

The Long-term Effects of Inflation on Inflation Expectations

Abstract

We study the long-term effects of inflation surges on inflation expectations using Germany as a laboratory. Households in areas with higher local inflation during the hyperinflation of the 1920s expect higher inflation today, despite similar current inflation and after controlling for confounders. The experience is transmitted from parents to children and through collective memory. Historical inflation also affects how households update expectations to current inflation, respond to economic policies affecting inflation, and make financial decisions. We find similar results for Polish households in formerly German areas. Our results suggest that inflationary shocks have a long-lasting impact on attitudes towards inflation.

This paper is joint work with Felix von Meyerinck, Nic Schaub and Michael Weber.

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