Comments on: “Human frictions in the transmission of economic policy”
by Francesco D’Acunto, Daniel Hoang, Maritta Paloviita, and Michael Weber
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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 (≈0.03γ percent of PIH consumption, γ is coefficient of relative risk aversion)
Thanks for the opportunity to discuss an interesting paper!