Why do We Dislike Inflation?

Stefanie Stantcheva
(\textit{Harvard})

Brookings Conference, March 28th, 2024
Revisiting a long-standing question

- Lots of changes since the 90s! Have these views changed?
- Goals:
  - Update our understanding of perceptions of inflation using advanced survey methods, covering impacts on consumers, workers, and asset owners.
  - Explore heterogeneity across different groups, made possible with larger samples.
Two surveys to capture a broad spectrum of perspectives

Survey A: Structured (closed-ended) questions:

- Demographics
- Definition of inflation, past inflation, and expectations
- Personal impacts of inflation
  - as a consumer
  - as a worker
  - as an asset holder
  - emotional and psychological
- Personal responses to actual and expected inflation
  - as a consumer, worker, and asset holder
- Policy views
  - Priority of inflation, inflation and politics, inflation and economic outcomes
- Financial information about the household
- Feedback and debrief

Survey B: similar outline, but open-ended questions.
Sample representativeness

<table>
<thead>
<tr>
<th>Targeted quotas</th>
<th>Survey A</th>
<th>Survey B</th>
<th>US population</th>
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<td>Voted for Biden in 2020 presidential election</td>
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<td>Voted for Trump in 2020 presidential election</td>
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<td>Sample size</td>
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</table>
Outline

Understanding, Expectations, and Interest in Inflation

Personal Impacts of and Reactions to inflation

Policy Views
A closer look at definitions of inflation

<table>
<thead>
<tr>
<th>Relatively correct answers (52%)</th>
<th>Relatively incorrect answers(44%)</th>
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<tbody>
<tr>
<td>Inflation is the price of things going up</td>
<td>The hiking of prices of consumer goods to offset the country's debt due to elites over spending and throwing money away.</td>
</tr>
<tr>
<td>I describe inflation as an increase in prices across the country</td>
<td>Inflation is when everything gets so expensive. You can’t afford it no matter how hard you work.</td>
</tr>
<tr>
<td>Inflation is when the price of goods go up based on the economy</td>
<td>Inflation to me is where the cost of living rises above affordable means for the majority of the people.</td>
</tr>
<tr>
<td>Inflation is when the price of things go up overtime. This can be attributed to specific events that cause the rise of pricing.</td>
<td>Price gouging, especially for the greedy, by raising prices so high, that almost everything is too expensive</td>
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<tr>
<td>A rise in the general price of goods</td>
<td>Over priced everything</td>
</tr>
<tr>
<td>Inflation is a rise in prices, which can be translated as the decline of purchasing power over time.</td>
<td>The price of goods keeps increasing but our incomes doesn’t</td>
</tr>
<tr>
<td>the rise of prices for goods and services.</td>
<td>Not being able to afford to live.</td>
</tr>
<tr>
<td>Inflation is the general increase in the prices of goods and services in an economy over a period of time.</td>
<td>To me, inflation is when the economy is more than just hurting. It’s when it’s too tough just to keep positive.</td>
</tr>
<tr>
<td>Inflation is the increase of prices of goods</td>
<td>Increase in demand</td>
</tr>
<tr>
<td>Inflation is the rising cost of prices across multiple industries including food, electronics, and automobiles</td>
<td>Goods and services are priced high. The costs are inflated</td>
</tr>
</tbody>
</table>

- But 85% of respondents are able to “compute” inflation in concrete examples.
- Only 40% agree that inflation is “merely a yardstick” or “measurement thing.”
Past and expected inflation

- High-income respondents perceive lower past & exp. inflation.
- Republican, female, and Black respondents think inflation has been higher in the past and have higher inflation expectations for the coming year.
- Which items have highest inflation: food > gas > rent > utilities.

Demographic correlates
News on Inflation are Interesting Because...

- 80% report paying more attention to inflation now than before and find it important to stay up to date
- Main source of formal news: TV > newspaper > social media > radio
- Recent purchases most informative according to people (< 15% rely on official stats or news)
News on Inflation are Interesting Because...

- Inflation impacts everybody: 44% (Democrat), 42% (Full sample), 42% (Republican)
- It conveys information on prices: 17% (Democrat), 16% (Full sample), 17% (Republican)
- It helps planning: 13% (Democrat), 13% (Full sample), 11% (Republican)
- It relates to current events: 10% (Democrat), 11% (Full sample), 11% (Republican)
- It helps understanding causes: 5% (Democrat), 5% (Full sample), 4% (Republican)
- It helps understanding what should be changed: 3% (Democrat), 4% (Full sample), 5% (Republican)
High Inflation is Caused By...

