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Inflation Illiteracy: What Does Microdata Reveal About Chilean Consumers?*

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Resumen

El analfabetismo inflacionario—esto es, la incapacidad de seleccionar y procesar información relevante sobre inflación y formar expectativas razonables—afecta las decisiones económicas. Este artículo analiza microdatos para el Gran Santiago, Chile, vinculando expectativas de inflación a un año con factores socioeconómicos, demográficos, y macroeconómicos. Modelos de formación de expectativas a nivel individual y regresiones dicotómicas muestran que una mayor educación reduce las expectativas de inflación, mientras que las mujeres reportan sistemáticamente niveles más altos de inflación esperada, a su vez que la edad exhibe una relación suave en forma de U. Las expectativas aumentan con las perspectivas individuales de actividad, pero disminuyen con el crecimiento efectivo y mayores salarios, mientras que la inflación, el costo de la vivienda, y las condiciones crediticias presionan las expectativas de inflación al alza. El analfabetismo inflacionario eleva las expectativas, debilita los efectos moderadores de la educación y el ingreso, y es más prevalente entre grupos socioeconómicos bajos, personas con menor educación, y mujeres, particularmente bajo condiciones macrofinancieras adversas. Estos resultados destacan la importancia de políticas de comunicación focalizadas y de alfabetización financiera para reducir percepciones erróneas sobre la inflación.

Abstract

Inflation illiteracy—the inability to select and process relevant inflation information and form meaningful expectations—affects economic outcomes. This note analyses microdata for Greater Santiago, Chile, linking one-year-ahead inflation expectations to socioeconomic, demographic, and macroeconomic factors. Individual-level expectation-formation models and binary-outcome regressions show that higher education lowers inflation expectations, while women re-port systematically higher levels, and age exhibits a mildly U-shaped relationship. Expectations rise with individuals' own growth outlook, but fall with realised growth and higher wages, while inflation, housing costs, and credit con-ditions push them upwards. Inflation illiteracy raises expectations, weakens the moderating effects of education and income, and is more prevalent among lower socioeconomic groups, less educated individuals, and women, particularly under adverse macro-financial conditions. These findings highlight the importance of targeted communication and financial-literacy policies to reduce inflation misperceptions.

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"*The modern community must, ever to its shame and hurt, go through that stern system of education in the first principles of social economics and finance which so many peoples have had to undergo during periods of inflation ever since the days of ancient Egypt, and that without having learned one single jot from all the wealth of experience gathered during these thousands of years.*"–Gustav Cassel (1922), *Money and Foreign Exchange After 1914*, The Macmillan Company, New York, US, pp. 23–24.

1 Aim, motivation, and main results

The aim of this article is to identify the individual-level socioeconomic and demographic factors explaining inflation illiteracy in Chile.[1] These covariates help to pinpoint population groups that may face greater difficulties in interpreting inflation dynamics, yet still provide answers to inflation-related survey questions. Survey responses are typically analysed in aggregate form, which includes responses that may reflect heterogeneous information sets, misperceptions, or limited economic understanding. A micro-level approach is therefore critical, as respondent heterogeneity may mean that summary statistics—such as the mean expectation or forecast disagreement—mask important features of the distribution. This perspective provides insight into how inflation-related surveys might be interpreted more accurately, where to target efforts to improve financial education, and how to inform more effective economic policy decisions.

Understanding both current and expected inflation is crucial for optimal price setting, efficient monetary policy transmission, and sound economic decision-making on a daily basis. For households, the inflation rate—both observed and forecast values—plays a pivotal role in shaping saving and consumption decisions. However, contrary to assumptions embedded in many macroeconomic models, inflation expectations vary markedly across households and individuals due to: (i) heterogeneity in socioeconomic and demographic characteristics (De Bruin *et al.*, 2010; Kaplan and Schulhofer-Wohl, 2017; D'Acunto, Malmendier, and Weber, 2021), (ii) exposure to and treatment of information, as well as informational rigidities (Mankiw, Reis, and Wolfers, 2003; Cavallo, Cruces, and Pérez-Truglia, 2017; Van Hove and Verbraecken, 2025), (iii) current perceptions of inflation, shopping behaviour, and media exposure (Boumans, Müller, and Sauer, 2023; Macaulay and Song, 2023; Anesti, Esady, and Naylor, 2024), (iv) the salience of particular items and variation in product characteristics (Van Duyne, 1982; Coibion *et al.*, 2020), (v) past inflationary experiences (Conrad, Enders, and Glas, 2022; Magud and Pienknagura, 2024), among other factors.

A common method for capturing individual inflation expectations is through specialised surveys (see, for instance, De Menil and Bhalla, 1975; Wachtel, 1977; Noble and Fields, 1982; D'Acunto, Malmendier, and Weber, 2023; Huber, Onorante, and Pfarrhofer, 2024). This approach assumes that respondents are, at least, aware of relevant information and capable of performing the necessary cognitive tasks to report a meaningful inflation forecast. These responses are shaped by the factors outlined above—most notably personal experiences (both recent and historical), specific consumption habits, and the respondent's information set at the time of the survey. It is therefore unsurprising that expectations differ substantially across individuals, and their explanatory variables can be traced to respondents' personal characteristics and the consistency of their answers to other questions in the survey.

A relatively under-explored source of this heterogeneity is variation in economic and financial literacy—specifically, respondents' familiarity with key economic concepts and variables, and their capacity to process relevant information. Prior research has examined the consequences of low literacy on credit constraints (Duca and Kumar, 2014), borrower discouragement (Aristei, Gallo, and Minetti, 2024), and financial decision-making, including risk diversification, asset valuation, and portfolio choice (Chen and Volpe, 1998; Lusardi, Mitchell, and Curto, 2014). Moreover, there is a growing consensus regarding the importance of financial and economic literacy for outcomes such as unemployment, productivity, perceived inflation, and general welfare (Lusardi and Mitchell, 2014; World Literacy Foundation, 2018; Cree, Kay, and Steward, 2022; Niţoi and Pochea, 2024). In particular, inflation illiteracy has emerged as a key determinant of inflation expectations, consistent with heterogeneous levels of knowledge and attitudes towards inflation (Burke and Manz, 2014; Rumler and Valderrama, 2020; KC, 2023; McCowage and Rickards, 2024). Therefore, ***inflation illiteracy*** has meaningful economic consequences (Katona, 1975; Burke and Manz, 2014; Dräger and Nghiem, 2025).

[1] *Inflation illiteracy* is broadly defined as the inability to select and process relevant information in order to form meaningful inflation expectations on which financial decisions are based, therefore affecting economic outcomes. This conceptualisation draws upon the formulations of Niţoi and Pochea (2024) and Dräger and Nghiem (2025); and is discussed in greater detail later.

This study examines how inflation illiteracy shapes aggregate inflation-expectation formation and what drives illiteracy in Chile. I use a novel dataset that merges a consumer expectations survey with individual-level microdata linked to an unemployment survey for the Santiago Metropolitan Region. Moreover, the period 2005–18 is characterised by low inflation, averaging 3.42% per year and peaking at 9.90%.[2] In addition, it is uncommon for an emerging market economy to provide rich microdata on inflation expectations linked to detailed socioeconomic and demographic information. In Chile, this is especially relevant given the country's high socioeconomic heterogeneity and income inequality, which amplify cross-sectional differences in expectations, forecasting errors, and informational frictions across groups.

From a macroeconomic perspective, Chile offers a particularly suitable setting to study inflation illiteracy at the micro level, as the country combines a long-standing inflation-targeting regime with a credible and independent central bank. This provides a stable nominal anchor while still allowing for meaningful variation in inflation outcomes over time. Moreover, the Chilean economy is highly exposed to external shocks, including commodity-price fluctuations, exchange-rate movements, and global financial conditions, generating substantial variation in inflation drivers and expectation formation across macroeconomic environments.

Three types of results are provided. First, I estimate inflation expectation formation for the full cross-section across time. Higher education lowers one-year-ahead inflation expectations by about 0.3–0.4 percentage points (pp) per schooling tier. Women report roughly 0.6–0.8 pp higher expectations. Age follows a mild U-shape. Inflation expectations rise with respondents' own GDP-growth outlook, but fall with realised growth and with higher current wages. Key macro aggregates—headline inflation, housing prices, and consumer-credit rates—move expectations intuitively upwards. Secondly, including an indicator of inflation illiteracy in the same baseline specifications, illiterate respondents report about 3.2–3.8 pp higher expectations. Interactions show that illiteracy attenuates the disciplining roles of education and income, and it dampens sensitivity to expected growth. Thirdly, using a non-linear Probit regression, I find that illiteracy is more prevalent among lower socioeconomic strata (SES) and less-educated respondents, and among women. It follows a mild life-cycle U-shape and rises with higher own inflation expectations. Food (and some housing) inflation and higher consumer-credit rates are associated with greater illiteracy. Both economic-policy uncertainty and individual-level forecast errors have modest effects. Stronger growth, better retail conditions, a positive output gap—and slightly, energy-price inflation—mitigate it.

To date, no comparable study has been conducted for Chile in the specific context of inflation illiteracy. Nonetheless, for the case of the Chilean economy, Behrman *et al.* (2012) examine the role of financial literacy more generally and find that increased literacy—measured differently from formal schooling—has a strong, statistically significant, and positive effect on household wealth accumulation, particularly in relation to pension savings.

In the context of inflation, several studies have explored the sources of inflation expectation heterogeneity in the US, including Bryan and Venkatu (2001a), Meyer and Venkatu (2011), Coibion and Gorodnichenko (2012), Binder (2021), and Afrouzi *et al.* (2024). In turn, McCormick (2009) and De Bassa Scheresberg (2013) focus more directly on inflation illiteracy itself. For European countries, relevant contributions include Brázdik *et al.* (2024) for the Czech Republic; Stanisławska, Paloviita, and Łyziak (2021) for Finland and Poland; Kiss and Strasser (2024) for France and Germany; Goldfayn-Frank, Kocharkov, and Weber (2020) for Germany; Piccolo *et al.* (2024) and Van der Cruijsen, De Haan, and Van Rooij (2025) for the Netherlands; Jonung (1981), Hjalmarsson and Österholm (2020), and Andersson, Hjalmarsson, and Österholm (2022) for Sweden; Phillot and Rosenblatt-Wisch (2024) for Switzerland; Jost (2017) and Kladívko and Österholm (2024) for the UK; Tsapin and Faryna (2025) for Ukraine; and Gnan, Langthaler, and Valderrama (2011) and Ampudia, Ehrmann, and Strasser (2024) for various European countries. For emerging market economies, see Potrich, Vieira, and Kirch (2015) for Brazil; and Goyal and Parab (2019), as well as Singh and Bandyopadhyay (2023) for India. The results of these articles are, for the most part, derived from econometric regressions similar to those estimated in the present study. Some findings are robust and align with economic expectations for particular

[2] It is important to note that prior to this period, Chile experienced persistently high inflation. Depending on respondents' age, this historical inflationary environment may influence present-day expectations, reflecting what could be termed "inflationary scars" (Magud and Pienknagura, 2024). For example, average inflation reached 74.85% in 1955, 75.21% in 1972, and remained in high-inflation territory between 1973 and 1977. Additionally, during the 2005–2018 period, certain highly salient items exhibited outsized annual inflation rates—all food items: potatoes (147.0%, 2012.10), lemons (127.0%, 2016.12), pumpkins (93.5%, 2012.9), avocados (87.1%, 2011.6), tomatoes (83.9%, 2014.10), courgettes (80.2%, 2013.6), bell peppers (74.4%, 2013.8), apples (71.5%, 2011.12), oranges (69.0%, 2010.5), and pears (53.2%, 2011.12)—which may disproportionately influence consumer expectations.

variables—for instance, higher levels of education are associated with more accurate inflation expectations. However, for other variables, such as sex at birth, income, and occupational status, the results appear to be case-specific.

The remainder of the article is structured as follows. The next section outlines the econometric approach, including the data and model specification. This is followed by a presentation and discussion of the empirical results. The article concludes with final remarks and some policy recommendations.

2 Econometric strategy

The econometric exercise conducted in this article is as follows: (i) Using an individual-level panel dataset from an economic perceptions survey—specifically those answering the question:

> "*By what percentage do you think prices will change over the next 12 months? In other words, what do you think the inflation rate, as measured by the Consumer Price Index (CPI), will be over the next 12 months?*" (Centro de Microdatos, 2018a),

I estimate a baseline linear Ordinary Least Squares (OLS) regression with three blocks of covariates: (a) demographic (*e.g.*, education, sex at birth, age, among others); (b) socioeconomic (*e.g.*, SES, labour wage, output-growth expectations, among others); and (c) macroeconomic controls common across the cross section (*e.g.*, energy-price inflation, output gap, unemployment, nationwide uncertainty, among others); (ii) I classify as "inflation illiterates" those whose forecast error in the response quarter (defined as $e_t^i = (\pi_t - \mathbb{E}_{t-4}[\pi_t^i])$, where π_t is the realised inflation at t, and $\mathbb{E}_{t-4}[\pi_t^i]$ is individual i's expected 12-month-ahead inflation or 4-quarter-ahead in the data, made 12 months earlier), is an outlier following the boxplot rule; *i.e.*, forecast errors less than $\mathsf{Q}_1 - 1.5 \cdot \mathsf{IQR}$ or greater than $1.5 \cdot \mathsf{IQR} + \mathsf{Q}_3$, where Q_i denotes the i-th quartile of the forecast-error distribution, and $\mathsf{IQR} = \mathsf{Q}_3 - \mathsf{Q}_1$ is the interquartile range (Frigge, Hoaglin, and Iglewicz, 1989), (iii) I re-estimate the initial OLS regression for all respondents, now adding the illiteracy indicator as a regressor to facilitate comparison with the baseline estimates, and finally (iv) Using this binary indicator (1 =illiterate; 0 otherwise), I estimate a non-linear Probit regression with the same blocks of covariates to identify the drivers of illiteracy.

These steps reveal: (i) how inflation expectations are formed in the full cross-sample, (ii) how illiterate respondents shape overall expectations, and (iii) what predicts illiteracy. It is important to emphasise that inflation illiteracy is defined at the level of individual responses rather than individuals themselves. While such responses may reflect broader perceptions of economic conditions, sentiment, or risk attitudes, this concern is mitigated by the design of the survey question, which refers to a clearly defined macroeconomic variable—headline inflation—over a fixed forecast horizon. This reduces scope for purely idiosyncratic interpretations and limits the influence of general sentiment on reported expectations. The proposed measure should not be interpreted as a direct measure of cognitive ability or economic knowledge alone, but rather as a reduced-form proxy capturing systematic deviations from economically meaningful inflation expectations.

