Seeing Through Different Lenses: Partisanship and Updating of Inflation Expectations*

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Abstract

Households' inflation beliefs and revisions can impact the effectiveness of monetary policies. Using an experiment, we examine how Republican and Democrat households update their inflation expectations based on new information. We vary the tone ("good" or "bad" news) and source (No Source, CNN, or Fox News) of economic information to document partisans' expectation revision behaviors. Partisanship influences prior inflation beliefs. Results also show asymmetric belief updating, especially when Republicans receive CNN news, deviating from rational benchmarks. However, belief updating is more symmetric when the source is undisclosed. Our findings emphasize the importance of non-partisan media for effective monetary policy communication.

Keywords: Inflation, information tone, information source, asymmetric reaction, Bayesian updating, belief entropy, experiment.

JEL: E71, C90, D84, E52.

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I Introduction

Managing households' inflation expectations is crucial in the macroeconomic policy toolkit to ensure long-run price stability. Effective policy communications allow central banks to manage agents' price expectations and foster economic activities that align with monetary policy goals and strategies (Lamla and Vinogradov, 2019; McMahon and Rholes, 2023). However, studies have shown that, unlike financial markets and experts, households either overlook central banks' direct policy communications or find them overly technical (Haldane and McMahon, 2018; Lamla and Vinogradov, 2019). Instead, the general public and households tend to rely heavily on social networks and news media for guidance on monetary policy and forming price expectations (Lamla and Vinogradov, 2019). Research indicates that politically polarized news media sources can act as partisan echo chambers, biasing households' views on a wide range of policy issues (Faia et al., 2022). The current information landscape, driven by narratives, primes optimism or pessimism, leading to sentiment-induced market changes (Borup et al., 2023; Shiller, 2017). Therefore, understanding how the political inclination and tone of the information source affect households' beliefs about the macroeconomic outlook and price dynamics is essential.

In an incentivized experiment, we investigate the causal relationship between political partisanship, news tone, news source, and updating of inflation expectations.[1] We are the first to investigate the politically motivated belief updating process for inflation beliefs and its implications. Our research inquiry is rooted in four main questions. First, how does political partisanship influence short-term and relatively longer-term inflation expectations? Second, how does congruence or misalignment between the news source and individuals' political inclination shape the updating process of inflation beliefs? Third, does a politically misaligned news environment increase ex-post belief uncertainty in inflation expectations? Finally, what are the implications of the inflationary expectations for financial spending planning?

Using the latest advancements in experimental belief elicitation methods and modeling

[1] In line with recent economic studies, we loosely define partisanship as favoring either the Republican or Democrat Party (Dagostino et al., 2023).

approaches to capture belief distortions, we conduct an online study with self-identified Republicans and Democrats and elicit their three-month ahead Consumer Price Index (CPI) *all-items* inflation priors and posteriors. To increase the salience of incentives, we focus on measuring three-month-ahead inflation expectations to reduce the time interval between participants' decisions and accuracy payments.[2] We employ the Binarized Quadratic Scoring Rule (BQSR) and incentivize priors and posteriors to accurately measure inflation expectations (Erkal et al., 2020). We also elicit seven- and ten-month ahead inflation beliefs to investigate households' price predictions over a relatively longer time horizon. Our primary investigation focuses on how households form and update their short-term CPI inflation expectations. Per study procedures, participants earned a bonus payoff if their inflation rate expectations were validated by the actual CPI data.[3]

We recruit 1080 U.S. resident self-reported Republicans and Democrats. Study participants first indicate their prior beliefs about the January 2024 CPI rate.[4] We then randomly assign them to one of our six experimental treatment conditions. Participants receive different economic news information treatments depending on the assigned experimental condition. Treatments exogenously change the tone and source of the information. Then, respondents indicate their January 2024 CPI rate posterior beliefs.[5] Participants are informed that the provided economic information news piece is prepared using different national mass media sources.

We design 2×3 between-subject treatments: *GoodNews/BadNews* × *No Source/CNN/Fox News*. In the GoodNews treatments, we compile actual positive economic assessments about the future trajectory of the U.S. economy, predicting that the inflation rate will decrease in 2024. In contrast, using the same set of news sources, the BadNews treatments highlight

[2]We focus on the three-month-ahead inflation rate as there is evidence that inflation expectations also affect 3-month Treasury Bill rates influencing monetary policy (Favero et al., 2024).

[3]We used the BLS's CPI data that can be accessed via this link: https://www.bls.gov/cpi/.

[4]The inflation rate saw 3% in June 2023 but trended upwards over the next four months, settling at 3.2% in October 2023. At the time of our data collection, participants only had access to October CPI rates, and we concluded the experiment before the announcement of the November 2023 inflation rate in mid-December of 2023. Thus, our study design allows us to elicit participants' three-month ahead January 2024 inflation expectations.

[5]The inflation rate shows seasonal patterns. However, since our primary focus is on belief updating, we build our analyses on the differences between priors and posteriors. This approach gets rid of seasonal components in beliefs.

an actual alternative pessimistic outlook about the economy, predicting high and sticky inflation in the coming year.[6] In the No Source treatments, we only present the GoodNews or BadNews without informing a specific media source we used to design our news pieces. However, in the CNN and Fox News treatments, we mention that one of the media sources used to compile the news piece is CNN or Fox News, respectively.[7] Muise et al. (2022) show that CNN and Fox represent polarized left- and right-leaning media diets, respectively.[8] By exogenously changing news sources, we investigate how the tone of economic news is discounted or amplified across partisanship lines. Thus, our design also provides insights into how mitigating *algorithmic bias* and exposing partisans to different news sources across the political aisle affect their economic expectations (Levy and Razin, 2019; Levy, 2021).

We measure density inflation beliefs by asking study participants to allocate 100 points (i.e., percentage points) among nine potential inflation intervals. This approach allows us to estimate the distribution of priors and posteriors, identifying households' assessed odds for each inflation interval. We also compute the entropy of elicited distributions to investigate how the news tone and source change the uncertainty in inflation expectations. We conclude the study with a survey module to capture personal financial spending plans and a brief demographic questionnaire.

The analysis of elicited incentivized prior beliefs reveals that the overall study sample expects the January 2024 CPI inflation rate to go below 3% with a 43% probability. We focus on the 3% level as a threshold at which experts predicted that the Fed would consider base-rate cuts and where inflationary pressure on households would ease.[9] On the flip side, our study participants assign a larger (57%) likelihood of an above-3% inflation rate in the first month of 2024. Prior beliefs also allow us to capture raw inflation expectations and investigate sentiment differences between Republicans and Democrats. We find that

[6] We used different articles with opposing tones from the same set of news sources to maintain the source balance between the BadNews and GoodNews treatments. Supplementary Materials Section 9 provides manipulation checks, and we show that the designed GoodNews information piece induces more optimism about personal financial prospects than the BadNews piece.

[7] Provided information pieces also included the salient news source's logo.

[8] Recent public opinion surveys show that Republicans perceive Fox News as more trustworthy (De Rooij et al., 2022). In contrast, Democrats prefer a more CNN-centered media diet in their news consumption. We confirm this assumption using a follow-up survey with our study participants.

[9] In the Policy Context section, we discuss the importance of the 3% threshold from the Monetary Policy perspective at the time of our study.

Republicans are more pessimistic about the future trajectory of the inflation rate, and they assign 3.7 percentage points (p.p.) more probability for the inflation being above the 3% threshold in January 2024. Our study sample, on average, expects a 3.47% CPI inflation rate at the beginning of the following year (in contrast to the observed actual 3.1% rate), whereas Republicans exhibit a more gloomy perspective, predicting a 3.57% inflation rate.

We employ a *Full Information Rational Expectations* (FIRE) belief updating framework and a structural Bayesian belief estimation à la Coibion and Gorodnichenko (2015) and Möbius et al. (2022), respectively. Constructing FIRE and Bayesian benchmarks allows us to contribute to the literature by showing the effects of the news source, news tone, and partisanship on the inflation belief-updating process. We find that our entire sample overreacts to the provided economic news pieces with respect to the FIRE benchmark. However, we do not detect asymmetric reactions to GoodNews and BadNews treatments when the source of the news is not revealed. In other words, when the news source is not politically charged, our study participants equally overreact to optimistic and pessimistic economic information, showing almost symmetric Bayesian belief updating. We also show that Republicans and Democrats exhibit structurally similar updating patterns in the No Source experimental condition.

However, belief updating patterns significantly change when we reveal CNN or Fox News as one of the information sources for our positively and negatively toned news pieces.[10] Both Republicans and Democrats overreact to information pieces when CNN is revealed to be one of the sources for the provided economic information. In the CNN treatment, Republicans over-update their pessimistic expectations about the January 2024 inflation rate after reading the information pieces with the CNN logo. Put differently, both Republicans and Democrats overreact to news pieces, increasing their expected CPI inflation rate; the magnitude of this belief revision is stronger among Republicans compared to Democrats in the CNN treatment. Moreover, Republicans' pessimistic inflation belief updating is primarily driven by the GoodNews in the CNN treatment.

Similar to the CNN treatments, we find that study participants overreact to economic information pieces presented with the Fox logo. However, we detect overreaction to eco-

[10] In the rest of the article, we use "Fox" instead of "Fox News" for the sake of brevity.

nomic information only in the BadNews Fox treatment. Republicans generally exhibit more pessimistic inflation belief posteriors in the Fox treatment compared to Democrats.

Our Bayesian estimation approach confirms findings using the FIRE framework and shows that Republicans are more prone to pessimism and overreaction to economic news compared to Democrats. In conclusion, our results suggest that when given news from politically charged sources, i) pessimistic economic news triggers more downward changes in market sentiment than optimistic news triggers upward changes, and ii) Democrats and Republicans overreact to economic news. However, this overreaction is stronger among Republicans when CNN is disclosed as one of the sources for the information.

We also find that Republicans demonstrate a relatively longer-term pessimism about the inflation rate after being exposed to economic information with the Fox logo. A similar effect is detected with posterior belief entropy. Republicans exhibit more belief uncertainty after reading a news piece sourced using the Fox media. Our results reveal that Republicans also hold pessimistic views about other macroeconomic indicators, predicting a higher unemployment rate and lower economic growth. They are also more likely to cancel winter vacation plans due to expected financial hardships. These findings are consistent with the fact that, at the time of our study, leading executive government offices were occupied by Democrats.[11]

This paper relates to the previous studies investigating how central bank policy communications are channeled to the general public and how monetary policy briefs and announcements affect non-expert beliefs (Lamla and Vinogradov, 2019). Blinder et al. (2008) discuss the evolution of central banks' communication strategy over the last three decades from using "cryptic" language and concealing details of their monetary policy strategies to being more transparent and allowing market predictions to align with policy goals. However, the literature also provides evidence that partisanship motivations of economic agents can trigger differential reactions to financial news. Households mostly consume key economic information via mass and social media (Coibion et al., 2023), and the current information supply environment has been unprecedentedly politically polarized (Binder, 2021a,b; Kash-

[11]See similar findings by Bachmann et al. (2021), showing Republicans exhibit more pessimistic inflation expectations when the sitting president is a Democrat.

ner and Stalinski, 2024). Bachmann et al. (2021) find that the political affiliation of the sitting U.S. president differently affects aggregate inflation expectations across individual states. Democrats are more likely to react to inflation-related news and reduce their durable goods purchasing plans than Republicans when the sitting president is Republican (Coibion et al., 2022). Gillitzer et al. (2021) find that partisans hold more optimistic economic expectations if their party occupies executive offices. Benhabib and Spiegel (2019) show that differences in economic expectations due to partisanship also induce optimism and changes in market sentiment. Mian et al. (2023) document that partisanship bias has always been salient in economic expectations in U.S. history. However, they also find that the effect of this bias on economic expectations has risen in recent years.

Our paper contributes to this strand of the literature by investigating how the news tone of economic information causally warps economic expectations when partisans read news from politically congruent or misaligned sources. We document the behavioral underpinnings of the expectation formation process. Even when accounting for existing partisanship bias, Republicans and Democrats exhibit different patterns of learning and belief updating, depending on the tone and source of the news. This finding highlights the importance of non-partisan media in the dissemination of crucial economic messages.

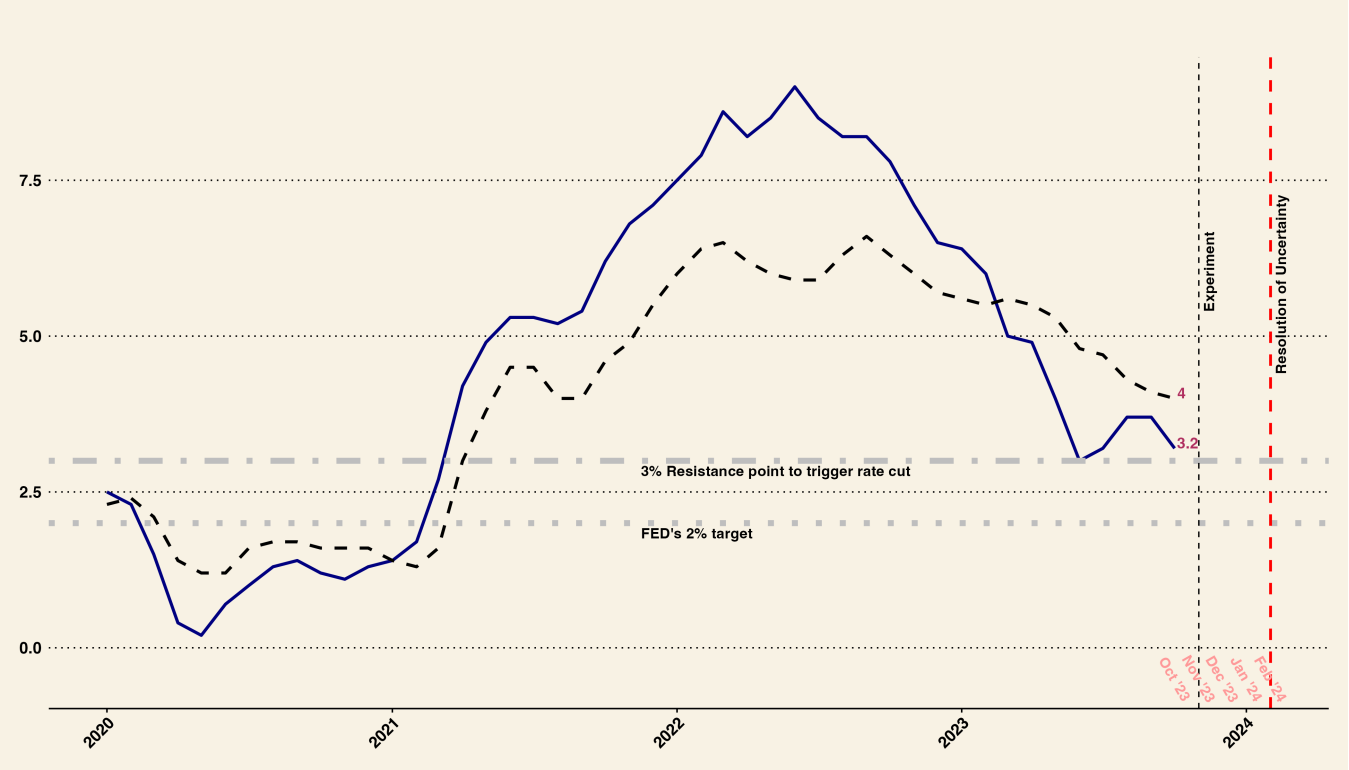
Finally, a strand of economic theory investigates how economic agents choose, receive, and process information and to what extent individual behaviors differ from what conventional economic models predict. Economic agents are overwhelmed with abundant information that also consumes their attention (Simon et al., 1971). Gabaix (2014) predicts that individuals possess a pre-determined endogenous weight to aspects of news. Information significantly affects the behavior of agents whose endogenous weight for this information dimension is above some threshold. Sims (2003) focuses on the cost of being attentive. Since attention is a limited resource, agents make a cost-benefit judgment before deciding what information to acquire. However, neither of the models accounts for information processing biases. Our paper speaks to core theoretical models in this literature by sketching a conceptual framework where an agent possesses a preconceived judgment about available information sources (in our case, politically (mis)aligned news sources).

We use a sender-receiver game setup without feedback à la Chen and Suen (2023). Our agent shows the same attention level to *biased* and *unbiased* sources. However, they amplify or discount the signal quality of the information in their belief updates, depending on the signal type and source's bias (agents have motivated biases given their partisanship). We predict that when the information source is not disclosed, agents exhibit belief updating patterns closer to the rational information processing benchmark. However, their belief updating is distorted by the assumed bias of the sender when we reveal the source of the information. Indeed, we confirm that agents exhibit almost similar attention and response times while reading our news pieces across our six treatments. However, study participants distort their belief updating process mostly in line with our predictions of politically motivated information processing. Our model predictions are close to the insights of the "Local Thinking" model (Gennaioli and Shleifer, 2010), where agents process the acquired information using the *representativeness heuristic* depending on their partisanship motives and political alignment of the news sources.

We structure our manuscript as follows: The second section (II) describes the policy and macroeconomic contexts at the time of our study. In Section III, we outline our study procedures, experimental protocols, and design features. Section IV sketches our motivating model and predictions. In Section V, we discuss empirical approaches. Section VI presents our results. Section VII positions our findings with the related literature and concludes the manuscript.

II Policy Context

Our study captures households' macroeconomic views and related financial spending plans in a unique policy environment. The United States CPI all-items inflation rate was above 3% between April 2021 and our study time, well exceeding the Federal Reserve's (Fed) 2% target. As shown in Figure 1, after April 2021, the inflation rate rapidly grew over the following 12 months, hitting 9.1% in March 2022. This surge in price increases triggered one of the aggressive rate hike policies by the Fed, moving the federal funds rate from the 0.25%-



Note: This figure displays the macroeconomic outlook and policy landscape motivating our study. The solid navy blue line (dashed black) demonstrates the movement in CPI all-items (less food and energy) year-over-year inflation rate. The y-axis shows percentage point values. We used the U.S. Bureau of Labor Statistics CPI data in constructing this plot.

Figure 1: Policy Environment Motivating Our Study

0.50% range in March 2022 to the 5.25%-5.50% range in July 2023.[12] Monetary tightening in the federal funds market contributed to the downward trend in the CPI rates since June 2022, albeit the year-over-year price change dynamics were still above the 3% threshold in November 2023.

The Fed's high-federal-funds-rate policy is costly. Previous research shows that interest rate changes can directly affect monthly mortgage payments and household spending, leading to fluctuations in housing markets and retail sales (Agarwal et al., 2023). At the time of our study, financial market experts and leaders predicted the Fed would only start

[12]See https://www.forbes.com/advisor/investing/fed-funds-rate-history/ for policy rate hike dynamics.

its long-awaited base interest rate cuts if the CPI inflation went below the 3% level.[13] The Fed's actual policy strategy may or may not align with the industry's expectations. Moreover, the Fed's preferred inflation metric is the Personal Consumption Expenditures (PCE) index.[14] However, historically, the Fed has factored the market's expectations into its policy actions and used it for market guidance (Campbell et al., 2012). At the time of our study, the movement of the CPI all-items inflation rate below 3% could reduce the inflationary pressure on households' spending and lead to more favorable policy rates. In fact, the Fed implemented its first federal funds rate cut in September 2024, following year-over-year CPI price changes of 2.9% in July and 2.5% in August.

