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PERCEIVED POLITICAL BIAS OF THE FEDERAL RESERVE

Pei Kuang  
Michael Weber  
Shihan Xie

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JEL No. D72, D83, D84, E31, E7

### **ABSTRACT**

We conduct a survey experiment with a large, politically representative sample of U.S. consumers (5,205 participants) to study how perceptions of the U.S. Federal Reserve's (Fed) political stance shape macroeconomic expectations and trust in the Fed. The public is divided on the Fed's political leaning: most Republican-leaning consumers believe the Fed favors Democrats, whereas most Democrat-leaning consumers perceive the Fed as favoring Republicans. Consumers who perceive the Fed as aligned with their political affiliations tend to (1) have a more positive outlook on current and future economic conditions and express higher trust in the institution, (2) show greater willingness to pay for and are more likely to receive Fed communications, and (3) assign significantly more weight to Fed communications when updating their inflation expectations. Strong in-group favoritism generally amplifies these effects. Finally, if Trump were elected U.S. president, consumers would overwhelmingly view the Fed as favoring Republicans. The proportion of consumers viewing the Fed as an in-group would remain stable, but its composition would shift: Democrat-leaning consumers would see the Fed as less of an in-group, whereas more Republican-leaning consumers would perceive it in this way. Likewise, overall public trust in the Fed would remain steady, but trust among Democrat-leaning consumers would decline significantly, whereas it would rise among Republican-leaning consumers.

Pei Kuang  
University House  
116 Edgbaston Park Road  
University of Birmingham  
UK B15 2TY  
United Kingdom  
P.Kuang@bham.ac.uk

Shihan Xie  
University of Illinois at Urbana-Champaign  
1407 W Gregory Dr  
David Kinley Hall 225C  
Urbana, IL 61801-3606  
shihan.xie@gmail.com

Michael Weber  
Booth School of Business  
University of Chicago  
5807 South Woodlawn Avenue  
Chicago, IL 60637  
and NBER  
michael.weber@chicagobooth.edu

A randomized controlled trials registry entry is available at  
<https://www.socialscienceregistry.org/trials/14566>

# Perceived Political Bias of the Federal Reserve<sup>\*</sup>

Pei Kuang<sup>†</sup>

University of Birmingham

Michael Weber<sup>‡</sup>

University of Chicago

Shihan Xie<sup>§</sup>

University of Illinois Urbana-Champaign

October 2024

## Abstract

We conduct a survey experiment with a large, politically representative sample of U.S. consumers (5,205 participants) to study how perceptions of the U.S. Federal Reserve's (Fed) political stance shape macroeconomic expectations and trust in the Fed. The public is divided on the Fed's political leaning: most Republican-leaning consumers believe the Fed favors Democrats, whereas most Democrat-leaning consumers perceive the Fed as favoring Republicans. Consumers who perceive the Fed as aligned with their political affiliations tend to (1) have a more positive outlook on current and future economic conditions and express higher trust in the institution, (2) show greater willingness to pay for and are more likely to receive Fed communications, and (3) assign significantly more weight to Fed communications when updating their inflation expectations. Strong in-group favoritism generally amplifies these effects. Finally, if Trump were elected U.S. president, consumers would overwhelmingly view the Fed as favoring Republicans. The proportion of consumers viewing the Fed as an in-group would remain stable, but its composition would shift: Democrat-leaning consumers would see the Fed as less of an in-group, whereas more Republican-leaning consumers would perceive it in this way. Likewise, overall public trust in the Fed would remain steady, but trust among Democrat-leaning consumers would decline significantly, whereas it would rise among Republican-leaning consumers.

*JEL classification:* D83, D84, D72, E7, E31

*Keywords:* Central Bank Communication, Trust, Intergroup Preferences, Expectation

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<sup>†</sup>Department of Economics, University of Birmingham, Birmingham, B15 2TT, UK. Email: [p.kuang@bham.ac.uk](mailto:p.kuang@bham.ac.uk)

<sup>‡</sup>University of Chicago Booth School of Business, 5807 S Woodlawn Ave, Chicago, IL 60637, USA. Email: [michael.weber@chicagobooth.edu](mailto:michael.weber@chicagobooth.edu)

<sup>§</sup>Department of Economics, University of Illinois Urbana-Champaign, 1407 W Gregory Dr, MC-707, Urbana, IL 61801, U.S.A. Email: [shihanx@illinois.edu](mailto:shihanx@illinois.edu)

# 1 Introduction

In recent decades, a broad consensus has emerged among economists and monetary policymakers that central bank independence fosters desirable macroeconomic outcomes and financial stability.<sup>1</sup> When monetary policymakers are subject to short-term political influence, they may face pressure to excessively stimulate the economy or use printing press to finance government deficits, undermining their credibility in controlling inflation, resulting in higher average inflation and a less efficient allocation of resources.

