive economic developments, or as a result of policies aimed at boosting economic activity. More broadly, we emphasized that it might not always be easy for policy-makers to combat inflation and unemployment at the same time.[32] We can then study whether knowledge of these tradeoffs actually influenced people's perceptions and beliefs about the relation between inflation and other macroeconomic variables, as well as their preferences regarding economic policies to combat inflation and its redistributive effects.

First-stage effects: Does the treatment shift respondents' perceptions of the trade-offs? Respondents who saw the treatment are significantly more likely to believe that inflation happens more often in booms, is a side-effect of positive economic developments,

[32] Appendix Figure A20 shows some screenshot from the video, the full script for which is in Appendix Section A.8.7.

Table 7
Correlation between monetary and fiscal policy views and beliefs about inflation.

	Monetary policy:				Ways to reduce debt:		
	Increase interest rate	Reduce interest rates	Reduce money supply	Announce future plans for interest rate	Tax high income	Tax high/mid income	Reduce spending on social programs
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Perceived causes of inflation							
Changes in the labor market (e.g., wage-price spirals, labor shortages)	0.050*	−0.040	0.055*	−0.002	0.055	0.007	0.005
	(0.028)	(0.036)	(0.033)	(0.035)	(0.034)	(0.032)	(0.032)
Actions by the Federal Reserve (e.g, decrease interest rate, increase money supply)	0.019	0.009	0.007	0.002	0.069**	−0.062**	−0.071***
	(0.026)	(0.031)	(0.029)	(0.031)	(0.029)	(0.027)	(0.026)
Politicians and political interests	−0.008	−0.036	−0.006	−0.058*	0.043	−0.007	−0.086***
	(0.025)	(0.034)	(0.030)	(0.033)	(0.031)	(0.029)	(0.027)
Households spending more (e.g., because of optimism, because of increases in inflation expectations)	0.050	−0.051	0.039	−0.053	0.086**	0.013	−0.109***
	(0.032)	(0.039)	(0.035)	(0.037)	(0.037)	(0.033)	(0.030)
Actions by firms and businesses (e.g., decrease in competition, increase prices to increase profits)	−0.017	−0.013	−0.006	−0.002	0.162***	0.000	−0.139***
	(0.024)	(0.032)	(0.029)	(0.032)	(0.028)	(0.029)	(0.024)
Increases in costs of production (e.g., supply chain disruptions, increases in oil prices)	0.025	−0.038	−0.048*	−0.051*	0.084***	0.002	−0.112***
	(0.023)	(0.029)	(0.027)	(0.028)	(0.027)	(0.025)	(0.024)
Perceived consequences of inflation							
Cognitive costs (uncertainty & complex budgeting)	0.003	0.069***	0.029***	0.031***	0.069***	0.009	−0.000
	(0.009)	(0.012)	(0.011)	(0.012)	(0.012)	(0.011)	(0.010)
Political & social costs (trust in govt, social cohesion, inequality, lower natl. prestige)	0.030***	0.018	−0.002	0.066***	0.080***	0.019*	−0.001
	(0.010)	(0.013)	(0.012)	(0.013)	(0.012)	(0.011)	(0.011)
Efficiency & economic costs (dollar value, GDP growth, resource misalloc., menu & shoeleather costs, firms daily decisions)	−0.004	0.039***	0.011	0.045***	0.002	−0.025**	0.021*
	(0.010)	(0.013)	(0.012)	(0.013)	(0.012)	(0.012)	(0.011)
Perceived distributional impacts of inflation							
Low income lost more than high income	−0.005	0.055*	−0.040	0.063**	0.173***	0.021	−0.107***
	(0.022)	(0.028)	(0.026)	(0.027)	(0.028)	(0.024)	(0.026)
Knowledge of inflation							
Number of correct answers to conditional correlations	0.032***	−0.022*	0.050***	0.028**	−0.018	0.020**	0.020*
	(0.010)	(0.012)	(0.011)	(0.012)	(0.011)	(0.010)	(0.010)
Perceived trade-offs							
Inflation perceived as by-product of a good economy (e.g., more often in a boom)	0.059***	−0.024**	0.042***	0.039***	0.053***	0.026***	0.005
	(0.009)	(0.011)	(0.010)	(0.011)	(0.010)	(0.009)	(0.009)
Policy needs to reduce economic activity to fight inflation (e.g., reduce growth)	0.001	0.039***	0.066***	0.055***	0.024**	0.065***	0.052***
	(0.009)	(0.011)	(0.010)	(0.011)	(0.010)	(0.010)	(0.010)
Asset exposure							
Net nominal position (in hundreds of thousands)	0.008***	−0.007**	0.000	−0.001	−0.001	−0.001	0.005**
	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)
Observations	2249	2248	2249	2249	2247	2248	2249
Adj. R^2	0.100	0.053	0.099	0.100	0.168	0.071	0.101
$\mathbb{E}$(Dependent variable)	0.180	0.502	0.307	0.456	0.598	0.251	0.238
Dependent variable std. dev.	0.384	0.500	0.461	0.498	0.491	0.434	0.426

