Comments on: “Human frictions in the transmission of economic policy”

by Francesco D’Acunto, Daniel Hoang, Maritta Paloviita, and Michael Weber

50th Konstanzer Seminar

June 5, 2019

Nathanael Vellekoop

Goethe University Frankfurt and SAFE

Summary of the paper

- Link measures of IQ of Finnish men to:
  - Measures of “readiness to spend” and “propensity to borrow” (survey)
  - Changes in debt holdings (registry)

- Finding #1: On average no relationship between inflation expectations and readiness to spend...

  ... but masks considerable heterogeneity by IQ

- Finding #2: High IQ men are much more responsive to the economic environment in terms of debt and spending attitudes, and actual borrowing behavior

Contribution: Heterogeneity that matters

- “Vintages” in micro heterogeneity
  1. Risk and time preferences
  2. Trust
  3. Personality and IQ

- **Implications for theory** Representative agent / aggregation

- **Implications for policy** Should policy makers aim to tailor and target communication to particular subgroups?

A. Measure of IQ

- Men at the age of 19-20
- Use the standardized scores of a composite:
  - Visuospatial
  - Mathematical
  - Verbal cognitive

- **Question** Are the shares of these three in the total constant over the distribution?

  Any idea whether one in particular drives the results?

- **Suggestion** IQ declines with age, but can be (partially) offset by experience

  => Interaction between IQ and age

A. Measure of IQ (2)

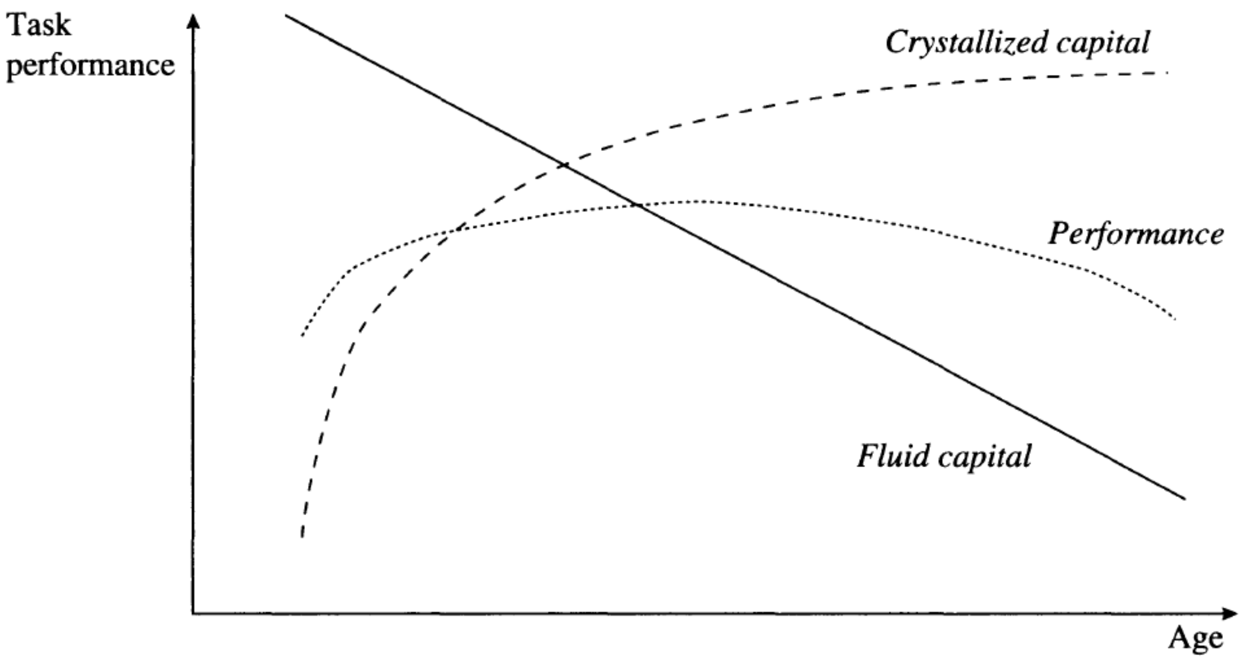

Figure 3 in Agarwal, Driscoll, Gabaix and Laibson (2009) Age of reason: Financial decisions over the life cycle and implications for regulation, *Brookings Papers on Economic Activity*

B. Interactions

- **Thought 1** *No IQ data on women*
- Can lower IQ be compensated by marrying right?

  (What do we know about assortative mating on IQ?)
  - Could look at couples versus singles.
  - Could slice by education of spouse.

- **Thought 2** Scope for strategic complementarities?

- Thought 1 would potentially *decrease* the impact of low IQ on poor decision making, 2 might *exacerbate* it

- There might be more action in the higher moments i.e. (very) differential responses to uncertainty / panics

C. Welfare

- **Thought 3** How costly is not responding to policy?

  Concept of near-rationality => individual utility losses are small + do not wash out in the aggregate

  Akerlof & Yellen, QJE 1985; Kueng, QJE 2018

- Caballero (JMCB 1995) calibrates a heterogeneous agents model where:
  - Some agents follow the PIH, and update continuously
  - Other agents are near-rational and update infrequently

- Estimated costs of not updating are small ($\approx 0.03\gamma$ percent of PIH consumption, γ is coefficient of relative risk aversion)

Thanks for the opportunity to discuss an interesting paper!