Economists generally regard the U.S. Federal Reserve (Fed) as a politically independent institution (e.g., [Blinder 1999](#)). Several features of the Fed are designed to limit short-term political influence, such as its self-funding through its own earnings, and the long, staggered terms of its Board of Governors members. Despite this broad expert consensus, little is known about how the public perceives the Fed's political independence or potential bias. Studying these perceptions is crucial, as they affect views on the credibility of the Fed in achieving its dual mandate, and consequently shape inflation expectations.

Significant public misperceptions could arise for at least three reasons. First, the recent surge in inflation, interest rate hikes, and unconventional policies of the past decade have had strong distributional effects, creating winners and losers, and potentially fostering perceptions of political bias of the Fed (e.g., [Coibion, Gorodnichenko, Kueng and Silvia 2017](#), [Pallotti, Paz-Pardo, Slacalek, Tristani and Violante 2023](#)). Second, central banks globally often face political pressure ([Binder 2021](#)). For instance, former President Trump pressured the Fed to cut interest rates during his presidency and recently accused the Fed of favoring Democrats in its rate decisions to influence election outcomes ([Burns 2024](#)). Media coverage of such political pressures may significantly shape public perceptions of the bias of the Fed.<sup>2</sup> Third, the public may have limited understanding of the Fed's institutional framework and decision-making rationale, leaving them susceptible to misconceptions, such as viewing the Fed as favoring the incumbent administration, businesses, or the wealthy.

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<sup>1</sup>For references, see, e.g., [Kydland and Prescott \(1977\)](#), [Barro and Gordon \(1983\)](#), [Rogoff \(1985\)](#), [Blinder \(1999\)](#), [Bernanke \(2010\)](#), and [Afrouzi, Halac, Rogoff and Yared \(2024\)](#).

<sup>2</sup>Relatedly, [Bianchi, Gómez-Cram, Kind and Kung \(2023\)](#) find that President Trump's tweets that criticize the Fed had an important impact on interest rate expectations, financial markets, and the macroeconomy.

Using a survey experiment with a large, politically representative sample of U.S. consumers (5,205 participants), this paper examines public perceptions of the Fed’s political bias and how these perceptions influence their macroeconomic expectations and trust in the Fed.<sup>3</sup> Our findings reveal significant public disagreement regarding the Fed’s perceived political leanings. Moreover, these perceptions, along with consumers’ intergroup preferences, play a critical role in shaping their macroeconomic expectations, trust in the Fed, and how they acquire and process economic information. To the best of our knowledge, this is the first study to analyze this issue.

A key innovation of this paper is identifying how intergroup preferences among consumers with different political affiliations shape their macroeconomic beliefs. Our survey design introduces a novel measure of intergroup preferences regarding the Fed by asking participants to indicate their perceptions of its political leaning. This allows us to determine whether they view the Fed as aligned with their political identity (in-group) or opposed (out-group). Additionally, we quantify the strength of participants’ in-group favoritism in a political context using an other-other allocation game (e.g., [Tajfel, Billig, Bundy and Flament 1971](#)), which captures biases in resource allocation based on political affiliations. These measures provide a foundation for analyzing how intergroup dynamics influence participants’ economic expectations and their behavior in acquiring and processing new information.

We find significant heterogeneity in U.S. consumers’ perceptions of the Fed’s political leanings. Most Democrat-leaning participants (66%) believe the Fed favors Republicans, whereas most Republican-leaning participants (60%) see it as favoring Democrats. Overall, 63% of the participants see the Fed as an “out-group”, whereas 37% as an “in-group”.

We document significant gaps in expectations based on intergroup preferences regarding the Fed. On average, those who perceive the Fed as an out-group have a more negative view of current economic conditions, expecting higher inflation, unemployment, and interest rate hikes over the next 12 months, as well as a higher inflation target. The average difference in prior inflation expectations between those who view the Fed as an in-group versus an out-group is substantial, at 2.0 percentage points. This perception gap is even more pronounced among individuals with strong in-group favoritism and exceeds the partisan difference in inflation

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<sup>3</sup>For applications of using survey experiments to study the formation of economic expectations, see references in, e.g., [Haaland, Roth and Wohlfart \(2023\)](#), [Fuster and Zafar \(2023\)](#), [Weber, D’Acunto, Gorodnichenko and Coibion \(2022\)](#).

expectations between strong Democrats and strong Republicans, which is 1.1 percentage points.

Previous studies have shown that public trust in the central bank is a crucial determinant of their inflation expectations (e.g., [Kumar, Afrouzi, Coibion and Gorodnichenko 2015](#), [Christelis, Georgarakos, Jappelli and van Rooij 2020](#)). We find that public perceptions of the Fed's political leaning significantly influence trust in the institution. Participants who view the Fed as an in-group report moderately high levels of trust, whereas those who see it as an out-group exhibit significantly lower trust. Out-group participants have an average trust score of 3.1 regarding the Fed's ability to manage inflation and unemployment on a scale from 1 to 7 (where 1 indicates no trust at all and 7 indicates complete trust), compared to a score of 4.2 for in-group participants. We observe a similar pattern for an alternative measure of trust based on participants' perceptions of the Fed's concern for the economic well-being of all Americans.

