

Big News for Little People Lamla and Vinogradov

Discussion by Carola Binder
Annual Research Conference of the National Bank of Ukraine

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Identification Strategy and Key Results

New series of surveys with precisely-chosen timing:

- ▶ Waves occurring two days before and one day after each of 12 FOMC announcement events.

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“While announcement events have little measurable direct effect on average beliefs, they make people more likely to receive news about the central bank’s policy.”

In this discussion...

$$N = \alpha_0 + \alpha_1 A + e \quad (1)$$

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$$y = \beta_0 + \beta_1 N + \beta_2 A + \beta_3 N * A + \epsilon \quad (3)$$

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- 1 Announcement events and effects on news (Equation 1)
- 2 Effects on expectations, perceptions, and confidence
 - ▶ “Irrelevance result” (Equation 2)
 - ▶ Interpreting Equation 3 estimates (identification)
 - ▶ Types of signals sent by central bank and media

News Coverage and Survey Timing

Estimates: $N = \alpha_0 + \alpha_1 A = 0.28 + 0.09A$

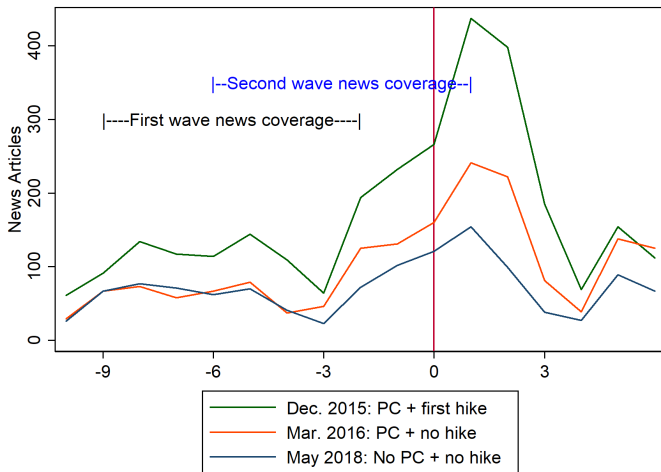
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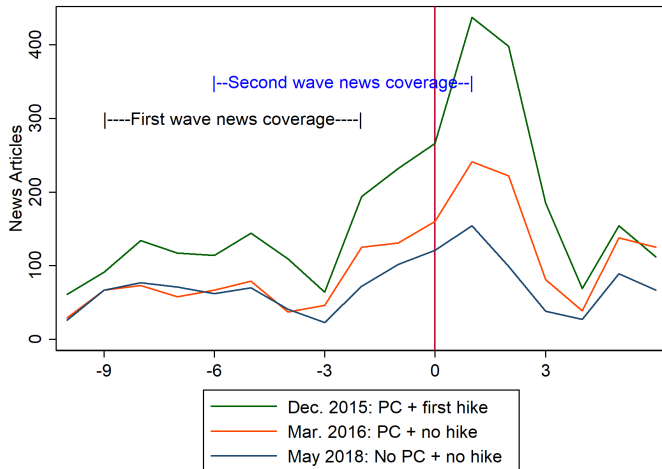
Q14. **During the last week**, have you heard any news about the monetary policy of the Federal Reserve (Fed)? What did you hear?



News Coverage around Three Meetings

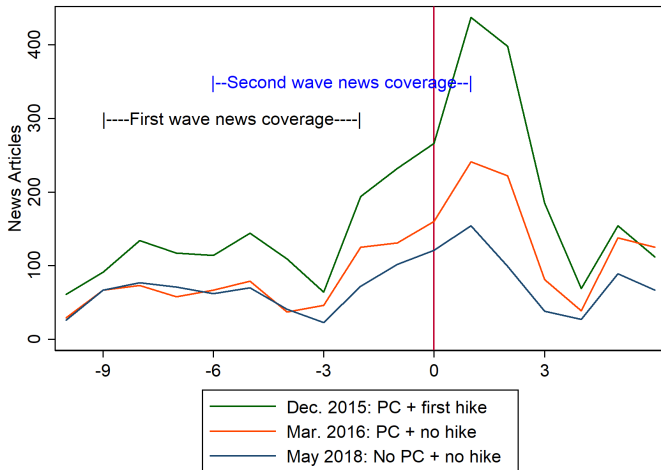


News Coverage around Three Meetings



1. Potentially *underestimating* effect of announcement on news.

News Coverage around Three Meetings



2. Heterogeneity of announcement events...

What's in an "Announcement Event"?

12 survey waves from December 2015-June 2018

- ▶ 4: statement + press conf + SEP + no rate change
- ▶ 7: statement + press conf + SEP + rate hike
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$$\alpha_1 > 0, \alpha_2 < 0, \alpha_3 < 0$$

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"Holding a press conference has a remarkable added value: almost all of the positive effect of announcements on news exposure stems from press conferences."

- ▶ Consistent with Binder (2017).
- ▶ But cannot disentangle effects of press conference from SEP.
- ▶ Since 2011, FOMC has announced major policy changes at meetings with press conferences, so markets and press "effectively overlook non-press conference meetings."
(Business Insider, November 8, 2017)

Irrelevance of Announcements for Expectations

Prop. 1 says that a policy announcement has no effect on average expectations if and only if one of the following:

(i) $a(1) = a(0) = 0$,

(ii) $a(1) = a(0) > 0$ and $i^{e,a}(1) = i^{e,a}(0)$, or

(iii) $a(1) \neq a(0)$ and $i^{e,u}(0) = i^{e,a}(0) = i^{e,a}(1)$, or

(iv) $a(0) = a(1) \cdot \frac{i^{e,a}(1) - i^{e,u}(0)}{i^{e,a}(0) - i^{e,u}(0)}$, or/and $a(1) = a(0) \cdot \frac{i^{e,a}(0) - i^{e,u}(0)}{i^{e,a}(1) - i^{e,u}(0)}$.

