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Lifetime Experiences and Economic Behavior

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The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.



Experiences influence behavior



Left image: Daughter and mother cooking pot roast. Generated by Nano-Banana (Prompt: "A cartoon of a mother cutting chuck roast meat for pot roast recipe with a roasting pan and daughter asking her a question."), Dec. 29, 2025.
Right image: 1960s woman cutting meat in kitchen with a small roasting pan. Generated by Nano-Banana (Prompt: "A cartoon of a 1960s woman in her kitchen cutting raw chuck roast meat with a small roasting pan and rack on her counter."), Dec. 29, 2025.

Many examples in the literature

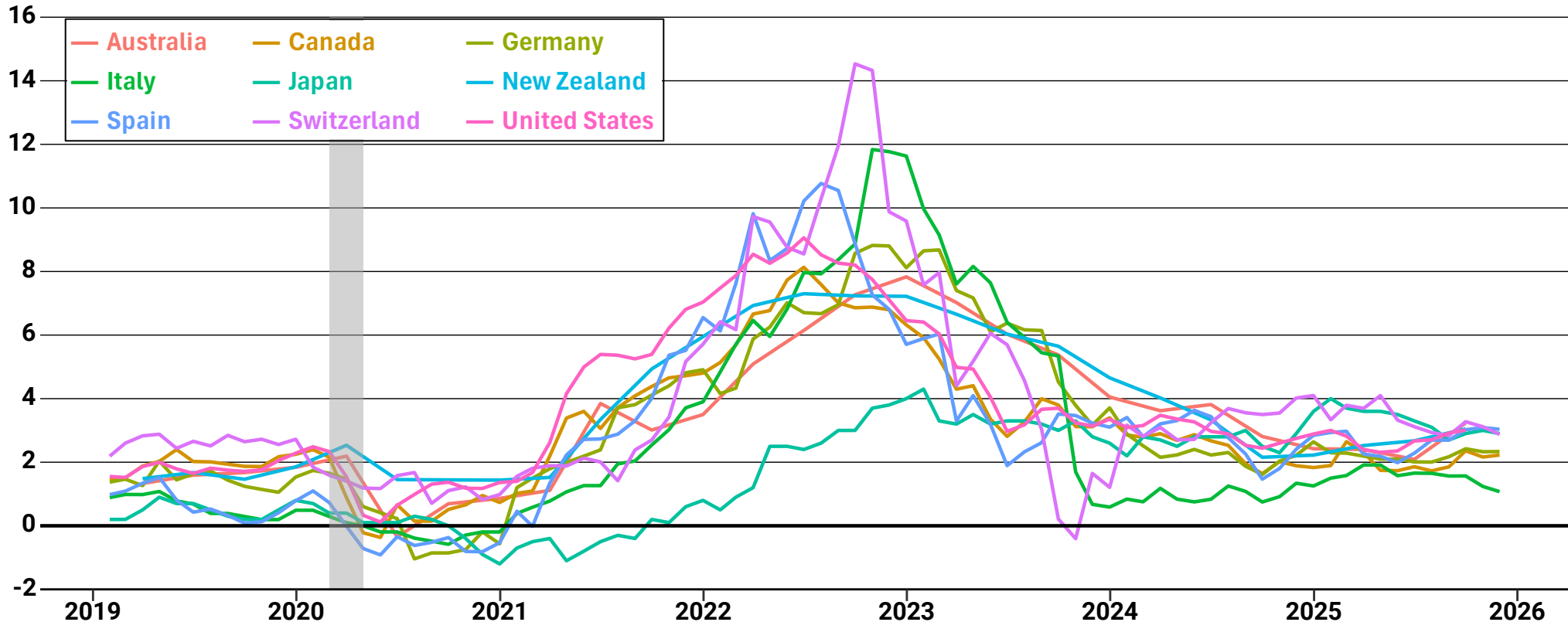
Experience		Behavior
Stronger private property laws	➡	Greater stock market participation
Great Depression–era stock market crash	➡	Less financial risk-taking, less likely to own stocks
Banking crisis	➡	Less likely to have a bank account
Natural disasters	➡	More likely to buy disaster insurance
Higher unemployment	➡	Lower spending
Higher inflation (FOMC members)	➡	Tighter monetary policy

Sources: Cai and Song (2017); Cameron and Shah (2015); Malmendier and Nagel (2011); Malmendier, Nagel, and Yan (2021); Malmendier and Shen (2024); Osili and Paulson (2008, 2014)

Global experience of high inflation during the pandemic

Inflation Across Countries

(12-month percent change)



Note: Inflation data for Australia and New Zealand are quarterly data; others are monthly. Data are published in the OECD's consumer price index release and are supplied by the individual countries' statistical authorities.