- Biden and the administration
- Greed
- Monetary policy
- Fiscal policy
- War and foreign policy
- Demand vs supply
- Supply-side mechanisms (other than input prices)
- Input prices
- Energy prices
- Demand-side mechanisms
- People earning higher incomes
- Government debt
- Covid-19

Share of respondents

- Income <$40k
- Full sample
- Income >$125k

Word Cloud
High Inflation is Caused By...

- Biden and the administration: 24%
- Greed: 10%
- Monetary policy: 8%
- Fiscal policy: 9%
- War and foreign policy: 5%
- Demand vs supply: 4%
- Supply-side mechanisms (other than input prices): 4%
- Input prices: 4%
- Energy prices: 4%
- Demand-side mechanisms: 2%
- People earning higher incomes: 1%
- Government debt: 1%
- Covid-19: 1%
Perceived Consequences of High Inflation

If inflation increases too much, I worry about...

Word cloud
If inflation increases too much, I worry about...

- Financial hardship
- A recession
- Social instability
- Problems in affording food
- Problems in affording housing
- Lagging salaries/job losses

Share of respondents

- Democrat
- Full sample
- Republican
Consequences of Inflation: Few positives

A positive impact of inflation is...

- None: 60%
- It forces people to budget: 7%
- It stimulates investments and growth: 8%
- It leads to higher wages: 7%
- It is good for businesses: 4%
- It slows down the economy: 1%
Consequences of Inflation: Few positives

A positive impact of inflation is...

- None
- It forces people to budget
- It stimulates investments and growth
- It leads to higher wages
- It is good for businesses
- It slows down the economy

Share of respondents

- Democrat
- Full sample
- Republican
Perceived social and Political Consequences of Inflation

- Inflation hurts international reputation:
  - Democrat: 69%
  - Full sample: 73%
  - Republican: 77%

- Inflation decreases political stability:
  - Democrat: 66%
  - Full sample: 71%
  - Republican: 78%

- Inflation decreases social cohesion:
  - Democrat: 48%
  - Full sample: 52%
  - Republican: 56%

By income
People believe firms have considerable discretion in setting wages, rather than being compelled by market dynamics.
Wage adjustment in small vs large companies

- Few firms perceived to adjust wages.
- Respondents somewhat more sympathetic to small than large firms.
Outline

Understanding, Expectations, and Interest in Inflation

Personal Impacts of and Reactions to inflation

Policy Views
The most important impact of inflation on my life has been...

- Lower-income respondents more likely to mention necessities.

By political leaning

Word cloud
Inflation impacts as a consumer

- Comparison shopping less of a concern today than in Shiller (1997) – has technology made this easier? Have hassles been reduced overall?
- Lower-income respondents more affected.
- By political leaning
Personal reactions to inflation as a consumer

By political leaning
More reactions among low-income resp.

Personal reactions to inflation in household spending:
- Reduced the quantity of goods purchased
- Delayed the purchase of non-essential goods
- Accelerated the purchase of non-essential goods
- Delayed the purchase of essential goods
- Accelerated the purchase of essential goods
- Shifted shopping towards lower-priced lower-quality goods

Reactions to higher expected inflation:
- Change spending right away if I expect prices to increase
- Change spending close to the time when I expect prices to increase

Change in spending right away:
- Decrease somewhat or a lot
- Increase somewhat or a lot

Change in spending close to the time when prices increase:
- Decrease somewhat or a lot
- Increase somewhat or a lot

By political leaning
Few stockpile or accelerate purchases

By political leaning
Inflation impacts as a worker

- Respondents today more likely to believe wage adjusts within one year (relative to 90s).