This interpretation is consistent with the expectations-elicitation literature, which shows that carefully designed survey questions can capture meaningful variation in macroeconomic beliefs. In particular, survey evidence indicates that wording differences materially affect reported inflation expectations, as respondents may interpret "prices in general" differently from "inflation" (De Bruin *et al.*, 2012; De Bruin *et al.*, 2023). More generally, survey design research highlights that unclear framing can generate heterogeneous interpretations that may be confounded with true belief differences (De Bruin *et al.*, 2017).

Finally, experimental evidence on inflation expectation elicitation suggests that respondents are more likely to interpret such questions as referring to aggregate inflation rather than personal price experiences, although ambiguity in wording can still introduce dispersion in responses (De Bruin *et al.*, 2012; De Bruin *et al.*, 2017).

2.1 Data: The Universidad de Chile's Centro de Microdatos' Surveys

The empirical analysis draws on microdata from the *Encuesta de Expectativas Económicas* (IEE; Centro de Microdatos, 2018b) conducted quarterly by the *Centro de Microdatos* (CMD) at the Universidad de Chile between 2005.II and

2018.IV (55 observations), covering the Santiago Metropolitan Region. The IEE captures forward-looking inflation expectations reported by consumers and is one of the few long-span, high-frequency household datasets in Latin America that enable the study of economic expectations in real time. Moreover, these data are matched at the respondent level with the *Encuesta de Ocupación y Desocupación en el Gran Santiago* (EOD; Centro de Microdatos, 2009, 2016), yielding a unique dataset that combines subjective expectations with rich labour-market, socioeconomic, and demographic variables. This merged database comprises over 603,000 pooled observations, including variables such as sex at birth, age, education, county of residence, employment status, and industry of current employment. The dataset also allows the computation of individual-level forecast errors based on actual CPI inflation, which facilitates the construction of the aforementioned proxy for inflation illiteracy, given that the survey response is measured on a continuous scale aiming precisely at the year-on-year change in the official headline CPI inflation indicator.

This same dataset is used in Medel (2022) to show that specific consumer subgroups—particularly women with higher education and employed in socially oriented sectors of Greater Santiago—consistently produce more accurate inflation forecasts than comparable benchmarks. Thus, the CMD data has proven useful for identifying socioeconomic and demographic correlates of forecast skill in inflation expectations. The IEE-EOD cross-section sample is representative of individuals aged 15 and older residing in the Santiago Metropolitan Region.[3] The survey applies a rotating panel design (2-2-2 structure), although public releases do not provide respondent identifiers, restricting the analysis to repeated cross-sections. Despite this, Faure and Medel (2020) highlight that this structure is sufficient for analysing expectation heterogeneity and forecasting behaviour at a granular group level. Unfortunately, the IEE was discontinued in 2019; consequently, only EOD data are available for 2019–22. The EOD itself was discontinued in 2022, ending a 67-year series.

Also, macro-level variables—including realised inflation (headline; headline excluding energy and food; and these two sectors separately), output gap,[4] nationwide uncertainty measures, regional unemployment, and other real-economy aggregates—are incorporated as regression controls. Summary statistics and sources of all series involved are reported in Table A1 in Annex A.

2.1.1 A brief look at microdata-based aggregates

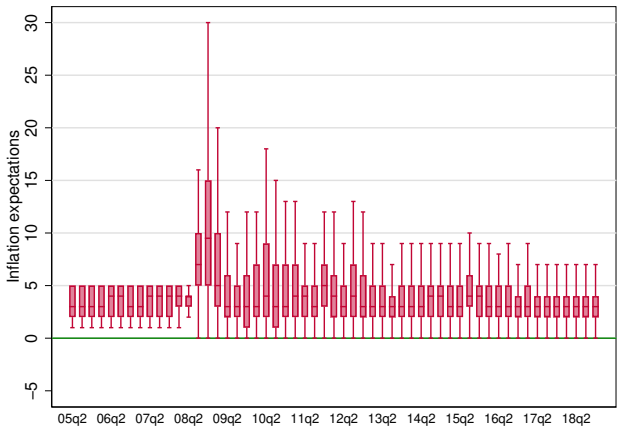
Figure 1, panel A, shows the median of respondents' 12-month CPI expectations (excluding outliers), assembled around 3–4%, with wider dispersion during the 2008–09 *Global Financial Crisis* (GFC), then narrowing after 2015 and drifting symmetrically towards the 3% target. Notably, among public measures of inflation expectations, this survey exhibits the greatest dispersion (Central Bank of Chile, 2020). Thus, although the bulk of forecasts lie close to realised inflation, the series still display pronounced heterogeneity. Panel B plots forecast errors including outliers: these are mostly negative, indicating systematic over-prediction, with a heavy lower tail and few large positive misses. The outlying dots correspond to "inflation illiterates", which distort the behaviour of aggregate expectations when treated as forecasts. Once outliers are removed (panel C), forecast errors oscillate around zero, featuring a pronounced negative trough during the GFC—when inflation fell faster than anticipated—followed by smaller swings and a mild negative bias. Panel D shows actual headline inflation (target 3%) alongside the traditional aggregate measure: the median inflation expectation (including outliers). The root-mean-squared forecast error (RMSFE) of this variable is 1.65%, while the standard deviation of the dependent variable (*i.e.*, actual inflation) equals 2.23%. Overall, the median forecast appears close to the 3% policy target, suggesting a mixture of informed and illiterate responses.

[3] Santiago is Chile's capital city with 7.037 million inhabitants in a country totalling 18.730 million inhabitants in 2017, thus representing 37.57% of the total population.

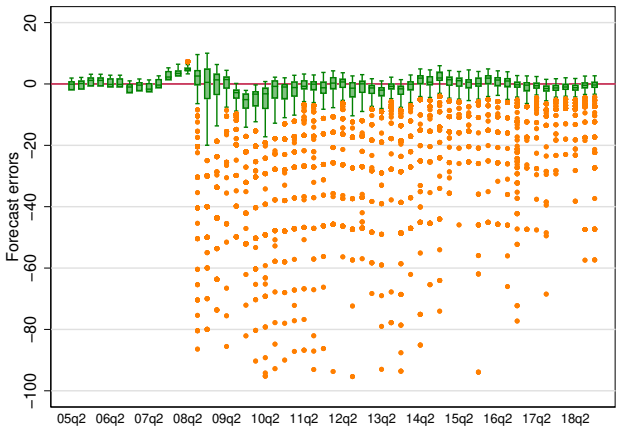
[4] The output gap is measured as the log difference between actual and potential GDP. Potential GDP is constructed by seasonally adjusting GDP with X-13ARIMA-SEATS, extending the series with up to five years of forecasts from an ARIMA "airline model" re-estimated sequentially, and then applying a Hodrick–Prescott (HP) filter ($\lambda = 1{,}600$). Extending the series mitigates the HP filter's end-of-sample identification problem (Mise, Kim, and Newbold, 2005).

Figure 1. Expected and actual inflation, forecast errors, and "inflation illiterates" (†)

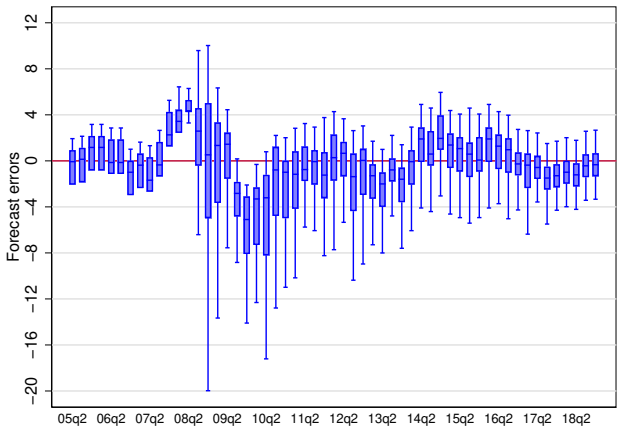
A. Inflation expectations (median of total responses; excluding outliers) (percentage)



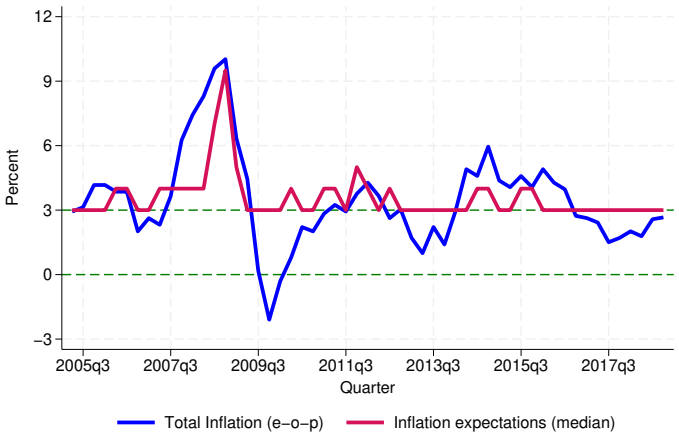
B. Inflation forecast errors implied by expectations (including outliers) (percentage)



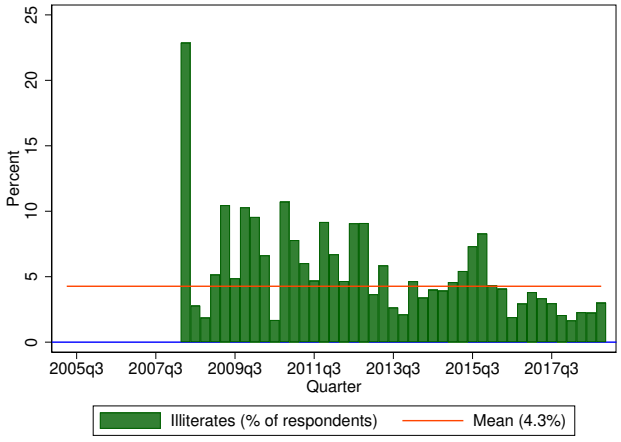
C. Inflation forecast errors implied by expectations (excluding outliers) (percentage)



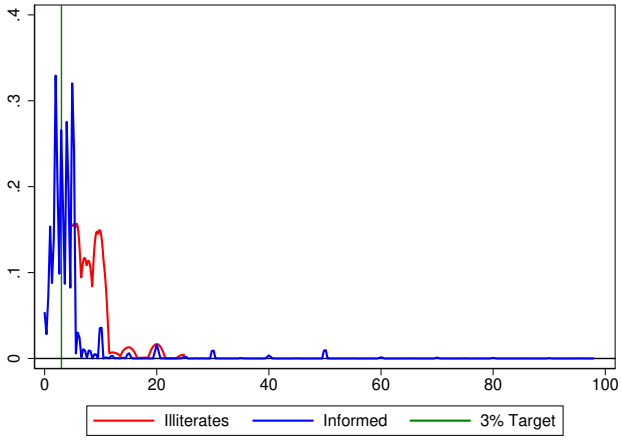
D. Headline inflation and expectations (3% target; annual variation, median of responses; percentage)



E. Percentage of "inflation illiterates" per quarter (percent)



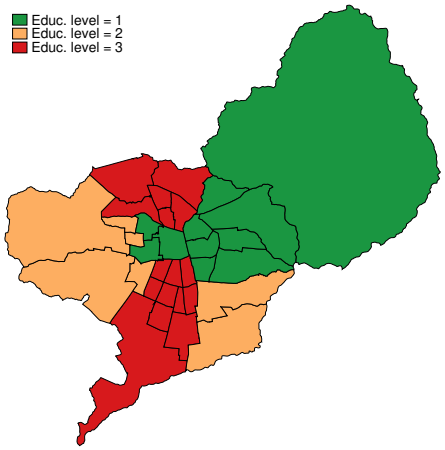
F. Empirical distribution of inflation expectations of "informed" and "illiterates" (kernel density; percentage)



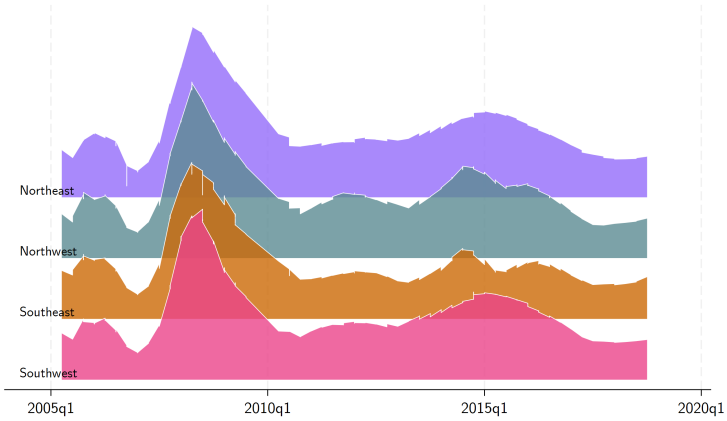
(†) Sample: 2005.II–2018.IV (55 observations). Panel B: Orange dots = "inflation illiterates" (outside the interval [Q1-1.5·IQR, Q3+1.5·IQR]). Source: Author's calculations based on *Centro de Microdatos* database and the National Institute of Statistics (INE).

