

# WHY DO WE DISLIKE INFLATION?

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Discussion by  
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# BENEFITS AND (NON-)COSTS OF INFLATION

Textbook (Mankiw, Blanchard, etc.)

Costs

- Price dispersion

- Menu costs

- Shoeleather cost

- Unfair tax treatment

- General inconvenience

- Arbitrary redistribution

Misperceptions (non-costs)

- Inflation reduces real wage

Benefits

- Inflation reduces unemployment

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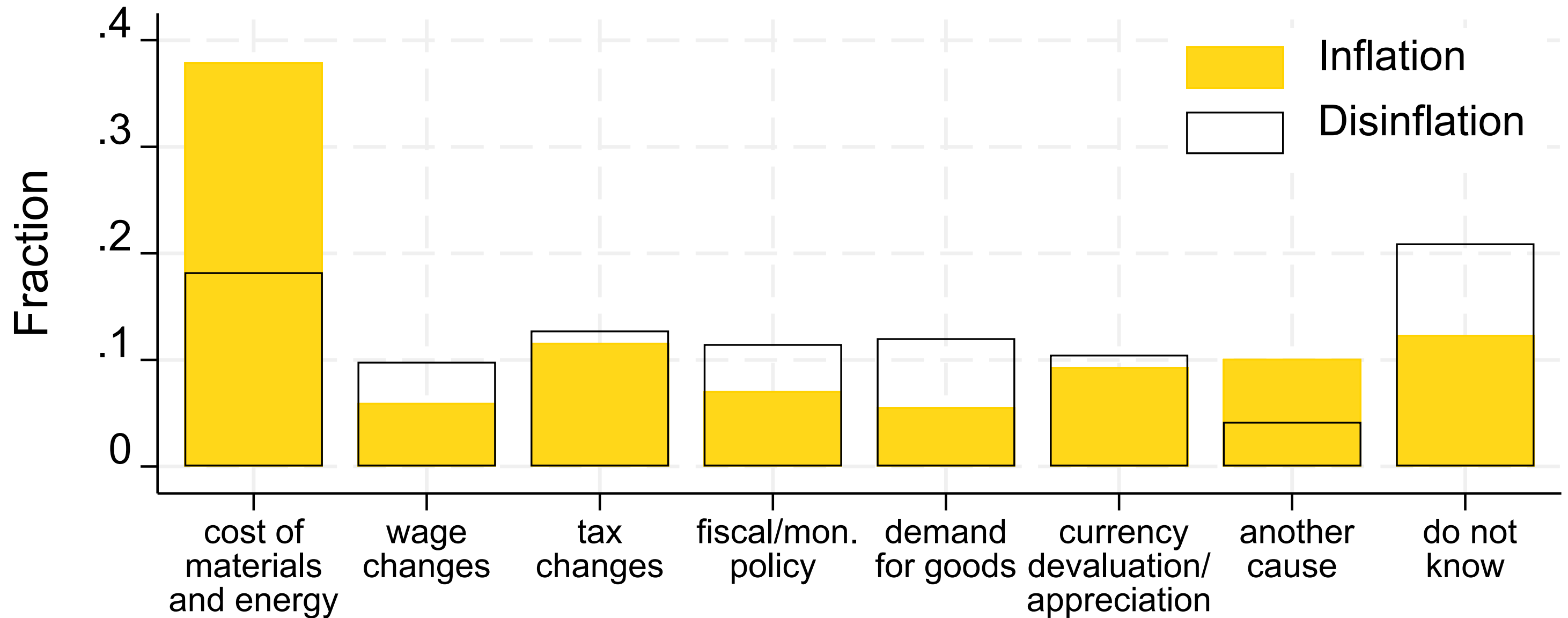




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Panel A: Reasons for inflation/disinflation



Source: Salle et al. (2023)



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- Politics strongly colors the interpretation
  - Opposition blames the government

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Elon Musk (October 20, 2022): “There's more deflation than inflation.”