By political leaning

Inflation impacts as an asset holder
Personal reactions to inflation as a worker

- Fewer adjustments as workers than as consumers.
- Do not attribute wage increases primarily to inflation; perceive at least some of it is due to job performance (especially if have changed jobs).
Word cloud for “When hearing rising inflation I feel…”
When I went to the store and saw that prices were higher, I felt angry at...
When I went to the store and saw that prices were higher, I felt angry at...
Psychological impacts of inflation: Stress

Psychological impacts of inflation:
- Inflation worsened the outlook on future economic well-being
- Inflation caused stress

Most important cause of stress:
- Being unable to afford essentials
- Paying bills/credit card balance
- Investment losses
- Paying rent
- Cutting down on going out/holidays
- Paying mortgage
- Paying my children tuition

Share of respondents:
- Income <$40k
- Full sample
- Income >$125k

By political leaning
Outline

Understanding, Expectations, and Interest in Inflation

Personal Impacts of and Reactions to inflation

Policy Views
(Lack of) perceived inflation-unemployment trade-off

- By income
- Ranking of social and economic issues
Conclusion: Main Findings (I)

• Inflation not seen as a “yardstick.” but as causing tangible adverse effects.

• Predominant reason for aversion: Wages not keeping up with inflation ⇒ perceived decline in living standards.

• Amplified by belief that wage raises are not adjustments for inflation (instead due to job performance, especially for job switchers).

• Respondents report making costly adjustments, especially along consumption margin.

• Effects most pronounced among lower-income respondents.

• Inequality effects: Perception that wages of higher-income people grow faster than others’.

• Stress and emotional responses.
Conclusion: Main Findings (II)

- Why do wages lag behind prices? People believe employers have substantial discretion rather than being subject to market forces.
- Government and businesses ("Greed") blamed for inflation; responses split along partisan lines.
- Few perceived positive impacts of inflation. Inflation linked to negative economic & political outcomes. The "tradeoffs" economists perceive are not salient (to be continued..)
- Despite economic changes & improved survey methodology, Shiller’s core conclusions remain relevant, with new insights on adjustments, emotions, and political polarization.
THANK YOU!

SOCIAL ECONOMICS LAB
APPENDIX
Perceived social and political consequences of inflation, by income.
Theories about inflation and wages, By political affiliation

- Inflation will increase my employer profits, but she will not feel the need to increase my pay
  - Democrats: 48%, Republicans: 51%, Full sample: 52%

- Inflation increases competition across companies, which could lead my employer to raise my wage to match other offers
  - Democrats: 36%, Republicans: 31%, Full sample: 30%

- A sense of fairness and proper behavior will cause my employer to raise my pay
  - Democrats: 16%, Republicans: 18%, Full sample: 19%
Inflation impacts as a consumer, By political affiliation

- Purchasing power has decreased
  - Democrats: 73%
  - Full sample: 67%
  - Republicans: 78%

- Shrinkflation has become more widespread
  - Democrats: 70%
  - Full sample: 64%
  - Republicans: 75%

- Quality of goods purchased has decreased
  - Democrats: 57%
  - Full sample: 48%
  - Republicans: 54%

- Comparison shopping has become harder
  - Democrats: 30%
  - Full sample: 29%
  - Republicans: 30%

- Even if salaries and prices increased at the same rate, purchasing power would decrease
  - Democrats: 21%
  - Full sample: 17%
  - Republicans: 16%

(Chart showing survey results with share of respondents for each category.)
Personal reactions to inflation as a consumer, By political affiliation
Inflation impacts as a worker, By political affiliation

If inflation doubled, how long until your wage doubles?
- Less than 7 months: Democrat 13%, Full sample 21%, Republican 32%
- Between 7 months and 1 year: Democrat 28%, Full sample 29%, Republican 27%
- More than 1 year: Democrat 51%, Full sample 41%, Republican 59%

Work impacts of inflation
- Very concerned about future employment and earnings: Democrat 40%, Full sample 38%, Republican 37%
- If inflation had been lower, my income would be higher: Democrat 40%, Full sample 38%, Republican 37%
- If my wage increased but prices increased just as much, my job satisfaction would be lower: Democrat 33%, Full sample 33%, Republican 28%

Rate of wage increases
- Prices increase faster than wages: Democrat 85%, Full sample 81%, Republican 79%
- Wages of higher income people are rising more quickly than mine: Democrat 64%, Full sample 67%, Republican 70%
- Wages of other people are rising more quickly than mine: Democrat 34%, Full sample 33%, Republican 35%
Personal reactions to inflation as a worker, By political affiliation

- Job changes
  - Looked for an additional job due to inflation: 45% Democrat, 47% Full sample, 48% Republican
  - Found an additional job due to inflation: 19% Democrat, 20% Full sample, 20% Republican
  - Switched to a higher paying job due to inflation: 7% Democrat, 9% Full sample, 8% Republican
  - Increased hours worked due to inflation: 35% Democrat, 36% Full sample, 38% Republican