Figure 2. Inflation expectations and selected attributes of the IEE-EOD (†)

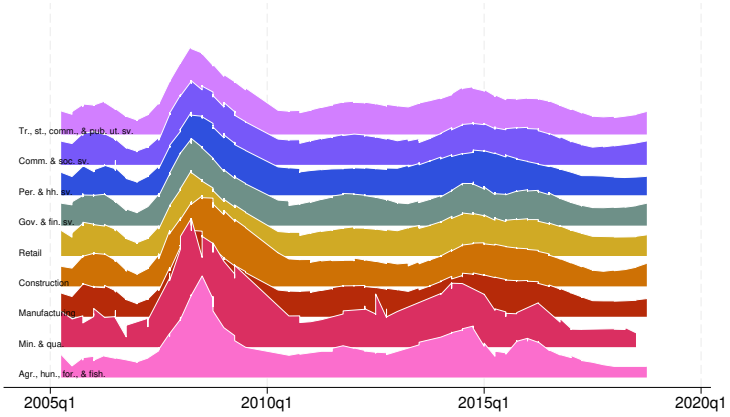
A. Educational level by cardinal quadrants of Greater Santiago (level; full-sample average)



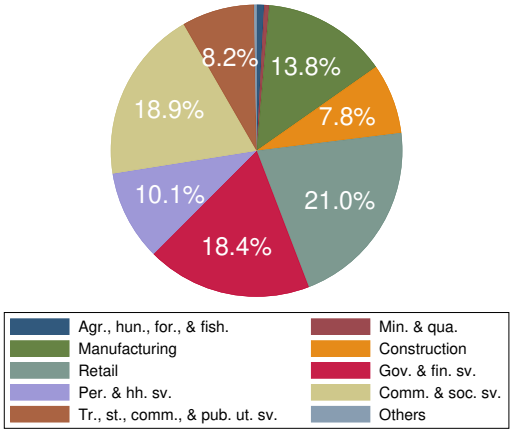
B. Inflation expectations by cardinal quadrants of Greater Santiago (annual variation; percentage)



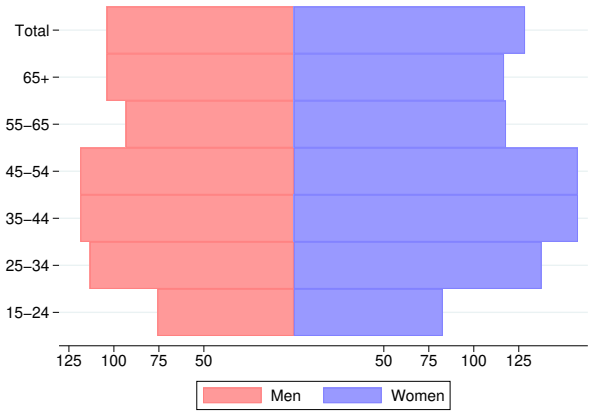
C. Economic sectors of respondents answering currently employed (per cent; full-sample average)



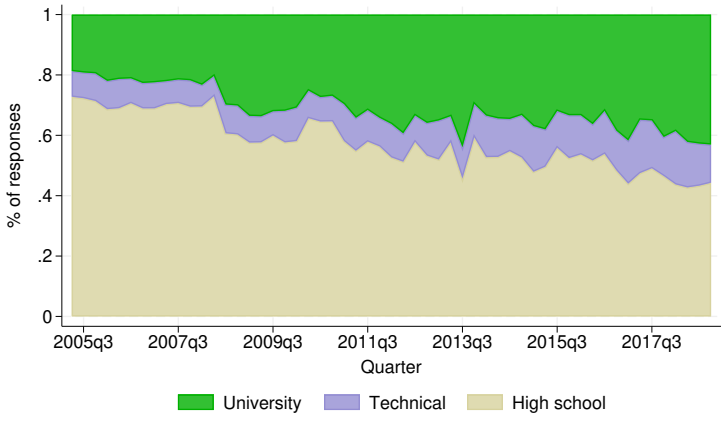
D. Economic sectors of respondents answering currently employed (per cent; full-sample average)



E. Number of respondents by age groups and sex at birth (no. of resp.; full-sample average)



F. Respondents by educational level (percentage of total resp.)



(†) Sample: 2005.II–2018.IV (55 observations). Panels B and C: Produced with the Stata package "joyplot" by Asjad Naqvi, v.1.71. Source: Author's calculations based on *Centro de Microdatos* database and the National Institute of Statistics (INE).

The outliers in panel B—classified as inflation illiterates—average 4.3% of the time-sample and have declined over time (panel E). This pattern is consistent with subdued inflation, smoother dynamics, and more informed responses across time, although it does not eliminate the presence of outliers (see the rightmost boxplots in panel B). Considering the empirical kernel distributions (parabolic Epanechnikov-based kernel function) of "informed" versus "illiterate" expectations (panel F), the latter display substantially more mass between 5.20% and 11.73% (mean 8.11%), whereas informed forecasts have a lower mean (7.16%) with most of the mass below 3.80%.

2.1.2 Exploring socioeconomic and demographic microdata

Regarding respondents' educational attainment, Figure 2, panel A, suggests that a clear spatial pattern emerges across Greater Santiago (2005.II–2018.IV average): the North-eastern quadrant is predominantly higher (College), the Western belt is largely intermediate (Technical), and the Central-southern communes are mostly lower (up to Secondary). Given this regular spatial gradient, a coarse "location" indicator split into four quadrants would be redundant and highly correlated with educational attainment. I then include location fixed effects; this pattern would result in a strong correlation with other covariates, notably SES and wages/household income variables.

Panel B shows 12-month inflation expectations across time by location quadrant. All four series co-move—*i.e.*, a 2008 hump (commodity shock), a 2009 drop, then smoother oscillations converging towards the 3% target. Gaps are persistent but modest: North-east lowest/most stable, North-west intermediate, South-east/South-west highest/more volatile. Dispersion peaks in 2008–12 and narrows after 2015. This ordering accords with the SES gradient in panel A: higher-income, better-educated areas align sooner and closer to target, while southern quadrants—more exposed to salient price swings and with lower economic/financial literacy—tend to overpredict and adjust more slowly (Medel, 2022).

Panel C reports sectoral expectations among respondents currently employed.[5] *Mining and Quarrying* show a distinct profile: they lead the run-up to the GFC and again before 2015, with a pronounced 2012 peak; a similar, though weaker signal appears in *Community and Social Services* and *Government and Financial Services.* In late 2015, higher-inflation signals are most visible in *Community and Social Services*, *Personal and Household Services*, *Retail*, and *Construction.* Despite its volatility, *Mining and Quarrying* represents ~ 1% of the sample (panel D). In turn, five sectors account for 82.2% of responses—*Retail* 21.0%, *Community and Social Services* 18.9%, *Government and Financial Services* 18.4%, *Manufacturing* 13.8%, plus *Personal and Household Services* 10.1%—so the survey is comparatively service-heavy while still covering tradable items.

Regarding the composition by age and sex at birth, panel E presents the number of respondents per quarter (average 2005.II–2018.IV). Participation is concentrated in the working-age bands 25–54, while the 15–24 group is thinly represented. Women slightly outnumber men overall, with the clearest female predominance in the 45–54 cohort (and, to a lesser extent, 25–34); the 35–44 group is near parity. Hence, the sample is broadly balanced across prime working ages, with a mild female skew and fewer respondents at the tails of the age distribution. Panel F shows the educational composition over time: the sample is consistently dominated by high-school graduates, with technical education forming a smaller band and university graduates the second-largest group. Over time, the university share rises modestly, offset by a gradual decline in the high-school share, while the technical share is broadly stable to slightly lower. Apart from a brief blip around 2011–12, the distribution is relatively stable, and consistent with a declining share of inflation-illiterate responses toward the end of the sample.

3 Econometric analysis

3.1 Linear regressions

As noted above, I implement three exercises to draw conclusions about the explanatory factors of inflation illiteracy and its influence on overall inflation expectations. First, I estimate a baseline regression to characterise how expectations are formed in the full sample. Second, I classify responses exhaustively as "informed" or "illiterate" using a forecast-error-based rule and include the resulting dummy (labelled as $\mathbb{I}_t^i$) in the baseline specification (as well as relevant

[5] All sectors and their descriptions are listed in Table A2 in the Annex.

interactions) to gauge its impact on overall expectations. Third, I estimate non-linear Probit models for the illiteracy indicator (1 =illiterate; 0 otherwise) to analyse the covariates that drive illiteracy.

The baseline linear regression is defined as:

$$\mathbb{E}_{t-4}\left[\pi^{i}_{s,e,p,l,t}\right] = \pi_0 + \mathbf{X}_t^{i\prime}\boldsymbol{\beta} + \mathbf{Y}_t^{i\prime}\Gamma + \mathbf{Z}_t'\Phi + \mathbf{C}_s'\Psi_s + \mathbf{C}_e'\Psi_e + \mathbf{C}_p'\Psi_p + \mathbf{C}_l'\Psi_l + \varepsilon_t^i, \tag{1}$$

where $\mathbb{E}_{t-4}[\pi^{i}_{s,e,p,l,t}]$ is individual i's expected 12-month-ahead inflation (or 4-quarter-ahead in the data) made 12 months earlier, for someone in sector s (see Table A2 in Annex A), employment status e (e ={1 =working, 0 otherwise}), position p (p ={1 =Employer; 2 =Self-employed; 3 =Employee; 4 =Labourer; 5 =Domestic worker (household employee); 6 =Unpaid family worker}), and location l (l ={1 =South-west; 2 =South-east; 3 =North-west; 4 =North-east}), at quarter t. The matrix $\mathbf{X}_t^i$ collects sociodemographic characteristics (education, sex at birth, age, age squared); $\mathbf{Y}_t^i$ collects socioeconomic characteristics (SES, household size, hours worked, variation in household income over the past 12 months (Δw_{t-4}), household indebtedness ($Debt_t$), expected general economic situation of the country in one year's time ($\mathbb{E}_{t-4}[y_t]$), and current labour earnings (w_t)); $\mathbf{Z}_t$ denotes the matrix of time-varying covariates, comprising: (i) energy-price inflation (π_t^{Energy}); (ii) house-price inflation ($House_t$); (iii) the output gap ($\widetilde{y}_{t-1}$); (iv) the lagged unemployment rate for the Metropolitan Region (u_{t-1}^{MR}) and at the national level (u_t); (v) the Chilean *Economic Policy Uncertainty* index ($EPUC_t$); (vi) the aggregate interest rate on consumer (retail) loans (i_t^{Cons}); (vii) lagged quarter-on-quarter change in supermarket sales ($\Delta\%Sales_{t-1}$); (viii) the current headline inflation rate (π_t); and (ix) current GDP growth (y_t). Details on how each variable is measured—units, sample, source, and descriptive statistics—are provided in Table A1 in Annex A. The set $\{\mathbf{C}_s, \mathbf{C}_e, \mathbf{C}_p, \mathbf{C}_l\}$ comprises fixed effects capturing, respectively, sector, employment status, labour position, and location. Finally, $\{\pi_0, \boldsymbol{\beta}, \Gamma, \Phi, \Psi_s, \Psi_e, \Psi_p, \Psi_l\}$ comprises parameters to be estimated; and $\varepsilon_t^i \sim iid\mathcal{N}(0, \sigma_\varepsilon^2)$.

The classification of respondents as "illiterates" or "informed" is based on the forecast error in quarter t. Specifically, define $\mathbb{I}_t^i = 1$ (illiterate) and 0 otherwise if the forecast error e_t^i lies outside the interval $[\mathsf{Q}_{1|t} - 1.5{\cdot}\mathsf{IQR}_{t|t}, \mathsf{Q}_{3|t} + 1.5{\cdot}\mathsf{IQR}_{t|t}]$ where $\mathsf{Q}_{j|t}$ denotes the j-th quartile of the cross-section in quarter t and $\mathsf{IQR}_{t|t} = \mathsf{Q}_{3|t} - \mathsf{Q}_{1|t}$ is the interquartile range. This rule exploits the cross-sectional comparisons relative to the target variable π_t and does not depend on respondents' past forecasting performance. Thus, the analysis is on illiterate *responses* instead of illiterate *individuals*. The dichotomous indicator $\mathbb{I}_t^i$ is then added to the regression in equation (1) to form:

$$\mathbb{E}_{t-4}\left[\pi^{i}_{s,e,p,l,t}\right] = \pi_0 + \mathbf{X}_t^{i\prime}\boldsymbol{\beta} + \mathbf{Y}_t^{i\prime}\Gamma + \mathbf{Z}_t'\Phi + \mathbf{C}_s'\Psi_s + \mathbf{C}_e'\Psi_e + \mathbf{C}_p'\Psi_p + \mathbf{C}_l'\Psi_l + \alpha_0\mathbb{I}_t^i + \mathbb{I}_t^i\mathbf{V}_t^{i\prime}\boldsymbol{\alpha}_1 + \varepsilon_t^i, \tag{2}$$

and the focus is now on the estimated parameters $\{\alpha_0, \boldsymbol{\alpha}_1\}$. The $\mathbb{I}_t^i\mathbf{V}_t^{i\prime}$ interaction is pertinent since $\mathbf{V}_t^{i\prime}$ captures *some* socioeconomic and demographic attributes such as $Educ_t$, Sex_t, Δw_{t-4}, $\mathbb{E}_{t-4}[y_t]$, and w_t, making it useful to assess how illiteracy varies with key covariates. The modelling strategy rests on three building blocks, ensuring that variables from each block—sociodemographic, socioeconomic, and macroeconomic—are included, and then sequentially selecting individual regressors on the basis of their statistical and economic significance.

The strategy of combining individual socioeconomic and demographic characteristics with macroeconomic variables has been widely used to explain inflation expectations. For example, Bryan and Venkatu (2001b), Bellemare, Tossou, and Moran (2020), Christelis *et al.* (2020), Böhm *et al.* (2023), and Fujii, Nakano, and Takatomi (2025) exploit individual characteristics to study how inflation expectations are formed, typically controlling for macroeconomic conditions. By contrast, Turnovsky (1970), Gibson (1972), Carlson (1977), Xu *et al.* (2016), and Binder and Rodrigue (2018) emphasise macroeconomic covariates of expectations. In line with these two strands of the literature, the specification used in this note integrates both micro-level time-varying covariates and aggregate macroeconomic variables to explain the formation of inflation expectations.

More recent research has emphasised that inflation expectations are formed by heterogeneous information sets, demographic and socioeconomic characteristics, financial literacy and numeracy, salient prices, perceptions about macroeconomic shocks, disagreement across households, and interpretations of monetary policy communication. D'Acunto *et al.* (2021) show that exposure to salient grocery prices significantly shapes household inflation expectations. Coibion, Gorodnichenko, and Weber (2022) and Binder, Campbell, and Ryngaert (2024) document that expectations react to monetary policy communication, macroeconomic news, and FOMC announcements. Binetti, Nuzzi, and Stantcheva

(2024) show that households' beliefs about inflation are associated with perceived causes such as government spending, oil prices, wages, supply-chain disruptions, firms' behaviour, and interest rates. In turn, Doh, Lee, and Park (2025) find that inflation expectations depend on income, education, gender, homeownership, age, numeracy, inflation, unemployment, gasoline prices, and monetary policy shocks, with heterogeneity concentrated in the upper tail of the distribution. Likewise, Fofana, Patzelt, and Reis (2024) highlight systematic disagreement across households according to demographic and socioeconomic characteristics, while Pedersen and Pérez (2025) show that financially literate and numerate individuals respond more moderately to central bank communication. Overall, these studies suggest that consumer inflation expectations are formed through a combination of macroeconomic information and personal or idiosyncratic experiences filtered through heterogeneous cognitive and informational frameworks.

3.1.1 Robustness exercises

Two robustness exercises are conducted using alternative definitions of inflation illiteracy. In the main specification, individuals are classified as illiterate when their forecast errors fall outside the standard $1.5 \cdot \mathrm{IQR}$ rule. While this criterion is widely used in the outlier-detection literature, it remains inherently arbitrary and may affect the number of respondents classified as illiterate. To address this concern, I re-estimate the full set of regressions using two more conservative thresholds, namely $2 \cdot \mathrm{IQR}$ and $3 \cdot \mathrm{IQR}$, in line with the suggestion of McNeil (1977), Tukey (1977), and Frigge, Hoaglin, and Iglewicz (1989). These alternative cut-offs mechanically reduce the number of individuals classified as inflation illiterate, thereby tightening the definition around more extreme forecast errors.