CPI inflation in October 2022 (according to the BLS): 7.8%



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Managers in New Zealand: Source for inflation expectations	Importance of information source (5= extremely important; 1 = not important)	
	Average score	Share of “extremely” and “very important”
Family and friends	2.12	0.06
Employees & colleagues	1.88	0.08
Customers & suppliers	1.68	0.04
<b>Gas prices</b>	<b>4.14</b>	<b>0.76</b>
<b>Personal shopping experience</b>	<b>4.42</b>	<b>0.88</b>
<b>Government agencies</b>	<b>1.74</b>	<b>0.00</b>
Business associations	1.82	0.00
Media	3.54	0.54
Professional forecasts	2.42	0.20

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Source: Kumar et al. (2015)

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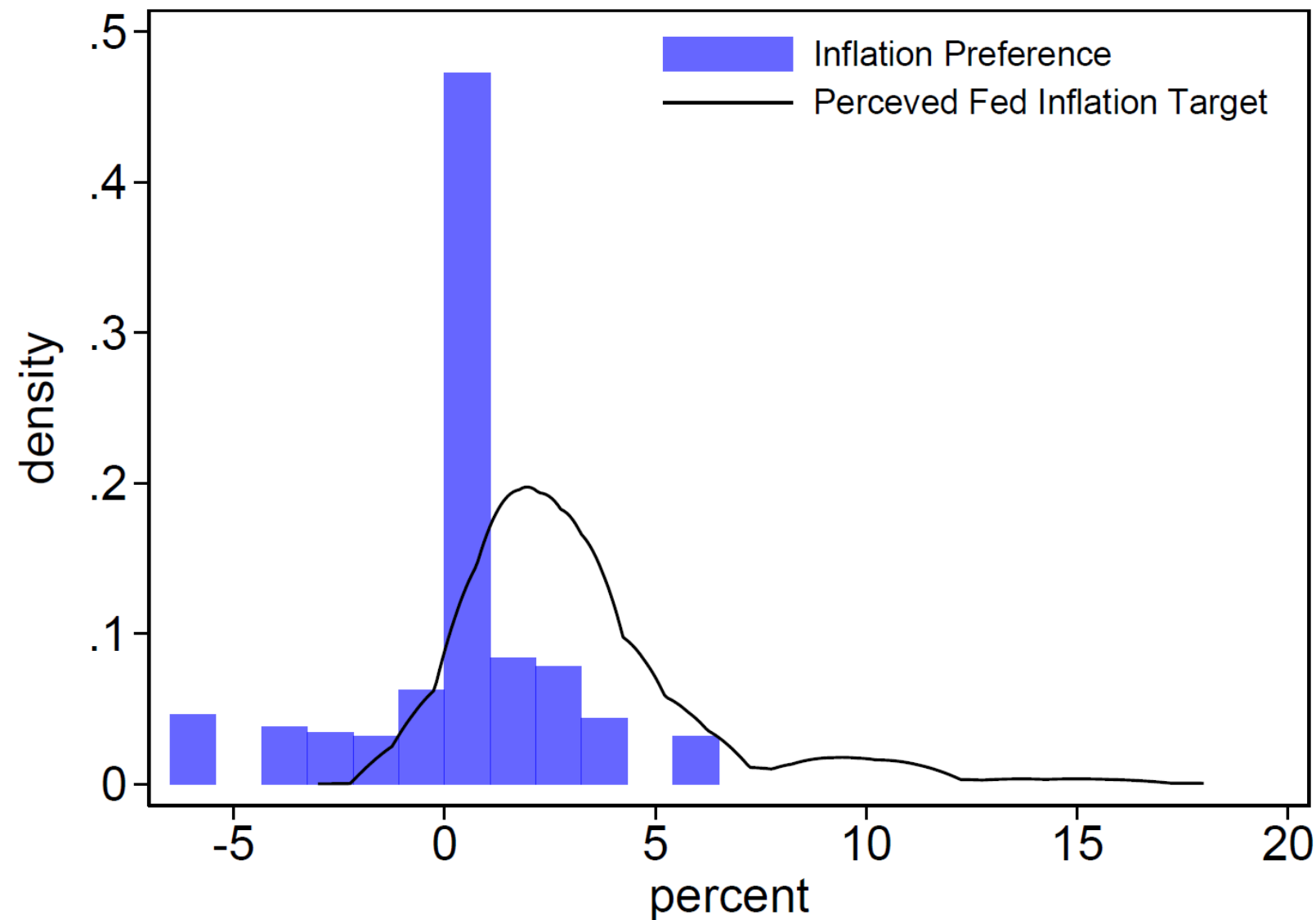
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## Desired inflation target

Source: Afrouzi, Dietrich, Myrseth, Priftis and Schoenle (2024)

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- Some policies rely on strong general equilibrium effects and sophistication
  - Price level targeting works when agents can iterate forward
  - **People have low level- $k$  thinking**

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**Terrific paper!**