Next, we analyze how participants' political alignment and in-group favoritism influence their willingness to pay for information from various news sources. Participants were randomly assigned to a control or treatment group during an information demand stage. The treatment group was endowed with a budget to adjust the likelihood of receiving news from the Fed versus left- or right-leaning media outlets, allowing us to measure their willingness to pay for information.

Participants who perceive the Fed as an in-group are more inclined to spend money to increase the probability of receiving communication from the Fed and are more likely to receive it. Additionally, participants are more willing to pay to avoid out-group news sources. These effects are amplified among individuals with strong in-group favoritism. In the information processing stage, participants who view the Fed as an in-group are more responsive to news from the Fed in updating their inflation expectations than those who view the Fed as an out-group. Overall, these results highlight how political alignment and group identity influence both the demand for and processing of economic information.

Finally, to understand the potential impact of the upcoming election on participants' perceptions of the Fed, we examine their views in a hypothetical scenario in which Donald Trump is elected U.S. president. In this scenario, 84% of consumers would perceive the Fed as aligned with the Republican Party. While the overall proportion of consumers viewing the Fed as an in-group would remain stable, its composition would shift: Democrat-leaning consumers would view the

Fed less as an in-group, whereas more Republican-leaning consumers would see it as one. Interestingly, overall public trust in the Fed would stay relatively stable, but trust would sharply decline among Democratic-leaning respondents and increase notably among Republican-leaning ones. These shifts underscore how political outcomes, like a Trump presidency, could dramatically realign public perceptions and trust in the Fed.<sup>4</sup>

**Related literature** This paper is related to the literature that documents partisan bias in economic expectations and studies its economic implications. [Mian and Sufi \(2023\)](#) study this bias in U.S. survey data on economic expectations from recent decades, finding that individuals have a more optimistic view of future economic conditions when they are more closely affiliated with the party that controls the White House. They also find a large shift in economic expectations after the 2008 and 2016 elections based on partisan affiliation, though these shifts had no significant effect on actual household spending. [Gillitzer and Prasad \(2018\)](#) study partisan sentiment changes in the wake of Australian elections, noting that these changes in expectations influence consumer spending intentions and actual spending. Similarly, [Kamdar and Ray \(2024\)](#) find that political polarization has played a significant role in shaping U.S. households' economic expectations and consumption behavior in recent decades. [Kempf and Tsoutsoura \(2024\)](#) review an empirical literature that studies how political polarization affects financial decisions. [Coibion, Gorodnichenko and Weber \(2020\)](#) investigate U.S. consumer expectations about the 2020 U.S. presidential election's outcome as well as their economic expectations, revealing that most consumers were very confident in the victory of the candidate aligned with their political affiliation, and this confidence correlated with more optimistic economic forecasts. [Binder, Kamdar and Ryngaert \(2024\)](#) explore inflation expectations during the COVID-19 era, finding that Democrats' expectations remained anchored, whereas Republicans were more sensitive to shocks such as CPI releases and energy prices. They argue that this partial de-anchoring of inflation expectations among Republicans had broader implications for actual inflation outcomes. [Binetti, Nuzzi and Stantcheva \(2024\)](#) study the public's perceived causes and consequences of inflation and find that Republicans are more likely to attribute inflation to government policies and foresee broader negative outcomes, whereas Democrats anticipate greater inequality effects.

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<sup>4</sup>Additionally, in this scenario, participants largely believe the Fed's political independence would be seriously compromised, with the proportion viewing the Fed as politically neutral dropping significantly.

Our paper differs from and contributes to this literature in several key ways. First, none of the previous studies examine public perceptions of the Fed's political leanings. While U.S. presidents have clear political affiliations, the Fed is generally viewed by experts as politically independent. Interestingly, we find significant heterogeneity in public perceptions. Additionally, we find that elections may significantly shift how consumers view and trust the Fed. Second, we explore how consumers who perceive the Fed as part of their 'in-group' versus an 'out-group' show stark differences in their macroeconomic expectations and in how they acquire and process Fed communication. This approach goes beyond partisan lines, as both Democrats and Republicans can perceive the Fed as either an in-group or out-group.

This paper also contributes to the literature on central bank communication with the general public. For a recent review, see [Blinder, Ehrmann, de Haan and Jansen \(2024\)](#). [Coibion, Gorodnichenko and Weber \(2022\)](#) examine how different forms of communication influence inflation expectations in a randomized controlled trial. They show that when U.S. consumers learn about the Federal Reserve's inflation target or read a Federal Open Market Committee (FOMC) statement, the impact on inflation expectations is about twice as large as when they only read a news article about an FOMC meeting. [D'Acunto, Fuster and Weber \(2022\)](#) provide experimental evidence that diverse policy committees are more effective in engaging different segments of the population and influencing their macroeconomic expectations. [Binder, Kuang and Tang \(2023\)](#) examine the effects of verbal and non-verbal communication about interest rate hikes on U.S. consumers' house price expectations and their subjective models for forecasting house prices. This paper contributes to this literature by showing that the effectiveness of central bank communication is crucially influenced by the perceived political bias of the Fed and the intergroup preferences of consumers with different political affiliations.