- Wage increases
  - Asked for a wage increase due to inflation: 23% Democrat, 25% Full sample, 27% Republican
  - Received wage increase they asked: 11% Democrat, 12% Full sample, 16% Republican
  - Received wage increase regardless of asking: 48% Democrat, 48% Full sample, 50% Republican
  - Wage increase primarily due to job performance: 18% Democrat, 20% Full sample, 22% Republican
  - Wage increase primarily due to inflation: 10% Democrat, 9% Full sample, 8% Republican

Share of respondents

- Democrat
- Full sample
- Republican
Inflation impacts as an asset holder, By political affiliation

- Inflation made repaying debts/loans harder than before:
  - Democrat: 52%
  - Full sample: 47%
  - Republican: 57%

- Inflation decreased the value of my savings:
  - Democrat: 39%
  - Full sample: 46%
  - Republican: 54%

- Inflation increased the real value of my debt:
  - Democrat: 36%
  - Full sample: 39%
  - Republican: 44%

- Inflation decreased the value of my financial assets:
  - Democrat: 29%
  - Full sample: 34%
  - Republican: 42%
Personal reactions to inflation as an asset holder, By political affiliation
Inflation psychological impacts, By political affiliation

Psychological impacts of inflation:
- Inflation worsened the outlook on future economic well-being: 68% Democrat, 70% Full sample, 82% Republican
- Inflation caused stress: 66% Democrat, 70% Full sample, 77% Republican

Most important cause of stress:
- Being unable to afford essentials: 22% Democrat, 30% Full sample, 32% Republican
- Paying bills/credit card balance: 17% Democrat, 18% Full sample, 21% Republican
- Investment losses: 16% Democrat, 18% Full sample, 20% Republican
- Paying rent: 13% Democrat, 16% Full sample, 16% Republican
- Cutting down on going out/holidays: 8% Democrat, 8% Full sample, 10% Republican
- Paying mortgage: 7% Democrat, 7% Full sample, 7% Republican
- Paying my children tuition: 4% Democrat, 4% Full sample, 6% Republican
The inflation versus unemployment trade-off, By income

Inflation and unemployment:
- Inflation and unemployment are related
- Inflation and unemployment are negatively related

Policy preferences:
- Low inflation at all costs
- Priority to inflation, but mindful of unemployment
- Equal priority
- Priority to unemployment, but mindful of inflation
- Low unemployment at all costs

Inflation and the economy:
- Inflation indicates a poor state of the economy
- Inflation decreases exports
The most important impact of inflation on my life has been...
Inflation impacts as an asset holder

- Inflation made repaying debts/loans harder than before
  - Income <$40k: 37%
  - Full sample: 52%
  - Income >$125k: 57%

- Inflation decreased the value of my savings
  - Income <$40k: 39%
  - Full sample: 46%
  - Income >$125k: 43%

- Inflation increased the real value of my debt
  - Income <$40k: 32%
  - Full sample: 39%
  - Income >$125k: 44%

- Inflation decreased the value of my financial assets
  - Income <$40k: 29%
  - Full sample: 34%
  - Income >$125k: 33%
Personal reactions to inflation as an asset holder

- More difficult to repay regular bills
- Saved less
- Saved less in cash
- Repaid loans slower
- Borrowed more
- Sold financial assets
- Switched to variable rate mortgage
- Switched to fixed rate mortgage

By political leaning

Back
When hearing rising inflation I feel...

By income

- Neutral
- Nervousness
- Sadness
- Fear
- Annoyance
- Anger
- Caring
- Disappointment
- Admiration

Share of respondents

- Income <$40k
- Full sample
- Income >$125k
Ranking of social and economic issues

Economic issues:
- Inflation
- Financial stability
- Economic growth
- Low unemployment
- National defense

Social issues:
- Inflation
- Healthcare
- Civil rights
- Education
- Gun rights
- Abortion

Share of respondents

- Democrat
- Full sample
- Republican

By income

Back
Word cloud for “High inflation is caused by... [open-ended text]”
Word cloud for “If inflation increases too much, I worry about... [open-ended text]”
Word cloud for “The most important impact of inflation on my life has been... [open-ended text]”
Word cloud for “When I went to the store and saw that prices were higher, I felt angry at... [open-ended text]”
Correlates of past and expected inflation