Our study occurred at a critical economic turning point where policy discussions were centered around the Fed's monetary tightening and whether this regulatory intervention to markets would lead to a "hard" or "soft" landing (Blinder, 2023). Historically, raising base borrowing rates has been the Fed's main policy lever to combat high inflation rates. Increasing interest rates in the federal funds market usually reduces aggregate household demand and slows the pace of upward price movements. However, the downside of this strategy is that highly dampened consumption might also lead to a recession or *hard* landing. In contrast, the desired policy outcome in times of monetary tightening is *soft* landing, when higher interest rates tame inflation and lead to no or a very mild recession (Blinder, 2023). The likelihood of the soft landing shrinks when consumers lose confidence in the economy and expect inflation to spiral out again, leading to even higher price levels. Such consumer sentiment could temporarily increase aggregate demand, further fueling upward pressure on the pace of price change, and making monetary policies ineffective (Niizeki and Hori, 2023; Burke and Ozdagli, 2023). This type of sentiment-sensitive macroeconomic conditions requires effective policy communications to manage consumer confidence and expectations. However, previous studies document that the rational inattention of households to official communication channels and their reliance on news and social media sources could pose

[13]For instance, leading economists of Moody and KPMG explicitly predicted the 3% CPI inflation rate as the Fed's policy threshold to consider reducing the federal funds rates (CNBC, 2023; Bankrate, 2023). Investment consulting companies also shared a similar conclusion (Invezz, 2023).

[14]The Fed revises its policies based on the PCE changes (see https://www.federalreserve.gov/monetarypolicy/monetary-policy-what-are-its-goals-how-does-it-work.htm), and PCE and CPI rates are usually closely correlated.

a significant challenge in herding the market sentiment (Coibion et al., 2023). Our study investigates how different news tones and political inclinations of news sources affect consumer confidence and expectations about inflation and what the residual effect of inflation expectations on personal financing spending plans is.

III Study Procedures

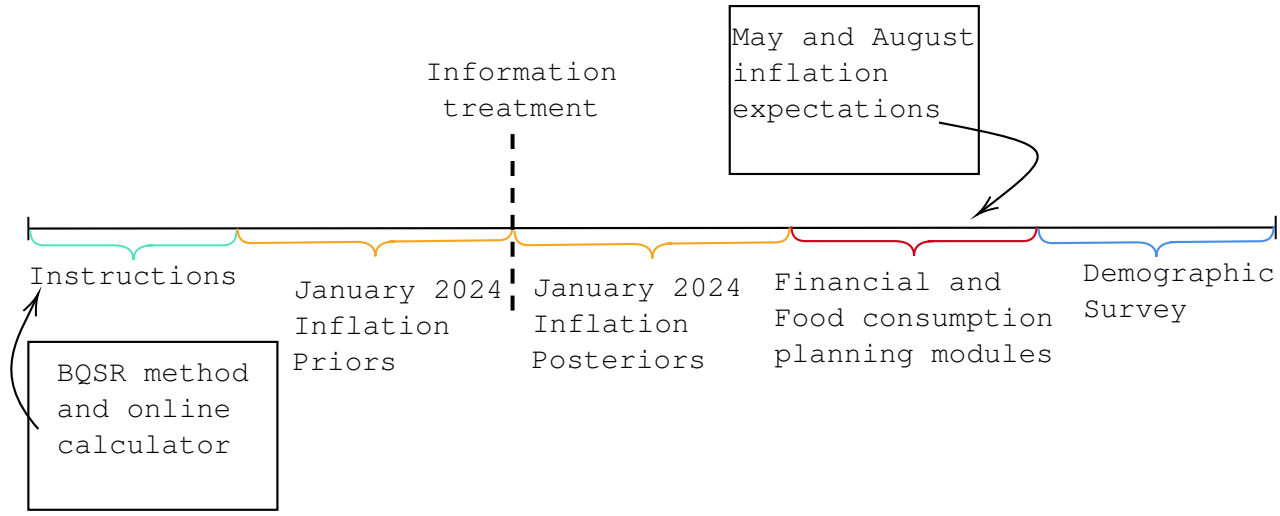
We conducted our online experiment using Prolific, a crowd-sourcing platform for social studies. Prolific provides a representative sample of participants from the United States across gender, age, ethnicity, and political affiliation. It has been documented that Prolific users are more likely to pass attention check questions and exhibit more reasonable response times to read and process study instructions compared to Mturk and Qualtrics samples (Douglas et al., 2023). Prolific users also show political knowledge skills closer to other population samples, such as the American National Election Study (ANES), well-known for studying partisanship and electoral behavior (Haaland et al., 2023).

We published our study requests targeting U.S. resident Republicans and Democrats on November 30, 2023, and completed the data collection within approximately 30 hours.[15] The median response time was 15 minutes. Our study instruments were compiled in the Qualtrics survey, allowing us to distribute them to Prolific users via a link. We paid $3.50 for participation. Participants could earn an additional $2.00 bonus reward by accurately predicting the January 2024 CPI all-items inflation rate.[16]

As per our pre-registered sample size, a total of 1110 Prolific users completed our study. We exclude 26 participants from our analyses as they hold non-partisan political views. We also drop four duplicate observations. Our results are based on the responses of 1080 study

[15] Our study has been approved by Auburn University IRB: 23-572 EX 2311. We also pre-registered this project at the American Economic Association Randomized Control Trial Registry: AEARCTR-0012529. To ensure data quality, we restricted our target sample to users who have an approval rate equal to or greater than 85%, which means that at least 85% of their previous study participations have been deemed acceptable by researchers using the platform

[16] In line with previous studies, we used the CAPTCHA feature to filter out bots (Haaland et al., 2023). At the beginning of the study, participants entered their IDs containing 24 alphanumeric characters. This allowed us to verify respondents' survey completion and approve their work for payment at the Prolific platform.



Note: Study stages and their sequence are shown.

Figure 2: Timeline of Experimental Procedures.

participants.

Incentives: Instructions explained the study procedures and how we would pay for January 2024 inflation rate belief accuracy. We used the Binarized Quadratic Scoring Rule (BQSR) payment method for belief accuracy, as there is evidence that this method better incentivizes truthful probabilistic beliefs compared to other techniques (Erkal et al., 2020).

As shown in Figure 2, we explain our incentive-based BQSR payment method at the beginning of the study. Participants are informed that they will be twice shown (i.e., for prior and posterior beliefs) nine potential inflation intervals: $\{0\% - 0.99\%\}$,$\{1\% - 1.99\%\}$, $\{2\% - 2.99\%\}$, $\{3\% - 3.99\%\}$, $\{4\% - 4.99\%\}$, $\{5\% - 5.99\%\}$, $\{6\% - 6.99\%\}$, $\{7\% - 7.99\%\}$, and $\{8\%$ *and above*$\}$. They will have to allocate 100 points among inflation intervals in each case based on their January 2024 CPI all-items inflation rate expectations. Participants are informed that the January 2024 CPI all-items inflation will be announced in February. Then, we will randomly select one inflation interval for the accuracy bonus reward. If the selected interval contains the January 2024 CPI rate, then participants will play a lottery to win \$2.00 with probability $\pi_{lottery}$, determined as follows:

$$\pi_{lottery} = 1 - (\mathrm{I}_{Event\ dummy} - \pi_{belief})^2 \tag{1}$$

In equation 1, $I_{Event\ dummy}$ is a binary variable showing if the interval contains the January 2024 CPI rate, whereas π_{belief} shows allocated percentage points to that interval reflecting the decision-maker's inflation belief.[17]

Online studies always challenge researchers in terms of sustaining participants' attention and explaining non-trivial procedures (Stantcheva, 2023). We design an online calculator to minimize participants' cognitive workload and foster their understanding of the BQSR method. Our Supplementary Materials Section 10 provides screenshots from the main study procedures, including the calculator. The calculator allows study participants to allocate 100 points between inflation intervals and select the potential January 2024 inflation rate. Then, the calculator shows the probability of winning the bonus payoff for each interval.

Information Treatments: We provide economic news information between the elicitation of the inflation rate priors and posteriors (see Figure 2). We compile both negative- and positive-toned economic news pieces from different mass media sources, and the average factual grade of our sources is approximately 65%.[18] We first explain to participants that they will see an information piece that was compiled from different economic news sources, and we highlight that the average factual accuracy or resourcefulness of the used sources is 65%.[19] We also ask study participants to pay attention to the information piece, as their accuracy bonus payoff might depend on the provided news. Then, we show the news piece on the next screen. We force participants to spend at least 45 seconds reading the provided news piece by delaying the appearance of the "Next" button on the screen. We also provide a plot from a news media source showing the trends and changes in the CPI all-items inflation rate between the preamble and toned part of our news piece.[20]

[17] Assume that the January 2024 CPI rate is 2.95%, and a study participant allocates 40 percentage points to that interval; then they play a lottery, which gives a 64% chance of winning $2.00.

[18] See Supplementary Materials Section 1 for the details about information pieces. The list of media sources and their factual grade: CNN (52.8%), MSNBC (54.9%), Fox News (54.3%), FiveThirtyEight (76.2%), Business Insider (71.6%), Brookings Institute (76.3%). We obtain factual grades from http://44.194.226.17/biased-factual-reliable-new-sources/.

[19] See Huseynov (2023) for employing a similar strategy to investigate students' future earning expectations in the face of the proliferation of ChatGPT and similar Artificial Intelligence models.

[20] In the experimental instruments, we use CNBC's chart from this webpage: `https://www.cnbc.com/2023/11/14/cpi-inflation-report-october-2023.html`. Our Figure 1 recreates this plot to explain the policy context and available information to study participants before they reveal their inflation beliefs. Supplementary Materials Section 10 contains screenshots from information pieces.

Experimental Conditions: We design six experimental conditions by exogenously varying the source of the economic information treatments. Our media news sources are used in constructing both BadNews and GoodNews information pieces. In our experimental conditions, we only reveal one of the sources, making that news source salient. In the BadNews NoSource and GoodNews NoSource conditions, we do not disclose any source and use this sentence: "We compiled this piece for you using different news media sources." However, in BadNews CNN and GoodNews CNN conditions, we disclose that CNN was one of the sources we used to prepare the information piece: "We compiled this piece for you using different news media sources including CNN." After this opening sentence, we place a small CNN logo at the beginning of the information piece.[21] In the BadNews Fox and GoodNews Fox conditions, we used "We compiled this piece for you using different news media sources including Fox" and placed Fox News's logo at the beginning of the information piece on the top-left corner. See more discussion of our design and justification of the design choices in the Supplementary Materials Section 1.

IV Motivating Model

We present a reduced-form sender-receiver game with two senders and one receiver. The receiver has a preliminary assessment of each sender's bias. The receiver is then provided with a signal from one randomly selected sender and takes action based on this information. Our setup is a one-shot game with no feedback from the receiver's action to the sender.

Our setup is inspired by a typical news-consumption environment on social media, where a user's newsfeed can randomly show a news article from one of the known media outlets. The user has a preconceived belief about each media outlet's bias. The user reads a news piece randomly selected by the social media algorithm and modifies their beliefs/expectations. They do not provide feedback (i.e., comments, likes, etc.) to the news source.

[21] We deliberately choose to have a small logo to mimic a typical webpage, where a logo of the new source is usually displayed in the top-left corner. Having a small logo also minimizes the experimenter demand effect, as study participants might feel that they have to account for the news source in their beliefs. In our design, the place of the logo resembled a typical news outlet's webpage, thus aligning with the real-life information consumption experience.

Model Setup: Decision-maker i faces two potential realizations in the future. Let's denote the future state of the world with s, where $s \in \{G, B\}$. The state $s = G$ occurs when the CPI inflation rate moves below the 3% threshold. In contrast, an above-3% inflation rate is $s = B$. Individual i holds the prior belief that the probability of $s = G$ is $\pi^i_{G,prior}$, where $\pi^i_{G,prior} + \pi^i_{B,prior} = 1$.

There are two news sources indexed by $j \in \{L, R\}$.[22] Individual i receives noisy information $z^i_j \in \{g, b\}$ from a news source before nature realizes one of the possible states.[23] In our study, the signal-to-noise ratio is 0.65/0.35, i.e., the given signal quality q is 0.65 and can be formulated with $p(g|G) = p(b|B) = q$. This signal-to-noise ratio is the same for both j sources. Later, we show that, depending on the signal type and source type, the decision-maker may mentally modify the signal's quality, deriving their *perceived signal quality* $\hat{q}$.

Individual i determines $\pi^i_{G,posterior}$ after receiving z^i_j and before the realization of the true state:

$$\pi^i_{G,posterior} = \frac{\pi^i_{G,prior} \cdot p(z^i_j|G)}{\pi^i_{G,prior} \cdot p(z^i_j|G) + \pi^i_{B,prior} \cdot p(z^i_j|B)} \tag{2}$$

where $p(z^i_j|G)$ and $p(z^i_j|B)$ are the likelihoods of receiving signal z^i_j given the states G and B will be realized, respectively. Our setup is similar to the approach of Gervais and Odean (2001), where agents update their beliefs using the Bayes rule. However, when updating their beliefs, they can distort the signal quality of the information.

Before the state of the world is realized, both news sources are endowed with ζ_s that contains objective information about $p(G)$. This objective information is a combination of market data and government statistical bulletins. Then, both news sources make editorial decisions about signal z^i_j they want to send to individual i. After the news sources determine their signals, nature randomly selects one news source and reveals its signal to individual i.

In this model, from individual i's perspective, each news source has a payoff function as

[22] In our study design, we do not inform participants in the CNN and Fox conditions that we randomly select CNN or Fox as a news source. However, very few media outlets dominate the U.S. news provision environment. At the time of the study, CNN and Fox represented the ideological endpoints of the U.S. political spectrum (Muise et al., 2022). Therefore, our setup maps typical news-consumption environment agents face in real life.

[23] In reality, news sources send the same message to all individuals. In the model, we keep the superscript i to align with our study treatments, where we randomize the tone of the message from each source type.

follows:

$$\Theta_j^i = E[\phi_j^i \cdot \lambda_j^i - (\mathrm{I}_{s=G} - \pi_{G,posterior}^i)^2 | \zeta_s] \tag{3}$$

where $\mathrm{I}_{s=G}$ is an indicator function for 1 if the true state of world becomes G. The news source meets the public's expectation and does not incur any (reputation) loss when the true state of the world is G and $\pi_{G,posterior}^i = 1$. However, the news source incurs a loss when there is a difference between the true state of the world and posterior beliefs.[24]

In this framework, each news source also has another stream of payoff: being aligned with its political ideology. In equation 3, the parameter λ_j^i is an ideological gain of a news source from individual i's perspective, and it receives values as follows:

$$\lambda_j^i \equiv \begin{cases} 1, & \text{for } z_R = b \text{ and } z_L = g \\ -1, & \text{for } z_R = g \text{ and } z_L = b \end{cases} \tag{4}$$

where, the news source R receives 1 and -1 for sending bad signal b and good signal g, respectively. On the other hand, for the news source L, these payoffs are reversed for corresponding signals. In equation 3, $\phi_j^i \geq 1$, and indicates the news source j's ideological bias. Notice that a very ideologically biased news source ($\phi_j^i >> 1$) can mislead the public by sending a signal aligning with its ideological bias and still be better off.[25]

Individual i observes this ideological bias for each news source (ϕ_j^i) and establishes their trust to each source: $\text{Trust}_j^i = \frac{1}{\phi_j^i}$. If the ideological bias is minimal ($\phi_j^i = 1$), individual i has complete trust for the news source j. However, the trust converges to zero as the bias parameter becomes larger in magnitude.

Individual i determines their trust in the news sources before receiving the signal. When the signal or information is provided, individual i observes the news source and establishes their perceived signal quality $\hat{q}_j^i$. The difference between the given signal quality q and the perceived signal quality $\hat{q}_j^i$ has an inverse relationship with the ideological bias ϕ_j^i, such that $\frac{\partial(\hat{q}_j^i - q)}{\partial \phi_j^i} < 0$. Individual i assigns a lower signal quality ($\hat{q}_j^i < q$) if they have low trust in the news source j.

[24] See Chen and Suen (2023) for a similar modeling approach.

[25] We do not model other payoff sources as it is beyond the scope of our study. But one can think of a small group of advertisers and lobbyists who can incentivize the news source to send wrong signals.

Ideologically Misaligned Signals: In our model, individual i establishes the ideological bias of each news source before the information provision. Once nature randomly selects one news source and reveals its signal, individual i weakly revises the given signal quality (q), obtaining their perceived signal quality ($\hat{q}$).

The direction of the signal-modification process is weakly downwards when the news source sends a signal ($\lambda_j^i = 1$) that ideologically benefits it. However, individual i weakly revises the perceived ideological bias of the news source upwards when it sends a costly signal ($\lambda_j^i = -1$). In that case, the perceived signal quality becomes weakly larger than q ($\hat{q}_j^i \geq q$).

Predictions: Recent studies show that Republicans trust Fox News and distrust CNN (Faia et al., 2022). On the other hand, Democrats find CNN more trustworthy compared to Fox (Borup et al., 2023).[26] Previous research also shows that partisans expect a lower inflation rate when there is an ideological alignment between them and the party that holds executive offices (Gillitzer et al., 2021). We assume that GoodNews ($z_{CNN}^i = g$) and BadNews ($z_{Fox}^i = b$) are ideologically aligned signals for our news sources. We derive four predictions.

Prediction 1: Republicans will expect a higher inflation rate compared to Democrats.

Prediction 2: Republicans and Democrats will under-update their posterior inflation beliefs when CNN provides GoodNews and Fox provides BadNews, respectively.

Prediction 3: Republicans and Democrats will over-update their posterior inflation beliefs when CNN provides BadNews and Fox provides GoodNews, respectively.[27]

Prediction 4: When the source of the news piece is not revealed in the No Source condition, Republicans and Democrats will update their beliefs based on the given signal quality q and will exhibit belief updating patterns closer to the Bayesian benchmark.

[26] We confirm these assumptions with our follow-up study, described in Supplementary Materials Section 7.

[27] We registered this prediction before the data collection at AEARCTR-0012529. In our registry entry, we did not specify the signal type. However, we hypothesized an increase in reactions when participants' political views and a news outlet's political inclination are congruent.

V Empirical Approach

In Supplementary Materials Section 3, we discuss data characteristics and data quality measures. Overall, we find data to be of high quality, comparable to the data quality measures of Roth and Wohlfart (2020) and the survey run by the New York Fed (Armantier et al., 2013). We find some differences between Democrat and Republican samples in terms of their representativeness. Hence, we use controls for the observable characteristics of the participants in most of the analysis. In this section, we spell out our empirical estimation methodologies.