This paper also ties to studies on the role of social or group identity in shaping economic and other human behavior, e.g., [Tajfel et al. \(1971\)](#), [Akerlof and Kranton \(2000\)](#). [Charness and Chen \(2020\)](#) provide a recent review of this literature. Additionally, a few recent papers explore the relationship between group identity and belief formation. For instance, [Bauer, Chen, Hett and Kosfeld \(2024\)](#) study how consumers with different political affiliations acquire and process information from news media with different political leanings to form beliefs. Similarly, [Faia, Fuster, Pezone and Zafar \(2024\)](#) study how the news source affects information acquisition



among U.S. consumers with different political affiliations. None of these papers focuses on the perceived political bias of the Fed and issues of central bank independence and credibility. Our paper differentiates itself by analyzing the public's perceived political bias of the Fed and how this perception influences their behavior in acquiring and processing Fed communications, and ultimately shaping their inflation expectations.

## **2 Survey design and data**

In this section, we discuss the experimental design and some descriptive statistics of our sample. The survey questionnaire is attached at the end of the Appendix.

### **2.1 Experimental design**

The survey starts by asking participants about their sources of economic information and their knowledge of monetary policy-making. Next, participants are asked about their political leaning, specifically whether they identify as Democrat, Republican, Independent, or none of the above. If participants identify as Democrats or Republicans, they are further asked if they consider themselves strong or moderate in their affiliation. Those identified as Independents or none of the above are asked whether they lean more toward the Democratic or Republican Party.

We measure in-group favoritism in a political context, following the literature by using an other-other allocation game (e.g. [Tajfel et al. 1971](#)). Specifically, participants are asked to allocate a fixed sum of money (\$6) under three scenarios: a group of two Democrats, a group of two Republicans, and a mixed group with one Democrat and one Republican. The purpose of including groups of two Democrats and two Republicans is to establish a baseline for how participants allocate resources when both recipients belong to the same political group. This setting enables us to observe whether participants distribute resources equally within groups (e.g., giving \$3 - \$3 in both Democrat or Republican scenarios) compared to when an out-group member is present. These scenarios help reveal participants' general preferences for fairness or equality in situations where political tension or group conflict is absent.

Next, we ask participants about their perception of the political leaning of the U.S. Fed, specifically whether they believe it leans toward the Democratic Party, Republican Party, or no

political party. If participants perceive that the Fed leans toward either the Democratic Party or the Republican Party, they are further asked whether they believe this leaning is strong or moderate. Those who responded with ‘no political party’ or ‘none of the above’ were subsequently asked whether they consider the Fed to be closer to the Democratic Party or the Republican Party. An open-ended question follows, inviting participants to explain the reasoning behind their perceived Fed political leaning. We also assess participants’ level of trust in the Fed, specifically regarding its ability to manage inflation and unemployment, as well as its concern for the economic well-being of all Americans.

Additionally, we elicit participants’ perceptions and forecasts of inflation, unemployment, interest rates, and their perceived inflation target. We have an attention checker before the survey continues.

Participants are randomly assigned to either the control or treatment group. Those in the treatment group first take part in an information demand stage, where they can adjust the probability of receiving news articles from two different sources at a cost. Next, they enter the information processing stage, receiving a news article based on the probabilities they had set. In contrast, participants in the control group bypassed the information demand stage and directly entered the information processing stage, where they received a news article without information about its source. Hence, all survey participants receive identical information, which allows, us to focus on the role of the perceived bias of the Fed for information processing. Below, we provide a detailed description of both stages.

In the information demand stage, treatment group participants play a game related to information acquisition. Each participant faces a choice between two articles about the U.S. economy: one from a news agency (randomly assigned as either left-leaning or right-leaning media with a 50% chance) and the other from the Federal Reserve. We measure their willingness to pay for information from the Fed compared to from the media outlet. By default, each article has a 50% chance of being selected. Each participant is given a \$2 budget to adjust the probability of receiving either article, with a cost of \$1 for every 10 percentage points change. Any unused portion of the budget will be paid out to participants at the end of the experiment. Participants are informed that an article would be selected based on the probabilities they set and that they would be asked to forecast the unemployment rate, inflation, and interest rates

after reading it. This forecasting exercise is incentivized, with participants having a chance to win \$10 based on the accuracy of their predictions. For each forecast within 1% of an expert prediction, participants will receive an additional 10% chance of winning the reward.

In the subsequent information processing stage, all participants were presented with a news article containing identical information about economic conditions. For the treatment group, the probability of receiving news from a specific source was determined by their choices during the information demand stage. These participants saw the article with the logo of a news agency (CNN or Fox News) or the Fed. In contrast, the control group received the same article but without any logo or indication of its source. For example, participants who received news curated from CNN were shown the following text:

“Please read the following news curated from CNN.