3.2 Non-linear Probit regressions

To examine the explanatory variables of inflation illiteracy, I estimate a pooled non-linear Probit model for the binary indicator $\mathbb{I}_t^i$ (1 = illiterate; 0 = informed). The classification is based on the forecast error at a 12-month horizon:

$$e_t^i = \pi_t - \mathbb{E}_{t-4}[\pi_t^i], \tag{3}$$

and the outlier rule:

$$\mathbb{I}_t^i = \begin{cases} 1 & \text{if } e_t^i < \left(\mathrm{Q}_{1,t} - 1.5 \cdot \mathrm{IQR}_t\right) \text{ or } e_t^i > \left(\mathrm{Q}_{3,t} + 1.5 \cdot \mathrm{IQR}_t\right) \\ 0 & \text{otherwise,} \end{cases} \tag{4}$$

where $\mathrm{Q}_{j,t}$ is the j-th cross-sectional quartile in quarter t, and $\mathrm{IQR}_t = \mathrm{Q}_{3,t} - \mathrm{Q}_{1,t}$. Let the regression be (Wooldridge, 2010):

$$\mathbb{I}_t^i = \pi_0 + \mathbf{X}_t^{i\prime}\boldsymbol{\beta} + \mathbf{Y}_t^{i\prime}\Gamma + \mathbf{Z}_t'\Phi + \mathbf{C}_s'\Psi_s + \mathbf{C}_e'\Psi_e + \mathbf{C}_p'\Psi_p + \mathbf{C}_l'\Psi_l + \varepsilon_t^i, \tag{5}$$

where $\mathbf{X}_t^i$, $\mathbf{Y}_t^i$, and $\mathbf{Z}_t$ are the three blocks of regressors and $\{\mathbf{C}_s, \mathbf{C}_e, \mathbf{C}_p, \mathbf{C}_l\}$ comprise fixed effects (sector, employment status, labour position, and location). For these estimates, the inflation expectation formed 12 months earlier ($\mathbb{E}_{t-4}[\pi_t]$), the implied forecast error of that expectation ($e_t(\pi_{t-4|t})$), and total household income (Σw_t) are added to matrix $\mathbf{Y}_t^i$. Similarly, food price inflation (π_t^{Food}) and Chile's *Economic Uncertainty Index* (IEC_t) are added to matrix $\mathbf{Z}_t$. Writing $\mathbf{W}_t^{i\prime}\Theta = \widehat{\mathbb{I}}_t^i$ for brevity, the Probit specification is:

$$\mathbb{P}(\mathbb{I}_t^i = 1 \mid \mathbf{W}_t^i) = \Phi\left(\mathbf{W}_t^{i\prime}\Theta\right), \tag{6}$$

so the conditional mean is $\mathbb{E}[\mathbb{I}_t^i \mid \mathbf{W}_t^i] = \Phi\left(\mathbf{W}_t^{i\prime}\Theta\right)$, where $\Phi(\cdot)$ is the standard normal cumulative distribution function (realising that the disturbance is normalised to $\mathcal{N}(0,1)$). Note that $\mathbb{I}_t^i$ does not appear on the right-hand side of its own Probit equation; naturally, interactions involving $\mathbb{I}_t^i$ belong in the OLS specifications where expectations are the dependent variable.

Although $\mathbb{I}_t^i$ is time-indexed, Probit models do not account for persistence; however, I estimate the model pooled, treating observations as independent with standard errors clustered at the individual level. Regarding marginal effects, for a continuous regressor w_k in $\mathbf{W}_t^i$, the Average Marginal Effect (AME) is defined as:

$$\frac{\partial \mathbb{P}(\mathbb{I}_t^i = 1 \mid \mathbf{W}_t^i)}{\partial w_k} = \phi\left(\mathbf{W}_t^{i\prime}\Theta\right)\theta_k \quad \Longrightarrow \quad \mathrm{AME}(w_k) = \frac{1}{N}\sum_{i=1}^{N} \phi\left(\mathbf{W}_t^{i\prime}\Theta\right)\theta_k, \tag{7}$$

conditional on its coefficient θ_k, whereas for a binary regressor $d_k = \{0,1\}$:

$$\mathsf{AME}(d_k) = \frac{1}{N}\sum_{i=1}^{N}\left[\Phi\left(\eta^i\right)\ (d_k = 1) - \Phi\left(\eta^i\right)(\ d_k = 0)\right], \tag{8}$$

where $\phi(\cdot)$ is the standard normal probability density function. I compute standard errors for AMEs using the delta method with robust (clustered-by-individual) variance estimates.

3.2.1 Robustness exercise

As an additional robustness exercise, I consider a zero-inflated ordered Probit (ZIOP) specification to account for the possibility that inflation illiteracy reflects a two-part decision process. The ZIOP framework is designed for ordinal dependent variables characterised by excess mass at the lowest outcome category relative to what would be implied by a standard ordered Probit model.

In this setting, the observed outcome is assumed to arise from two latent mechanisms. First, a binary participation equation determines whether an individual belongs to an "informed-response" group versus an "illiterate-response" group. The probability of an illiterate response continues to be given by equation (6). Second, conditional on belonging to the illiterate-response group, an ordered Probit process governs the intensity of inflation illiteracy across ordered categories, which may still include zero outcomes:

$$\mathbb{P}(\mathbb{E}_{t-4}\left[\pi^i_{s,e,p,l,t}\right] = \pi_h \mid \mathbb{I}^i_t = 1, \mathbf{X}^i_t) \ = \ \Phi\big(\kappa_h - \mathbf{X}^i_t\Theta\big) - \Phi\big(\kappa_{h-1} - \mathbf{X}^i_t\Theta\big), \tag{9}$$

for $h = 0,1,...,H$, where κ_h denotes threshold parameters and $\mathbf{X}^i_t$ is a matrix of covariates that may differ from $\mathbf{W}^i_t$. This structure allows zero observations to originate either from informed responses or from low realisations within the ordered-response process. Accordingly, the probability of observing a zero outcome is given by:

$$\mathbb{P}(\mathsf{informed}) = \mathbb{P}(\mathbb{I}^i_t = 0) + \mathbb{P}(\mathbb{I}^i_t = 1)\mathbb{P}(\mathbb{E}_{t-4}\left[\pi^i_{s,e,p,l,t}\right] = \pi^{\mathsf{informed}}_h \mid \mathbb{I}^i_t = 1), \tag{10}$$

thereby explicitly accounting for excess zeros in the data.

In the context of this paper, the model combines a Probit equation governing the probability of belonging to the informed-response group and an ordered Probit equation governing the degree of inflation illiteracy among the remaining respondents, potentially allowing different sets of covariates to enter each component. As such, the ZIOP specification provides a flexible framework to distinguish between extensive-margin differences (whether individuals are prone to inflation illiteracy) and intensive-margin variation (how expectations are formed conditional on displaying illiterate behaviour). All specifications are estimated using clustered robust standard errors.

Model fit is assessed using McFadden's pseudo-R-squared, defined as:

$$R^2_{\mathsf{McFadden}} = 1 - \frac{\ln \mathcal{L}^{\mathsf{Full}}}{\ln \mathcal{L}^{\mathsf{Null}}}. \tag{11}$$

where $\ln \mathcal{L}^{\mathsf{Full}}$ and $\ln \mathcal{L}^{\mathsf{Null}}$ denote the log-likelihood values of the fitted and intercept-only models, respectively. Unlike the traditional R-squared used in linear regression, McFadden's pseudo-R does not measure the share of variance explained by the model and is therefore not directly comparable in magnitude. In discrete-choice models, substantially lower values are common and may still be consistent with good model fit.

4 Results

4.1 Drivers of inflation expectations

The results for inflation expectations for all respondents (regression in equation (1)) are presented in Table 1. The SES variable exhibits sign changes across specifications and is statistically insignificant in all but two cases. Notably, when

it attains significance the specification employs a different set of macroeconomic controls; in one case the coefficient is positive (0.862) and in the other negative (–0.131). The SES variable is constructed by combining characteristics such as income, education, and location. However, when education is considered in isolation, the results are highly robust: higher educational attainment is consistently associated with lower inflation expectations—approximately 0.34–0.45 pp per additional schooling tier.

Regarding sex at birth, women—although not always statistically distinguishable from men—tend to report higher expectations by roughly 0.65–0.76 pp in the full sample. While this pattern is suggestive of a greater propensity towards inflation illiteracy, a subsample of women emerges as the best forecasters within this survey (see Medel, 2022, for details). Taken together with the education result, this underscores the need for deeper analysis of the socioeconomic and demographic explanatory variables of inflation illiteracy (as will be discussed in relation to Table 4).

Age enters the model quadratically to allow for non-linearity: both youth and advanced age may be associated with more extreme responses, whereas middle age may coincide with better forecasting performance, possibly due to greater exposure to economic information during prime working years. The estimates indicate mild curvature with an overall tendency for older respondents to report lower inflation expectations, consistent with a learning effect among older individuals in forming expectations. Household size also exhibits weak non-linearity. The quadratic term suggests that respondents in larger households are more likely to perceive higher inflation.

On the socioeconomic side, additional hours worked are associated with slightly higher inflation expectations—about 0.005–0.006 pp per extra hour. Respondents reporting higher household income than a year earlier—one of the most salient and robust individual-level covariates of inflation expectations—anticipate lower inflation; likewise, a less constrained debt position is associated with lower expectations.[6]

Notably, expected GDP growth is positively and robustly associated with inflation expectations, with coefficients ranging 0.364–0.433 pp. This measure is individual-level, in contrast to the contemporaneous GDP growth control, which is common across respondents within a period. While the former loads positively, the latter loads negatively and is stable at around –0.22 pp. This suggests a mechanism whereby overpredictions of GDP growth are offset not only by realised growth but also by labour income; thus, higher current labour earnings are negatively associated with expectations.

With macro controls included, headline inflation enters positively and significantly, whereas GDP growth and national unemployment enter with negative coefficients. In the richer set of macro controls, house-price inflation, economic policy uncertainty ($EPUC_t$), and the consumer-credit rate are all positively associated with expectations. The output gap coefficient is negative—thus, an expansionary phase is associated with lower expected inflation—, and energy-price inflation is also negative—consistent with respondents discounting energy shocks. The Metropolitan Region unemployment rate enters positively and robustly (0.254–0.350), in contrast with the nationwide unemployment rate, which enters negatively (–0.479 to –0.156). Taken together, these results suggest that unemployment is not uniformly disinflationary; if anything, local labour-market slack appears to raise inflation expectations, whereas the national measure points in the opposite direction—consistent with the signs on expected versus realised GDP growth.

Overall, individual-level characteristics—education, sex at birth, labour earnings, and micro-level GDP growth expectations—emerge as the more prominent drivers of inflation expectations.

4.2 Illiteracy as a driver of inflation expectations

Table 2 augments the baseline by adding the illiteracy indicator.[7] Across columns (1)–(10), the dummy is positive and precisely estimated: respondents classified as inflation-illiterate report expectations roughly 3.2–3.8 pp higher than informed respondents, and the inclusion of this regressor yields modest gains in fit (R-squared rises to about 0.043–0.125).

[6] Including retirement income in columns (4)–(5) and (9)–(10) appreciably reduces the sample size, and the associated coefficient is not statistically significant (results not shown). A similar pattern holds in Tables 2–4.

[7] As in Table 1, Tables 2 and 3 include the same macroeconomic controls as signalled under "Macro ctrls."; estimates are omitted for brevity.

Table 1. Linear OLS regression estimates for inflation expectations (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
SES_t	-0.037	-0.081	-0.025	0.408	0.862**	-0.087	-0.131*	-0.085	0.252	0.187
	(0.079)	(0.078)	(0.074)	(0.298)	(0.406)	(0.079)	(0.078)	(0.074)	(0.301)	(0.430)
$Educ_t$	-0.337***	-0.346***	-0.363***	-0.441***	-0.444**	-0.337***	-0.345***	-0.360***	-0.419**	-0.445**
	(0.059)	(0.059)	(0.058)	(0.198)	(0.202)	(0.058)	(0.058)	(0.058)	(0.195)	(0.200)
Sex_t	0.650***	0.664***	0.663***	0.184	-0.052	0.745***	0.758***	0.758***	0.373	0.128
	(0.091)	(0.091)	(0.091)	(0.359)	(0.359)	(0.090)	(0.091)	(0.091)	(0.352)	(0.350)
Age_t	-0.058***	-0.051***	-0.049**	0.219	0.185	-0.066***	-0.058***	-0.057***	0.076	0.034
	(0.020)	(0.020)	(0.019)	(0.238)	(0.246)	(0.019)	(0.019)	(0.019)	(0.225)	(0.231)
Age_t^2	0.001**	0.0004**	0.0004*	-0.002	-0.001	0.001***	0.001**	0.0005**	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)
$Hh.size_t$	-0.152	-0.130	-	-	-	-0.165*	-0.143	-	-	-
	(0.095)	(0.095)	-	-	-	(0.093)	(0.093)	-	-	-
$Hh.size_t^2$	0.027**	0.025**	-	-	-	0.027**	0.026**	-	-	-
	(0.012)	(0.012)	-	-	-	(0.012)	(0.012)	-	-	-
$Hours_t$	0.006*	0.005*	0.006*	-0.012	-0.009	0.006*	0.005*	0.005*	-0.015*	-0.008
	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.136*	-0.198***	-0.208***	-0.130	-0.145	-0.163**	-0.223***	-0.232***	-0.166	-0.179
	(0.070)	(0.069)	(0.069)	(0.271)	(0.282)	(0.069)	(0.069)	(0.068)	(0.265)	(0.277)
$Debt_t$	-0.256***	-	-	-	-	-0.250***	-	-	-	-
	(0.060)	-	-	-	-	(0.059)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.418***	0.433***	0.433***	0.414**	0.364*	0.385***	0.400***	0.401***	0.259	0.242
	(0.052)	(0.052)	(0.052)	(0.182)	(0.191)	(0.052)	(0.052)	(0.052)	(0.172)	(0.180)
w_t	-0.353***	-0.375***	-0.409***	-0.268	-	-0.218**	-0.241***	-0.269***	-0.039	-
	(0.087)	(0.087)	(0.086)	(0.321)	-	(0.088)	(0.088)	(0.087)	(0.303)	-
π_t^{Energy}	-	-	-	-	-	-0.103***	-0.102***	-0.102***	-0.157***	-0.174***
	-	-	-	-	-	(0.009)	(0.009)	(0.009)	(0.036)	(0.038)
$House_t$	-	-	-	-	-	0.099***	0.100***	0.100***	0.103**	0.096**
	-	-	-	-	-	(0.014)	(0.014)	(0.014)	(0.049)	(0.046)
$\widetilde{y}_{t-1}$	-	-	-	-	-	-0.588***	-0.590***	-0.590***	-0.293***	-0.283***
	-	-	-	-	-	(0.036)	(0.036)	(0.036)	(0.082)	(0.091)
u_{t-1}^{MR}	-	-	-	-	-	0.346***	0.349***	0.350***	0.289**	0.254*
	-	-	-	-	-	(0.038)	(0.038)	(0.038)	(0.140)	(0.150)
$EPUC_t$	-	-	-	-	-	0.004***	0.004***	0.004***	-0.000	-0.002
	-	-	-	-	-	(0.001)	(0.001)	(0.001)	(0.003)	(0.002)
i_t^{Cons}	-	-	-	-	-	10.92***	10.89***	10.90***	13.26***	13.37***
	-	-	-	-	-	(0.602)	(0.600)	(0.601)	(2.209)	(2.353)
$\Delta\%Sales_{t-1}$		-	-	-	-	-0.026	-0.027	-0.027	-0.011	0.015
	-	-	-	-	-	(0.017)	(0.017)	(0.017)	(0.057)	(0.060)
π_t	0.215***	0.214***	0.214***	0.329***	0.330***	-	-	-	-	-
	(0.023)	(0.023)	(0.023)	(0.081)	(0.083)	-	-	-	-	-
y_t	-0.255***	-0.253***	-0.254***	-0.158**	-0.218***	-	-	-	-	-
	(0.020)	(0.020)	(0.020)	(0.075)	(0.082)	-	-	-	-	-
u_t	-0.161***	-0.156***	-0.157***	-0.330***	-0.479***	-	-	-	-	-
	(0.036)	(0.036)	(0.035)	(0.151)	(0.157)	-	-	-	-	-
FE.Sectors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Situation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Position	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Location	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-sq.	0.034	0.033	0.033	0.060	0.066	0.061	0.060	0.060	0.107	0.115
No. obs.	32,159	32,302	32,303	1,572	1,464	32,159	32,302	32,303	1,572	1,464