Full Information Rational Expectations: We use the Full Information Rational Expectations (FIRE) framework to analyze belief-updating patterns following Coibion and Gorodnichenko (2015). In this framework, the forecast error is regressed on the belief updating, as follows:

$$\pi_{true} - \mathbb{E}\pi^i_{posterior} = \beta_{const} + \beta_{updating}(\mathbb{E}\pi^i_{posterior} - \mathbb{E}\pi^i_{prior}) + \Gamma^T \Xi^i + \rho^i \tag{5}$$

In equation 5, ρ^i represents idiosyncratic errors; π_{true} is the true January 2024 CPI rate; $\mathbb{E}\pi^i_{posterior} = \Sigma_k \pi^i_{posterior,k} \text{Inflation}^i_k$, where $\pi^i_{posterior,k}$ indicates posterior token allocations to each potential inflation interval k. In its turn, Inflation^i_k is the middle points of inflation intervals, and 8.5% for the {8% *and above*} range. This measure enables us to find each participant's expected (weighted) posterior inflation rate; π^i_{prior} is calculated as $\pi^i_{posterior,k}$ but using prior token allocations; Ξ^i represents individual specific controls or treatment indicators.

The main estimator of interest is $\beta_{updating}$, detecting over- or underreaction to the economic information pieces. When $\beta_{updating}$ is negative, it indicates that the decision-maker overreacts to the information. For instance, when the expected posterior inflation rate $\pi^i_{posterior}$ is higher than the prior π^i_{prior}, it shows that the agent i revised their inflation expectations upwards. In this case, a negative $\beta_{updating}$ shows that when the agent updates their belief upwards, the difference (error) between the true inflation rate and the posterior $(\pi_{true} - \mathbb{E}\pi^i_{posterior})$ becomes more negative. Put differently, an upward revision in inflation beliefs leads to overshooting the posterior with respect to the true inflation rate.

With the same logic, a positive $\beta_{updating}$ is indicative of underreaction to the information. When the agent i revises down the expected inflation posterior, it also reduces the difference between the true inflation rate and the posterior. Thus, the agent underreacts to the information and fails to fully incorporate the presented information into their beliefs.

The FIRE baseline is zero $\beta_{updating}$, i.e., belief updating cannot predict the error or how much the agent overshoots or undershoots with respect to the true inflation rate. Studies usually apply the FIRE framework in a panel setting, aggregating the effects of individual updating behaviors on prediction errors across different forecast series (Coibion and Gorodnichenko, 2015; Afrouzi et al., 2023). Since our focus is specifically on inflation expectations, we modify the framework slightly to investigate the relationships between expectation updating and forecast error across our experimental treatments in a cross-section.[28]

Bayesian Belief Updating: We also employ the recent advancements in experimental economics for eliciting and modeling belief updates and distortions. We follow Möbius et al. (2022) in empirically investigating the Bayesian belief formation and updating process for January 2024 CPI inflation expectations. We estimate the Bayesian belief updating process as follows:

$$logit(\pi^i_{G,posterior}) = \delta logit(\pi^i_{G,prior}) + \beta_G log(\frac{q}{1-q}) * I(z^i = g) + \beta_B log(\frac{1-q}{q}) * I(z^i = b) + \rho^i \tag{6}$$

Note that, in line with Möbius et al. (2022), we estimate equation 6 without a regression constant. Moreover, in this framework, we can only model "correct updates," i.e., $\pi^i_{G,posterior} \geq \pi^i_{G,prior}$ when individual i is provided with GoodNews. In its turn, we expect "correct updates" to follow this relationship in the BadNews condition: $\pi^i_{G,posterior} \leq \pi^i_{G,prior}$.[29]

We interpret the estimated parameters of equation 6 as follows:

[28] It is true that in a cross-section setup, we cannot average out the shocks that occur across time-series. However, given that the luck (chance) component remains the same across the treatments, we can compare the results across the experimental treatments to conclude how much over/underreaction differences there were between the treatments.

[29] We also revise corner beliefs as follows: $1 = 0.9999$ and $0 = 0.00001$.

– Bayesian updating occurs if $\delta = 1$, $\beta_G = 1$, and $\beta_B = 1$. In this case, individuals follow Bayesian updating in forming their inflation expectations.

– Individuals exhibit a conservative inflation belief updating if $\beta_G < 1$ or $\beta_B < 1$.

– In its turn, individuals over-respond to the presented news piece if $\beta_G > 1$ or $\beta_B > 1$.

– We conclude that individuals are prone to asymmetric and optimistic inflation belief updating if $\beta_G > \beta_B$.

– Contrarily, we detect asymmetric and pessimistic updating if $\beta_G < \beta_B$.

Our Bayesian belief updating modeling approach allows us to estimate how Republicans and Democrats differ in their reaction to our GoodNews and BadNews information pieces, depending on the revealed news source.

Belief Distribution Entropy: We also calculate the entropy of elicited belief distributions for inflation expectations. We calculate individual entropy as follows:

$$Entropy^i = -\Sigma_k \pi^i_{Interval_k} log(\pi^i_{Interval_k}) \tag{7}$$

where k represents inflation intervals (i.e., $k \in \{1, 2, 3, ..., 9\}$), and $\pi_{Interval_{i,k}}$ is individual i's number of percentage point allocations for the interval k. By construction, our entropy measure is 0 when individual i allocates all 100 percentage points to one inflation interval. Corner allocations suggest that individual i has no uncertainty regarding the future inflation rate.

VI Results

We begin our data analysis by examining the average probabilities assigned to inflation intervals. Our analyses in Supplementary Materials Section 2 show that, on average, study participants assign the highest probability to the $3\% - 3.99\%$ interval, indicating a prediction that the January 2024 inflation rate will likely be above 3% but below 4%. In fact, the true January 2024 CPI *all-items* inflation rate was 3.1%, validating the majority of study participants' expectations.

We also find that the majority of our study participants assign almost equal probabilities to the $2\% - 2.99\%$ and $3\% - 3.99\%$ ranges for the May 2024 CPI inflation rate. We document that participants allocate more probability points to the $2\% - 2.99\%$ range for the August 2024 inflation rate compared to the $3\% - 3.99\%$ interval. This suggests that participants hold relatively longer-term optimistic beliefs about the economy and inflation.

Inflation Priors and Partisanship: We focus on the cumulative percentage points allocated to the first three inflation intervals that are below the 3% threshold: $\Pi^i_{<3\%} = \sum_{k=1}^{3} \pi^i_{\text{Interval}_k}$. We estimate regressions as follows:

$$\Pi^i_{<3\%} = \beta_0 + \beta_1 Republican^i + \Gamma^T \Xi^i + \rho^i \tag{8}$$

where, Republican^i is a dummy indicator for Republican participants, Ξ^i is a vector of individual controls, and ρ^i represents errors.

Using equation 8 with different modeling specifications, Table 1 presents the estimation results investigating the January 2024 CPI inflation priors and the influence of partisanship on inflation expectations. It is important to note that these prior beliefs are elicited before the information treatments are provided. Therefore, Table 1 offers a snapshot of the initial state of household sentiment regarding the future trajectory of the inflation rate in the U.S. economy.

Our primary research focus centers on household beliefs regarding the likelihood of the January 2024 inflation rate dropping below 3%. Table 1, Column 1, indicates that, on average, our study participants estimate a 43% probability of observing an inflation rate below 3% in January 2024. Consequently, our study sample perceives the most likely outcome for the January 2024 CPI rate to be above the 3% threshold. In exploring the relationship between political partisanship and inflation priors, as presented in Table 1, Columns 2 and 3, we find that Republicans exhibit a more pessimistic view of the economy. Specifically, their estimated likelihood of experiencing a below-3% inflation rate is 3.6 percentage points lower than that of Democrats. Furthermore, when controlling for important demographic characteristics in Table 1, Column 3, we confirm that our estimates remain robust.

We also extend our research inquiries beyond the 3% threshold. We investigate the

Table 1: Partisanship and Inflation Priors

	Prob. of Below 3% Inflation	Prob. of Below 3% Inflation	Prob. of Below 3% Inflation	Expected inflation	Expected inflation	Expected inflation
	(1)	(2)	(3)	(4)	(5)	(6)
Republican		−3.56**	−3.70**		0.21***	0.22***
		(1.77)	(1.87)		(0.07)	(0.08)
Constant	42.90***	44.69***	50.26***	3.47***	3.36***	3.32***
	(0.89)	(1.23)	(3.03)	(0.04)	(0.05)	(0.12)
Controls	×	×	✓	×	×	✓
N	1080	1080	1080	1080	1080	1080
Rsq	0.00	0.00	0.01	0.00	0.01	0.01

Note: This table shows the relationship between partisanship and elicited incentivized Janury 2024 inflation priors using OLS. The dependent variable for the first three columns is probability values (0-100%) reflecting respondents' belief for the January 2024 CPI all items inflation rate being below 3%. The dependent variable for the last three columns is expected inflation in January 2024. Republican is a binary variable showing self-reported favourable preference for the Republican Party. Controlled fixed effects: income dummy indicating if a respondent's family income is above $65,000, White ethnicity dummy, education dummy indicating if a respondent has 4-year university or higher degree, and gender. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

expected inflation rate and how it changes across Republicans and Democrats.[30] We estimate the following equation:

$$\mathbb{E}\pi^i_{prior} = \beta_0 + \beta_1 Republican^i + \Gamma^T \Xi^i + \rho^i \tag{9}$$

Using equation 9, Table 1, Column 4, presents the average of the expected inflation rate based on elicited January 2024 CPI priors. We find that the expected inflation rate in January 2024 for our sample is 3.47%. Notably, at the time of data collection, the most recent available inflation rate was the 3.2% CPI rate for October 2023. This indicates that study participants anticipate a 0.27 percentage point increase in the inflation rate by January 2024. Table 1, Column 5, reveals that Republicans expect a higher inflation rate at 3.57%, compared to 3.36% expected by Democrats. Additionally, the inclusion of control variables in Table 1, Column 6, does not alter this conclusion, demonstrating that our estimates are robust across different regression specifications.

[30] We calculate expected inflation priors as specified in equation 5.

Table 2: Partisanship, News Tone and Belief Updating in the No Source treatment

Dependent Variable: $\pi_{true} - \mathbb{E}\pi^i_{posterior}$	No Source All	No Source All	No Source All	No Source GoodNews	No Source BadNews
$\beta_{updating}$ for $\mathbb{E}\pi^i_{posterior} - \mathbb{E}\pi^i_{prior}$	-0.32^{***}	-0.33^{***}	-0.36^{***}	-0.30^{**}	-0.39^{***}
	(0.06)	(0.06)	(0.07)	(0.12)	(0.09)
$\beta_{Republican}$		-0.12	-0.12	-0.04	-0.24
		(0.11)	(0.11)	(0.14)	(0.17)
$\beta_{updating*Republican}$			0.08	-0.03	0.22
			(0.12)	(0.15)	(0.19)
β_{const}	-0.45^{***}	-0.39^{***}	-0.39^{***}	-0.29^{***}	-0.48^{***}
	(0.06)	(0.07)	(0.07)	(0.10)	(0.11)
N	357	357	357	183	174
Rsq	0.08	0.09	0.09	0.09	0.09
$\mathbb{P}$ $(\beta_{updating} = \beta_{updating})$ GoodNews vs. BadNews:				*Diff* = 0.09, *p-value*= 0.27	
$\mathbb{P}$ $(\beta_{Republican} = \beta_{Republican})$ GoodNews vs. BadNews:				*Diff* = 0.20, *p-value*= 0.19	
$\mathbb{P}$ $(\beta_{updating*Republican} = \beta_{updating*Republican})$ GoodNews vs. BadNews:				*Diff* = -0.24, *p-value*= 0.15	

Note: This table shows the relationship between partisanship, news source, news tone, and inflation posterior updating. Robust HC1 standard errors and OLS estimates are reported. *p<0.1; **p<0.05; ***p<0.01

Supplementary Materials Section 9 also provides the results of robustness checks. We show that, as expected, the prior beliefs are not different across the experimental conditions. This check ensures that partisanship was the only significant predictor in the sample's prior beliefs. In addition, Supplementary Materials Section 9 details assigned average prior probabilities to each inflation interval and how they change across partisanship lines.

Belief Updating: Now, we discuss our primary findings regarding how households update their inflation expectations depending on the tone and source of the provided economic information. In Table 2, we estimate the following regression specification:

$$\pi_{\text{true}} - \mathbb{E}\pi^i_{\text{posterior}} = \beta_{\text{const}} + \beta_{\text{updating}}(\mathbb{E}\pi^i_{\text{posterior}} - \mathbb{E}\pi^i_{\text{prior}}) + \\ + \beta_{\text{Republican}} I^i_{\text{Republican}} + \beta_{\text{updating*Republican}}(\mathbb{E}\pi^i_{\text{posterior}} - \mathbb{E}\pi^i_{\text{prior}}) I^i_{\text{Republican}} + \rho^i \tag{10}$$

Where $\beta_{updating}$ captures households' over- or underreaction to the economic information

pieces (Coibion and Gorodnichenko, 2015). Table 2 shows that when we do not reveal the news source, study participants overreact to the economic information. Table 2 Column 1 displays that the mean of the dependent variable is -0.45 ($p-value < 0.01$), i.e., inflation posteriors are mostly larger than the actual 2024 January CPI rate. With the estimated $\beta_{updating}$ being at -0.32 ($p-value < 0.01$), Column 1 shows that participants revise their beliefs upwards and overshoot their inflation expectations.

In Table 2, Columns 2 and 3 introduce a dummy variable for Republicans and its interaction with the belief updating process. The results indicate that partisans do not exhibit differential patterns in updating their beliefs. Columns 4 and 5 of Table 2 present sub-sample analyses for the GoodNews and BadNews conditions, where we fail to detect any asymmetric behavior across sub-samples.[31] Overall, Table 2 reveals that households tend to overreact to the economic information provided. However, in the No Source experimental conditions, where news sources are not disclosed, we observe no behavioral differences between Republicans and Democrats. Additionally, no asymmetry is detected between the GoodNews and BadNews scenarios in the No Source condition. We also find qualitatively similar results in our Bayesian estimations (see Supplementary Materials Section 5).

Table 3 presents similar analyses for the CNN and Fox treatments. The upper panel in Table 3 shows that study participants overreact to the economic information when one of the news sources is revealed to be CNN. Unlike the No Source treatment, Republican households overreact more to the economics news pieces than Democrats. Table 3, upper panel, also demonstrates that Republicans' overreaction is associated with pessimism as they overshoot with respect to the true inflation rate. We also detect an asymmetry between GoodNews and BadNews conditions. Republicans exhibit pessimism ($\beta_{Republican} = -0.35, p-value < 0.05$) in the GoodNews condition compared to the BadNews treatment. In other words, Republican households show pessimism when the GoodNews information piece is presented with the CNN logo.

The lower panel in Table 3 also reports pessimism among Republicans when Fox is revealed to be among the news sources for the provided economic information pieces. We also detect an asymmetry between GoodNews and BadNews conditions. Study participants

[31] Supplementary Materials Section 9 provides manipulation checks about the tone of our news pieces.

Table 3: Partisanship, News Tone and Belief Updating in the CNN and Fox treatments

Dependent Variable: $\pi_{true} - \mathbb{E}\pi^i_{posterior}$	CNN	CNN	CNN	CNN	CNN
	All	All	All	GoodNews	BadNews
$\beta_{updating}$ for $\mathbb{E}\pi^i_{posterior} - \mathbb{E}\pi^i_{prior}$	-0.46^{***}	-0.45^{***}	-0.30^{***}	-0.22^{*}	-0.41^{***}
	(0.08)	(0.08)	(0.08)	(0.11)	(0.10)
$\beta_{Republican}$		-0.21^{*}	-0.18^{*}	-0.35^{**}	-0.02
		(0.11)	(0.11)	(0.16)	(0.16)
$\beta_{updating*Republican}$			-0.31^{**}	-0.30	-0.32
			(0.15)	(0.19)	(0.21)
β_{const}	-0.41^{***}	-0.31^{***}	-0.31^{***}	-0.23^{**}	-0.36^{***}
	(0.05)	(0.07)	(0.07)	(0.10)	(0.10)
N	358	358	358	176	182
Rsq	0.13	0.14	0.16	0.13	0.20
$\mathbb{P}$ ($\beta_{updating} = \beta_{updating}$)					
GoodNews vs. BadNews:				*Diff* $= 0.20$, *p-value*$= 0.13$	
$\mathbb{P}$ ($\beta_{Republican} = \beta_{Republican}$)					
GoodNews vs. BadNews:				*Diff* $= -0.33$, *p-value*$= 0.07$	
$\mathbb{P}$ ($\beta_{updating*Republican} = \beta_{updating*Republican}$)					
GoodNews vs. BadNews:				*Diff* $= 0.02$, *p-value*$= 0.47$	
Dependent Variable: $\pi_{true} - \pi^i_{posterior}$	Fox	Fox	Fox	Fox	Fox
	All	All	All	GoodNews	BadNews
$\beta_{updating}$ for $\pi^i_{posterior} - \pi^i_{prior}$	-0.32^{***}	-0.32^{***}	-0.31^{***}	-0.10	-0.44^{***}
	(0.07)	(0.07)	(0.11)	(0.15)	(0.12)
$\beta_{Republican}$		-0.27^{**}	-0.27^{**}	-0.20	-0.36^{**}
		(0.11)	(0.11)	(0.16)	(0.15)
$\beta_{updating*Republican}$			-0.03	-0.09	0.02
			(0.14)	(0.22)	(0.15)
β_{const}	-0.31^{***}	-0.18^{**}	-0.18^{**}	-0.17	-0.15
	(0.05)	(0.07)	(0.07)	(0.11)	(0.10)
N	365	365	365	183	182
Rsq	0.06	0.08	0.08	0.02	0.16
$\mathbb{P}$ ($\beta_{updating} = \beta_{updating}$)					
GoodNews vs. BadNews:				*Diff* $= 0.35$, *p-value*$= 0.03$	
$\mathbb{P}$ ($\beta_{Republican} = \beta_{Republican}$)					
GoodNews vs. BadNews:				*Diff* $= 0.16$, *p-value*$= 0.23$	
$\mathbb{P}$ ($\beta_{updating*Republican} = \beta_{updating*Republican}$)					
GoodNews vs. BadNews:				*Diff* $= -0.11$, *p-value*$= 0.34$	

Note: This table shows the relationship between partisanship, news source, news tone, and inflation posterior updating. Robust HC1 standard errors and OLS estimates are reported. *p<0.1; **p<0.05; ***p<0.01

overreact to BadNews when Fox is among the news sources. However, belief updating is aligned with the Full Information Rational Expectation baseline when we present GoodNews with the Fox logo.

