Macroeconomic Expectations and Cognitive Noise

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Abstract

Forecasters face a vast amount of information about the macroeconomy. Conventional information friction models assume it is costly to process external information. However, these models cannot explain seemingly puzzling patterns observed in survey forecasts. I propose a model in which *internal* information — knowledge stored in memory — is also costly to process. The model is consistent with survey forecast patterns and offers an estimation strategy to identify the extent of information frictions. I then explore the macroeconomic implications of these frictions. The proposed model suggests that inflation expectations are not well-anchored, making it more challenging to stabilize inflation than under conventional information friction models.

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