Thomas Langer (University of Münster)

“Perceiving the real value – How inflation communication affects the attractiveness of delayed consumption”

Abstract

The ignorance of the effects of inflation in retirement provision decisions can have disastrous consequences for individual well-being and society as a whole. It thus seems important to make investors explicitly aware of the discrepancy between nominal monetary wealth and real purchasing power. The relevance of inflation can be communicated in various ways, from simply mentioning the expected annual inflation rate to presenting long-term payoff distributions in real instead of (or next to) nominal terms. In an experimental study we explore how different forms of inflation communication affect the attractiveness of savings products and thus the propensity to delay consumption. Using a novel experimental approach that mimics the distinction between nominal wealth and real purchasing power by a declining conversion rate mechanism, we find systematic behavioral patterns that are more subtle than naïve intuition would suggest. The role of inflation communication differs strongly between scenarios with positive and negative real returns. Being on the verge of observing negative real returns in many leading economies, our insights thus promise to be particularly relevant for current policy making.