Source: OECD via Haver Analytics

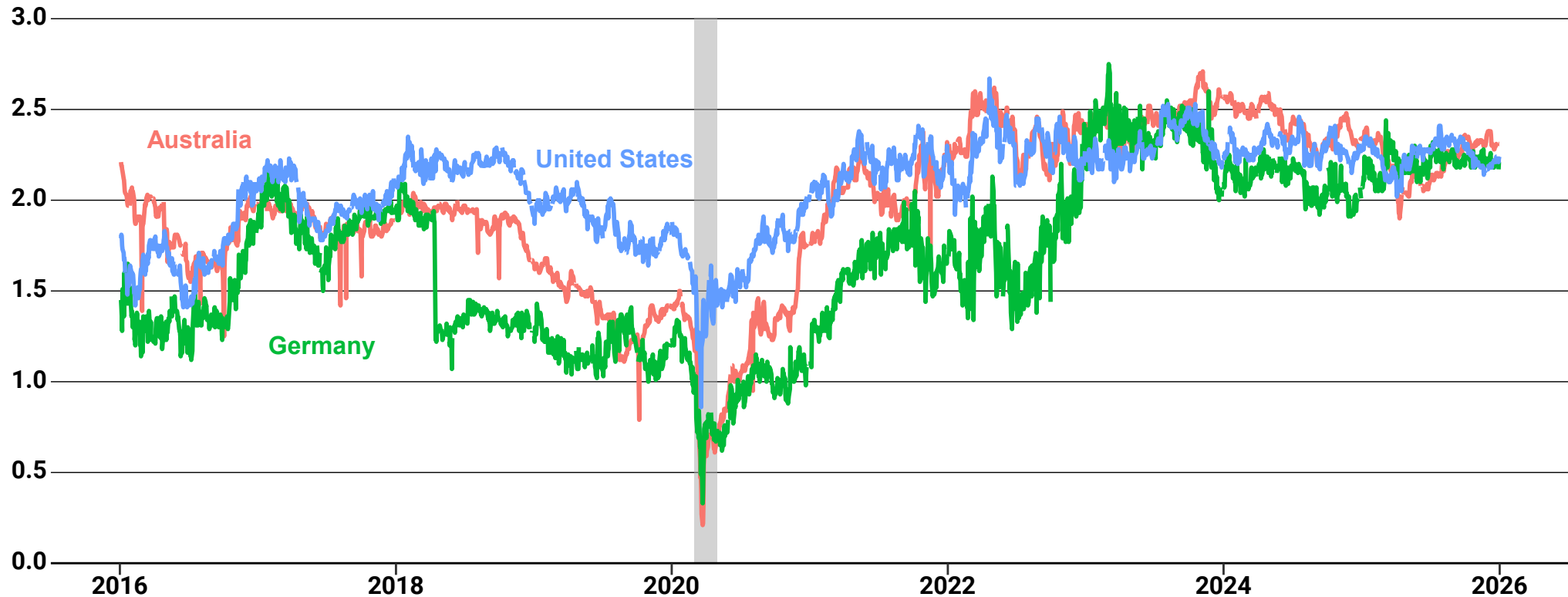
What will be the impact of this shared experience?