Overall, our belief updating findings can be summarized as follows: i) Households generally overreact to the provided economic information pieces, confirming the findings of previous studies (Bordalo et al., 2020); ii) Partisanship does not affect belief updating when we do not disclose news sources in the No Source condition. We also do not detect any asymmetry between GoodNews and BadNews treatments in the No Source condition; iii) Republican households overreact more to the economic news when it is provided with the CNN logo than Democrats. This overreaction leads to more pessimism regarding the future trajectory of the inflation rate. We detect an asymmetry between GoodNews and BadNews treatments, as Republicans become more pessimistic when they read the GoodNews information piece with the CNN logo than Democrats; iv) Republicans also exhibit pessimism in the Fox treatment. All households update their beliefs in line with the FIRE baseline when GoodNews is presented with the Fox logo. However, the BadNews Fox condition triggers overreaction among all households. These results can also be seen in Figure S5 in the Supplementary Materials Section 9, which conducts non-parametric tests to compare treatment differences in updating.

Structural Bayesian Belief Updating Analysis: We relegate the detailed discussion regarding our Bayesian updating analyses to Supplementary materials Section 5. In summary, our results qualitatively overlap with the FIRE framework analysis. One important result is that using the Bayesian framework, we do not detect systematic differences between Republicans and Democrats either when the news source is not disclosed. Moreover, sub-sample estimates do not reveal any asymmetry between GoodNews and BadNews treatments either for Republicans or Democrats.[32] However, in the CNN and Fox conditions, both Republicans and Democrats exhibit asymmetric belief updating patterns and overreact to BadNews more than GoodNews.

[32]In the pooled sample, we detect a moderately significant asymmetric effect between GoodNews and BadNews conditions. However, as mentioned, our sub-sample analyses showing this asymmetric effect does not stem from partisanship.

Table 4: Partisanship, News Tone, and Economic Expectations

	Unemployment Rate	Economic Growth Rate	Personal Financial Position	Durable Purchasing	Optimism Personal Finance	Optimism Neighbours	Optimism USA population
Inflation Prior	−0.02***	0.02***	0.005	−0.0002	−0.01	−0.002	0.02***
	(0.01)	(0.01)	(0.01)	(0.004)	(0.01)	(0.01)	(0.01)
Belief Updating	−0.02**	0.01*	0.004	−0.004	−0.01	−0.01	0.001
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Republican	0.11***	−0.16***	−0.14***	−0.06*	0.004	−0.004	−0.01
	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)	(0.04)	(0.04)
BadNews	0.12***	−0.12***	−0.08*	0.003	−0.05	−0.02	−0.05
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Republican*BadNews	−0.01	0.07	0.04	−0.0001	0.002	0.05	0.02
	(0.06)	(0.06)	(0.05)	(0.05)	(0.06)	(0.06)	(0.06)
Constant	0.31***	0.42***	0.37***	0.22***	0.57***	0.40***	0.29***
	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)	(0.04)	(0.04)
N	1080	1080	1080	1080	1080	1080	1080
Rsq	0.05	0.04	0.03	0.01	0.01	0.00	0.01

Note: Dependent variables are binary. The description of dependent variables: unemployment rate will increase over the next 3 months, economic growth will slow down over the next 3 months, personal financial position will be better off over the next 3 months, it is good time for durable goods purchasing, optimistic about personal financial prospect over the next 3 months, optimistic about the financial prospect of people living in the same zip code over the next 3 months, optimistic about financial prospect of United States population. Badnews is a dummy indicating either BadNews, BadNewsCNN, or BadNewsFox experimental condition. OLS estimates and Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Inflation Expectations Over Longer Horizons: We further explore how our treatment conditions affect inflation expectations for longer horizons. Supplementary Materials Section 6 shows how May and August 2024 inflation rate predictions change under different study conditions. Overall, we find that Republicans tend to be more pessimistic about a relatively longer-term trajectory of inflation compared to Democrats, and this pattern holds true even when the media source is not disclosed. The revelation of Fox News as one of the media sources for our information pieces amplifies this pessimistic outlook among Republicans. However, it is interesting to note that news pieces labeled with CNN do not significantly influence Republicans' longer-horizon inflation beliefs.

Inflation Expectations and Economic Activity: The January 2024 inflation rate expectations also influence personal financial decisions and macroeconomic outlook. Table 4 summarizes the results of our empirical analysis. A positive outlook on short-term inflation

rates is associated with an overall optimistic macroeconomic perspective. Specifically, participants who assign a higher prior probability to the likelihood of a below-3% inflation rate in January 2024 tend to be more optimistic about the U.S. economy, predicting that the unemployment rate will decrease in the subsequent three months. Participants anticipating a lower inflation rate also hold heightened optimism regarding the financial well-being of the U.S. populace.

Furthermore, we observe that the BadNews conditions are associated with an increased probability of expectations for higher unemployment, reduced economic growth, and worsened personal financial conditions. Our findings also reveal that Republicans are more inclined to anticipate high unemployment, sluggish economic growth, a deterioration in personal financial situations, and less favorable conditions for purchasing durable goods than Democrats. Supplementary Materials Section 9 shows that Republicans report being less likely to increase their spending on Christmas decorations. Additionally, after being exposed to the BadNews condition, Republicans report more inclination to cancel their winter vacation plans compared to Democrats.

Entropy in Prior and Posterior Beliefs: We examine the entropy in January 2024 CPI inflation prior and posterior beliefs, using entropy as a measure of belief uncertainty. According to the Bayesian framework, higher prior entropy is expected to amplify the impact of information on posterior beliefs (Fuster et al., 2022). Essentially, a decision-maker with high uncertainty in their prior beliefs is more likely to learn from the provided information, which should, in turn, reduce posterior entropy.

First, we focus on how the entropy of prior inflation beliefs influences expectations of a below-3% inflation rate. For instance, an individual with high prior uncertainty might still believe that the January 2024 CPI inflation rate will stay below the 3% mark. In such cases, the variance in prior beliefs predominantly occurs within the assigned probabilities to inflation intervals below 3%. Conversely, prior belief uncertainty can also manifest in probabilities assigned to intervals above the 3% threshold. Therefore, the first part of our investigation seeks to determine the "cost" of prior belief entropy. Specifically, we investigate if prior belief entropy leads to optimistic or pessimistic inflation expectations.

Table 5: Partisanship, Prior Entropy, and Inflation Expectations

	$\Pi_{\textit{less-than-3\% Inflation}} > \Pi_{\textit{3\% or more Inflation}}$				
	(1)	(2)	(3)	(4)	(5)
Republican		−0.05*		−0.05*	−0.05*
		(0.03)		(0.03)	(0.03)
EntropyPrior			−0.16***	−0.16***	−0.16***
			(0.03)	(0.03)	(0.03)
Constant	0.35***	0.38***	0.57***	0.60***	0.70***
	(0.01)	(0.02)	(0.04)	(0.04)	(0.07)
Controls	×	×	×	×	✓
N	1080	1080	1080	1080	1080
Rsq	0.00	0.00	0.03	0.03	0.04

Note: This table illustrates the relationship between partisanship, entropy in the elicited inflation priors, and January 2024 inflation expectations. The dependent variable is a binary variable, indicating whether a participant assigns a higher prior probability to a below-3% inflation rate than to an above-3% rate. The last model includes controlled fixed effects: an income dummy indicating whether a respondent's family income exceeds $65,000, a dummy variable for white ethnicity, an education dummy signifying whether a respondent holds a 4-year university degree or higher, and a variable for gender. OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table 5 presents the results of our regression analyses focused on identifying the determinants that lead to assigning a higher probability to a below-3% January 2024 inflation rate compared to an above-3% CPI rate for the same month. According to Column 1 of Table 5, only 35% of our sample considers it more likely to observe an inflation rate below the 3% threshold than to witness a rate above 3% in January 2024. Column 2 reveals that identifying as a Republican decreases the likelihood of expecting a below-3% inflation rate. Furthermore, Column 3 of Table 5 indicates that an increase in the entropy of prior beliefs reduces optimism about experiencing a below-3% inflation rate within three months. Additional model specifications within Table 5 confirm the robustness of our findings. Thus, we conclude that the cost of uncertainty in prior beliefs is pessimism about the inflation rate's likelihood of moving below the 3% threshold.

Our analysis also focuses on the impact of the news tone and source on posterior entropy. Employing various model specifications, Table 6 reveals that, in general, our treatment con-

Table 6: Partisanship, News Tone, and Posterior Entropy

	Posterior Beliefs Entropy						
	Pooled	Pooled	Pooled	Pooled	No Source	CNN	Fox
Republican	0.04		0.04	0.05	−0.02	0.01	0.18**
	(0.03)		(0.03)	(0.04)	(0.08)	(0.07)	(0.07)
GoodNews*Republican				−0.04	0.002	0.03	−0.13
				(0.06)	(0.11)	(0.10)	(0.10)
GoodNews		−0.03	−0.03	−0.01	−0.10	0.06	−0.003
		(0.03)	(0.03)	(0.04)	(0.07)	(0.07)	(0.07)
Constant	1.23***	1.27***	1.25***	1.24***	1.33***	1.19***	1.20***
	(0.02)	(0.02)	(0.02)	(0.03)	(0.05)	(0.05)	(0.05)
N	1080	1080	1080	1080	357	358	365
Rsq	0.00	0.00	0.00	0.00	0.01	0.01	0.02

Note: This table shows the relationship between partisanship, news tone, and entropy in the elicited inflation posteriors. The dependent variable is the distribution entropy of posterior beliefs. OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

ditions do not significantly reduce posterior belief entropy or uncertainty. However, a notable exception is observed among Republicans in the Fox treatments. Republican participants exhibit higher posterior entropy than Democrats in the Fox experimental condition. This finding suggests that exposure to an economic information piece associated with Fox News increases uncertainty among Republican participants regarding future inflation rates.

As a placebo test, Supplementary Materials Section 9 shows that the entropy of prior January 2024 inflation beliefs does not change across the tone of our experimental treatments (since the treatments are introduced after the elicitation of priors) and partisanship. More specifically, Republicans and Democrats exhibit the same uncertainty in their *raw* inflation expectations.

We also conduct an exploratory analysis in Supplementary Materials Section 8 using the Kullback-Leibler (KL) Divergence measure. The KL measure helps us connect the entropy in posterior and prior belief distributions regarding the January 2024 CPI inflation. A higher value in the KL measure indicates that a decision-maker's posterior distribution is

significantly different from their prior density in terms of entropy. For instance, consider a case where a participant allocates 100 percentage points to the $1\% - 1.99\%$ inflation interval in their prior distribution. However, the participant changes their mind and allocates all 100 percentage points to the $2\% - 2.99\%$ inflation interval in their posterior distribution. Our KL measure records the highest value in this case. In other words, the shift from a very concentrated prior distribution to an equally concentrated posterior distribution indicates a high degree of learning. The KL measure records a lower value when the prior and posterior distributions are less concentrated.

Our analyses in Supplementary Materials Section 8 examine the relationship between the entropy of prior belief density and our KL measure values (distributional learning). We investigate the conditions under which our information treatments facilitate learning in study participants, depending on their prior belief uncertainty. We find that Democrats with higher prior entropy tend to "learn" more when they receive GoodNews sourced from Fox (or an ideologically misaligned signal). In all other scenarios, we do not detect any significant relationship between prior entropy and KL-based learning.

Overall, our analyses suggest that Fox News increases posterior belief entropy/uncertainty among Republicans. Democrats exhibit higher KL learning when they have high prior belief entropy in the GoodNews Fox experimental condition.

Economic Differences across Partisanship: Supplementary Materials Section 9 details the results of our investigations, examining the amount of time study participants spent reading the designed information pieces. No significant differences in attention time between Republicans and Democrats are detected in the Pooled sample, nor in the No Source and Fox experimental conditions. We observe that the tone of the news piece does not influence the attention time for the information. However, in the CNN treatment, Republicans spend less time reading news pieces that contain CNN's logo than Democrats.

Supplementary Materials Section 9 also present further analyses spanning different behavioral dimensions: i) the Financial Literacy Score is constructed based on the methodology outlined by Roth and Wohlfart (2020);ii) general risk tolerance and time preference (patience) are measured using the scales proposed by Falk et al. (2023); iii) additionally, study

participants are asked to allocate $100 of investment funds among index stocks, common stocks, and cryptocurrency, a method designed to measure their financial risk preferences. Our findings indicate that Republicans and Democrats display similar levels of financial literacy. However, Republicans tend to be more risk-tolerant and exhibit greater patience. Additionally, our results reveal that Republicans are less inclined to invest in index stocks, generally considered one of the safest investment options in financial markets. Republicans are more inclined to invest in cryptocurrencies, which is consistent with their higher risk tolerance.

VII Discussion and Conclusion

Modern monetary policy assumes that long-run inflation expectations are anchored, meaning that short-term abrupt changes in the macroeconomic outlook do not trigger systematic revisions in individuals' projections of long-term price dynamics (Gáti, 2023). This fundamental policy premise is violated when economic agents over-update their price expectations in response to current macroeconomic fluctuations. Overreacting to short-term price movements might also self-enforce an adverse business cycle, reducing consumer confidence in the economy. Such shifts often force central banks to adopt high-interest rate regimes, putting downward pressure on housing markets, retail sales, and investment activities (Carvalho et al., 2023; Gáti, 2023; Agarwal et al., 2023; Bachmann et al., 2015). Our study investigates how the source and tone of news sources might affect households' expectations.

We document that partisanship affects a wide range of economic expectations. Specifically, we document that partisans are more likely to react to negative information when it is provided by a news source that has a political inclination misaligned with them. In general, we find asymmetric and pessimistic belief updating.

We conduct our study in a unique policy environment, where the Fed's policy target is to tame inflation with a "soft" landing. The effectiveness of these policy actions hinges on to what extent households' market expectations are aligned with the Fed's perspective. We show that non-partisan news sources can trigger more balanced household reactions to

positive and negative economic developments than perceived politically biased media. Thus, we emphasize the importance of "neutral" policy communication tools with the general public.

Our study is related to the growing body of literature that investigates how households' macroeconomic outlooks and expectations drive aggregate spending and other critical economic dynamics. Research indicates that expectations can be influenced by a wide array of factors, including socio-economic status (Das et al., 2020; Boumans et al., 2024). There is also evidence that inflation expectations of households and managers are more aligned, showing different patterns than expert forecasts (Coibion et al., 2020a,b; Lamla and Vinogradov, 2019). Therefore, understanding the critical determinants of households' inflation beliefs provides crucial insights into how most economic agents form their macroeconomic outlook expectations.

Using a representative sample from the United States, Roth and Wohlfart (2020) examine how individuals react to optimistic and pessimistic economic forecasts made by two different experts. They elicit participants' inflation expectations, among other macroeconomic projections, and link these to their personal spending plans. Participants predominantly exhibit a pessimistic outlook and engage in conservative belief updating. This pessimism is more pronounced among participants who have been exposed to past economic crises and unemployment. They conclude that information prompts a greater response when it resonates with individuals' past experiences.

Is information provision a panacea to correct inaccurate and biased beliefs? Fuster et al. (2022) investigate the demand for different types of economic information among households in housing markets. They find that while individuals seek market information, they tend to exhibit biases regarding the specific type of information they prefer to access. Fuster et al. (2022) conclude that endogenous information demand may be a contributing factor to market heterogeneity.

We contribute to this literature by documenting the impact of a politically polarized environment on economic agents' macroeconomic expectations. Our research reveals that in such environments, agents often project their political inclinations onto their macroeconomic

forecasts and belief updating process. This behavior is not limited to inflation expectations; we observe it across a range of other economic indicators.

Our findings add a new dimension to the understanding of central banks' communications with the general public. We demonstrate that agents adjust their belief updates based on the perceived political bias of the information source. We also observe that economic information with a negative tone tends to elicit stronger reactions from households compared to news about optimistic market developments. This tendency for pessimistic information processing becomes even more pronounced when the negative news is disseminated through partisan news media. Therefore, our study underscores the significance of using "neutral" channels for communicating monetary policy goals and strategies.

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Section 1: Design Choices

We focus on households' short-run inflation expectations. We elicit their 3-month ahead CPI all-items inflation rate expectations using the Binarized Scoring Rule (BQSR) method. Evidence shows that BQSR performs better than other belief elicitation methods (Erkal et al., 2020).[33] One caveat with the BQSR mechanism is that it is not trivial for a layperson to grasp it, especially in an online study. One can, for instance, ask participants to allocate 100 percentage points among the inflation intervals (Roth and Wohlfart, 2020). Then, the interval containing the actual inflation is realized, and the participant plays a lottery with the p probability of winning the reward. Here, the p probability is the number of the participant's allocated percentage points for that interval. This approach is easier to understand but not incentive-compatible.[34] We design an online calculator to facilitate participants' understanding of the BQSR method to solve this potential issue.

Another design challenge is the timing of eliciting posterior beliefs. A typical research design entails eliciting posteriors immediately after the information treatment. The advantage of this approach is that the minimal time between prior and posterior elicitation stages helps study participants remember their previous answers and re-consider them in the face of the new information (Stantcheva, 2023). However, this approach can also induce the experimenter demand effect, making study participants believe that they have to revise their beliefs, even when they do not change their opinions. Roth and Wohlfart (2020) test this caveat by eliciting posteriors immediately after the treatment or after some experimental

[33] Some studies show that the BQSR method can bias reported beliefs under certain circumstances (Danz et al., 2022). However, it still outperforms other methods (Hossain and Okui, 2013).

[34] To see this, consider the following example. Consider a decision-maker who believes that the probability for the future inflation rate to be in the $\{0\% - 0.99\%\}$, $\{1\% - 1.99\%\}$, and $\{2\% - 2.99\%\}$ intervals is 10%, 20%, and 70%, respectively. By allocating the percentage points in line with their beliefs, the decision-maker plays a compound lottery to win the reward with this probability: $0.1(0.1) + 0.2(0.2) + 0.7(0.7) = 0.54$. However, the decision-maker can improve their chance of winning the prize by not allocating the percentage points according to their beliefs and putting them all to the most likely inflation interval. This deviation from true beliefs has a higher probability of winning the expected reward: $0.1(0) + 0.2(0) + 0.7(1) = 0.7$.

stages. They report that, in both cases, they detect similar effects, meaning the experimenter demand effect is minimal when posteriors are elicited following the information treatments. Therefore, we choose to elicit revised beliefs after our information pieces.

Another potential design issue is that households are usually not well-informed about macroeconomic indicators. Haldane and McMahon (2018) show that United Kingdom households' knowledge of macroeconomic issues and indicators has been low and "flat" despite the central bank's attempts to use different and novel communication channels to increase public awareness of monetary policies. We define the all-items price change index in the instructions to mitigate potential issues stemming from participants' lack of knowledge of the CPI inflation rate. By focusing on the random assignment to treatments, we keep the lack of knowledge about macroeconomic variables constant across the treatment conditions.

We also decided against including a "neutral" information treatment as a pure control for our experimental treatments. It could be argued that economic news with balanced tones or a neutral perspective on the future trajectory of the inflation rate might provide a benchmark for comparing our GoodNews and BadNews economic information treatments. However, concerns about high inflation were prevalent during our study and data collection period. Consequently, neutral economic news, which neither predicts an increase nor a decrease in the inflation rate, might be perceived as bad news in this context. In other words, in the context of unfavorable economic conditions, a message that does not forecast any improvement in the status quo may inherently be viewed as bad news. Nonetheless, using a neutral economic news piece as a treatment would be a more logical choice when the inflation rate is stable at around 2%, which is the Fed's policy target and ensures a positive macroeconomic outlook. Therefore, given the unique macroeconomic circumstances during our study period, we chose to exclude the neutral information treatment from our experimental design.