Notes: Errors are heteroskedasticity robust. Controls not reported in the regression are: order of the sections (causes first vs. policy views first), order of inflation and unemployment in the conjoint section, assignment to additional information before the conjoint, treatment assignment, gender, age, political affiliation, education, income, employment status, marital status, and having kids. The omitted category for the perceived causes of inflation is "government spending, debt, and taxation". We drop respondents who support both increasing and decreasing interest rates. The sample means are calculated only on the sample of respondents that did not see the video.

* $p < 0.1$.

** $p < 0.05$.

*** $p < 0.01$.

and that it might be increased by policies to reduce unemployment and, to a lesser extent (at the 5% significance level) that inflation is often the sign of a good economy. However, the treatment does not change respondents' beliefs about policy constraints: they are not more likely to believe that it is necessary to reduce unemployment, debt, growth, pr spending to reduce inflation. Thus, while respondents might be more likely to acknowledge inflation as a by-product of positive economic outcomes, they still believe it is possible for policymakers to reduce it without jeopardizing economic activity.[33]

Second-stage effects: Does the treatment shift policy views? The treatment does not significantly shift people's policy views on policies to reduce inflation.[34] This is consistent with the treatment not shifting people's perceptions that policy trade-offs are strictly *necessary* and the strong belief that policy makers should be able to reduce inflation without compromising unemployment or economic activity. Even though the treatment shifts people's perceptions (first-stage effects) of inflation as more of a by-product of a good economy, this shift does not seem strong enough to move policy views.[35] There is a mild decline in support for some

[33] These results are reported in Appendix Figure A21.

[34] See Appendix Figure A22.

[35] In that sense, the correlation documented above between perceptions of inflation as a by-product of positive economic outcomes and stronger support for policies to reduce it seems to be a correlation.