Recent economic indicators show robust expansion with strong job gains and low unemployment. Inflation has eased from last year but was slightly elevated to 3.2% in February. The Federal Reserve aims to sustain employment maximally and stabilize inflation at 2% over time. To support these objectives, the Fed has decided to keep the federal funds rate between 5.25 and 5.50 percent, continuing its cautious approach to rate adjustments and its commitment to reducing its securities holdings, all in effort to steer inflation back to the 2% target.”

This news piece was generated by ChatGPT using a politically neutral tone based on information from the latest FOMC announcement and news reports. Treatment group participants are presented with the same article, but accompanied by the logo of CNN, Fox News, or the Federal Reserve, allowing us to study the effect of the news source keeping constant the writing style that might differ across media outlets.<sup>5</sup>

After reading the provided information, participants are asked whether they have heard about the news before and to evaluate its political leaning and reliability. We then examine how participants update their expectations regarding inflation, unemployment, and interest rates after receiving this information.

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<sup>5</sup>This experimental design and content of the survey experiment were approved by the University of Birmingham Ethics Review Committee in March 2024.

In light of the upcoming election, we also presented participants with the following hypothetical scenario:

The next US presidential election will take place in November this year. Consider the scenario that Democrats lose the presidency, and Donald Trump gets elected as the US president in the next election. We would like to know your view on the US Federal Reserve after Donald Trump gets elected as the US president.

Based on this hypothetical scenario, we ask participants to share their perceptions of political leaning and their trust in the Fed regarding its management of inflation and unemployment, as well as its concern for the economic well-being of all Americans.

The final section of the survey collects information about individual backgrounds, including geographic location, income, employment status, homeownership, education, age, and gender.

## 2.2 Sample composition

The survey was conducted from April 21 to May 2, 2024, with 5,205 participants recruited through Prolific.<sup>6</sup> The average response time was 13 minutes.

Table A.1 presents the demographic characteristics of the full sample, including both the control and the treatment groups. Approximately 21% of participants are randomly assigned to the control group. Our sample is politically representative of the U.S. population, consisting of 30.9% who identify as Democrats, 28.2% as Republicans, and 39.7% as Independents. Additionally, 60.7% of participants are homeowners, consistent with the 60.7% reported in the 2019 American Community Survey. Our sample is also representative in terms of gender and age distribution. The final column displays the p-values from a one-way Analysis of Variance (ANOVA) test, indicating that the observable characteristics of participants are similar across both the control and treatment groups.

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<sup>6</sup>Prolific is a UK-based platform for online subject recruitment explicitly designed for survey research. Many economists have recently recruited respondents from Prolific (e.g., [Saccardo and Serra-Garcia 2023](#); [Exley and Kessler 2022](#)) to study the behaviors of the general public. Prolific requires paying a minimum wage to survey respondents and we pay our respondents above this threshold value. The respondents can exit the survey at any time.

### 3 The role of inter-group preference in belief gaps

In this section, we analyze how individuals' perceptions of the Fed's political leanings, levels of trust in the Fed, and in-group favoritism influence their beliefs. First, we examine the variation in perceptions of the Fed's political bias and trust across different political affiliations. Next, we explore how these beliefs differ across various demographic groups. Lastly, we document a novel heterogeneity in inflation expectations, emphasizing differences based on whether households view the Fed as part of their in-group or out-group.