Finally, highlighting one information source in our experimental information conditions and providing its logo might induce the experimenter demand effect, making study participants think that they must consider this dimension in their judgments. While acknowledging this concern, we argue that this design mimics one of the fundamental aspects of the news

provision landscape. Media outlets disseminate their news on social media, where their names and logos appear in the left corner of the screen. Local news outlets usually quote leading nationwide news outlets, highlighting their names and logos. This replicates fundamental aspects of the economic news supply environment, allowing us to draw externally valid conclusions. We find it highly unlikely for the participants to speculate in which direction the experimenter wants them to change their inflation beliefs after seeing each logo. Furthermore, the beliefs being incentivized, participants would find it costly to suit the experimenter's demands.

Information Pieces: Information pieces have two parts. The preamble part is shown to all study participants and provides a general background about the inflation rate's recent trajectory:

> **"We compiled this piece for you using different news media sources: Inflation in the United States has unquestionably cooled after hitting a 40-year high in the summer of 2022. While inflation has fallen from a peak of 9.1%, it remains above the Fed's target. The Consumer Price Index rose 3.7% in September from a year earlier, slightly hotter than economists' expectations, thanks to a jump in food and housing costs. However, the index was 3.2% in October."**

In the GoodNews condition, the preamble is followed by this paragraph, providing an optimistic future macroeconomic outlook:

> **"The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. The job market remains really strong. Unemployment is still low at 3.8%, and wages are rising. Some economists say that inflation is no longer considered an emergency issue. We think this disinflation trend remains in place and will continue as we head into 2024. We're going to get back to the Fed's inflation target."**

However, in the BadNews condition, the preamble is followed by this paragraph, casting

a negative tone about the future trajectory of the economy:

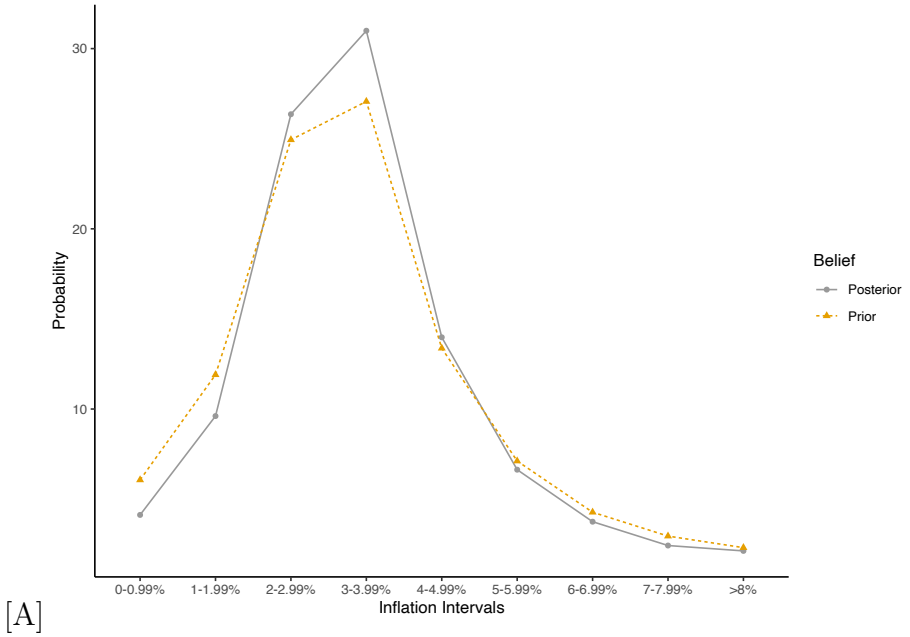
> **"The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. Some economists say that the U.S. economy will be more "fragile" going into 2024. Mortgage and interest rates are continuing to climb. The personal savings rate is nearly at an all-time low. We think inflation is going to be sticky. There is also risk of a recession."**

Section 2: Patterns in inflation expectations

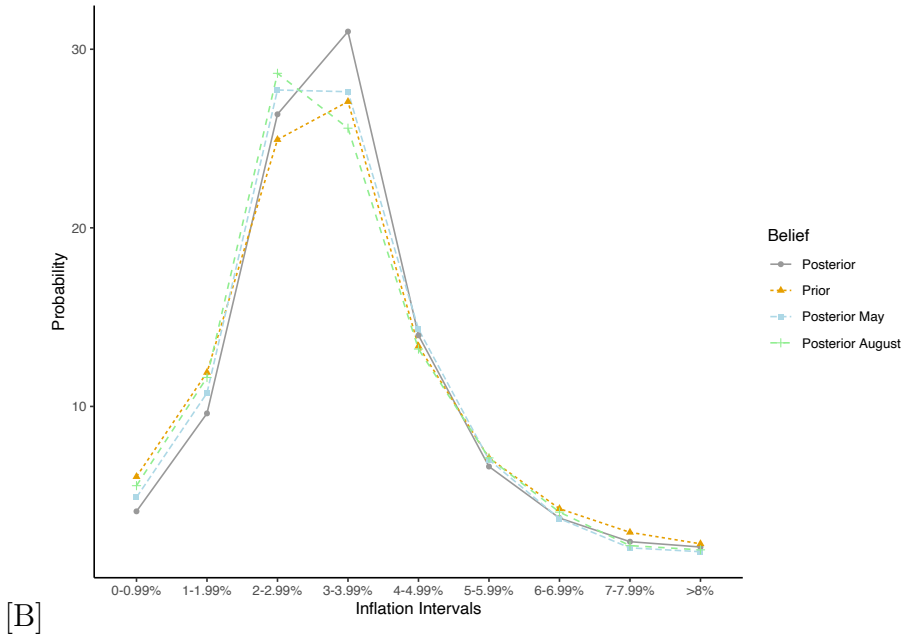
We begin our data analysis by examining the average probabilities assigned to inflation intervals. Figure S1, Panel A, illustrates the average prior and posterior percentage points allocated to each potential January 2024 CPI inflation range. The elicited prior beliefs reveal that study participants assigned the highest probability to the $3\% - 3.99\%$ interval, indicating a prediction that the January 2024 inflation rate will likely be above 3% but below 4%. In fact, the true January 2024 CPI *all-items* inflation rate was 3.1%, validating the majority of study participants' expectations.

The second highest probability is attributed to the $2\% - 2.99\%$ range, suggesting that participants also consider the possibility of the January 2024 inflation rate dropping below 3%, though they deem this less likely than remaining above 3%. Collectively, these findings indicate that our study sample expects the three-month ahead inflation rate to fall between 2% and 4% with approximately a 50% probability.

The proportion of participants who anticipate the economy to either overshoot the short-term inflation rate above 4% or undershoot below 2% is not negligible. Prior inflation beliefs indicate an approximate 17% likelihood for an inflation rate falling below 2%, while the remainder of the prior distribution leans towards expectations of overshooting. These findings suggest that the majority of the U.S. public expects only minor fluctuations in short-term inflation rates. However, our study also reveals the presence of both very optimistic and very pessimistic participants within our sample.



[A]



[B]

Note: This figure shows the mean of elicited beleifs over inflation intervals for the entire sample. Panel A displays inflation beliefs for January 2024. Panel B adds inflation expectations for May and August 2024.

Figure S1: Inflation Priors and Posteriors

In Figure S1, Panel A, the comparison between the January 2024 inflation rate posteriors and priors indicates that participants adopt a more pessimistic perspective after receiving our information treatments. Specifically, the average allocation of probability percentage points to the below-3% inflation intervals decreases, and there is a noticeable concentration of probability in the $3\% - 3.99\%$ range. Additionally, we document a slight reduction in the overall probability attributed to scenarios where inflation exceeds these ranges. Following the exposure to economic information pieces, study participants are more inclined to believe that the January 2024 inflation rate will likely fall between 3% and 4%.

Figure S1, Panel B, displays inflation rate expectations for longer time horizons. We find that a majority of our study participants assign almost equal probabilities to the $2\% - 2.99\%$ and $3\% - 3.99\%$ ranges for including the May 2024 CPI inflation rate. Additionally, there is a moderate increase in elicited probabilities for the rates falling below these ranges. We document that participants allocate more probability points to the $2\% - 2.99\%$ range for the August 2024 inflation rate, compared to the $3\% - 3.99\%$ interval. This suggests that participants hold relatively longer-term optimistic beliefs about the economy and inflation. Overall, Figure S1 reveals that i) participants consider the January 2024 inflation rate more likely to be above 3% and below 4%, and ii) study participants hold an optimistic outlook for relatively longer-term inflation rates, believing that the U.S. economy is more likely to experience below 3% inflation rates, at least in the late summer of 2024.

Section 3: Data

Table S1 displays the basic demographic characteristics of our study sample. We use the Benjamini & Hochberg correction for multiple testing and show that our study conditions are balanced across gender, race, age, income, education, and partisanship dimensions. The proportion of self-identified males slightly fluctuates around 50 percent, resembling the United States population census statistics.[35] Study participants of White ethnicity constitute approximately 65 percent of the sample, moderately lower than the captured 76 percent for the same category in the census. Around 70 percent of our participants are aged between

[35] https://www.census.gov/quickfacts/fact/table/US/PST045222

Table S1: Basic Demographic Characteristics

		Comparison of Treatment Arms						
	N	BadNews	BadNews CNN	BadNews Fox	GoodNews	GoodNews CNN	GoodNews Fox	Adj. p-value
		N = 174	N = 182	N = 182	N = 183	N = 176	N = 183	
Male	1,080	82 (47%)	93 (51%)	94 (52%)	87 (48%)	87 (49%)	94 (51%)	0.92
White	1,080	114 (66%)	123 (68%)	119 (65%)	119 (65%)	127 (72%)	125 (68%)	0.92
Age (18-24)	1,080	21 (12%)	15 (8.2%)	14 (7.7%)	19 (10%)	14 (8.0%)	19 (10%)	0.92
Age (25-34)	1,080	44 (25%)	55 (30%)	54 (30%)	47 (26%)	46 (26%)	59 (32%)	0.92
Age (35-54)	1,080	77 (44%)	72 (40%)	80 (44%)	84 (46%)	80 (45%)	74 (40%)	0.92
Age (55 and more)	1,080	32 (18%)	40 (22%)	34 (19%)	33 (18%)	36 (20%)	31 (17%)	0.92
Income >$65,000k	1,080	101 (58%)	97 (53%)	88 (48%)	102 (56%)	100 (57%)	106 (58%)	0.92
At Least College	1,080	153 (88%)	150 (82%)	154 (85%)	160 (87%)	152 (86%)	152 (83%)	0.92
Republican	1,080	86 (49%)	91 (50%)	93 (51%)	96 (52%)	82 (47%)	94 (51%)	0.92

		Republicans vs. Democrats		
	N	Democrats	Republicans	Adj. p-value
Male	1,080	269 (50%)	268 (49%)	0.86
White	1,080	294 (55%)	433 (80%)	0.00
Age (18-24)	1,080	66 (12%)	36 (6.6%)	0.00
Age (25-34)	1,080	190 (35%)	115 (21%)	0.00
Age (35-54)	1,080	220 (41%)	247 (46%)	0.14
Age (55 and more)	1,080	62 (12%)	144 (27%)	0.00
Income >$65,000k	1,080	280 (52%)	314 (58%)	0.07
At Least College	1,080	471 (88%)	450 (83%)	0.06

Note: The table shows the basic demographic characteristics of recruited participants. Reported statistics is n (%), i.e., counts and proportions. We conducted Pearson's Chi-squared test to compare proportions across groups. Benjamini & Hochberg correction for multiple testing was applied in computing Adj. p-values.

25 and 54. The proportion of participants with an annual household income of $65,000 or above changes between 53 percent and 58 percent across treatment arms, albeit no statistical difference is detected. Our study sample is more educated compared to the United States population. The proportion of individuals with a Bachelor's degree or higher is approximately 87 percent in our data, whereas individuals "with a Bachelor's degree or higher" constitute 37 percent of the U.S. population. This is mostly due to the whole U.S. Prolific sample having a higher education level than general population with 31,164 of the 64,647 active participants being educated to the Bachelor or higher level. Finally, the percentage of Republicans and Democrats is very close across our treatment conditions.

Table S1 also presents the comparison of Republicans and Democrats across gender, race, age, income, and education dimensions. We document that the proportion of males is balanced when statistically comparing these two groups, with Benjamini & Hochberg

p-value correction applied. However, in our sample, Republicans are more likely to be White and older. We also detect a moderate difference between these two groups in terms of household income; the proportion of Republicans with an annual household income of $65,000 or above is 58 percent, compared to 52 percent for Democrats. Another moderate statistical difference between Republicans and Democrats is observed along the education dimension. The percentage of individuals "with a Bachelor's degree or higher" is 83 percent among Republicans, compared to 88 percent for Democrats. Given these differences, we control for the observable characteristics of participants in all of our regression analyses.

Data Quality: Following the approach of Roth and Wohlfart (2020), we compare the quality of our data with that of a panel survey conducted by the New York Fed. A common challenge in online studies is participant engagement, especially in tasks that require thorough deliberation, such as predicting future inflation rates and assigning probabilities to different inflation intervals. This lack of engagement often results in corner inflation beliefs, where participants may find it difficult to deliberate the likelihood of each inflation interval and consequently resort to allocating their percentage points to only one interval. Thus, the number of intervals receiving non-zero probabilities can serve as an indicator of better data quality.

We calculated the proportion of study participants who allocated non-zero probabilities to more than one inflation prior interval. Roth and Wohlfart (2020) found that 80% of their sample, and 89.4% in the Federal Reserve's survey data, assigned non-zero probabilities to more than one interval. In contrast, in our study, 97.5% of participants assigned non-zero percentages to more than one inflation interval for their prior beliefs, and 91% allocated to more than two intervals. Furthermore, the average number of inflation prior intervals receiving non-zero probabilities in our study is 5.29. This is higher compared to 4.24 and 3.83 in the samples of Roth and Wohlfart (2020) and the Federal Reserve's survey, respectively (Armantier et al., 2013).

We conducted a similar inspection on our elicited posterior beliefs. Approximately 97.7% of our study participants allocated non-zero percentage points to more than one inflation interval for their posterior beliefs, and 87.5% did so for more than two intervals. Furthermore,

the average number of inflation posterior intervals receiving non-zero probabilities in our study is 4.91. Based on these findings, we conclude that the quality of our data is comparable to that in related studies.

Section 4: News Tone, News Source, and Inflation Posteriors

Table S2 offers a series of analyses on the impact of the tone of economic news pieces on January 2024 inflation posteriors, expected inflation based on these posteriors, and belief updating. Our regression specifications are closer to equations 8 and 9, but without controls and with the inclusion of a dummy variable for the GoodNews conditions. Table S2, Panel All, displays the estimation results for the entire study sample. We observe that the estimated posterior probability for a below-3% inflation rate in January 2024 increases by 3.45 percentage points under the GoodNews treatments. However, the overall sample's mean posterior probability estimate for observing a below-3% inflation rate in January is lower than the estimate derived from prior beliefs. This observation is consistent with our earlier conclusion that participants exhibit a more pessimistic view of inflation trends after receiving the information treatment. Additionally, we find that the GoodNews treatment reduces the expected posterior inflation rate by 0.18 percentage points. The last column of Table S2, Panel All, indicates that study participants allocate 4.37 percentage points more to the probability of a below-3% inflation rate in January under the GoodNews condition compared to the BadNews treatment. Our results imply that while the GoodNews economic information piece leads to the anticipated changes in belief updating, our entire sample still presents a rather pessimistic projection for the January 2024 inflation rate.

Table S2, Panel No Source, conducts the same analysis without disclosing news media sources in our information pieces. We observe that the No Source experimental condition mostly yields similar results. Under this condition, the GoodNews reduces the expected posterior inflation rate by 0.33 percentage points compared to the BadNews. Participants also assign a higher probability, specifically 4.33%, to the likelihood of a below-3% inflation

Table S2: News Tone, News Source, and Inflation Posteriors

	All			*No Source*		
	Prob. of Below 3% Inflation	Expected Inflation	$\Delta Prob.of Below$ 3% Inflation	Prob. of Below 3% Inflation	Expected Inflation	$\Delta Prob.of Below$ 3% Inflation
GoodNews	3.45**	−0.18***	4.37***	4.30	−0.33***	4.33*
	(1.70)	(0.07)	(1.36)	(2.87)	(0.11)	(2.61)
Constant	38.40***	3.60***	−4.96***	36.44***	3.74***	−6.84***
	(1.22)	(0.05)	(0.97)	(2.08)	(0.09)	(1.77)
N	1080	1080	1080	357	357	357
Rsq	0.00	0.01	0.01	0.01	0.02	0.01

	CNN			*Fox*		
	Prob. of Below 3% Inflation	Expected Inflation	$\Delta Prob.of Below$ 3% Inflation	Prob. of Below 3% Inflation	Expected Inflation	$\Delta Prob.of Below$ 3% Inflation
GoodNews	4.72	−0.12	6.46***	1.44	−0.10	2.46
	(2.97)	(0.12)	(2.21)	(2.98)	(0.11)	(2.23)
Constant	37.51***	3.60***	−5.69***	41.17***	3.47***	−2.44
	(2.15)	(0.08)	(1.57)	(2.11)	(0.08)	(1.67)
N	358	358	358	365	365	365
Rsq	0.02	0.02	0.03	0.01	0.02	0.00

Note: This table shows the relationship between experimental treatment conditions and elicited incentivized January 2024 inflation posteriors updating. Dependent variables: probability values (0-100%) reflecting respondents' belief for the January 2024 CPI all items inflation rate being below 3%, expected January 2024 CPI all items inflation rate, and probability value changes reflecting respondents' belief update for the January 2024 CPI all items inflation rate being below 3%. We use OLS estimations. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

rate when updating their beliefs. However, the impact of the GoodNews condition on the posterior belief level is not statistically significant despite the estimated coefficient having a positive sign.

