

ESCUELA DE
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Central Bank Communication and Consumer Inflation Expectations: The Role of Numeracy and Financial Literacy

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Abstract

The inflation expectations of consumers are vital for the formulation of monetary policy and the maintenance of economic stability. Although numerous studies have analyzed the formation of these expectations, the influence of consumers' numeracy and financial literacy on their interpretation of central bank communications remains relatively unexplored. This study seeks to address this gap by examining the impact of numeracy and financial literacy on consumers' inflation expectations in response to central bank communications. Computational language techniques are employed to extract a sentiment index from Federal Open Market Committee (FOMC) statements, with particular emphasis on inflation and interest rates. Natural language processing (NLP) is utilized to quantify sentiment, and econometric analysis is conducted to correlate this sentiment with inflation expectations data among consumers with varying levels of literacy. The findings suggest that consumers with higher levels of numeracy and financial literacy are more receptive to central bank communications. This indicates that enhancing financial and numeracy literacy, particularly in understanding concepts such as interest rates and inflation, is crucial for improving comprehension of central bank communications and thereby aligning individuals' responses more closely with theoretical expectations.

Keywords: Inflation, consumer expectations, content analysis, literacy.

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