#### 3.1 Perceived leaning of the Fed, trust, and in-group favoritism

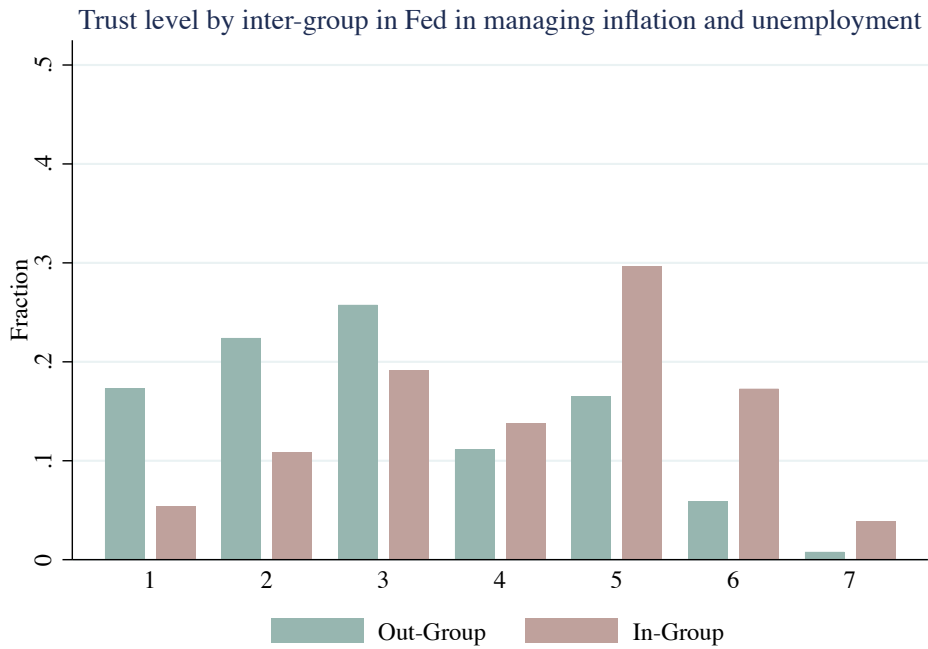
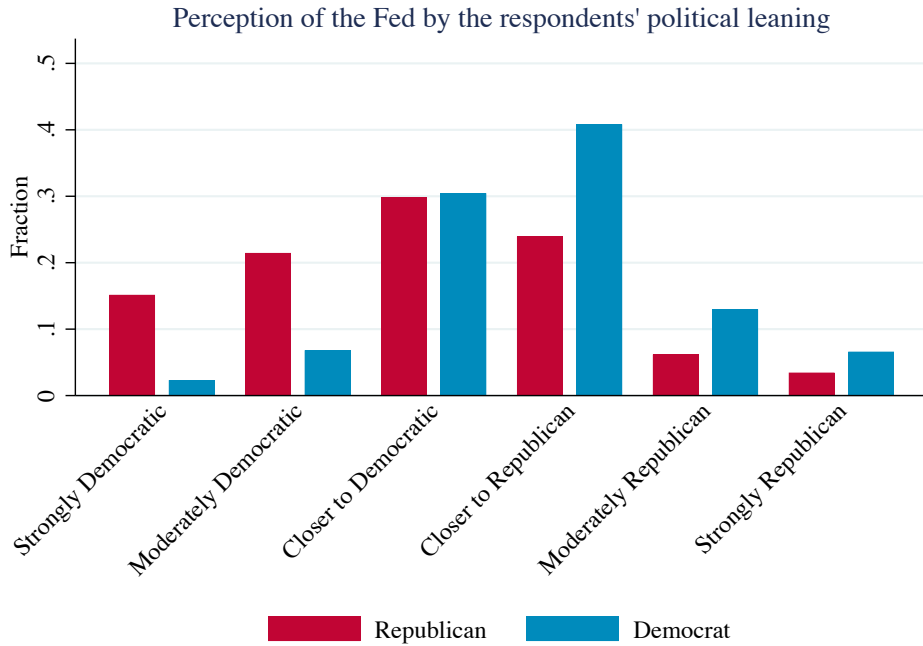
To our knowledge, this paper is the first to analyze U.S. consumers' perceptions of the Federal Reserve's political leanings. We find significant heterogeneity in these perceptions. About 21% of respondents believe the Fed leans toward the Democratic Party, whereas 15% think it favors the Republican Party; the remaining respondents view the Fed as politically neutral. Among those who perceive the Fed as neutral, roughly half consider it closer to the Democratic Party, while the other half see it as closer to the Republican Party. We classify the Fed as an *in-group* institution when participants' political affiliations align with their perceptions of the Fed's stance, and as an *out-group* institution when they do not.<sup>7</sup>

The top panel of Figure 1 illustrates how participants' views of the Fed's political stance vary according to their own political affiliations, revealing significant heterogeneity in these perceptions. Notably, most Democrat-leaning participants (66%) perceive the Fed as leaning toward the Republican Party, while a majority of Republican-leaning participants (60%) believe the Fed leans toward the Democratic Party. Overall, 63% of participants perceive the Fed as an out-group institution.<sup>8</sup>

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<sup>7</sup>We use two definitions to classify in-group and out-group based on respondents' perceptions of the Fed's political leaning. The *Exclusive Definition* categorizes all respondents as either in-group or out-group, requiring them to explicitly state which party they believe the Fed is closer to. In contrast, the *Inclusive Definition* allows those who view the Fed as neutral to be classified as independent, belonging to neither group. For the remainder of the paper, we will use the Exclusive Definition unless otherwise specified.

<sup>8</sup>The survey includes an open-ended question asking participants to explain their reasoning behind their perception of the Fed's political leaning. The responses indicate that many consumers believe the Fed favors the incumbent administration, businesses, or the wealthy. See Appendix B for examples of participants' reasoning on why they believe the Fed favors either the Democratic or Republican party.



**Figure 1: PERCEPTION AND TRUST OF THE FED**

*Notes:* The top panel of this figure plots the distribution of respondents' perceptions of the Fed's political leaning, categorized by their own political affiliation. The blue bars represent Democrat-leaning respondents, while the red bars represent Republican-leaning respondents. The bottom panel plots the distribution of trust levels in the Fed's ability to manage inflation and unemployment, with Out-Group respondents shown in green and In-Group respondents in brown.