(†) FE=Fixed effect. Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

Table 2. Linear OLS regression estimates for inflation expectations including illiteracy (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Table 1's regressions with $\mathbb{I}_t^i$									
$\mathbb{I}_t^i$	3.468***	3.467***	3.468***	3.757***	3.731***	3.343***	3.340***	3.341***	3.125***	3.220***
	(0.120)	(0.119)	(0.119)	(0.503)	(0.531)	(0.107)	(0.107)	(0.107)	(0.468)	(0.485)
SES_t	-0.018	-0.060	-0.007	0.391	0.788*	-0.071	-0.114	-0.071	0.246	0.150
	(0.079)	(0.078)	(0.074)	(0.297)	(0.404)	(0.079)	(0.078)	(0.074)	(0.300)	(0.429)
$Educ_t$	-0.331***	-0.339***	-0.356***	-0.393**	-0.397**	-0.331***	-0.340***	-0.353***	-0.379*	-0.404**
	(0.058)	(0.059)	(0.058)	(0.197)	(0.201)	(0.058)	(0.058)	(0.058)	(0.196)	(0.200)
Sex_t	0.628***	0.641***	0.641***	0.116	-0.120	0.720***	0.733***	0.733***	0.310	0.067
	(0.091)	(0.091)	(0.091)	(0.357)	(0.355)	(0.090)	(0.090)	(0.090)	(0.350)	(0.347)
Age_t	-0.054***	-0.047**	-0.046**	0.189	0.153	-0.062***	-0.055***	-0.054***	0.054	0.007
	(0.020)	(0.019)	(0.019)	(0.237)	(0.245)	(0.019)	(0.019)	(0.019)	(0.225)	(0.230)
Age_t^2	0.0005***	0.0004*	0.0003*	-0.001	-0.001	0.001***	0.0006**	0.0005**	-0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)
$Hh.size_t$	-0.158*	-0.137	-	-	-	-0.170*	-0.149	-	-	-
	(0.095)	(0.095)	-	-	-	(0.093)	(0.093)	-	-	-
$Hh.size_t^2$	0.027**	0.026**	-	-	-	0.027**	0.026**	-	-	-
	(0.012)	(0.012)	-	-	-	(0.012)	(0.012)	-	-	-
$Hours_t$	0.006**	0.006*	0.006*	-0.014*	-0.010	0.006**	0.006*	0.006*	-0.016**	-0.010
	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.126*	-0.185***	-0.195***	-0.153	-0.160	-0.155**	-0.213***	-0.221***	-0.188	-0.197
	(0.070)	(0.069)	(0.069)	(0.270)	(0.280)	(0.069)	(0.068)	(0.068)	(0.265)	(0.276)
$Debt_t$	-0.246***	-	-	-	-	-0.242***	-	-	-	-
	(0.060)	-	-	-	-	(0.059)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.404***	0.419***	0.420***	0.412**	0.363*	0.377***	0.391***	0.392***	0.267	0.248
	(0.052)	(0.052)	(0.052)	(0.182)	(0.190)	(0.052)	(0.051)	(0.052)	(0.171)	(0.179)
w_t	-0.369***	-0.391***	-0.424***	-0.245	-	-0.226***	-0.251***	-0.277***	-0.034	-
	(0.086)	(0.086)	(0.085)	(0.319)	-	(0.088)	(0.088)	(0.086)	(0.303)	-
R-sq.	0.0429	0.0422	0.0417	0.0735	0.0791	0.0694	0.0685	0.0681	0.1164	0.1250
No. obs.	32,159	32,302	32,303	1,572	1,464	32,159	32,302	32,303	1,572	1,464
Macro ctrls.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Sectors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Situation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Position	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Location	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(†) FE=Fixed effect. Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

Other covariates retain the patterns documented in Table 1. Education remains strongly and negatively associated with expectations (–0.33 to –0.40 pp per tier), women continue to report higher expectations in the large samples (0.63–0.73 pp; columns(1)–(3) and (6)–(8)), and age preserves a mild quadratic profile, with a small positive second-order term. Hours worked load slightly positively (0.006 pp per hour), higher recent labour-income growth is associated with lower expectations, a less constrained debt position correlates with lower expectations, expected GDP growth remains a robust positive correlate (0.36–0.42 pp), and higher current wages load negatively—virtually unchanged from Table 1.[8]

Table 3 turns to interactions between illiteracy and key drivers. The direct effect of illiteracy remains large in the full

[8]As with the baseline, results across specifications (columns (4)–(5) and (9)–(10)) lose strength because retirement-income data shrink the sample; this same consequence holds throughout the tables.

samples (2.9–4.5 pp; columns (1)–(3) and (6)–(8)), attenuating only in the shrunken sample. Education's disciplining effect is substantially weakened among illiterates: the interaction $\mathbb{I}_t^i \times Educ_t$ is positive and significant (0.35–0.45), nearly offsetting the negative main effect of education and implying that additional schooling may be insufficient to improve forecasts when the individual is already classified as inflation-illiterate. The coefficient on women is concentrated among the informed: $\mathbb{I}_t^i \times Sex_t$ is negative and sizeable (≈–0.97), effectively neutralising the positive main effect of being female in the full samples, suggesting that literacy plays a more prominent role for women. Illiteracy also weakens the disciplining role of recent labour-income gains: $\mathbb{I}_t^i \times \Delta w_{t-4}$ is positive (0.38–1.18), offsetting the negative main effect of income growth (Δw_{t-4}). Conversely, the sensitivity to expected GDP growth is dampened for the illiterate: $\mathbb{I}_t^i \times E_{t-4}[y_t]$ is negative and robustly significant (–0.62 to –1.61), reversing much of the baseline positive association. This suggests that, among iliterate respondents, stronger GDP-growth expectations reduce inflation expectations, consistent with an income-effect mechanism. Notice that the interaction with current wages ($\mathbb{I}_t^i \times w_t$) is small and erratic. Overall fit improves slightly relative to Table 2 (R-squared ranges 0.044–0.129), but—as before—the columns with retirement-income controls have fewer observations and correspondingly wider intervals.

Taken together, these results show that inflation illiteracy not only shifts the level of expectations upward but also reshapes how education, sex at birth, and household income dynamics map into reported inflation, weakening channels that otherwise discipline expectations in the informed population.

4.2.1 Robustness results

Table B1 in Annex B replicates the augmented specification of Table 2, which includes the inflation illiteracy indicator, using an alternative $2 \cdot \mathrm{IQR}$ threshold for its construction. This modification reduces the number of individuals classified as inflation-illiterate by applying a more restrictive criterion based on forecast-error dispersion.

The main results remain robust to this alternative definition. Across specifications, the inflation illiteracy indicator continues to enter positively and significantly, indicating that illiterate respondents report systematically higher inflation expectations relative to informed individuals. The main covariates also preserve their signs and statistical significance patterns. In particular, education remains negatively associated with inflation expectations, women continue to report higher expectations, and macroeconomic controls retain their baseline effects.

Table B2 in Annex B replicates the interaction specification reported in Table 3 using the alternative $2 \cdot \mathrm{IQR}$ definition. The direct effect of inflation illiteracy remains positive and statistically significant across specifications. However, unlike the baseline results in Table 3, most interaction terms lose statistical significance under the stricter threshold definition. From a regression perspective, this is consistent with the substantial reduction in the number of respondents classified as inflation-illiterate, which lowers the variation available to identify heterogeneous marginal effects across subgroups. As a result, the average effect of inflation illiteracy remains identifiable, while interaction effects become less precisely estimated.

Table C1 in Annex C replicates the augmented specification of Table 2 using the stricter $3 \cdot \mathrm{IQR}$ definition of inflation illiteracy, restricting attention to only the most extreme forecast errors. Despite this substantially more conservative threshold, the main results remain qualitatively unchanged. The inflation illiteracy indicator continues to enter positively and significantly across specifications, indicating that respondents classified as illiterate report systematically higher inflation expectations relative to informed individuals. Likewise, the main socioeconomic and macroeconomic covariates preserve their signs and broad significance patterns.

Table C2 in Annex C replicates the interaction specification reported in Table 3 using the $3 \cdot \mathrm{IQR}$ definition. As in Table B2, the direct effect of inflation illiteracy remains positive and statistically significant, while most interaction terms lose statistical significance under the stricter classification rule. In this case, however, the interaction term associated with expected economic activity displays a positive coefficient, suggesting that inflation-illiterate respondents become relatively more sensitive to changes in expected macroeconomic conditions when the definition of illiteracy is restricted to the most extreme forecast-error observations. This may reflect that individuals located in the tails of the forecast-error distribution react more strongly to salient macroeconomic signals, although this result should be interpreted cautiously given the reduced effective sample size and the weaker overall precision of the interaction estimates.

Overall, the comparison between Tables 2–3 and B1–B2/C1–C2 suggests that the direct effect of inflation illiteracy is robust to stricter outlier definitions, although interaction-based heterogeneity becomes weaker under more restrictive classification thresholds.

4.3 Drivers of inflation illiteracy

Table 4 models the probability of being inflation-illiterate ($\mathbb{I}_i^t = 1$) using a Probit and reports AMEs. In the baseline specifications (columns (1)–(3)), SES and education load with the expected sign: higher SES and additional schooling are associated with a lower likelihood of illiteracy, although the education effect becomes clearly identifiable only in the smaller samples (columns (4)–(5) and (9)–(10)). Women are more likely to be classed as illiterate—by roughly 0.5–1.5 pp of probability—while age displays a mild U-shape: the linear term is negative and the quadratic term positive, implying a minimum at mid-life. Longer working hours slightly reduce the probability of illiteracy, though the effect is quantitatively small.

Both respondents' own inflation forecasts and their forecast errors are closely linked to inflation illiteracy. Respondents who expect higher inflation are more likely to be illiterate: a 1 pp increase in individual 12-month-ahead inflation expectations raises the probability of illiteracy by around 0.3–0.4 pp. Larger forecast errors show mixed results, consistent with the notion that misperceptions about the inflationary process are both a marker of illiteracy and a pathway out of it. By contrast, stronger personal expectations of GDP growth are generally associated with a lower likelihood of illiteracy in the broad samples, though this relationship weakens in the restricted columns.

The richer macroeconomic blocks (columns (6)–(10)) indicate that the economic environment matters for literacy. Higher food-price inflation is undoubtedly associated with a greater probability of illiteracy (0.4–0.5 pp per 1 pp increase), whereas energy-price inflation enters statistically and economically non-significant, with a small negative effect, suggesting that highly salient energy shocks may, if anything, spur information acquisition or reduce confusion. A higher output gap is linked to lower illiteracy (-0.009 to -0.005 pp per 1 pp), while higher unemployment goes in the opposite direction (≈0.01 pp), pointing to a cyclical pattern in which weaker labour markets are correlated with poorer inflation knowledge. Higher national GDP growth is associated with lower illiteracy (≈0.3 pp per 1 pp), as well as higher unemployment (≈0.4 pp).

A higher uncertainty stance is associated with a tiny lower probability of illiteracy; similarly to a stronger retail activity (growth in real sales). Tighter household credit conditions—proxied by the consumer-credit interest rate—are associated with more illiteracy.

Across all specifications, fixed effects for sector, situation, position, and location are included. The pseudo-R-squared rises from roughly 0.04 in the baseline to about 0.11–0.13 in the richer macro blocks, and—as elsewhere—the columns that incorporate retirement income (columns (4)–(5) and (9)–(10)) have fewer observations and wider intervals. Overall, the Probit estimates reinforce the article's central message: inflation illiteracy is systematically related to socioeconomic disadvantage, sex at birth, and age profiles, weaker engagement with the labour market, whereas no role for income is found, and declines slightly with longer working hours and stronger personal GDP-growth expectations.

Economy-wide controls tend to reduce the likelihood of being inflation-illiterate: stronger GDP growth, lower unemployment, better retail conditions, and a wider (positive) output gap mitigate it. By contrast, food inflation (and, to a lesser extent, housing inflation) and higher consumer-credit rates increase illiteracy. Notably, energy-price inflation shows a small offsetting effect.

4.3.1 Robustness results

Table D1 in Annex D presents the ZIOP specification as an alternative to the baseline Probit estimates reported in Table 4. This approach explicitly allows inflation illiteracy to arise from a two-stage latent process, distinguishing between the probability of belonging to the illiterate-response group and the intensity of illiteracy conditional on participation.