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$$y = c_0 + c_1 A + \nu : \quad c_1 \approx 0 \Rightarrow \text{One of (i)-(iv) should hold.}$$

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So (iii), (iv), or type II error?

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Combining (1) and (3):

$$y = (\beta_0 + \beta_1 \alpha_0) + (\beta_1 \alpha_1 + \beta_2 + \beta_3 (\alpha_0 + \alpha_1)) A + (\beta_1 e + \beta_3 e + \epsilon),$$

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Identification assumption for (1) and (2) does not apply in (3)...

Toy Model + Simulation

- ▶ Constant share λ of consumers are “receptive” (or WSJ subscribers), others “non-receptive.”
- ▶ Probability (P_t^r) that a receptive consumer hears news about the Fed at time t is directly proportional to the volume (V_t) of news coverage about the Fed at time t : $P_t^r = p_r V_t$.
- ▶ For non-receptive, $P_t^n = p_n V_t$, where $p_n < p_r$.
- ▶ Announcements increase news coverage: $V_t = 1$ when $A_t = 0$.
 $V_t = V > 1$ when $A_t = 1$.
- ▶ Announcements *do not* affect expectations. For receptive: $y \sim N(\mu^r, s^r)$. For non-receptive, $y \sim N(\mu^n, s^n)$.
- ▶ I simulate with $\lambda = 0.5$, $V = 3$, $p_r = 0.4$, $p_n = 0.05$, $\mu_r = 4$, $\mu_n = 8$, and $s_r = s_n = 2$.

Toy Model + Simulation

	(1)	(2)	(3)	(4)	(5)
	N	y	y	y	y
A	0.43*** (0.05)	0.04 (0.31)		1.32*** (0.28)	1.80*** (0.34)
N			-2.37*** (0.29)	-2.97*** (0.28)	-2.08*** (0.44)
A_N					-1.42** (0.56)
Constant	0.17*** (0.03)	5.99*** (0.21)	6.94*** (0.18)	6.51*** (0.21)	6.36*** (0.23)
N	320	320	320	320	320
R^2	0.20	0.00	0.17	0.22	0.23

Interpretations

- ▶ Regressions on N may not reflect causal relationships.
- ▶ Based on regressions on A only, announcements do not have a detectable effect on:
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 - ▶ Consumption and investment? (not reported)

Confidence and Pessimism

In the model, before meeting, media reports K independent, equally-informed, rational experts' views:

- ▶ “Pessimistic weighting” leads to upward bias in expectations.
- ▶ “...The resulting multiplicity of reported opinions makes beliefs formed from expert opinions less precise than those based on a single precise signal from the Central bank...It follows that if there are at least two different expert opinions, the belief of the informed public before the announcement is less precise than after the announcement.”

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Comments:

- ▶ Upward bias too large to result from weighting scheme?
- ▶ Noisy (i.i.d.) signals from 2 experts implies less precision than noisy signal from one expert?
- ▶ Does CB signal really add precision?

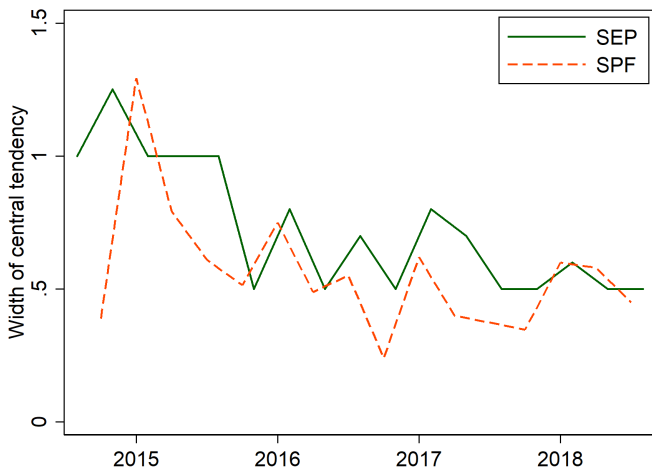
Central Bank Signal

- ▶ Faust (2016): FOMC uses both *collective* and *decentralized* communication tools.
 - ▶ Latter may be counterproductive.
 - ▶ “...little potential to do more than generate nagging questions regarding how folks with these [disperse] views could possibly arrive at a nearly unanimous policy decision each meeting.”
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- ▶ "The 7-3 vote to keep the benchmark federal funds rate steady at between 0.25 percent and 0.5 percent showed growing divisions within the Federal Open Market Committee about whether the economy is strong enough to handle a small increase." (San Diego Union Tribune, September 22, 2016)

Disagreement about Interest Rate in Next Calendar Year



For SEP, central tendency excludes 3 highest and 3 lowest projections. For SPF, central tendency is 18th to 82nd percentile. SPF forecasts for 3-month T-Bill rate.

Other Suggestions

- ▶ Regress outcomes of interest (including consumption and investment variables) on A and interactions of A with meeting-specific or consumer-specific characteristics.
- ▶ Use responses to “what did you hear?” part of news question.
- ▶ Amazingly rich new dataset!