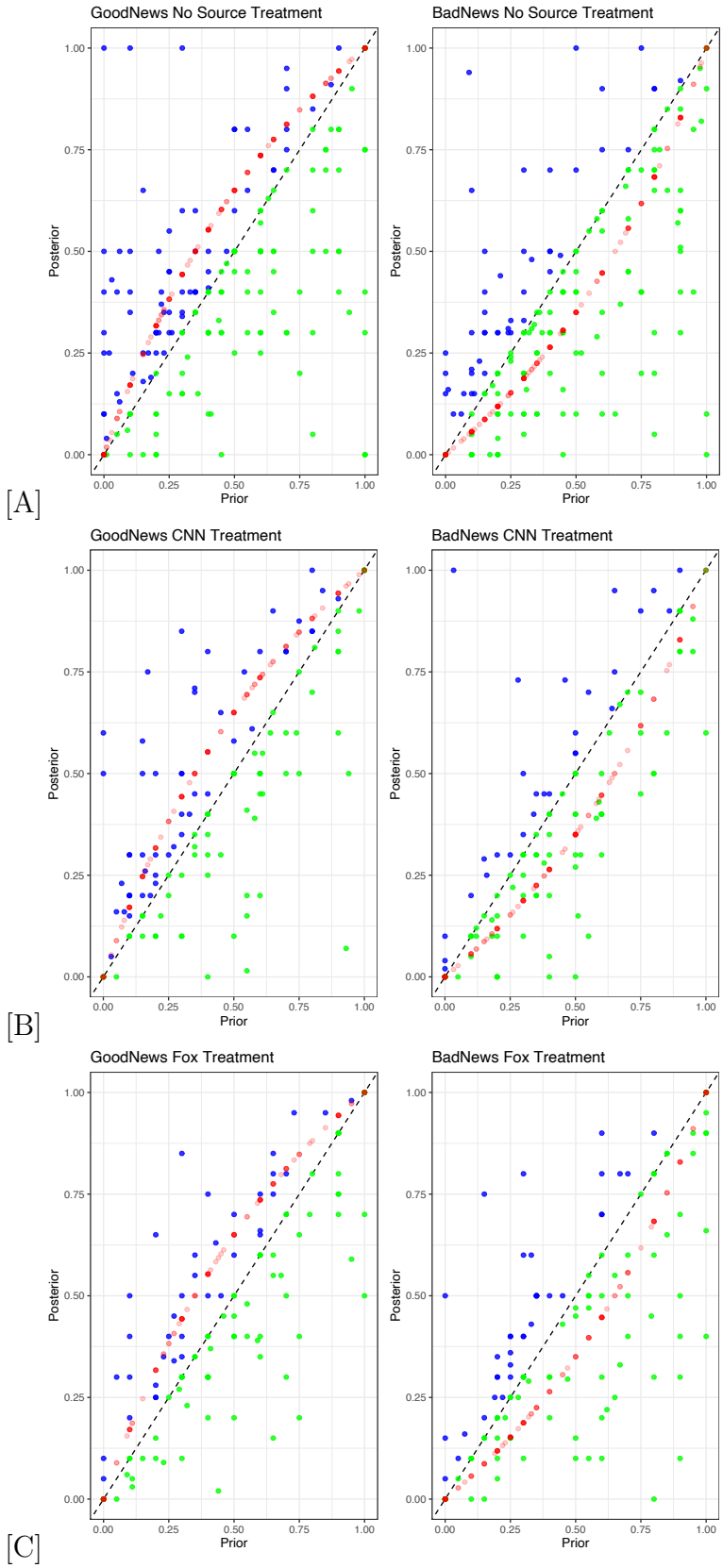
Now, we analyze how disclosing a news source influences the impact of the positively toned economic information piece on inflation posteriors. Table S2, Panel Fox, demonstrates that when Fox News is disclosed as one of the media sources for our information pieces, the effect of the GoodNews condition on January 2024 inflation posteriors and belief updating becomes negligible. Thus, the net effect of the positive economic information is nullified when participants are informed that Fox is among the news outlets used to prepare the news

piece.

Table S2, Panel CNN, shows that study participants increase the likelihood of observing a below-3% inflation rate in January 2024 by 6.46 percentage points when the GoodNews economic information piece is presented alongside a CNN logo. However, no net significant effect of the GoodNews condition on the expected inflation values and posterior belief levels is detected. This leads us to conclude that the net effect of positive economic news can be diminished by the news source. It suggests that the Fed, and central banks in general, should be mindful of how a politically fragmented news consumption environment can distort monetary policy communications, thereby potentially rendering macroeconomic policies less effective.

Figure S2 offers a different perspective on our empirical investigation presented in Table S2. It features scatter plots of January 2024 inflation priors and posteriors across six experimental conditions. The priors are mapped on the x-axes, while the posteriors are displayed on the y-axes. In essence, each plotted point links an individual's posterior and prior, representing their belief updates. The red dots in the plots represent the expected theoretical posterior Bayesian updates for each prior observation, consistent with the tone of the news piece.

Study participants update their beliefs in both directions in the GoodNews and BadNews conditions. In other words, we observe both "correct" and "incorrect" updates across all six experimental conditions. However, a visual inspection of Figure S2 reveals that our study sample predominantly revises down their probability beliefs regarding the likelihood of observing a below-3% inflation rate in January 2024. This observation confirms our previous discussions that study participants generally hold a more pessimistic outlook for the economy in the short term.



Note: This figure shows the scatter plot of elicited incentivized prior and posterior beliefs for below-3%-inflation in January 2024, across treatments. The red dots represent the theoretical Bayesian updates for each elicited prior.

Figure S2: Scatter plots Inflation Priors and Posteriors

Section 5: Details of Bayesian Belief Updating Analyses

We conduct a formal Bayesian belief updating investigation using the structural estimation approach outlined by Möbius et al. (2022). Table S3 showcases our primary results for the entire study sample, as well as for the No Source, CNN, and Fox experimental conditions separately. It is important to note that this estimation framework necessitates the analysis of "correct" updates, namely, posteriors that align with the tone of the provided economic news pieces and exclude the "wrong" updates.

We will discuss our estimation results following this roadmap. First, we scrutinize whether participants exhibit belief updating patterns that align with the predictions of the Bayesian framework. Second, we investigate the presence of asymmetric belief updates, particularly when decision-makers overreact to either the GoodNews or BadNews information pieces. Finally, we focus on examining the differences in belief updating between Republicans and Democrats.

Table S3, Panel All, presents three separate estimations for Bayesian belief updating regarding the January 2024 CPI inflation rate for the entire sample. The pooled model indicates that the estimated value of δ is statistically smaller than 1 and significant. This finding suggests that study participants incorporate their priors into their posterior updates. However, the influence of inflation priors on posterior beliefs is smaller in magnitude than the Bayesian benchmark predicts. We observe that the effects of both the GoodNews and BadNews conditions exceed the Bayesian benchmark of 1, indicating that participants overreact to both positive and negative economic news. Furthermore, tests to assess the difference in reactions to the GoodNews and BadNews reveal that participants overreact more to the BadNews than to the GoodNews ($\mathbb{P}(\beta_{GoodNews} = \beta_{BadNews}) = 0.09$).

Table S3, Panel All, also presents separate belief updating estimations for Republicans and Democrats. We find that both groups exhibit similar updating patterns, aligning with the general sample effects. Both Republicans and Democrats demonstrate overreaction to both positive and negative economic news. However, the reaction to the BadNews is stronger

Table S3: Partisanship, News Tone, News Source and Structural Posterior Estimations

	Belief updating about Below-3% Inflation					
	All			*No Source*		
	Pooled	Republican	Democrat	Pooled	Republican	Democrat
$\boldsymbol{\delta}$	0.75***	0.78***	0.72***	0.72***	0.88***	0.47***
	(0.04)	(0.06)	(0.06)	(0.08)	(0.06)	(0.17)
$\boldsymbol{\beta_{GoodNews}}$	1.79***	1.79***	1.74**	1.71***	1.85***	1.42*
	(0.49)	(0.66)	(0.75)	(0.45)	(0.53)	(0.80)
$\boldsymbol{\beta_{BadNews}}$	2.97***	3.62***	2.39***	2.98***	2.76***	3.04***
	(0.47)	(0.80)	(0.48)	(0.48)	(0.59)	(0.68)
N	716	380	336	236	126	110
Rsq	0.57	0.56	0.59	0.54	0.71	0.32
$\mathbb{P}$ ($\beta_{GoodNews} = \beta_{GoodNews}$)						
Republican vs Democrat		0.48			0.34	
$\mathbb{P}$ ($\beta_{BadNews} = \beta_{BadNews}$)						
Republican vs. Democrat		0.09			0.38	
Chow Test for sub-sample models						
Republican vs. Democrat:	$F-stat = 6.26$, $p\text{-}value < 0.01$			$F-stat = 1.13$, $p\text{-}value = 0.14$		
$\mathbb{P}$ ($\delta = 1$)	< 0.01	< 0.01	< 0.01	< 0.01	0.06	< 0.01
$\mathbb{P}$ ($\beta_{GoodNews} = 1$)	0.11	0.24	0.32	0.12	0.11	0.60
$\mathbb{P}$ ($\beta_{BadNews} = 1$)	< 0.01	< 0.01	< 0.01	< 0.01	< 0.01	< 0.01
$\mathbb{P}$ ($\beta_{GoodNews} = \beta_{BadNews}$)	0.09	0.09	0.47	0.07	0.25	0.16
	CNN			*Fox*		
	Pooled	Republican	Democrat	Pooled	Republican	Democrat
$\boldsymbol{\delta}$	0.76***	0.75***	0.77***	0.78***	0.75***	0.81***
	(0.07)	(0.10)	(0.10)	(0.05)	(0.07)	(0.07)
$\boldsymbol{\beta_{GoodNews}}$	1.15***	1.04*	1.24***	1.63***	1.64***	1.54***
	(0.30)	(0.54)	(0.31)	(0.37)	(0.52)	(0.49)
$\boldsymbol{\beta_{BadNews}}$	2.98***	3.57***	2.38***	2.41***	1.80***	2.95***
	(0.50)	(0.82)	(0.57)	(0.38)	(0.39)	(0.61)
N	249	120	129	231	111	120
Rsq	0.61	0.59	0.66	0.72	0.75	0.71
$\mathbb{P}$ ($\beta_{GoodNews} = \beta_{GoodNews}$)						
Republican vs Democrat		0.42			0.45	
$\mathbb{P}$ ($\beta_{BadNews} = \beta_{BadNews}$)						
Republican vs. Democrat		0.07			0.06	
Chow Test for sub-sample models						
Republican vs. Democrat:	$F-stat = 0.73$, $p\text{-}value = 0.54$			$F-stat = 1.08$, $p\text{-}value = 0.36$		
$\mathbb{P}$ ($\delta = 1$)	< 0.01	0.02	0.02	< 0.01	< 0.01	< 0.01
$\mathbb{P}$ ($\beta_{GoodNews} = 1$)	0.62	0.94	0.44	0.09	0.22	0.27
$\mathbb{P}$ ($\beta_{BadNews} = 1$)	< 0.01	< 0.01	0.02	< 0.01	0.04	< 0.01
$\mathbb{P}$ ($\beta_{GoodNews} = \beta_{BadNews}$)	< 0.01	0.02	0.09	0.16	0.82	0.08

Note: This table shows the relationship between partisanship, news source, news tone, and elicited January 2024 inflation posterior updating. The dependent variable is the posterior odd ratio for logit beliefs. The variable δ shows the prior odd ratio for logit beliefs. Robust HC1 standard errors and OLS estimates are reported. *p<0.1; **p<0.05; ***p<0.01

than to Good News. We conduct a Chow test and confirm that Republicans and Democrats follow structurally different posterior updating patterns. The magnitude of Republicans' overreaction to the BadNews is greater than that of Democrats' overreaction to negatively-toned economic news. We conclude that both partisan groups overreact to the negative news piece, with this effect being more pronounced among Republicans.

Table S3, Panel No Source, follows the same strategy in examining belief updating patterns when no news source is disclosed while providing information pieces. In the pooled sample, we observe overreaction to the BadNews and asymmetric belief updating. The participants' reactions to the GoodNews information align with the Bayesian benchmark. However, $\beta_{BadNews}$ is statistically greater than 1, suggesting an overreaction to negative economic news.

One important result is that we do not detect systematic differences between Republicans and Democrats when the news source is not disclosed. In Table S3, Panel No Source, separate estimations for Republicans and Democrats reveal that both partisan groups show posterior belief updates aligning with the Bayesian benchmark. Put differently, sub-sample estimates indicate that the estimated values for $\beta_{BadNews}$ and $\beta_{GoodNews}$ are not significantly different from the Bayesian benchmark of 1. This evidence shows that study participants do not demonstrate an overreaction to news pieces when the news source is undisclosed.

Table S3, Panels CNN and Fox, display our structural estimations when we disclose the CNN and Fox logos, respectively. We find that both Republicans and Democrats exhibit asymmetric belief updating and overreact to the BadNews. The key difference is that Republicans' overreaction to the BadNews is stronger than that of Democrats when CNN is disclosed as one of the news sources. Our investigation suggests that overreaction to the BadNews and asymmetric belief updating are prevalent in our sample. However, the overreaction to the BadNews treatment is amplified when Republicans and Democrats are provided with negatively-toned information pieces accompanied by CNN and Fox logos, respectively.

Incorrect Belief Updates: One limitation of our structural Bayesian updating approach, as noted by Möbius et al. (2022), is its dependence on "correct" belief updates. In other words, our Bayesian modeling framework is specifically applied to "weak" posterior up-

Table S4: Incorrect Belief Updates and Their Determinants

	Dependent Variable: Incorrect Belief Updates				
	(1)	(2)	(3)	(4)	(5)
Republican	0.01				0.01
	(0.03)				(0.03)
Fox		0.03		0.03	0.03
		(0.04)		(0.04)	(0.04)
CNN		−0.03		−0.03	−0.03
		(0.03)		(0.03)	(0.03)
GoodNews			0.10***	0.10***	0.10***
			(0.03)	(0.03)	(0.03)
Constant	0.33***	0.34***	0.29***	0.29***	0.29***
	(0.02)	(0.03)	(0.02)	(0.03)	(0.03)
N	1080	1080	1080	1080	1080
Rsq	0.00	0.00	0.01	0.01	0.01

Note: This table shows the relationship between partisanship, news tone, news source and incorrect belief updates. The dependent variable is a binary variable indicating incorrect belief updates with respect to news tones. The binary variable is one when participants revise down (up) their posteriors with respect to their priors when provided with the GoodNews (BadNews) piece. OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

dates about the likelihood of a below-3% January 2024 inflation rate that align with the tone of the news pieces. Beliefs are considered Bayesian "incorrect" when $\pi^i_{G,posterior} < \pi^i_{G,prior}s$ for an individual i who is exposed to Good News. Conversely, in the Bad News condition, beliefs are deemed "incorrect" if we observe $\pi^i_{G,posterior} > \pi^i_{G,prior}$.

In this subsection, our focus is on examining the factors that contribute to incorrect belief updates. Table S4 presents the results of our regression estimates, using a binary variable to indicate incorrect belief updates. According to Table S4, Column 1, 33% of our study sample update their posteriors in a direction inconsistent with the Bayesian approach. Furthermore, this column reveals that partisanship does not significantly influence incorrect updates. Moving to Table S4, Column 2, we observe that the news source has no significant impact on incorrect posterior updates at the aggregate level. However, in Table S4, Column

3, we identify that the tone of the news is a significant factor in driving incorrect updates. Notably, the GoodNews condition increases the probability of incorrect updating by 10 percentage points compared to the BadNews. Lastly, Table S4, Column 4, which incorporates all independent variables from the other model specifications in Table S4, confirms that the influence of news tone on incorrect updates is robust.

One potential reason for the upward effect of the GoodNews condition on the odds of incorrect belief updates might be that our study participants do not find optimistic economic predictions convincing. Participants who are skeptical of positive economic forecasts might lower their posterior probabilities for a below-3% inflation rate. This tendency could be attributed to *weak* economic arguments in the news media sources that portray an optimistic perspective about the future state of the U.S. economy. Perhaps those arguments did not resonate with individual financial experiences as well. Additionally, the GoodNews information treatment might prime participants to reflect more on the future trajectory of the economy, ultimately leading to a pessimistic outlook. Our data does not enable us to determine the primary cause of this effect. However, future research can explore this backlash effect, focusing on whether both optimistic and pessimistic economic news articles in news media sources possess equal rigor and persuasiveness to convince a reader.

Section 6: Inflation Expectations Over Longer Horizons

We further explore how our treatment conditions affect inflation expectations for longer horizons. Supplementary Materials show how May 2024 inflation rate predictions change under different study conditions. In Table S5, Panel No Source, we examine May 2024 inflation beliefs without disclosing the media source. We observe that Republicans estimate a 7.04 percentage point lower probability for a below-3% May 2024 inflation rate compared to Democrats in the No Source treatment. Interestingly, the tone of the news does not significantly influence beliefs about May 2024 inflation. We find that study participants who revise up their below-3% January 2024 inflation rate posteriors also tend to assign a higher

Table S5: Partisanship, News Tone, News Source, and May 2024 Inflation beliefs

	Beliefs about Below-3% May Inflation								
	No Source			*CNN*			*Fox*		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Republican		−2.77	−7.04*		−3.87	0.49		−10.54***	−13.33***
		(3.06)	(4.24)		(3.12)	(4.32)		(3.07)	(4.16)
GoodNews			1.78			6.60			−2.19
			(4.14)			(4.08)			(4.48)
January inflation updating			0.17***			0.27***			0.07
			(0.06)			(0.08)			(0.07)
Republican*GoodNews			7.17			−7.10			5.41
			(6.03)			(6.11)			(6.17)
Constant	42.28***	43.69***	43.83***	43.19***	45.06***	42.02***	44.66***	50.06***	51.29***
	(1.53)	(2.09)	(2.87)	(1.55)	(2.08)	(2.86)	(1.56)	(2.22)	(3.09)
N	357	357	357	358	358	358	365	365	365
Rsq	0.00	0.00	0.04	0.00	0.00	0.05	0.00	0.03	0.04

Note: This table shows the relationship between political affiliation, news tone, news source, and elicited non-incentivized May 2024 inflation beliefs. The dependent variable is assigned probability for below-3%-inflation. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

likelihood to experiencing a below-3% inflation rate in May 2024.

In Table S5, Panel CNN, we observe that an upward revision of the January 2024 inflation posteriors for a below-3% rate is associated with an increased optimistic outlook for the May 2024 inflation rate. However, in this treatment condition, no significant difference in expectations between Republicans and Democrats is detected. In contrast, when Fox News is disclosed as one of the media sources for our information pieces, a notable shift occurs in Republicans' expectations for the May 2024 inflation rate. Specifically, Republicans exhibit increased pessimism, assigning a 13.33 percentage point lower probability to the likelihood of observing a CPI rate below the 3% threshold.