Table 3. Linear OLS regression estimates for inflation expectations including illiteracy and interacted terms (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Table 1's regressions with $\mathbb{I}_t^i$ and interacted terms with $Educ_t$, Sex_t, Δw_{t-4}, $\mathbb{E}_{t-4}[y_t]$, and w_t									
$\mathbb{I}_t^i$	4.522***	4.154***	4.542***	3.633**	1.675	4.227***	4.220***	4.246***	2.940**	1.800
	(0.445)	(0.443)	(0.442)	(1.605)	(1.842)	(0.383)	(0.381)	(0.381)	(1.313)	(1.546)
$\mathbb{I}_t^i \times Educ_t$	0.354**	0.357***	0.356***	0.184	0.410	0.446***	0.444***	0.443***	0.365	0.479
	(0.138)	(0.137)	(0.138)	(0.532)	(0.688)	(0.120)	(0.119)	(0.120)	(0.537)	(0.645)
$\mathbb{I}_t^i \times Sex_t$	-0.961***	-0.947***	-0.963***	0.356	1.351	-0.984***	-0.974***	-0.988***	0.281	0.881
	(0.234)	(0.233)	(0.233)	(1.167)	(1.335)	(0.201)	(0.200)	(0.200)	(1.084)	(1.280)
$\mathbb{I}_t^i \times \Delta w_{t-4}$	0.550***	0.549***	0.568***	1.184*	0.408	0.376**	0.379**	0.398**	0.392	-0.166
	(0.187)	(0.187)	(0.187)	(0.676)	(0.762)	(0.163)	(0.163)	(0.163)	(0.663)	(0.739)
$\mathbb{I}_t^i \times \mathbb{E}_{t-4}[y_t]$	-0.760***	-0.777***	-0.759***	-1.529**	-1.607**	-0.621***	-0.634***	-0.618***	-1.400**	-1.507**
	(0.150)	(0.150)	(0.149)	(0.644)	(0.704)	(0.131)	(0.130)	(0.130)	(0.583)	(0.624)
$\mathbb{I}_t^i \times w_t$	-0.086	-0.119	-0.120	-0.565	-0.246	-0.082	-0.099	-0.099	-0.944	-0.764
	(0.183)	(0.181)	(0.181)	(0.857)	(1.191)	(0.156)	(0.154)	(0.154)	(0.787)	(1.135)
SES_t	-0.022	-0.065	-0.011	0.380	0.813**	-0.075	-0.117	-0.074	0.229	0.135
	(0.079)	(0.078)	(0.074)	(0.298)	(0.412)	(0.079)	(0.078)	(0.073)	(0.303)	(0.438)
$Educ_t$	-0.339***	-0.348***	-0.365***	-0.394**	-0.418**	-0.344***	-0.353***	-0.367***	-0.384*	-0.436**
	(0.060)	(0.060)	(0.060)	(0.199)	(0.206)	(0.060)	(0.060)	(0.059)	(0.197)	(0.205)
Sex_t	0.668***	0.680***	0.681***	0.102	-0.137	0.761***	0.774***	0.774***	0.305	0.065
	(0.094)	(0.094)	(0.094)	(0.366)	(0.368)	(0.093)	(0.093)	(0.093)	(0.360)	(0.360)
Age_t	-0.053***	-0.046**	-0.045**	0.185	0.124	-0.061***	-0.054***	-0.053***	0.050	-0.035
	(0.020)	(0.019)	(0.019)	(0.239)	(0.254)	(0.019)	(0.019)	(0.019)	(0.226)	(0.239)
Age_t^2	0.0005***	0.0004*	0.0003*	-0.001	-0.001	0.001***	0.0006**	0.0005**	-0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)
$Hh.size_t$	-0.157*	-0.136	-	-	-	-0.169*	-0.148	-	-	-
	(0.095)	(0.095)	-	-	-	(0.093)	(0.093)	-	-	-
$Hh.size_t^2$	0.027*	0.026**	-	-	-	0.027**	0.026**	-	-	-
	(0.012)	(0.012)	-	-	-	(0.012)	(0.012)	-	-	-
$Hours_t$	0.006**	0.006*	0.006*	-0.014*	-0.011	0.006**	0.006*	0.006*	-0.016**	-0.011
	(0.003)	(0.003)	(0.003)	(0.008)	(0.008)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.148**	-0.208***	-0.218***	-0.188	-0.188	-0.170**	-0.228***	-0.237***	-0.202	-0.205
	(0.072)	(0.071)	(0.071)	(0.282)	(0.297)	(0.071)	(0.071)	(0.071)	(0.277)	(0.293)
$Debt_t$	-0.246***	-	-	-	-	-0.242***	-	-	-	-
	(0.060)	-	-	-	-	(0.059)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.435***	0.451***	0.450***	0.449**	0.375*	0.401***	0.416***	0.416***	0.304*	0.253
	(0.054)	(0.054)	(0.054)	(0.187)	(0.195)	(0.053)	(0.053)	(0.053)	(0.176)	(0.184)
w_t	-0.359***	-0.381***	-0.414***	-0.204	-	-0.218**	-0.243***	-0.269***	0.009	-
	(0.087)	(0.087)	(0.086)	(0.324)	-	(0.089)	(0.089)	(0.087)	(0.308)	-
R-sq.	0.044	0.043	0.042	0.075	0.082	0.070	0.069	0.069	0.118	0.129
No. obs.	32,159	32,302	32,303	1,572	1,448	32,159	32,302	32,303	1,572	1,448
Macro ctrls.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Sectors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Situation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Position	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Location	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(†) FE=Fixed effect. Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

Table 4. Non-linear Probit regression estimates (Average Marginal Effects) for "inflation illiterates" (†)

Dependent variable: $\mathbb{I}_t^i$ = {1=illiterate, 0=informed}										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
SES_t	-0.005**	-0.005**	-0.005**	0.004	0.022*	-0.004*	-0.004**	-0.003*	0.004	0.018
	(0.002)	(0.002)	(0.002)	(0.008)	(0.012)	(0.002)	(0.002)	(0.002)	(0.008)	(0.013)
$Educ_t$	-0.001	-0.002	-0.002	-0.012*	-0.013*	-0.001	-0.001	-0.002	-0.014**	-0.015**
	(0.002)	(0.002)	(0.002)	(0.007)	(0.007)	(0.002)	(0.002)	(0.002)	(0.006)	(0.007)
Sex_t	0.005**	0.006**	0.006**	0.010	0.012	0.006**	0.006**	0.006**	0.014	0.015
	(0.003)	(0.003)	(0.003)	(0.011)	(0.012)	(0.003)	(0.003)	(0.003)	(0.011)	(0.011)
Age_t	-0.001*	-0.001*	-0.001	0.014	0.014	-0.001*	-0.001*	-0.001	0.012	0.014
	(0.000)	(0.000)	(0.000)	(0.011)	(0.011)	(0.000)	(0.000)	(0.000)	(0.010)	(0.010)
Age_t^2	0.0000**	0.0000**	0.0000*	-0.000	-0.000	0.0000**	0.0000*	0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$Hours_t$	-0.0002**	-0.0002**	-0.0002**	0.000	0.000	-0.0001*	-0.0001*	-0.0001*	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$Debt_t$	-0.002	-	-	-	-	-0.001	-	-	-	-
	(0.002)	-	-	-	-	(0.002)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	-0.004*	-0.004*	-0.004*	0.017*	0.014	-0.003	-0.003	0.003	0.016*	0.015*
	(0.002)	(0.002)	(0.002)	(0.009)	(0.009)	(0.002)	(0.002)	(0.002)	(0.008)	(0.009)
$\mathbb{E}_{t-4}[\pi_t]$	0.003***	0.003***	0.003***	0.004	0.003	-0.010***	-0.010***	-0.010***	-0.013***	-0.015***
	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.004)	(0.004)
$e_t(\pi_{t-4\|t})$	0.002***	0.002***	0.002***	0.001	-0.000	-0.012***	-0.012***	-0.012***	-0.015***	-0.017***
	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.004)	(0.005)
w_t	0.004	0.004	0.004	-0.004	-	0.002	0.003	0.002	-0.000	-
	(0.003)	(0.003)	(0.003)	(0.010)	-	(0.003)	(0.003)	(0.003)	(0.011)	-
Σw_t	-	-	-	-	-0.023	-	-	-	-	-0.018
	-	-	-	-	(0.015)	-	-	-	-	(0.015)
π_t^{Food}	-	-	-	-	-	0.005***	0.005***	0.005***	0.004**	0.004**
	-	-	-	-	-	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)
π_t^{Energy}	-	-	-	-	-	-0.000	-0.000	-0.000	-0.001	-0.001
	-	-	-	-	-	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
$House_t$	-	-	-	-	-	0.004***	0.004***	0.004***	0.002	0.002
	-	-	-	-	-	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)
$\widetilde{y}_{t-1}$	-	-	-	-	-	-0.005***	-0.005***	-0.005***	-0.009**	-0.009**
	-	-	-	-	-	(0.001)	(0.001)	(0.001)	(0.003)	(0.004)
u_{t-1}^{MR}	-	-	-	-	-	0.010***	0.010***	0.010***	0.000	-0.001
	-	-	-	-	-	(0.001)	(0.001)	(0.001)	(0.004)	(0.005)
IEC_t	-0.0003***	-0.0003***	-0.0003***	-0.000	-0.000	-	-	-	-	-
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	-	-	-	-	-
$EPUC_t$	-	-	-	-	-	-0.0001**	-0.0001**	-0.0001**	-0.000	0.000
	-	-	-	-	-	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
i_t^{Cons}	-	-	-	-	-	-0.017	-0.017	-0.017	0.173***	0.165***
	-	-	-	-	-	(0.016)	(0.015)	(0.015)	(0.049)	(0.050)
$\Delta\%Sales_{t-1}$		-	-	-	-	-0.005***	-0.005***	-0.005***	-0.005***	-0.005**
	-	-	-	-	-	(0.000)	(0.001)	(0.001)	(0.002)	(0.002)
y_t	-0.003***	-0.003***	-0.003***	0.001	0.001	-	-	-	-	-
	(0.000)	(0.000)	(0.000)	(0.002)	(0.002)	-	-	-	-	-
u_t	-0.004***	-0.004***	-0.004***	-0.014***	-0.015***	-	-	-	-	-
	(0.001)	(0.001)	(0.001)	(0.005)	(0.006)	-	-	-	-	-
FE.Sectors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Situation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Position	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE.Location	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R–sq.	0.0425	0.0426	0.0420	0.1686	0.1746	0.0966	0.0968	0.0963	0.2037	0.2085
No. obs.	30,652	30,770	30,771	1,467	1,367	30,652	30,770	30,771	1,467	1,367

(†) FE=Fixed effect. Delta-method-based standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01.

Source: Author's elaboration.

Despite the additional flexibility of the ZIOP framework, the main empirical patterns documented in Table 4 remain broadly unchanged. In particular, lower education levels, female respondents, and weaker labour-market conditions continue to be associated with a higher probability of inflation illiteracy. Relative to the baseline specification, however, sex is statistically significant in a larger number of specifications. Likewise, expected economic activity now exhibits a positive marginal effect, in contrast to the baseline Probit estimates. Similarly, the marginal effect associated with wages becomes positive and statistically significant under the ZIOP framework.

Inflation expectations and forecast errors also retain a positive and statistically significant relationship with illiteracy across most specifications. Overall, the qualitative interpretation of the main determinants remains stable. This suggests that the baseline findings are not driven by the functional-form assumptions embedded in the standard binary-response specification.

5 Parting words

In this article, inflation illiteracy—understood as the inability to select and process relevant inflation information to form meaningful expectations for economic and financial decisions—is analysed for the case of Chile.

The analysis uses microdata for Greater Santiago (2005.II–2018.IV; 55 observations), linking one-year-ahead inflation expectations to rich socioeconomic and demographic covariates and to quarterly macro-financial indicators (*e.g.*, prices, activity, labour-market conditions, credit costs, and policy-uncertainty proxies). Expectation formation is first characterised in the full cross-section; the specification is then augmented with an indicator of inflation illiteracy (and interactions); finally, a Probit model is estimated to examine the determinants of illiteracy.

Three main findings emerge. Higher education is associated with lower expectations (0.3–0.4 pp per schooling tier); women report higher expectations (0.6–0.8 pp); age follows a mild U-shape; expectations rise with own GDP-growth outlook but fall with realised growth and with higher current wages; whereas macro variables show that headline inflation loads positively; GDP growth and national unemployment negatively. In richer specifications, house-price inflation, uncertainty, and consumer-credit rates are positive; the output gap and energy-price inflation negative—implying expansions lift expectations and energy shocks are discounted. Metropolitan unemployment is positive (0.254–0.350), national negative (-0.479 to -0.156). Introducing illiteracy reveals a large level effect: illiterate respondents report 3.2–3.8 pp higher expectations, and illiteracy weakens the moderating roles of education and income while dampening sensitivity to expected growth.

When analysing the covariates of illiteracy, Probit regressions suggest it is more prevalent among lower-SES, less-educated respondents, and women; it is also higher at younger and older ages (U-shape) and modestly lower with longer working hours. On the macro side, higher consumer-credit rates are associated with illiteracy, whereas stronger GDP growth, lower unemployment, a positive output gap, and healthier retail activity are associated with lower illiteracy. Overall, the evidence indicates that inflation illiteracy both raises the level of reported expectations and alters how standard micro and macro factors map into them.

Policy recommendations The results carry several policy implications. The robust association between lower educational attainment and a higher probability of inflation illiteracy suggests that basic macroeconomic concepts—including inflation, purchasing power, interest rates, and real wages—should be incorporated more explicitly into educational programmes. Household expectation measures should also be interpreted with literacy-driven heterogeneity in mind. Women, lower-income households, and individuals with lower socioeconomic status appear more prone to inflation illiteracy, suggesting that central banks and public institutions could complement aggregate communication with simpler and more accessible messages, particularly during adverse macro-financial conditions.

The relevance of food and housing prices further indicates that households rely on salient and frequently observed prices when forming beliefs, reinforcing the importance of distinguishing relative price changes from aggregate inflation in public communication. More broadly, the results suggest that inflation illiteracy may weaken the responsiveness of expectations to macroeconomic fundamentals, implying heterogeneous monetary-policy transmission across groups. Finally, since some households may rely on heuristics, limited attention, or salient price changes, behavioural communication strategies—such as simplified narratives or personalised information—may improve comprehension more

effectively than purely technical communication. Importantly, extreme forecast errors should not necessarily be interpreted as pure irrationality, but may instead reflect informational frictions or unequal access to economic information.