Trust in the Fed also varies significantly across political lines. The average level of trust in the Fed's ability to manage inflation and unemployment effectively is relatively modest, scoring 3.2 on a scale from 1 to 7 (where 1 represents no trust at all, and 7 indicates complete trust). Trust in the Fed's concern for the economic well-being of all Americans is slightly higher, averaging 3.5. A clear political divide emerges, with Democrats showing greater trust in the Fed compared to Republicans. Specifically, Democrats have an average trust score of 3.4 for the Fed's economic management and 3.8 for its concern for Americans' well-being. In contrast, Republicans report lower levels of trust, with average scores of 3.0 and 3.1 for these metrics, respectively.

The bottom panel of Figure 1 illustrates the impact of inter-group perceptions on trust in the Fed. Participants who perceive the Fed as an in-group institution report moderately high levels of trust, whereas those viewing it as an out-group institution exhibit significantly lower trust. This gap is evident across both measures: out-group participants have an average trust score of 3.1 for the Fed's ability to manage inflation and unemployment, compared to 4.2 for in-group participants. We observe a similar pattern in participants' perceptions of the Fed's concern for the economic well-being of all Americans, as shown in Figure A.1.

Next, we measure respondents' in-group favoritism using outcomes from the other-other allocation game. Figure A.2 shows the average allocation of Democrat- and Republican-leaning respondents. When choosing between two Democrats or two Republicans, both Republican and Democrat respondents tend to allocate the endowed funds equally. However, when faced with allocating funds between individuals of different political affiliations, a clear pattern of in-group favoritism emerges. On average, Republicans allocate \$4.32 to a fellow Republican and \$1.68 to a Democrat, whereas Democrats allocate \$4.58 to a fellow Democrat and \$1.42 to a Republican.

To quantify individual-level in-group favoritism, we first calculate the absolute differences in fund allocation when participants choose between two individuals of the same political affiliation (e.g., two Republicans for Republican participants or two Democrats for Democrats). Next, we determine the difference in allocation to in-group versus out-group members (Republicans allocating to Republicans minus Democrats, and vice versa for Democrats). The in-group favoritism measure is then obtained by subtracting the absolute within-group difference from the in-group versus out-group allocation difference. We categorize in-group favoritism as *strong* when this measure exceeds its median value of 2.

## 3.2 Belief gaps

Table 1 provides a consolidated overview of pre-treatment expectations and perceptions, separately by treatment status, political affiliation, intergroup preferences, and awareness of the FOMC. The mean inflation expectations and perceived long-term inflation targets are 3.63% and 4.72%, respectively and no statistically significant differences between the control and treatment groups are present.

Consistent with the literature (e.g. Coibion et al. 2020, Binder et al. 2024), we find a partisan divide in expectations and perceptions. Republican-leaning participants tend to have more negative views of economic conditions, expecting higher inflation, unemployment, and interest rates compared to Democrat-leaning participants. For instance, Republican-leaning participants perceive past 12-month inflation and unemployment rates as 7.35% and 9.90%, versus 5.80% and 8.60% for Democrat-leaning participants. Republican-leaning participants also perceive a higher inflation target (5.14%) than Democrat-leaning participants (4.39%), and Democrat-leaning participants demonstrate less disagreement in their expectations.

More importantly, we document belief gaps based on participants' perceptions of the Fed as either an in-group or out-group institution. A majority (63%) view the Fed as an out-group, with these individuals tending to hold more pessimistic views on economic conditions, expecting higher inflation, unemployment, and interest rate hikes over the next 12 months. The next section provides a more detailed analysis of the gaps in inflation expectations and the role of in-group favoritism.

Finally, we also observe belief gaps related to participants' awareness of the FOMC. Most participants (66%) are aware that the FOMC sets policy interest rates. Those with this knowledge generally view economic conditions more positively, expect lower unemployment, and foresee smaller interest rate hikes, although their inflation expectations remain similar to those unaware of the FOMC. Significantly less disagreement is also present among participants who are knowledgeable about the FOMC.



**Table 1: DESCRIPTIVE STATISTICS OF PRIOR EXPECTATIONS**

	Inflation			Unemployment		$\Delta$ Interest rate
	past 12-months (1)	12-month ahead (2)	long-term target (3)	current rate (4)	12-month ahead (5)	12-month ahead (6)
Total	6.49 (7.62)	3.63 (3.68)	4.72 (6.85)	9.18 (8.98)	9.94 (9.68)	1.50 (4.74)
Group assignment						
Control Group	6.60 (7.60)	3.68 (3.79)	4.92 (7.33)	9.62 (9.59)	10.02 (9.57)	1.60 (4.58)
Treatment Group	6.46 (7.63)	3.62 (3.65)	4.67 (6.72)	9.06 (8.81)	9.92 (9.71)	1.47 (4.78)
View of the Fed						
Out-Group	6.72 (7.73)	3.97 (3.75)	4.53 (6.43)	9.38 (9.01)	10.31 (9.86)	1.59 (4.63)
In-Group	6.10 (7.42)	3.05 (3.49)	5.05 (7.51)	8.82 (8.92)	9.30 (9.34)	1.35 (4.92)
Political Affiliation						
Republican	7.35 (8.17)	4.13 (4.06)	5.14 (7.49)	9.90 (9.39)	10.93 (10.24)	1.81 (5.17)
Democrat	5.80 (7.08)	3.23 (3.29)	4.39 (6.28)	8.60 (8.60)	9.15 (9.14)	1.25 (4.35)
FOMC						
Not Knowing	7.40 (9.25)	3.67 (4.20)	6.73 (9.21)	11.77 (10.50)	12.79 (11.32)	2.34 (5.61)
Knowing FOMC	6.01 (6.56)	3.61 (3.38)	3.67 (4.89)	7.81 (7.74)	8.45 (8.33)	1.06 (4.14)