- **Will recent inflation experience affect price- and wage-setting behavior and other economic decision-making? What about savings and investment decisions? Over what time horizon?**
- **How much does it matter that this was largely a common, global experience? How might this impact possible equilibria?**
- **How much might central bank credibility, communication policies, and other institutional arrangements like explicit inflation targets matter?**

Little imprint on longer-run inflation expectations

Market-Implied Longer-Run Inflation Expectations

(Percent)



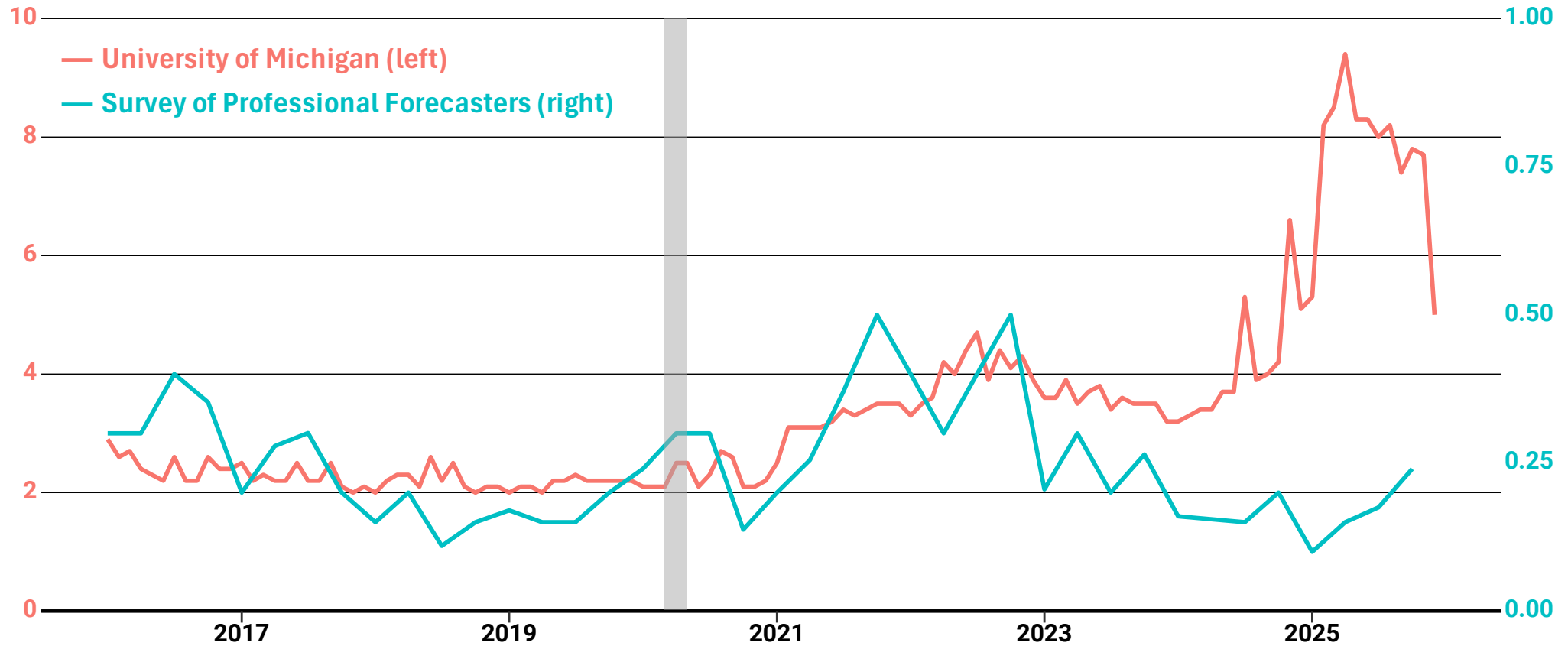
Note: The U.S. and Germany are implied 5-year, 5-year forward rates. Australia is the implied expectation over the next 10 years.

Source: Deutsche Bundesbank, Federal Reserve Board, and Reserve Bank of Australia via Haver Analytics

But greater dispersion in inflation expectations

Michigan and SPF Dispersion of Longer-Run Inflation Expectations

(Interquartile ranges in percentage points)



Sources: Federal Reserve Bank of Philadelphia and University of Michigan

Some tentative conclusions

- **Stability of long-run inflation expectations suggests that there may NOT be a lasting impact on wage- and price-setting behavior.**
- **Recency of high inflation experience and somewhat elevated dispersion in survey measures of expectations suggest caution.**
- **For central bankers, delivering on inflation mandates creates an experience that can help to ensure inflation expectations remain anchored and, potentially, prevent lasting changes to behavior.**
- **Price stability advances efficiency and maximum employment by creating an environment where household and business decisions are not distorted by worries about inflation.**