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A Dataset description

Table A1. Variables, descriptors, summary statistics, and data sources (†)

No.	Var. name	Description	Coding	Mean	Median	Std. dev.	Minimum	Maximum	No. obs.	Source
1	$\mathbb{I}_t^i$	Illiterates	1=Yes, 0=No	0.03	0.0	0.18	0.00	1.00	69,719	Own elaboration
2	SES_t	Socioeconomic strata	3=High, 2=Mid, 1=Low	1.71	2.0	0.76	1.00	3.00	53,548	CMD
3	$Educ_t$	Educational level	3=Univ, 2=Tech, 1=High school	1.65	1.0	0.88	1.00	3.00	69,719	CMD
4	Sex_t	Sex at birth	2=Female, 1=Male	1.55	2.0	0.50	1.00	2.00	69,719	CMD
5	Age_t	Age	Continuous, nonnegative	45.30	44.0	16.89	14.00	98.00	69,712	CMD
6	$Hh.size_t$	Household size	Continuous, nonnegative	3.54	3.0	1.66	1.00	17.00	69,718	CMD
7	$Hours_t$	Hours worked	Continuous, nonnegative	43.66	45.0	14.96	1.00	126.00	40,122	CMD
8	Δw_{t-4}	Wage (var. w/r prev. y.)	1=Higher, 0=Same, -1=Lower	-0.16	0.0	0.63	-1.00	1.00	69,719	CMD
9	$Debt_t$	Debt situation	1=Difficult, 2=Moderate, 3=Easy	2.25	2.0	0.77	1.00	3.00	69,362	CMD
10	$\mathbb{E}_{t-4}[y_t]$	Expected GDP growth	1=Higher, 0=Same, -1=Lower	-0.61	-1.0	0.49	-1.00	0.00	69,719	CMD
11	$\mathbb{E}_{t-4}[\pi_t]$	Expected inflation	Continuous, percent	4.66	4.0	6.70	0.00	98.00	69,719	CMD
12	$e_t(\pi_{t-4\|t})$	Inflation fcst. error	Continuous, percent	-0.85	0.1	6.91	-95.37	10.02	69,719	Own elaboration
13	w_t	Work wage	Continuous, level; trimmed @10%	0.58	0.3	0.57	0.10	2.00	34,137	CMD
14	Σw_t	Household income	Continuous, level; trimmed @10%	0.82	0.6	0.69	0.17	2.40	49,981	CMD
15	π_t^{Food}	Food prices infl.	Continuous, percent	7.69	6.3	6.83	-3.57	23.66	69,719	INE
16	π_t^{Energy}	Energy prices infl.	Continuous, percent	6.78	5.6	7.59	-13.86	22.67	69,719	INE
17	$House_t$	Housing prices infl	Continuous, percent	3.51	2.7	4.04	-2.97	12.72	69,719	CChC
18	$\widetilde{y}_{t-1}$	Output gap $(t-1)$	Continuous, % of potential GDP	0.52	0.7	2.02	-7.10	4.07	69,719	Own elaboration
19	u_{t-1}^{MR}	Metrop. Reg. Unemp.	Continuous, percent	7.57	7.3	1.14	5.27	10.72	69,719	INE
20	$EPUC_t$	EPUC	Continuous, level 100=1993-2016	100.29	90.1	45.45	36.73	345.40	69,719	CLAPES UC
21	IEC_t	IEC	Continuous, level 100=2007-2016	96.74	93.5	33.21	41.34	195.26	69,719	CLAPES UC
22	i_t^{Cons}	Consumption int. rate	Continuous, percent	0.39	0.4	0.15	0.05	0.90	69,719	BCCh
23	$\Delta\%Sales_{t-1}$	Retail sales $(t-1)$	Continuous, percent	4.89	6.1	3.10	-1.16	10.85	69,719	INE
24	π_t	Inflation	Continuous, percent	3.81	3.6	2.23	-2.10	10.02	69,719	INE
25	y_t	GDP growth	Continuous, percent	4.26	5.1	2.30	-3.32	9.26	69,719	BCCh
26	u_t	Unemployment	Continuous, percent	7.57	7.4	1.12	5.88	10.76	69,719	INE
27	-	Location	4=NE, 3=NW, 2=SE, 1=SW	2.62	3.0	1.15	1.00	4.00	68,455	CMD
28	-	Economic sector	{0,1,2,3,4,5,6,7,8}. See Table A2.	4.84	5.0	1.92	0.00	8.00	44,964	CMD
29	-	Employment status	1=Employed, 0=Unemployed	0.91	1.0	0.29	0.00	1.00	45,285	CMD
30	-	Job position	{1, 2, 3, 4, 5, 6, 7} (subsection 3.1).	3.16	3.0	0.98	1.00	7.00	44,999	CMD
31	-	Pension income	Continuous, level; trimmed @10%	0.30	0.2	0.25	0.08	0.86	6,956	CMD

(†) Sample: 2005.II–2018.IV (55 observations in quarterly frequency). Sources: Author's calculation based on the Central Bank of Chile (BCCh), Cámara Chilena de la Construcción (CChC), CLAPES UC, CMD, and INE datasets.

Table A2. Description of IEE-EOD economic sectors (†)

No.	Name	Label	Description
1	Agriculture, Hunting, Forestry, and Fishing	`Agr.,hun.,for., &fish.`	Primary production and services across farming and livestock; forestry and logging; hunting/trapping; and sea/coastal fishing and related activities.
2	Mining and Quarrying	`Min.&qua.`	Extraction of coal, oil and gas, metallic minerals, and other non-metallic minerals.
3	Manufacturing Industry	`Manufacturing`	Transformation of materials into goods, including food and beverages; textiles/leather; wood and paper; chemicals/plastics; non-metallic minerals; basic metals; and fabricated metal products, machinery and equipment.
4	Construction	`Construction`	Building and heavy civil works plus specialised contractors (*e.g.*, plumbing, electrical, demolition), including public works agencies.
5	Retail	`Retail`	Sale (without transformation) of new or used goods to the general public via shops, department stores, stations, stalls, itinerant vendors, among others; also includes retail hiring/rental and ancillary installation/repair by retailers.
6	Government and Financial Services	`Gov.,&fin.sv.`	Public administration and defence; monetary and other financial institutions; insurance; plus real estate and a wide set of business services.
7	Personal and Household Services	`Per.&hh.sv.`	Repair services for consumer goods/vehicles; laundries and dry-cleaning; domestic staff; and other personal services (*e.g.*, hairdressing, photography, funeral services).
8	Community and Social Services	`Comm.&soc.sv.`	Sanitation; education; health and veterinary services; social assistance; arts, recreation and cultural venues; and other communal/religious/associational services.
9	Transportation, Storage, Communication, and Public Utilities	`Tr.,st.,comm., &pub.ut.sv.`	Passenger and freight transport (rail, road, water, air) and related services; warehousing; postal/telecoms; and electricity, gas and water supply.

(†) Source: Author's elaboration based on Centro de Microdatos (2009), Universidad de Chile.

B Robustness to alternative IQR threshold: 2·IQR

Table B1. Linear OLS regression estimates for inflation expectations including illiteracy with the "2·IQR" threshold (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$\mathbb{I}_t^i$	6.299***	6.301***	6.306***	6.409***	6.523***	5.932***	5.934***	5.938***	6.516***	6.843***
	(0.181)	(0.181)	(0.181)	(0.723)	(0.796)	(0.169)	(0.170)	(0.170)	(0.645)	(0.698)
SES_t	-0.046	-0.088	-0.029	0.310	0.788**	-0.104	-0.146*	-0.095	0.137	0.080
	(0.079)	(0.077)	(0.074)	(0.292)	(0.401)	(0.079)	(0.077)	(0.073)	(0.294)	(0.424)
$Educ_t$	-0.304***	-0.312***	-0.330***	-0.389**	-0.378**	-0.305***	-0.313***	-0.329***	-0.357*	-0.371**
	(0.060)	(0.058)	(0.058)	(0.187)	(0.188)	(0.058)	(0.058)	(0.057)	(0.188)	(0.188)
Sex_t	0.608***	0.621***	0.621***	0.229	0.007	0.700***	0.713***	0.713***	0.421	0.195
	(0.090)	(0.091)	(0.091)	(0.353)	(0.353)	(0.090)	(0.090)	(0.090)	(0.345)	(0.346)
Age_t	-0.055***	-0.048**	-0.046**	0.204	0.157	-0.063***	-0.056***	-0.055***	0.066	0.005
	(0.020)	(0.020)	(0.020)	(0.234)	(0.243)	(0.020)	(0.019)	(0.019)	(0.223)	(0.230)
Age_t^2	0.0005**	0.0004*	0.0004*	-0.002	-0.001	0.0006***	0.0005**	0.0005**	-0.000	0.000
	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)
$Hh.size_t$	-0.130	-0.110	-	-	-	-0.141	-0.120	-	-	-
	(0.095)	(0.095)	-	-	-	(0.093)	(0.093)	-	-	-
$Hh.size_t^2$	0.024**	0.023*	-	-	-	0.024**	0.023**	-	-	-
	(0.012)	(0.012)	-	-	.	(0.012)	(0.012)	-	-	-
$Hours_t$	0.006*	0.005*	0.006*	-0.001	-0.007	0.006*	0.005*	0.005*	-0.014*	-0.006
	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.140**	-0.200***	-0.210***	-0.125	-0.124	-0.163**	-0.220***	-0.230***	-0.164	-0.159
	(0.070)	(0.069)	(0.069)	(0.269)	(0.280)	(0.068)	(0.068)	(0.068)	(0.263)	(0.274)
$Debt_t$	-0.244***	-	-	-	-	-0.237***	-	-	-	-
	(0.059)	-	-	-	-	(0.059)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.417***	0.432***	0.432***	0.450**	0.402**	0.384***	0.398***	0.399***	0.294*	0.277
	(0.052)	(0.052)	(0.052)	(0.180)	(0.188)	(0.051)	(0.051)	(0.051)	(0.170)	(0.177)
w_t	-0.333***	-0.352***	-0.389***	-0.189	-	-0.189**	-0.211**	-0.242***	0.056	-
	(0.086)	(0.086)	(0.084)	(0.308)	-	(0.087)	(0.087)	(0.086)	(0.291)	-
R-sq.	0.051	0.051	0.050	0.090	0.096	0.080	0.076	0.075	0.138	0.148
No. obs.	32,159	32,302	32,303	1,572	1,464	32,159	32,302	32,303	1,572	1,464

(†) Estimates include sector, labour market status, employment position, and location fixed effects and macroeconomic controls.

Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

Table B2. Linear OLS regression estimates for inflation expectations including illiteracy and interacted terms with the "2·IQR" threshold (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$\mathbb{I}_t^i$	6.760***	6.774***	6.765***	9.063***	8.536***	6.295***	6.304***	6.293***	9.357***	9.316***
	(0.740)	(0.738)	(0.736)	(2.993)	(2.863)	(0.669)	(0.668)	(0.667)	(2.435)	(2.339)
$\mathbb{I}_t^i \times Educ_t$	0.088	0.063	0.060	-0.166	-0.657	0.193	0.169	0.165	-0.639	-0.916
	(0.199)	(0.200)	(0.200)	(0.558)	(0.676)	(0.183)	(0.184)	(0.183)	(0.569)	(0.654)
$\mathbb{I}_t^i \times Sex_t$	-0.227	-0.218	-0.201	-1.029	0.201	-0.362	-0.351	-0.333	-0.751	0.021
	(0.387)	(0.386)	(0.385)	(0.148)	(1.343)	(0.350)	(0.350)	(0.349)	(1.295)	(1.252)
$\mathbb{I}_t^i \times \Delta w_{t-4}$	-0.210	-0.223	-0.226	0.902	2.211*	-0.027	-0.040	-0.043	1.110	2.104**
	(0.278)	(0.278)	(0.277)	(1.027)	(1.185)	(0.254)	(0.254)	(0.254)	(0.870)	(0.100)
$\mathbb{I}_t^i \times \mathbb{E}_{t-4}[y_t]$	-0.187	-0.217	-0.213	1.170	2.054	-0.154	-0.185	-0.180	1.310	1.869*
	(0.211)	(0.211)	(0.210)	(1.121)	(1.294)	(0.193)	(0.193)	(0.192)	(0.910)	(1.019)
$\mathbb{I}_t^i \times w_t$	-0.503	-0.473	-0.483	-2.170*	-2.224*	-0.245	-0.214	-0.222	-1.896**	-1.966**
	(0.404)	(0.403)	(0.402)	(1.167)	(1.297)	(0.358)	(0.358)	(0.356)	(0.954)	(1.002)
SES_t	-0.045	-0.087	-0.028	0.294	0.838**	-0.104	-0.145*	-0.095	0.113	0.092
	(0.079)	(0.078)	(0.074)	(0.293)	(0.410)	(0.079)	(0.077)	(0.073)	(0.297)	(0.430)
$Educ_t$	-0.301***	-0.314***	-0.332***	-0.378**	-0.360*	-0.310***	-0.317***	-0.333***	-0.333*	-0.356*
	(0.060)	(0.059)	(0.060)	(0.187)	(0.187)	(0.059)	(0.060)	(0.058)	(0.188)	(0.191)
Sex_t	0.612***	0.626***	0.626***	0.238	0.030	0.708***	0.721***	0.721***	0.430	0.220
	(0.092)	(0.092)	(0.092)	(0.369)	(0.360)	(0.091)	(0.091)	(0.092)	(0.352)	(0.350)
Age_t	-0.055***	-0.048**	-0.046**	0.201	0.116	-0.063***	-0.056***	-0.055***	0.060	-0.046
	(0.020)	(0.019)	(0.019)	(0.234)	(0.251)	(0.019)	(0.020)	(0.019)	(0.224)	(0.236)
Age_t^2	0.0005**	0.0004*	0.0004*	-0.001	-0.000	0.0006***	0.0005**	0.0005**	-0.000	0.000
	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)
$Hh.size_t$	-0.131	-0.111	-	-	-	-0.142	-0.122	-	-	-
	(0.095)	(0.095)	-	-	-	(0.093)	(0.093)	-	-	-
$Hh.size_t^2$	0.024**	0.023*	-	-	-	0.025**	0.024**	-	-	-
	(0.012)	(0.012)	-	-	-	(0.012)	(0.012)	-	-	-
$Hours_t$	0.006*	0.005*	0.006*	-0.011	-0.007	0.006*	0.005*	0.005*	-0.013*	-0.007
	(0.003)	(0.003)	(0.003)	(0.008)	(0.008)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.134*	-0.193***	-0.203***	-0.155	-0.165	-0.162**	-0.219***	-0.228***	-0.198	-0.200
	(0.071)	(0.070)	(0.070)	(0.277)	(0.290)	(0.070)	(0.070)	(0.070)	(0.272)	(0.287)
$Debt_t$	-0.244***	-	-	-	-	-0.237***	-	-	-	-
	(0.060)	-	-	-	-	(0.059)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.423***	0.438***	0.438***	0.436**	0.359*	0.388***	0.404***	0.404***	0.279	0.233
	(0.053)	(0.053)	(0.053)	(0.183)	(0.191)	(0.052)	(0.052)	(0.052)	(0.174)	(0.181)
w_t	-0.324***	-0.344***	-0.380***	-0.114	-	-0.185**	-0.210**	-0.237***	0.129	-
	(0.086)	(0.086)	(0.085)	(0.308)	-	(0.087)	(0.087)	(0.086)	(0.293)	-
R-sq.	0.051	0.051	0.050	0.092	0.101	0.077	0.076	0.075	0.140	0.154
No. obs.	32,159	32,302	32,303	1,572	1,448	32,159	32,302	32,303	1,572	1,448

(†) Estimates include sector, labour market status, employment position, and location fixed effects and macroeconomic controls.

Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

C Robustness to alternative IQR threshold: 3·IQR

Table C1. Linear OLS regression estimates for inflation expectations including illiteracy with the "3·IQR" threshold (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$\mathbb{I}_t^i$	15.01***	15.03***	15.05***	16.76***	17.08***	14.64***	14.66***	14.66***	16.02***	16.06***
	(0.515)	(0.514)	(0.513)	(1.963)	(2.474)	(0.473)	(0.473)	(0.472)	(1.721)	(2.191)
SES_t	-0.036	-0.081	-0.032	0.315	0.778*	-0.090	-0.134*	-0.095	0.171	0.141
	(0.078)	(0.077)	(0.073)	(0.292)	(0.401)	(0.078)	(0.077)	(0.073)	(0.296)	(0.423)
$Educ_t$	-0.311***	-0.320***	-0.336***	-0.502**	-0.484**	-0.314***	-0.322***	-0.335***	-0.477**	-0.481**
	(0.058)	(0.058)	(0.058)	(0.196)	(0.199)	(0.058)	(0.057)	(0.057)	(0.193)	(0.197)
Sex_t	0.623***	0.635***	0.634***	0.007	-0.144	0.716***	0.727***	0.727***	0.196	0.031
	(0.090)	(0.090)	(0.090)	(0.325)	(0.326)	(0.089)	(0.090)	(0.089)	(0.319)	(0.317)
Age_t	-0.053***	-0.045**	-0.044**	0.156	0.139	-0.060***	-0.053***	-0.053***	0.031	0.010
	(0.019)	(0.019)	(0.019)	(0.231)	(0.240)	(0.019)	(0.019)	(0.019)	(0.220)	(0.227)
Age_t^2	0.0005**	0.0004*	0.0004*	-0.001	-0.000	0.0006***	0.0005**	0.0005**	-0.000	0.000
	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)
$Hh.size_t$	-0.166*	-0.144	-	-	-	-0.179*	-0.156*	-	-	-
	(0.094)	(0.094)	-	-	-	(0.092)	(0.092)	-	-	-
$Hh.size_t^2$	0.027**	0.026**	-	-	-	0.028**	0.027**	-	-	-
	(0.012)	(0.012)	-	-	-	(0.012)	(0.012)	-	-	-
$Hours_t$	0.005	0.005	0.005	-0.012	-0.008	0.005	0.005	0.005	-0.014*	-0.008
	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.130*	-0.192***	-0.201***	-0.036	-0.107	-0.156**	-0.216***	-0.224***	-0.078	-0.143
	(0.068)	(0.068)	(0.068)	(0.264)	(0.276)	(0.068)	(0.067)	(0.067)	(0.259)	(0.272)
$Debt_t$	-0.264***	-	-	-	-	-0.256***	-	-	-	-
	(0.059)	-	-	-	-	(0.058)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.398***	0.413***	0.413***	0.413**	0.395**	0.367***	0.382***	0.383***	0.261	0.276
	(0.052)	(0.052)	(0.052)	(0.178)	(0.187)	(0.051)	(0.051)	(0.051)	(0.168)	(0.177)
w_t	-0.326***	-0.348***	-0.378***	-0.255	-	-0.188**	-0.212**	-0.237***	-0.047	-
	(0.085)	(0.085)	(0.084)	(0.313)	-	(0.086)	(0.086)	(0.085)	(0.295)	-
R-sq.	0.065	0.064	0.064	0.113	0.113	0.091	0.090	0.090	0.155	0.157
No. obs.	32,159	32,302	32,303	1,572	1,464	32,159	32,302	32,303	1,572	1,464

(†) Estimates include sector, labour market status, employment position, and location fixed effects and macroeconomic controls.

Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

Table C2. Linear OLS regression estimates for inflation expectations including illiteracy and interacted terms with the "3·IQR" threshold (†)

Dependent variable: $\mathbb{E}_{t-4}[\pi_t]$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$\mathbb{I}_t^i$	14.82***	14.78***	14.85***	5.091	-1.248	13.78***	13.75***	13.80***	4.814	0.374
	(1.997)	(1.998)	(1.991)	(4.484)	(6.125)	(1.841)	(1.845)	(1.837)	(3.536)	(5.313)
$\mathbb{I}_t^i \times Educ_t$	1.555**	1.534**	1.525**	-2.996*	2.343	1.640***	1.624**	1.616**	-2.546*	0.919
	(0.686)	(0.688)	(0.688)	(1.805)	(2.948)	(0.632)	(0.636)	(0.635)	(1.443)	(2.550)
$\mathbb{I}_t^i \times Sex_t$	-0.195	-0.137	-0.164	14.86*	0.140	-0.122	-0.077	-0.103	14.38**	5.165
	(1.024)	(1.022)	(1.021)	(7.774)	(7.083)	(0.949)	(0.948)	(0.946)	(6.161)	(6.251)
$\mathbb{I}_t^i \times \Delta w_{t-4}$	-1.469**	-1.480**	-1.465**	3.111	8.447***	-1.355**	-1.359**	-1.345**	2.980	6.632**
	(0.629)	(0.630)	(0.629)	(3.147)	(2.920)	(0.582)	(0.584)	(0.583)	(2.443)	(2.572)
$\mathbb{I}_t^i \times \mathbb{E}_{t-4}[y_t]$	1.826***	1.824***	1.833***	-1.700	-4.490*	1.683***	1.677***	1.684***	-1.221	-3.026
	(0.570)	(0.570)	(0.569)	(1.845)	(2.512)	(0.524)	(0.524)	(0.523)	(1.454)	(2.169)
$\mathbb{I}_t^i \times w_t$	-5.483***	-5.482***	-5.477***	-1.531	28.43**	-4.379***	-4.375***	-4.372***	-2.760	16.48
	(1.400)	(1.397)	(1.395)	(8.247)	(11.55)	(1.287)	(1.288)	(1.286)	(6.541)	(10.27)
SES_t	-0.037	-0.082	-0.032	0.310	0.801**	-0.091	-0.135*	-0.095	0.169	0.129
	(0.078)	(0.077)	(0.073)	(0.293)	(0.405)	(0.078)	(0.077)	(0.073)	(0.297)	(0.423)
$Educ_t$	-0.322***	-0.331***	-0.347***	-0.467**	-0.450**	-0.325***	-0.334***	-0.347***	-0.449**	-0.471**
	(0.058)	(0.058)	(0.058)	(0.196)	(0.202)	(0.058)	(0.058)	(0.057)	(0.194)	(0.201)
Sex_t	0.621***	0.632***	0.632***	-0.050	-0.207	0.714***	0.725***	0.724***	0.141	-0.029
	(0.090)	(0.090)	(0.090)	(0.322)	(0.320)	(0.089)	(0.090)	(0.090)	(0.320)	(0.313)
Age_t	-0.053***	-0.045**	-0.045**	0.160	0.094	-0.061***	-0.053***	-0.053***	0.035	-0.042
	(0.019)	(0.019)	(0.019)	(0.231)	(0.245)	(0.019)	(0.019)	(0.019)	(0.220)	(0.232)
Age_t^2	0.0005**	0.0004*	0.0004*	-0.001	-0.000	0.0006***	0.0005**	0.0005**	-0.000	0.000
	(0.0002)	(0.0002)	(0.0002)	(0.002)	(0.002)	(0.0002)	(0.0002)	(0.0001)	(0.002)	(0.002)
$Hh.size_t$	-0.164*	-0.141	-	-	-	-0.177*	-0.154*	-	-	-
	(0.094)	(0.094)	-	-	-	(0.092)	(0.092)	-	-	-
$Hh.size_t^2$	0.027**	0.026**	-	-	-	-0.177*	-0.154*	-	-	-
	(0.012)	(0.012)	-	-	-	(0.092)	(0.092)	-	-	-
$Hours_t$	0.005*	0.005	0.005	-0.011	-0.008	0.005*	0.005	0.005	-0.013*	-0.008
	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)	(0.003)	(0.003)	(0.003)	(0.008)	(0.007)
Δw_{t-4}	-0.114*	-0.177***	-0.186***	-0.059	-0.134	-0.141**	-0.202***	-0.210***	-0.103	-0.173
	(0.069)	(0.068)	(0.068)	(0.266)	(0.282)	(0.068)	(0.068)	(0.068)	(0.261)	(0.278)
$Debt_t$	-0.268***	-	-	-	-	-0.260***	-	-	-	-
	(0.059)	-	-	-	-	(0.058)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.385***	0.400***	0.400***	0.397**	0.361*	0.356***	0.370***	0.371***	0.244	0.233
	(0.052)	(0.052)	(0.052)	(0.180)	(0.188)	(0.051)	(0.051)	(0.051)	(0.169)	(0.178)
w_t	-0.307***	-0.331***	-0.361***	-0.283	-	-0.173**	-0.198**	-0.223***	-0.067	-
	(0.085)	(0.085)	(0.084)	(0.314)	-	(0.086)	(0.086)	(0.085)	(0.296)	-
R-sq.	0.066	0.066	0.065	0.118	0.123	0.092	0.091	0.090	0.160	0.166
No. obs.	32,159	32,302	32,303	1,572	1,448	32,159	32,302	32,303	1,572	1,448

(†) Estimates include sector, labour market status, employment position, and location fixed effects and macroeconomic controls.

Standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

D Robustness to alternative specification: zero-inflated ordered Probit

Table D1. Zero-inflated Probit regression estimates (Average Marginal Effects) for "inflation illiterates" (†)

Dependent variable: $\mathbb{I}_t^i$ = {1=illiterate, 0=informed}										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
SES_t	-0.045***	-0.158	-0.006	-0.048***	-0.828***	-0.041***	-0.610***	-0.001	-0.072	-0.092
	(0.008)	(0.000)	(0.135)	(0.008)	(0.118)	(0.010)	(0.221)	(0.003)	(0.000)	(0.000)
$Educ_t$	0.012***	0.014	-0.001	-0.175***	-1.058***	0.032***	0.316**	0.005***	-0.065	-0.170
	(0.004)	(0.000)	(0.030)	(0.030)	(0.149)	(0.008)	(0.143)	(0.002)	(0.000)	(0.000)
Sex_t	0.006**	0.050	-0.000	-0.101***	-0.967***	0.058***	0.491**	0.005*	-0.002	-0.092
	(0.002)	(0.000)	(0.003)	(0.017)	(0.136)	(0.011)	(0.239)	(0.003)	(0.000)	(0.000)
Age_t	-0.0002	-0.016	0.0004	-0.018***	-0.300***	0.006***	0.018	0.002**	0.0006	0.007
	(0.000)	(0.000)	(0.010)	(0.003)	(0.049)	(0.002)	(0.056)	(0.0007)	(0.000)	(0.000)
Age_t^2	-0.0000**	-0.0000	-0.0000	0.0001***	0.003***	-0.0001**	-0.0003	-0.0000***	-0.0000	-0.0001
	(0.000)	(0.000)	(0.0002)	(0.000)	(0.0004)	(0.000)	(0.0006)	(0.000)	(0.000)	(0.000)
$Hours_t$	-0.001***	-0.010	-0.0003	-0.006***	-0.034***	0.0002	-0.003	0.000	-0.0009	-0.0009
	(0.0002)	(0.000)	(0.007)	(0.0009)	(0.005)	(0.0003)	(0.007)	(0.0001)	(0.000)	(0.000)
$Debt_t$	0.021***	-	-	-	-	0.011*	-	-	-	-
	(0.003)	-	-	-	-	(0.006)	-	-	-	-
$\mathbb{E}_{t-4}[y_t]$	0.054***	0.366	0.008	0.077***	0.694***	0.011	-0.146	-0.011***	0.010	-0.118
	(0.009)	(0.000)	(0.208)	(0.013)	(0.101)	(0.008)	(0.219)	(0.003)	(0.000)	(0.000)
$\mathbb{E}_{t-4}[\pi_t]$	6.921***	46.21	2.561	0.293***	3.200***	12.54***	50.47***	3.760***	0.067	0.195
	(1.195)	(0.000)	(63.73)	(0.049)	(0.442)	(0.393)	(2.232)	(0.685)	(0.000)	(0.000)
$e_t(\pi_{t-4\|t})$	0.790***	5.280	0.286	0.065***	0.703***	-6.065***	-23.94***	-2.110***	-0.110	-0.407
	(0.137)	(0.000)	(7.115)	(0.011)	(0.097)	(0.190)	(0.987)	(0.386)	(0.000)	(0.000)
w_t	0.121***	0.666	0.024	0.186***	-	0.039***	0.460	0.003	0.089	-
	(0.022)	(0.000)	(0.581)	(0.032)	-	(0.012)	(0.285)	(0.003)	(0.000)	-
Σw_t	-	-	-	-	0.421***	-	-	-	-	-0.074
	-	-	-	-	(0.091)	-	-	-	-	(0.000)
π_t^{Food}	-	-	-	-	-	1.349***	7.833***	0.530***	0.030	0.135
	-	-	-	-	-	(0.042)	(0.335)	(0.095)	(0.000)	(0.000)
π_t^{Energy}	-	-	-	-	-	-0.206***	-1.418***	-0.094	-0.005	-0.020
	-	-	-	-	-	(0.006)	(0.078)	(0.017)	(0.000)	(0.000)
$House_t$	-	-	-	-	-	-0.613***	-3.269***	-0.202***	-0.012	-0.039
	-	-	-	-	-	(0.020)	(0.141)	(0.036)	(0.000)	(0.000)
$\widetilde{y}_{t-1}$	-	-	-	-	-	7.795***	30.53***	2.313***	0.055	0.110
	-	-	-	-	-	(0.244)	(1.301)	(0.419)	(0.000)	(0.000)
u_{t-1}^{MR}	-	-	-	-	-	-2.187***	-16.03***	-0.790***	-0.056	-0.276
	-	-	-	-	-	(0.072)	(0.700)	(0.142)	(0.000)	(0.000)
IEC_t	-0.023***	-0.156	-0.008	-0.0009***	-0.006***	-	-	-	-	-
	(0.004)	(0.000)	(0.210)	(0.0002)	(0.009)	-	-	-	-	-
$EPUC_t$	-	-	-	-	-	0.033***	0.024***	0.009***	0.0008	0.002
	-	-	-	-	-	(0.001)	(0.003)	(0.002)	(0.000)	(0.000)
i_t^{Cons}	-	-	-	-	-	-66.83***	-394.1***	-21.67***	0.016	-0.059
	-	-	-	-	-	(2.108)	(16.98)	(3.900)	(0.000)	(0.000)
$\Delta\%Sales_{t-1}$		-	-	-	-	-6.160***	-24.13***	-1.969***	-0.074	-0.242
	-	-	-	-	-	(0.193)	(1.012)	(0.360)	(0.000)	(0.000)
y_t	-0.828***	-5.487	-0.296	-0.003***	-0.062***	-	-	-	-	-
	(0.143)	(0.000)	(7.353)	(0.0008)	(0.011)	-	-	-	-	-
u_t	0.588***	4.000	0.265	-0.054***	-0.418***	-	-	-	-	-
	(0.101)	(0.000)	(6.594)	(0.009)	(0.061)	-	-	-	-	-
McFadden Ps. R–sq.	0.722	0.721	0.721	0.990	0.990	0.738	0.738	0.736	0.990	0.990
No. obs.	30,652	30,770	30,771	1,478	1,379	30,652	30,770	30,771	1,478	1,379

(†) Estimates include sector, labour market status, employment position, and location fixed effects. Delta-method-based standard errors in parentheses. (*) p<0.10, (**) p<0.05, (***) p<0.01. Source: Author's elaboration.

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