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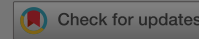
Research Articles

Inflation expectations of households: do they influence wage-price dynamics in India?

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ABSTRACT

This paper examines the usefulness of survey-based measures of inflation expectations to predict inflation using hybrid versions of New Keynesian Phillips Curve (NKPC). While both 3 months ahead and 1-year ahead inflation expectations of households emerge

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Supplementary material

Supplemented data of this article can be accessed [here](#).

Notes

1. Expectations induced wage-price spiral requires a tight labour market condition. Along with high inflation expectations as per the household survey, one should also look at household survey results on the outlook for income and employment and actual wage/compensation growth data to assess risks to inflation from high inflation expectations (Meyer [2011](#)).
2. In empirical estimates when the output gap coefficient is insignificant, that could reflect either output gap is a poor proxy of marginal cost (because only under certain restrictions on technology and labour market structure that output gap could be a proxy of marginal cost) or incorrect measurement of output gap. In pure versions of NKPC, with no role for backward looking expectations or intrinsic inflation inertia, current inflation is essentially discounted future marginal costs, i.e. prices are set by firms on assessment of future demand and cost conditions, and if monetary policy can credibly commit to keep output gap zero in future, disinflation without sacrifice of output is possible.
3. Sharm... inflation (for the sam... and CPI-C... (for the... onality of... household...)
4. Acc... in September 2005, ar... collected from fou... n (3 months ahead a... 0th round in Decemb... uld have



taken some time to stabilize, it may be appropriate to use these data after 2008 for drawing relevant empirical inferences.

5. Monetary Policy Report, RBI, April 2019.

6. In India, unlike household inflation expectations (assumed as expectations of employees) which have remained persistently higher than actual inflation, inflation expectations of professional forecasters (whose analysis may matter to firms for their investment and pricing decisions) are closer to the inflation trajectory projected by the RBI and importantly, inflation expectations of firms (as per the Business Inflation Expectations Survey of IIM, Ahmedabad) are closer to actual inflation. This experience is similar to that in Poland where anchoring of forward looking expectations of financial analysts and enterprises is found to be much higher than backward-looking inflation expectations of consumers (Lyziak [2016](#)).

7. These data relate to non-government non-financial companies (growth in per employee staff costs) and are sourced from https://www.rbi.org.in/scripts/Pr_DataRelease.aspx?SectionID=360&DateFilter=Year and capital line database. For caveats while using this data for analysis, please see RBI's Monetary Policy Report of October 2018. Moreover, like any nominal data on wages, these data are not adjusted for changes in productivity.

8. CPI-C back-casted data are taken from the Report of the Expert Committee to Revise and Strengthen the Monetary Policy Framework (Chairman: Dr Urjit R Patel). Such back-casted data are not available for CPI-C (excluding food and fuel). Therefore, wherever required underlying

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