Table S6 extends our investigation to August 2024 inflation expectations, revealing similar patterns in participants' beliefs about the probability of observing a below-3% inflation rate. In the No Source and Fox experimental conditions, Republicans demonstrate a more pessimistic outlook compared to Democrats. However, in the CNN treatment, there is no statistically significant difference between Republicans and Democrats regarding their

Table S6: Partisanship, News Tone, News Source, and August 2024 Inflation beliefs

	Beliefs about Below-3% August Inflation								
	No Source			*CNN*			*Fox*		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Republican		−2.88	−7.30*		−1.22	3.03		−9.19***	−10.76**
		(3.22)	(4.34)		(3.26)	(4.45)		(3.17)	(4.50)
GoodNews			4.32			7.76*			0.02
			(4.43)			(4.40)			(4.54)
January belief updating			0.12*			0.22**			0.02
			(0.07)			(0.09)			(0.07)
Republican*GoodNews			7.56			−7.11			3.08
			(6.34)			(6.44)			(6.37)
Constant	44.59***	46.06***	44.63***	45.19***	45.78***	42.08***	47.77***	52.48***	52.50***
	(1.61)	(2.23)	(3.06)	(1.62)	(2.19)	(3.09)	(1.60)	(2.25)	(3.30)
N	357	357	357	358	358	358	365	365	365
Rsq	0.00	0.00	0.04	0.00	0.00	0.03	0.00	0.02	0.02

Note: This table shows the relationship between political affiliation, news tone, news source, and elicited non-incentivized August 2024 inflation beliefs. The dependent variable is assigned probability for below-3%-inflation. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

August 2024 inflation expectations. Interestingly, in the No Source and CNN treatments, when there is an upward revision in the posterior probability for a below-3% inflation rate in January 2024, this shift also increases optimism for the August 2024 inflation rate.

Overall, Tables S5 and S6 demonstrate that Republicans tend to be more pessimistic about the medium-term trajectory of inflation compared to Democrats, and this pattern holds true even when the media source is not disclosed. The revelation of Fox News as one of the media sources for our information pieces amplifies this pessimistic outlook among Republicans. However, it is interesting to note that news pieces labeled with CNN do not significantly influence Republicans' medium-term inflation beliefs.

Section 7: Follow-up Survey

We conduct a follow-up survey with our study sample to investigate their trust level in our news sources. We also measure participants' perspectives about each news source's political

bias. Finally, we ask our participants to report the frequency of watching CNN and Fox. Our response rate is 83% (48% Democrats and 52% Republicans).

Figure S3, Panel A, presents our findings regarding the level of trust our study participants place in CNN and Fox News. Consistent with our predictions, Republicans exhibit distrust towards CNN, while Democrats show trust in it. On the other hand, Democrats display distrust towards Fox News. Interestingly, Republicans exhibit a weak trust ($0.17, p-value = 0.08$) to Fox News.

In Figure S3, Panel B, it is shown that Republicans tend to watch Fox News more frequently than CNN. Conversely, Democrats demonstrate a higher frequency of watching CNN compared to Fox News.

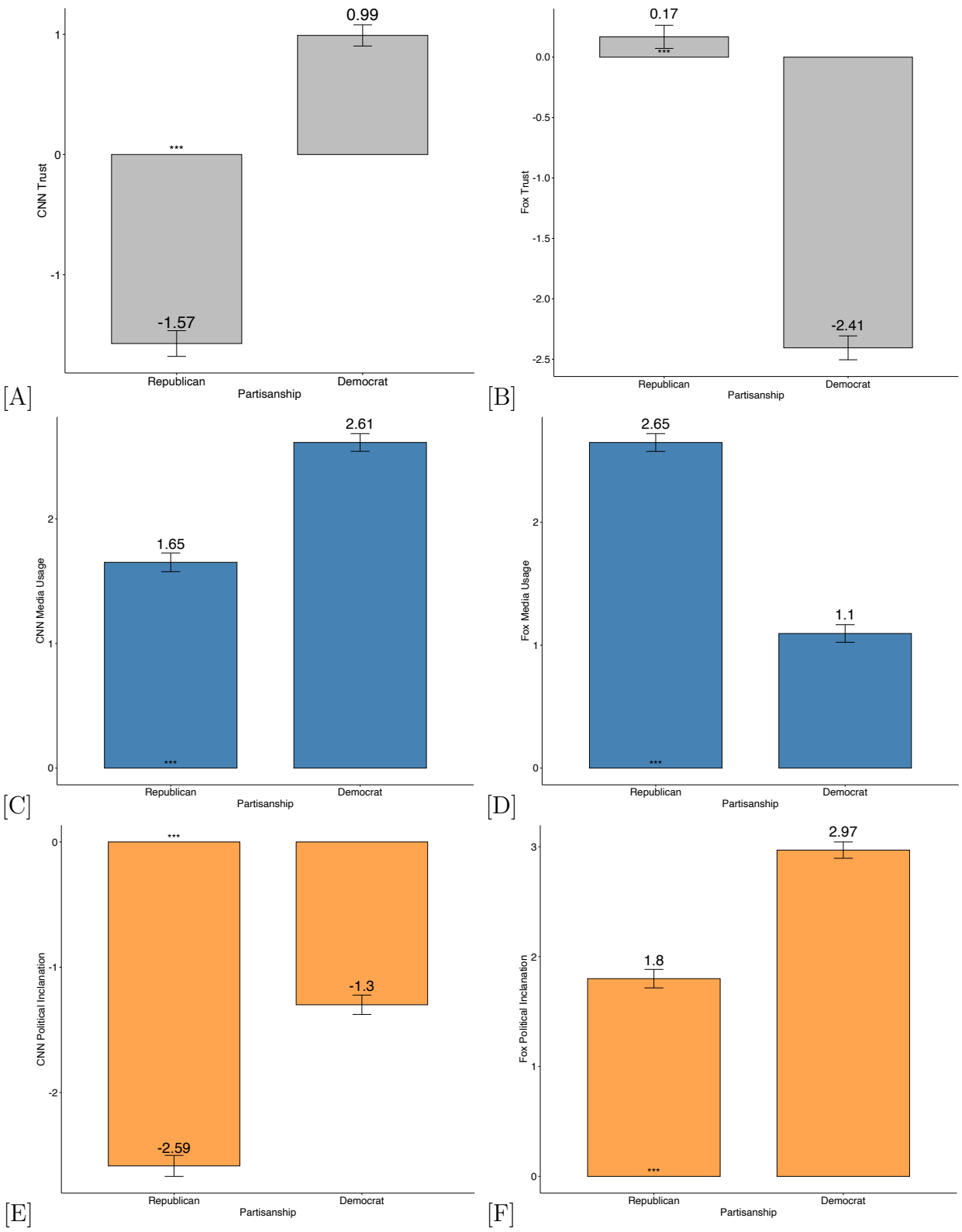
Finally, In Figure S3, Panel C, we observe that both Republicans and Democrats agree that Fox News leans towards the Republican Party, while CNN is perceived as favoring the Democratic Party. Interestingly, Republicans perceive the extent of CNN's bias in favor of the Democratic Party to be greater than the level at which Democrats see CNN's pro-Democrat stance. This result is flipped when we analyze Fox's pro-Republican bias from the perspectives of Republicans and Democrats. Democrats find Fox to be more Republican Party leaning than the level at which Republicans gauge this bias.

Section 8: Kullback–Leibler (KL) Divergence

We construct the Kullback–Leibler divergence measure to quantify the relative entropy difference between prior and posterior belief distributions regarding January 2024 inflation expectations. We formulate our measure over nine inflation intervals for each individual i, as follows:

$$D_{KL^i}(Priors^i \parallel Posteriors^i) = \sum_{k=1}^{9} \pi^i_{prior,k} \log\left(\frac{\pi^i_{prior,k}}{\pi^i_{posterior,k}}\right)$$

Figure S4 depicts the fitted relationships between the prior belief uncertainty and the KL measure values. All fitted values are not significantly different from zero, except for the upward-sloping line for Democrats in the GoodNews and Fox conditions. The presence of



Note: In this Figure, i) Panels A and B demonstrate to what extent Republicans and Democrats trust CNN and Fox, respectively. We used a 9-point Likert scale: Complete Distrust (-4), Neutral (0), Complete Trust (4); ii) Panels C and D show how frequently Republicans and Democrats "consume" CNN and Fox, respectively We used a 6-point Likert scale: Never (0), Daily (6); iii) Panels E and F show how Republicans and Democrats perceive the political bias of CNN and Fox, respectively. We used a 9-point Likert scale: Extremely Pro Democrat (-4), Neutral (0), Extremely Pro Republican (4). Conducted t-test p-values are shown comparing Republicans and Democrats: *p<0.1; **p<0.05; ***p<0.01.

Figure S3: Partisanship, Media Diet, and Media Bias

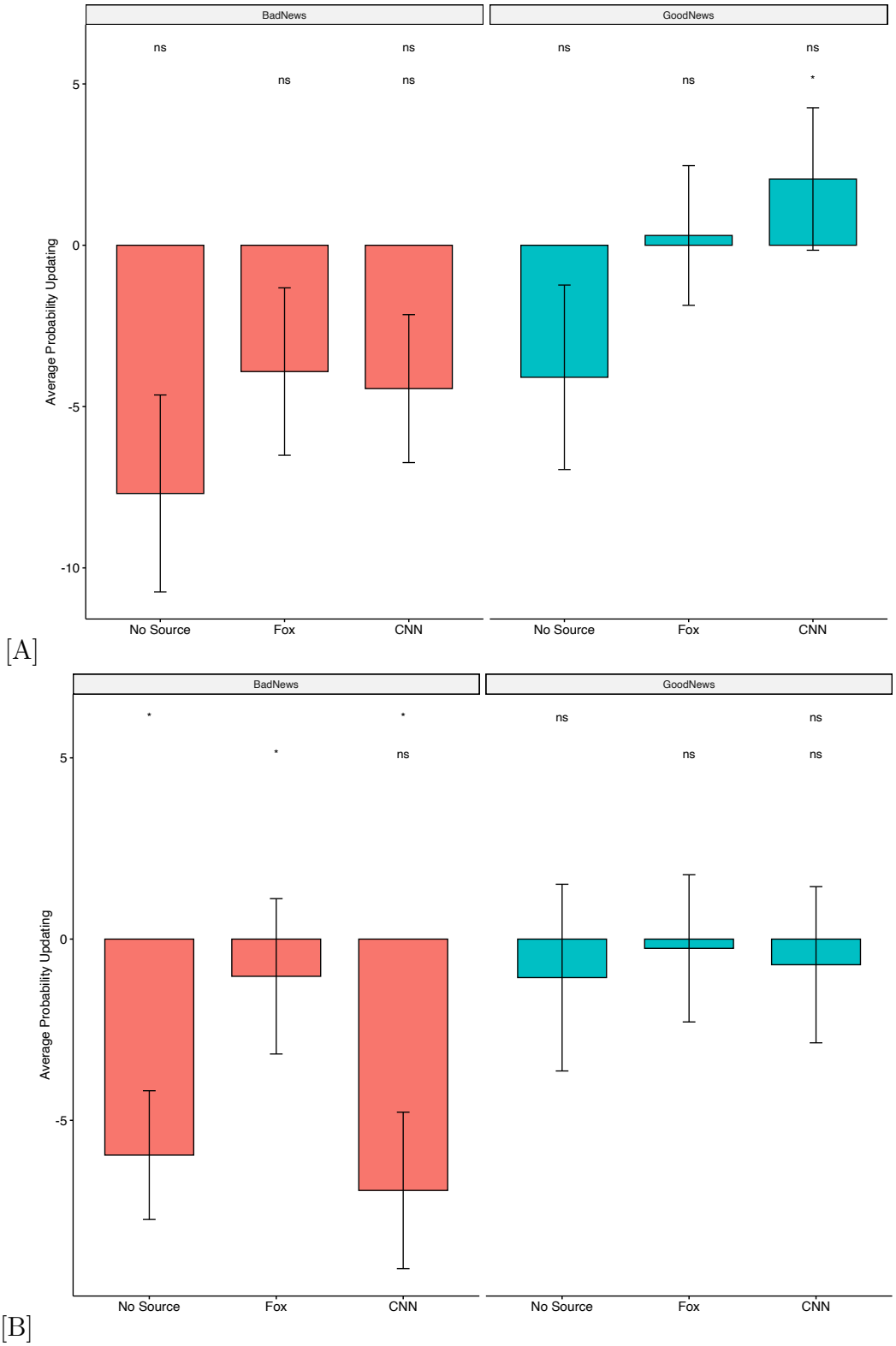


Note: This figure displays the relationships between the entropy in prior beliefs about the January 2024 CPI inflation rate (x-axis) and the Kullback-Leibler (KL) Divergence measure (y-axis) constructed using prior and posterior beliefs for the same inflation rate. We re-scale both prior entropy and KL values to the [0,1] range. Moreover, we inverse the signs of entropy and KL values for presentation purposes.

Figure S4: Prior Belief Uncertainty and "KL Learning"

optimistic economic information with the Fox logo appears to influence Democrats, leading to an enhancement in their KL learning when they possess a higher prior belief uncertainty. Thus, an ideologically misaligned signal from Fox increasingly assists Democrats when they demonstrate a higher degree of prior belief uncertainty.

Section 9: Other Figures and Tables



Note: In this Figure, Panels A and B demonstrate the average values Below-3% inflation belief updating for Democrats and Republicans across study treatments. Conducted t-test p-values are shown: *p<0.1; **p<0.05; ***p<0.01.

Figure S5: Partisanship and Belief Updating

Table S7: Manipulation Checks for Information Treatments

	Dependent variable:		
	(1)	(2)	(3)
GoodNews	0.09*	0.01	0.10**
	(0.05)	(0.05)	(0.05)
Constant	0.44***	0.37***	0.25***
	(0.04)	(0.04)	(0.03)
N	357	357	357
Rsq	0.01	0.00	0.01

Note: We restrict our analyses to the No Source experimental condition. Per our model and predictions, we expect the underlying message in the economic information pieces to be warped in the CNN and Fox conditions. Dependent variables for columns: (1) Binary variable for expressing optimism for the personal financial prospect, (2) Binary variable for expressing optimism for the financial prospect of other people living in the same zip code; (3) Binary variable for expressing optimism for the financial prospect the U.S. population.
The results indicate that, indeed, the designed GoodNews information piece increases optimism about personal and national financial prospects.
Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S8: Political Affiliation, News Tone, and Prior Entropy

	Prior Beliefs Entropy			
	Pooled	Pooled	Pooled	Pooled
Republican	−0.01		−0.01	0.02
	(0.03)		(0.03)	(0.04)
GoodNews*Republican				−0.06
				(0.06)
GoodNews		−0.01	−0.01	0.02
		(0.03)	(0.03)	(0.04)
Constant	1.32***	1.32***	1.33***	1.31***
	(0.02)	(0.02)	(0.02)	(0.03)
N	1080	1080	1080	1080
Rsq	0.00	0.00	0.00	0.00

Note: This table shows the relationship between political affiliation, news tone, and entropy in the elicited inflation priors. The dependent variable is the distribution entropy of prior beliefs. OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S9: Inflation Priors and Experimental Treatments

	(1)	(2)	(3)	(4)
Republican		−3.56**	−3.61**	−3.77**
		(1.77)	(1.78)	(1.87)
BadNewsCNN			−0.05	−0.19
			(3.09)	(3.08)
BadNewsFox			0.40	0.26
			(3.15)	(3.15)
GoodNews			0.08	0.03
			(3.16)	(3.15)
GoodNewsCNN			−1.91	−1.94
			(3.05)	(3.05)
GoodNewsFox			−0.61	−0.62
			(3.09)	(3.08)
Constant	42.90***	44.69***	45.06***	50.61***
	(0.89)	(1.23)	(2.37)	(3.71)
Controls	×	×	✓	✓
N	1080	1080	1080	1080
Rsq	0.00	0.00	0.00	0.01
$P(\beta_{GoodNewsCNN}=\beta_{BadNewsCNN})$			0.53	0.56
$P(\beta_{GoodNewsFox}=\beta_{BadNewsFox})$			0.74	0.78

Note: This table shows robustness checks for the relationship between partisanship, experimental conditions, and elicited inflation priors about the below-3%-inflation in January 2024 using OLS. Republican is a binary variable showing self-reported favourable preference for the Republican Party. Controlled fixed effects: income dummy indicating if a respondent's family income is above $65,000, White ethnicity dummy, education dummy indicating if a respondent has 4-year university or higher degree, and gender. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S10: Inflation Priors across Inflation Intervals

	Between 0-0.99%	Between 1-1.99%	Between 2-2.99%	Between 3-3.99%	Between 4-4.99%	Between 5-5.99%	Between 6-6.99%	Between 7-7.99%	8% or above
				Panel A:					
Constant	6.09***	11.92***	24.90***	27.10***	13.40***	7.12***	4.24***	2.94***	2.29***
	(0.34)	(0.41)	(0.60)	(0.65)	(0.42)	(0.34)	(0.26)	(0.23)	(0.23)
N	1080	1080	1080	1080	1080	1080	1080	1080	1080
				Panel B:					
Republican	−1.32*	−2.08**	−0.17	−1.47	1.96**	0.99	0.75	0.41	0.93**
	(0.68)	(0.83)	(1.21)	(1.30)	(0.84)	(0.68)	(0.52)	(0.45)	(0.46)
Constant	6.75***	12.96***	24.99***	27.84***	12.42***	6.63***	3.87***	2.73***	1.82***
	(0.52)	(0.59)	(0.80)	(0.93)	(0.55)	(0.47)	(0.36)	(0.33)	(0.26)
N	1080	1080	1080	1080	1080	1080	1080	1080	1080

Note: This table shows the relationship between political affiliation (Panel B) and elicited January 2024 inflation priors across nine intervals using OLS. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S11: Political Affiliation, News Tone, Holiday/Vacation plans

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Inflation Prior	−0.005	−0.001	0.001	0.002	−0.001	−0.004	−0.004	0.01	−0.33
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.003)	(0.005)	(0.41)
Belief Updating	0.01	0.01	0.005	0.004	0.003	0.01**	0.004	−0.0004	−0.51
	(0.005)	(0.01)	(0.01)	(0.01)	(0.005)	(0.004)	(0.005)	(0.01)	(0.55)
Republican	−0.01	−0.05	−0.04	0.03	0.01	−0.05*	−0.02	−0.03	−1.92
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)	(0.03)	(2.89)
Badnews	−0.02	−0.04	0.02	−0.03	−0.04*	−0.001	−0.001	−0.05*	0.26
	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)	(0.03)	(0.03)	(0.03)	(2.93)
Republican*Badnews	0.004	0.04	−0.005	−0.004	0.03	0.03	0.01	0.08*	9.76**
	(0.04)	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)	(0.05)	(4.24)
Constant	0.15***	0.20***	0.14***	0.11***	0.10***	0.13***	0.12***	0.18***	31.73***
	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(2.80)
N	1080	1080	1080	1080	1080	1080	1080	1080	1080
Rsq	0.01	0.01	0.01	0.01	0.01	0.02	0.00	0.01	0.01

Note: Dependent variables for columns: (1) Binary variable for increasing food away consumption during Christmas and winter vacations eve), (2) Binary variable for increasing gift purchases for family during Christmas and winter vacations eve, (3) Binary variable for increasing gift purchases for relatives and extended family during Christmas and winter vacations eve, (4) Binary variable for increasing vacation spending with family during Christmas and winter vacations eve, (5) Binary variable for increasing vacation spending with extended family during Christmas and winter vacations eve, (6) Binary variable for increasing home decoration spending during Christmas and winter vacations eve, (7) Binary variable for increasing home furniture spending during Christmas and winter vacations eve, (8) Binary variable for expectations that Christmas food budget affordability will increase, (9) Probability of cancelling winter break vacation plans. Badnews is a dummy indicating either BadNews, BadNewsCNN, or BadNewsFox experimental condition. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S12: Attention Time to News Pieces