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<th>Dependent variable:</th>
<th>Perceived inflation</th>
<th>Expected inflation</th>
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<td>1.805**</td>
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<tr>
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<td>(1.855)</td>
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<td>Age 50-69</td>
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<td>(1.449)</td>
<td>(1.326)</td>
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<td>Black</td>
<td>3.291*</td>
<td>4.796***</td>
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<td>(4.882)</td>
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<td>Middle-income</td>
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<td>High-income</td>
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<td>Working</td>
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<td>Student</td>
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<td>-4.555**</td>
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<td>(1.944)</td>
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<td>Retiree</td>
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<td>(1.264)</td>
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<td>-1.777*</td>
<td>-1.230</td>
</tr>
<tr>
<td>(1.057)</td>
<td>(1.047)</td>
<td></td>
</tr>
<tr>
<td>Has children</td>
<td>0.485</td>
<td>0.581</td>
</tr>
<tr>
<td>(1.111)</td>
<td>(1.109)</td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>0.689</td>
<td>0.488</td>
</tr>
<tr>
<td>(1.289)</td>
<td>(1.208)</td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>1.601</td>
<td>1.703</td>
</tr>
<tr>
<td>(1.625)</td>
<td>(1.605)</td>
<td></td>
</tr>
<tr>
<td>Midwest</td>
<td>0.436</td>
<td>0.107</td>
</tr>
<tr>
<td>(1.177)</td>
<td>(1.162)</td>
<td></td>
</tr>
<tr>
<td>4-year college</td>
<td>-0.965</td>
<td>-1.133</td>
</tr>
<tr>
<td>(1.225)</td>
<td>(1.108)</td>
<td></td>
</tr>
<tr>
<td>Republican</td>
<td>2.706***</td>
<td>3.098***</td>
</tr>
<tr>
<td>(0.848)</td>
<td>(0.893)</td>
<td></td>
</tr>
<tr>
<td>Independent and Others</td>
<td>3.384***</td>
<td>3.236***</td>
</tr>
<tr>
<td>(1.207)</td>
<td>(1.157)</td>
<td></td>
</tr>
</tbody>
</table>

Observations 1498
Adj. R\(^2\) 0.025
Dependent variable mean 10.193 8.442
Dependent variable std. dev. 18.850 18.622
### Understanding and importance of inflation

<table>
<thead>
<tr>
<th>Understanding of inflation</th>
<th>Share of respondents giving each answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correct future price given inflation rate</td>
<td>0.85</td>
</tr>
<tr>
<td>Correct inflation rate given future price</td>
<td>0.82</td>
</tr>
<tr>
<td>Agree with the definition of inflation as a 'sort of measurement thing and little more'</td>
<td>0.40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Over the last 12 months</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>0.92</td>
</tr>
<tr>
<td>Deflation</td>
<td>0.04</td>
</tr>
<tr>
<td>No change in prices</td>
<td>0.04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Over the next 12 months</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>0.72</td>
</tr>
<tr>
<td>Deflation</td>
<td>0.09</td>
</tr>
<tr>
<td>No change in prices</td>
<td>0.19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items which experienced the most substantial inflation in past 12 months</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>0.59</td>
</tr>
<tr>
<td>Gas</td>
<td>0.19</td>
</tr>
<tr>
<td>Rent</td>
<td>0.15</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.06</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main source of news about inflation</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Media</td>
<td>0.47</td>
</tr>
<tr>
<td>Newspapers</td>
<td>0.62</td>
</tr>
<tr>
<td>Television</td>
<td>0.76</td>
</tr>
<tr>
<td>Radio</td>
<td>0.37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Most influential source when thinking about future inflation</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>News reports</td>
<td>0.13</td>
</tr>
<tr>
<td>Official statistics</td>
<td>0.20</td>
</tr>
<tr>
<td>Recent price changes of my purchases</td>
<td>0.65</td>
</tr>
<tr>
<td>Advice from friends and family</td>
<td>0.02</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attention for inflation updates</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find important staying up to date on current and future inflation</td>
<td>0.71</td>
</tr>
<tr>
<td>Increased attention towards inflation in last two years</td>
<td>0.82</td>
</tr>
</tbody>
</table>

| Sample size                                                        | 1500  |