

# **On the external validity of experimental inflation forecasts**

*A comparison with five categories of field expectations*

Camille Cornand

Paul Hubert

---

**SCIENCES PO OFCE WORKING PAPER n° 03/2019**

---



# SciencesPo

## EDITORIAL BOARD

**Chair:** Xavier Ragot (Sciences Po, OFCE)

**Members:** Jérôme Creel (Sciences Po, OFCE), Eric Heyer (Sciences Po, OFCE), Lionel Nesta (Université Nice Sophia Antipolis), Xavier Timbeau (Sciences Po, OFCE)

## CONTACT US

OFCE  
10 place de Catalogne | 75014 Paris | France  
Tél. +33 1 44 18 54 87

[www.ofce.fr](http://www.ofce.fr)

## WORKING PAPER CITATION

This Working Paper:

Camille Cornand et Paul Hubert

**On the external validity of experimental inflation forecasts: A comparison with five categories of field expectations**

*Sciences Po OFCE Working Paper*, n° 03

Downloaded from URL : [www.ofce.sciences-po.fr/pdf/dtravail/OFCEWPP2019-03.pdf](http://www.ofce.sciences-po.fr/pdf/dtravail/OFCEWPP2019-03.pdf)  
DOI - ISSN

© 2019 OFCE

### ABOUT THE AUTHOR

**Camille Cornand** Univ Lyon, CNRS, GATE  
Email Address: [cornand@gate.cnrs.fr](mailto:cornand@gate.cnrs.fr)

**Paul Hubert** OFCE, Sciences Po, Paris\*  
Email Address: [paul.hubert@sciencespo.fr](mailto:paul.hubert@sciencespo.fr)

### ABSTRACT

Establishing the external validity of experimental inflation forecasts is essential if laboratory experiments are to be used as decision-making tools for monetary policy. Our contribution is to document whether different measures of inflation expectations, based on various categories of agents (participants in experiments, households, industry forecasters, professional forecasters, financial market participants and central bankers), share common patterns. We do so by analysing the forecasting performance of these different categories of data, their deviations from full information rational expectations, and the variables that enter the determination of these expectations. Overall, the different categories of forecasts exhibit common features: forecast errors are comparably large and autocorrelated, and forecast errors and forecast revisions are predictable from past information, suggesting the presence of some form of bounded rationality or information imperfections. Finally, lagged inflation positively affects the determination of inflation expectations. While experimental forecasts are relatively comparable to survey and financial market data, more heterogeneity is observed compared to central bank forecasts.

### KEY WORDS

Inflation expectations, experimental forecasts, survey forecasts, market-based forecasts, central bank forecasts

### JEL

E3, E5, E7

\* We would like to thank Klaus Adam, Cars Hommes, Domenico Massaro, Damjan Pfajfar, Matthias Weber and Blaz Žakelj for sharing their experimental data. We also thank Christophe Blot and Pauline Gandré for detailed feedbacks, two anonymous referees and participants to the 2018 BEAM-ABEE workshop, in particular John Duffy, Cars Hommes, Simas Kucinskas, Tomasz Makarewicz, and Baptiste Massenet for valuable comments. This research was performed within the framework of the LABEX CORTEX (ANR-11-LABX-0042) of Université de Lyon, within the program "Investissements d'Avenir" (ANR-11-IDEX-007) operated by the French National Research Agency (ANR).



## ABOUT OFCE

---

The Paris-based Observatoire français des conjonctures économiques (OFCE), or French Economic Observatory is an independent and publicly-funded centre whose activities focus on economic research, forecasting and the evaluation of public policy.

Its 1981 founding charter established it as part of the French Fondation nationale des sciences politiques (Sciences Po), and gave it the mission is to “ensure that the fruits of scientific rigour and academic independence serve the public debate about the economy”. The OFCE fulfils this mission by conducting theoretical and empirical studies, taking part in international scientific networks, and assuring a regular presence in the media through close cooperation with the French and European public authorities. The work of the OFCE covers most fields of economic analysis, from macroeconomics, growth, social welfare programmes, taxation and employment policy to sustainable development, competition, innovation and regulatory affairs.

## ABOUT SCIENCES PO

---

Sciences Po is an institution of higher education and research in the humanities and social sciences. Its work in law, economics, history, political science and sociology is pursued through [ten research units](#) and several crosscutting programmes.

Its research community includes over [two hundred twenty members](#) and [three hundred fifty PhD candidates](#). Recognized internationally, their work covers [a wide range of topics](#) including education, democracies, urban development, globalization and public health.

One of Sciences Po’s key objectives is to make a significant contribution to methodological, epistemological and theoretical advances in the humanities and social sciences. Sciences Po’s mission is also to share the results of its research with the international research community, students, and more broadly, society as a whole.

## PARTNERSHIP

---