	Dependent variable: Attention Time					
	Pooled	Pooled	Pooled	No Source	CNN	Fox
Republican	−3.97		−3.97	2.79	−18.05*	3.65
	(4.15)		(4.15)	(6.16)	(9.25)	(4.92)
GoodNews		4.08	4.08	7.38	3.49	1.00
		(4.14)	(4.14)	(6.20)	(9.60)	(4.95)
Constant	76.55***	72.52***	74.51***	67.64***	86.42***	69.11***
	(3.44)	(2.46)	(3.14)	(3.88)	(7.50)	(3.68)
N	1080	1080	1080	357	358	365
Rsq	0.00	0.00	0.00	0.00	0.01	0.00

Note: This table shows the relationship between partisanship, news tone, and attention time to provided information pieces. The dependent variable is the time (in seconds) spent on reading GoodNews or BadNews economic information. One subject spent around 20 minutes reading the provided information in the treatment condition. The results are robust if we exclude that participant from the regression analyses. OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S13: Economic Difference across Partisanship Lines

	Financial Literacy	Risk Tolerance	Time Preference (Patience)	Investment in Index Fund	Investment in Cryptocurrency
Republican	0.01	0.30*	0.28*	−5.62***	4.35***
	(0.03)	(0.16)	(0.14)	(1.84)	(1.42)
Constant	1.70***	4.29***	6.23***	49.07***	12.45***
	(0.02)	(0.11)	(0.10)	(1.35)	(0.93)
N	1080	1080	1080	1080	1080
Rsq	0.00	0.00	0.00	0.01	0.01

Note: OLS regression coefficients and robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Table S14: Relatively Longer Horizon Expectations across Intervals

	Between 0-0.99%	Between 1-1.99%	Between 2-2.99%	Between 3-3.99%	Between 4-4.99%	Between 5-5.99%	Between 6-6.99%	Between 7-7.99%	8% or above
				May					
Constant	4.92***	10.76***	27.71***	27.62***	14.34***	7.02***	3.71***	2.07***	1.85***
	(0.32)	(0.43)	(0.67)	(0.61)	(0.46)	(0.36)	(0.23)	(0.17)	(0.24)
N	1080	1080	1080	1080	1080	1080	1080	1080	1080
				August					
Constant	5.57***	11.65***	28.65***	25.55***	13.22***	7.12***	4.08***	2.20***	1.97***
	(0.39)	(0.46)	(0.70)	(0.58)	(0.45)	(0.35)	(0.27)	(0.19)	(0.24)
N	1080	1080	1080	1080	1080	1080	1080	1080	1080

Note: This table shows the relationship between political affiliation (Panel B) and elicited January 2024 inflation priors across nine intervals using OLS. Robust HC1 standard errors are reported. *p<0.1; **p<0.05; ***p<0.01

Section 10: Screenshots

Screenshots from key study instruments

Instructions

Thank you for participating in our study.

This study will have three parts:

Part 1: Report your expectations about inflation in January, 2024, in the United States.

Part 2: Answer brief survey questions about your future consumption and financial planning.

Part 3: Brief demographic survey.

You will receive **$3.50 compensation** for participating in the study within a few days after we approve your response. You can also earn **an additional $2.00 bonus payoff** depending on your decisions and luck. The bonus payoff will be paid to you in February, 2024, based on the accuracy of your inflation expectations.

Please click next to receive more information about the study.

In Part 1 of the study, we will ask you to report your expectations about inflation in January, 2024, in the United States. Inflation is the general increase in prices of goods and services over time, which reduces the purchasing power of money. We ask you to report your true inflation (Consumer Price Index with all items) expectations.

You will receive a chance to earn a $2.00 bonus payoff in February, 2024, if your inflation expectations turn out to be true!

So, it is in your best interest to carefully read the instructions and provide your true expectations about the inflation in January, 2024, in the United States.

Now we will explain to you how we will ask you to report your January 2024 inflation expectations. We will also explain how we will determine whether you receive $2.00 bonus payoff in February, 2024, after observing the January 2024 inflation rate. Please pay attention!

You will be asked to **allocate 100** points among the shown 9 potential January 2024 inflation intervals. Each point will indicate 1% chance for the allocated inflation interval. We provide one example in the picture below:



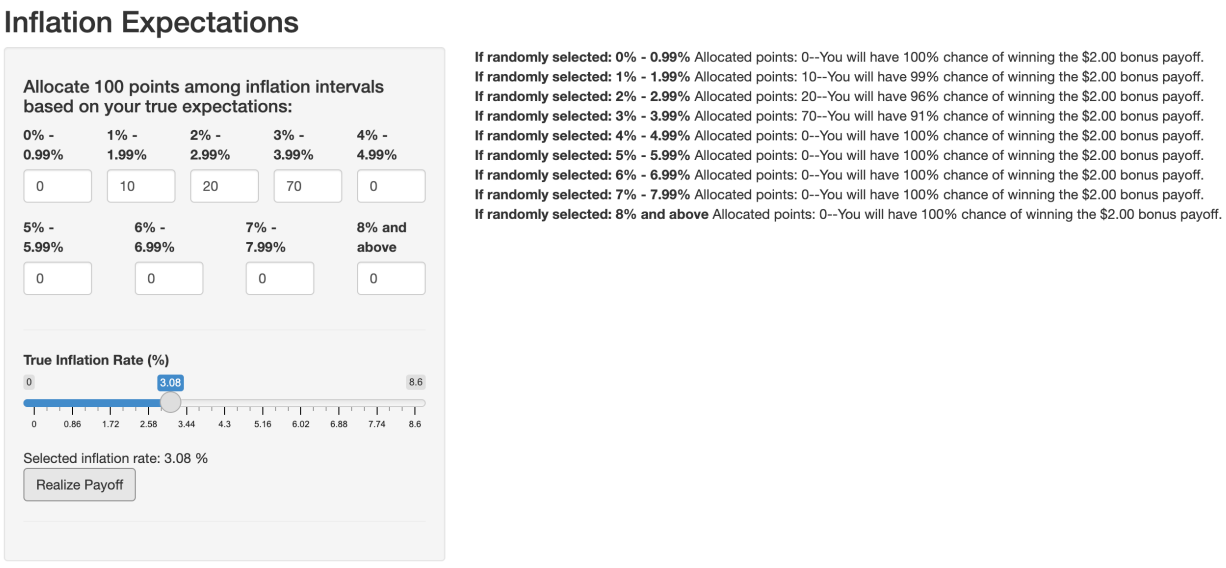
In this example, the respondent thinks that there is a 10% chance that the January 2024 inflation will be between 3% and 3.99%. This person also thinks that the probability of January 2024 inflation being between 1% and 1.99% is 30%. Basically, the number of allocated points to each potential inflation interval reflects the probability for that interval to contain the January 2024 inflation rate.

How will we determine your $2.00 bonus? In February 2024, the Bureau of Labor Statistics will announce the January 2024 Consumer Price Index all items inflation rate. Let's assume that the announced inflation rate will be 2.4%. Then, we will randomly select one inflation interval out of 9 intervals as binding/main to realize the bonus payoff. Depending on the number of points you allocated to that inflation interval and whether that inflation rate realized or not, we will determine your bonus payment according to a mathematical formula. If you would like to see how the formula works please click on this link to try it out using this **link.**

If you need a simple takeaway, it is in your best interest to allocate points among inflation intervals **truthfully reflecting your expected probability for each interval** to include the January 2024 inflation rate. Allocating more points to the interval that will contain January, 2024, inflation based on your true believes, will increase your chance of earning the $2.00 bonus payoff.

If you feel comfortable about our procedures to determine your bonus payoff, please click next button.

One example from our online calculator



You will face two questions regarding your January 2024 inflation expectations. In February, 2024, we will randomly select one of those two questions and will determine your bonus payoff based on your decisions in the selected question. Neither you nor we know which inflation expectation question will be selected. So, it is in your best interest to provide your accurate and truthful expectations in both questions.

We hope our study procedures is now clear to you!

Please click next when you are ready to start Part I of our study.

January 2024 Prior elicitation

Part 1:

Please allocate 100 points among potential inflation intervals. Here 1 point = 1% chance. Remember that you should allocate points reflecting your expectations of each interval's probability of including the January 2024 inflation rate.

Inflation rate will be between 0 and 0.99% in the United States in January, 2024	0 %
Inflation rate will be between 1 and 1.99% in the United States in January, 2024	0 %
Inflation rate will be between 2 and 2.99% in the United States in January, 2024	0 %
Inflation rate will be between 3 and 3.99% in the United States in January, 2024	0 %
Inflation rate will be between 4 and 4.99% in the United States in January, 2024	0 %
Inflation rate will be between 5 and 5.99% in the United States in January, 2024	0 %
Inflation rate will be between 6 and 6.99% in the United States in January, 2024	0 %
Inflation rate will be between 7 and 7.99% in the United States in January, 2024	0 %
Inflation rate will be 8% or above in the United States in January, 2024	0 %
Total	0 %

On the next screen, we will show you a news piece about the potential trajectory of future inflation rates in the United States economy. We compiled the news piece using different United States news media sources. The average Factual Grade or Accuracy of the news media sources we used is 65%. This 65% reflects the average resourcefulness and accuracy level of the national news media sources we used. Please also bear in mind that your chance of earning the bonus payment may also depend on this news piece.

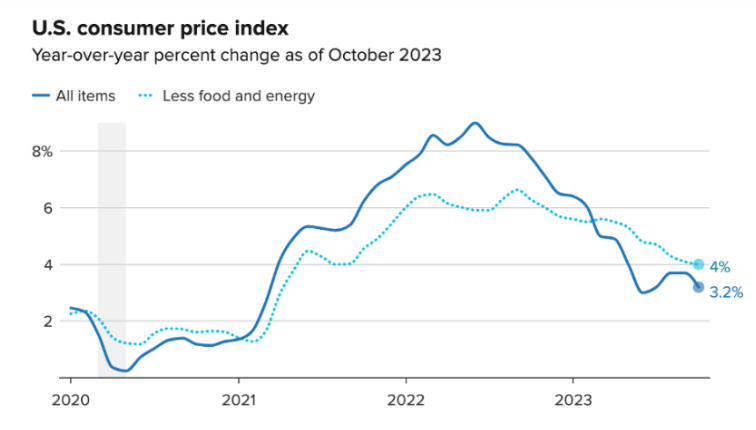
We will ask you to spend at least 45 seconds on reading the news piece. The next button will be shown after 45 seconds. We recommend that you transition to the next screen when you feel that you have fully understood the content of the news piece.

Please click next to read our compiled news piece for you!

GoodNews No Source

We compiled this piece for you using different news media sources:

Inflation in the United States has unquestionably cooled after hitting 40-year high in the summer of 2022. While inflation has fallen from a peak of 9.1%, it remains above the Fed's target. The Consumer Price Index rose 3.7% in September from a year earlier, slightly hotter than economists' expectations, thanks to a jump in food and housing costs. However, the index was 3.2% in October.

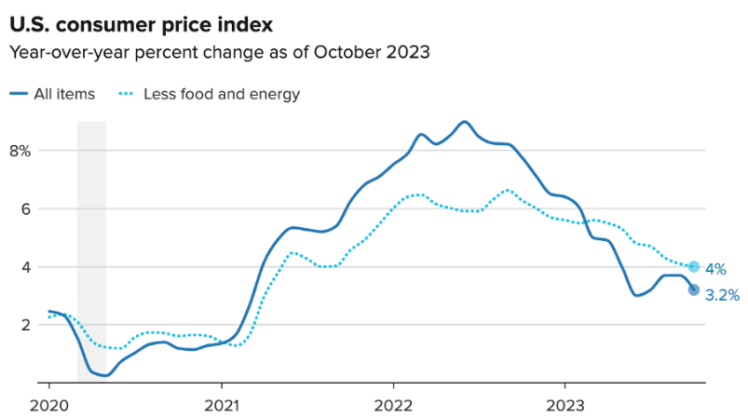


The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. The job market remains really strong. Unemployment is still low at 3.8%, and wages are rising. Some economists say that inflation is no longer considered an emergency issue. We think this disinflation trend remains in place and will continue as we head into 2024. We're going to get back to the Fed's inflation target.

GoodNews CNN

We compiled this piece for you using different news media sources including CNN:

Inflation in the United States has unquestionably cooled after hitting 40-year high in the summer of 2022. While inflation has fallen from a peak of 9.1%, it remains above the Fed's target. The Consumer Price Index rose 3.7% in September from a year earlier, slightly hotter than economists' expectations, thanks to a jump in food and housing costs. However, the index was 3.2% in October.

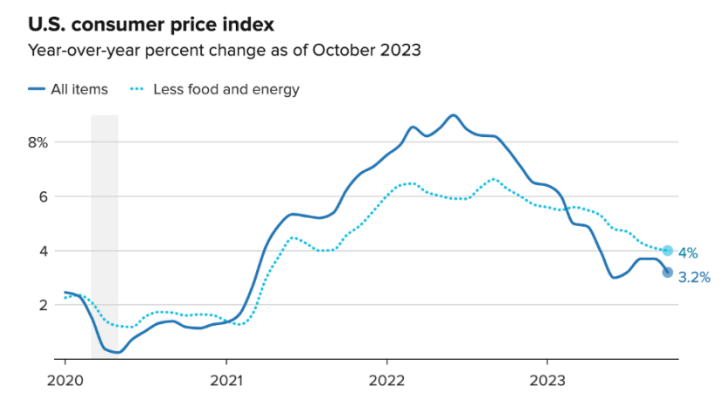


The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. The job market remains really strong. Unemployment is still low at 3.8%, and wages are rising. Some economists say that inflation is no longer considered an emergency issue. We think this disinflation trend remains in place and will continue as we head into 2024. We're going to get back to the Fed's inflation target.

GoodNews Fox

We compiled this piece for you using different news media sources including Fox:

Inflation in the United States has unquestionably cooled after hitting 40-year high in the summer of 2022. While inflation has fallen from a peak of 9.1%, it remains above the Fed's target. The Consumer Price Index rose 3.7% in September from a year earlier, slightly hotter than economists' expectations, thanks to a jump in food and housing costs. However, the index was 3.2% in October.

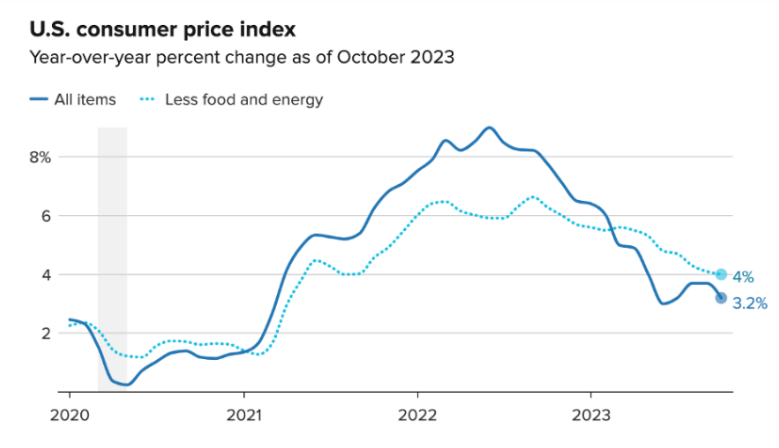


The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. The job market remains really strong. Unemployment is still low at 3.8%, and wages are rising. Some economists say that inflation is no longer considered an emergency issue. We think this disinflation trend remains in place and will continue as we head into 2024. We're going to get back to the Fed's inflation target.

BadNews No Source

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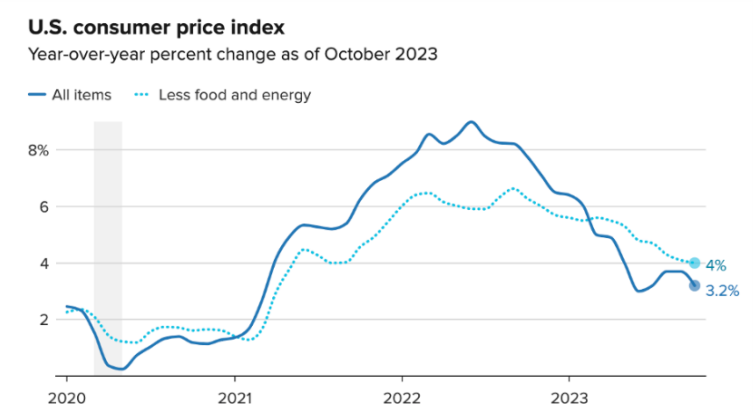


The Fed's goal inflation rate is 2%. The Fed will want to see at least six months of lower inflation before declaring victory. Some economists say that the U.S. economy will be more "fragile" going into 2024. Mortgage and interest rates are continuing to climb. Personal savings rate is nearly at an all-time low. We think inflation is going to be sticky. There is also risk of a recession.

BadNews CNN

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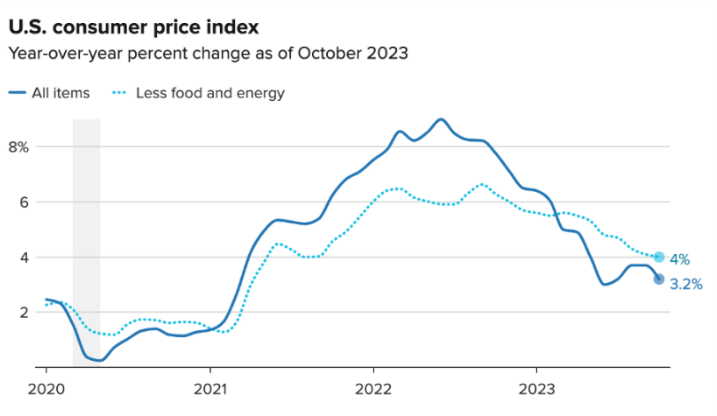


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January 2024 Posterior beliefs

Given the news story you just read, we want you to report your inflation expectations one more time. Please allocate 100 points among potential inflation intervals. Here 1 point = 1% chance. Remember that you should allocate points reflecting your expectations of each interval's probability of including the January 2024 inflation rate. Allocating more points to the interval that will contain January, 2024, inflation based on your true believes, will increase your chance of earning the $2.00 bonus payoff.

Inflation rate will be between 0 and 0.99% in the United States in January, 2024	0 %
Inflation rate will be between 1 and 1.99% in the United States in January, 2024	0 %
Inflation rate will be between 2 and 2.99% in the United States in January, 2024	0 %
Inflation rate will be between 3 and 3.99% in the United States in January, 2024	0 %
Inflation rate will be between 4 and 4.99% in the United States in January, 2024	0 %
Inflation rate will be between 5 and 5.99% in the United States in January, 2024	0 %
Inflation rate will be between 6 and 6.99% in the United States in January, 2024	0 %
Inflation rate will be between 7 and 7.99% in the United States in January, 2024	0 %
Inflation rate will be 8% or above in the United States in January, 2024	0 %
Total	0 %