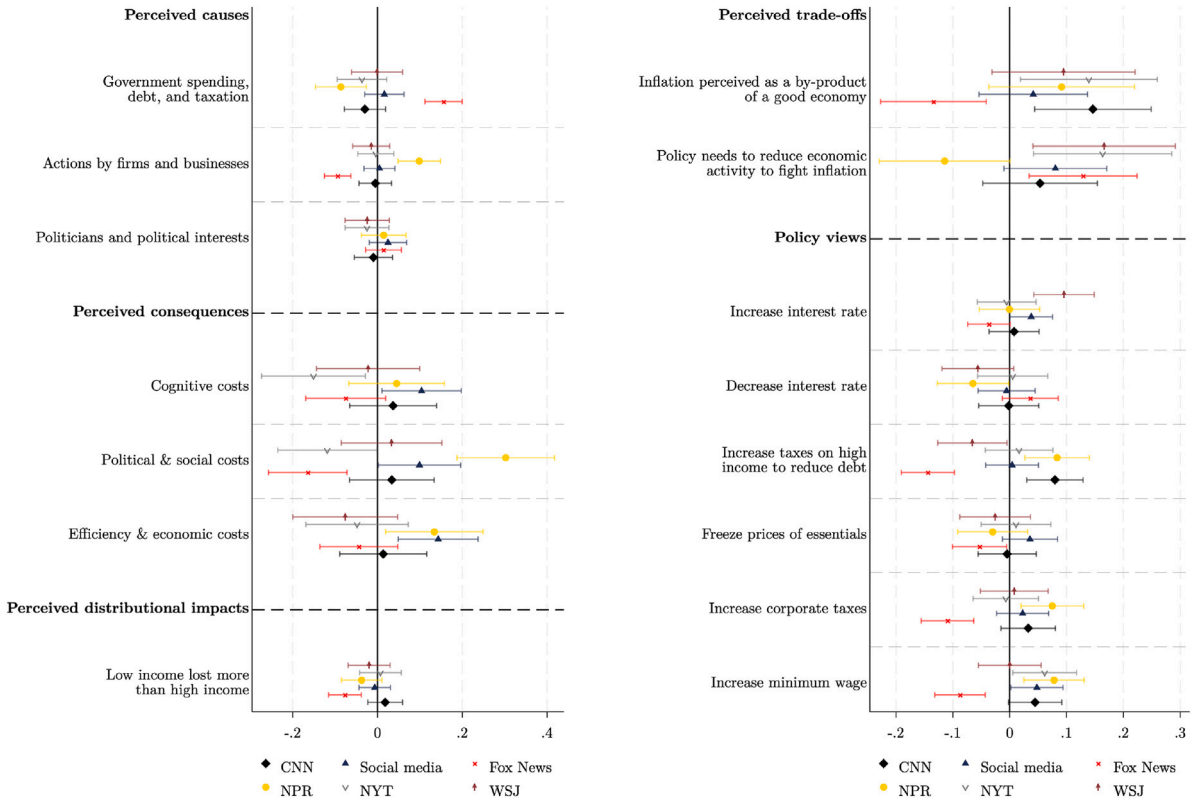


Fig. 11. News, inflation understanding, and policy views. Each dot represents the coefficient of the corresponding news source for the outcome on the corresponding row, alongside 95% confidence intervals. Coefficients for the same outcome are estimated jointly in a regression including demographic controls, treatment indicators, order indicators, and controls for the news sources not listed in the figure.

redistributive policies, which seems consistent with the video shifting respondent's perceptions that inflation can be the by-product of otherwise beneficial policies.

4.4. A summary of the role of news

Throughout the paper, we have emphasized that respondents' news sources are significantly associated with their perceptions of the causes, consequences, trade-offs, and distributional impacts of inflation. These correlations also extend to their policy views. Importantly, these patterns hold even when controlling for a full array of individual demographic characteristics, as shown in Fig. 11. This Section summarizes these results.

Two news sources are most correlated with people's views and beliefs: Fox News and NPR. In most cases, these two sources have opposite effects on people's beliefs. Other sources also play a role, although in a less systematic way. Regarding the perceived causes, Fox News viewers are more likely to blame the government and less likely to blame firms and businesses for inflation, while the exact opposite holds for NPR listeners. NPR listeners are also much more likely to believe in the political and social costs of inflation, while the opposite is true for Fox News viewers. In terms of perceived trade-offs, NPR listeners are less convinced that policymakers need to reduce economic activity to fight inflation. Fox News viewers, on the other hand, are especially less likely to believe that inflation might be a by-product of a good economy. They are also systematically less supportive of policies that have been at the forefront of the public debate, such as increasing taxes on high-income earners, freezing the price of essentials, increasing corporate taxes, or raising the minimum wage. NPR listeners tend to be more supportive of these policies. Interestingly, neither news source (except for the Wall Street Journal) seems to be strongly correlated with people's views on more standard policy actions like increasing or decreasing interest rates.

Overall, these results suggest that people's sources of information may play a significant role in their understanding of macroeconomic phenomena and the related policy issues.

5. Conclusion

In this paper, we explore people's understanding of inflation in the United States using a new large-scale survey. We elicit in detail people's perceptions of the causes, consequences, and distributional impacts of inflation. The main drivers of inflation identified by

respondents are actions by the government, specifically increases in foreign assistance (including for war) and increases in production costs related to the COVID-19 pandemic, oil prices, and supply chain disruptions.

The perceived consequences of inflation are extensive. The most important one according to respondents is the added complexity inflation introduces to household decision-making, making "daily economic decisions more complicated". Other significant perceived impacts include shoeleather costs and increased economic uncertainty for households. Respondents also anticipate adverse distributional impacts of inflation, with lower-income individuals expected to bear more significant losses. We identify substantial partisan gaps in the perceptions of all these aspects of inflation.

Importantly, our findings indicate a lack of perceived trade-offs regarding inflation. Respondents view inflation as an unambiguously bad thing and very rarely as a sign of a good economy or as a by-product of positive developments. They also do not believe that policymakers face trade-offs such as having to reduce economic activity or increase unemployment to control inflation. We conducted an information experiment to explain some potential trade-offs between unemployment, economic activity, and inflation. To some extent it enhanced participants' understanding that inflation can be a by-product of positive economic developments. However, it did not significantly shift perceptions regarding the constraints policymakers face, nor did it influence support for anti-inflationary policy measures.

Moreover, inflation is seen as a high policy priority by respondents. Our conjoint experiment to elicit people's preferences over inflation and unemployment shows that the weight given to inflation by respondents is higher than that assigned to unemployment. Despite the aversion to inflation, there is scant backing for monetary tightening measures. This is consistent with the perceived lack of trade-offs and the belief that policies that reduce economic activity are not necessary to fight inflation. Instead, there is much more support for policies such as increasing corporate taxes or taxing top incomes, which are seen to also provide other benefits. There is also strong support for policies to help vulnerable households cope with inflation, even if those policies might themselves be inflationary.

Transparency declaration

The National Bureau of Economic Research has provided financial sponsorship to make this article open access and had no influence or involvement over the review or approval of any content.

Data availability

Data will be made available on request.

Appendix A. Supplementary data

Supplementary material related to this article can be found online at https://doi.org/10.1016/j.jmoneco.2024.103652.

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