*Notes:* This table provides a summary of pre-treatment expectations, segmented by treatment status, political affiliation, intergroup preferences, and awareness of the FOMC. Columns (1) through (6) display the mean (standard deviation) for inflation over the past 12 months, inflation expected 12 months ahead, long-term inflation targets, current unemployment rates, unemployment expected 12 months ahead, and expected changes in interest rates over the next 12 months, respectively.

### **3.3 The role of intergroup preferences and in-group favoritism**

We further examine the role of intergroup preferences in shaping respondents' inflation expectations. In this analysis, we focus on the Inclusive Definition, which provides a more nuanced classification of individuals' views on the Fed. Columns (1) - (3) of Table 2 show that individuals who view the Fed as an in-group institution have inflation expectations that are 0.8 - 0.9 percentage points lower, whereas those who see the Fed as an out-group have inflation expectations that are 0.9 - 1.1 percentage points higher, compared to those who view the Fed as independent. Overall, the difference in average prior inflation expectations between those who perceive the Fed as an in-group versus an out-group institution amounts to 2.0 percentage points, which is substantially larger than the partisan difference in inflation expectations between strong Democrats and strong Republicans of 1.1 percentage points (see Table A.2). This gap persists even after controlling for political affiliation and other demographics, suggesting it is not solely driven by the underlying determinants of Fed intergroup preferences.

Furthermore, the impact of viewing the Fed as an out-group institution on prior inflation expectations is amplified by the degree of in-group favoritism. Individuals who perceive the Fed as an out-group and exhibit strong in-group favoritism have the highest prior inflation expectations, which are 0.7 percentage points higher than those who also view the Fed as an out-group but display weaker or no in-group favoritism (see Columns (4) - (6) of Table 2). In contrast, for individuals who view the Fed as an in-group institution, prior inflation expectations remain relatively stable regardless of the strength of their in-group favoritism.

Finally, Table A.3 demonstrates that inflation expectations decrease as trust in the Fed increases, based on two different trust metrics. On average, consumer groups with the highest level of trust in the Fed have inflation expectations that are 2.1 percentage points lower than those with the lowest level of trust.

## **4 Information demand**

This section examines participants' information acquisition behavior, focusing on how political alignment and in-group favoritism influence their choices between news sources. We analyze

**Table 2: HETEROGENEITIES BY VIEW OF THE FED AND IN-GROUP FAVORITISM**

	Pre-Treatment inflation expectations					
	(1)	(2)	(3)	(4)	(5)	(6)
View Fed as In-Group	-0.852*** (0.164)	-0.840*** (0.165)	-0.897*** (0.164)	-0.823*** (0.206)	-0.764*** (0.207)	-0.798*** (0.205)
View Fed as Out-Group	1.163*** (0.107)	1.101*** (0.108)	0.916*** (0.110)	0.779*** (0.151)	0.677*** (0.152)	0.532*** (0.152)
Strong in-group favoritism				0.138 (0.118)	0.206* (0.119)	0.423*** (0.120)
Strong in-group favoritism × View Fed as in-group				-0.053 (0.339)	-0.178 (0.339)	-0.195 (0.337)
Strong in-group favoritism × View Fed as out-group				0.722*** (0.214)	0.774*** (0.215)	0.644*** (0.213)
Constant	3.351*** (0.059)	3.547*** (0.463)	2.957*** (0.472)	3.287*** (0.079)	3.570*** (0.464)	2.795*** (0.474)
<b>Survey Day FE</b>	No	Yes	Yes	No	Yes	Yes
<b>Demographic Controls</b>	No	Yes	Yes	No	Yes	Yes
<b>Political Affiliation Controls</b>	No	No	Yes	No	No	Yes
Observations	5205	5205	5205	5205	5205	5205
$R^2$	0.032	0.046	0.063	0.037	0.051	0.071

*Notes:* This table presents the heterogeneity in prior inflation expectations by intergroup preferences regarding the Fed. The dependent variable is pre-treatment inflation expectations. The regressors are the view about the Fed and its interaction with the degree of in-group favoritism. Standard errors are in parentheses. All estimates are based on the Huber-robust estimator. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

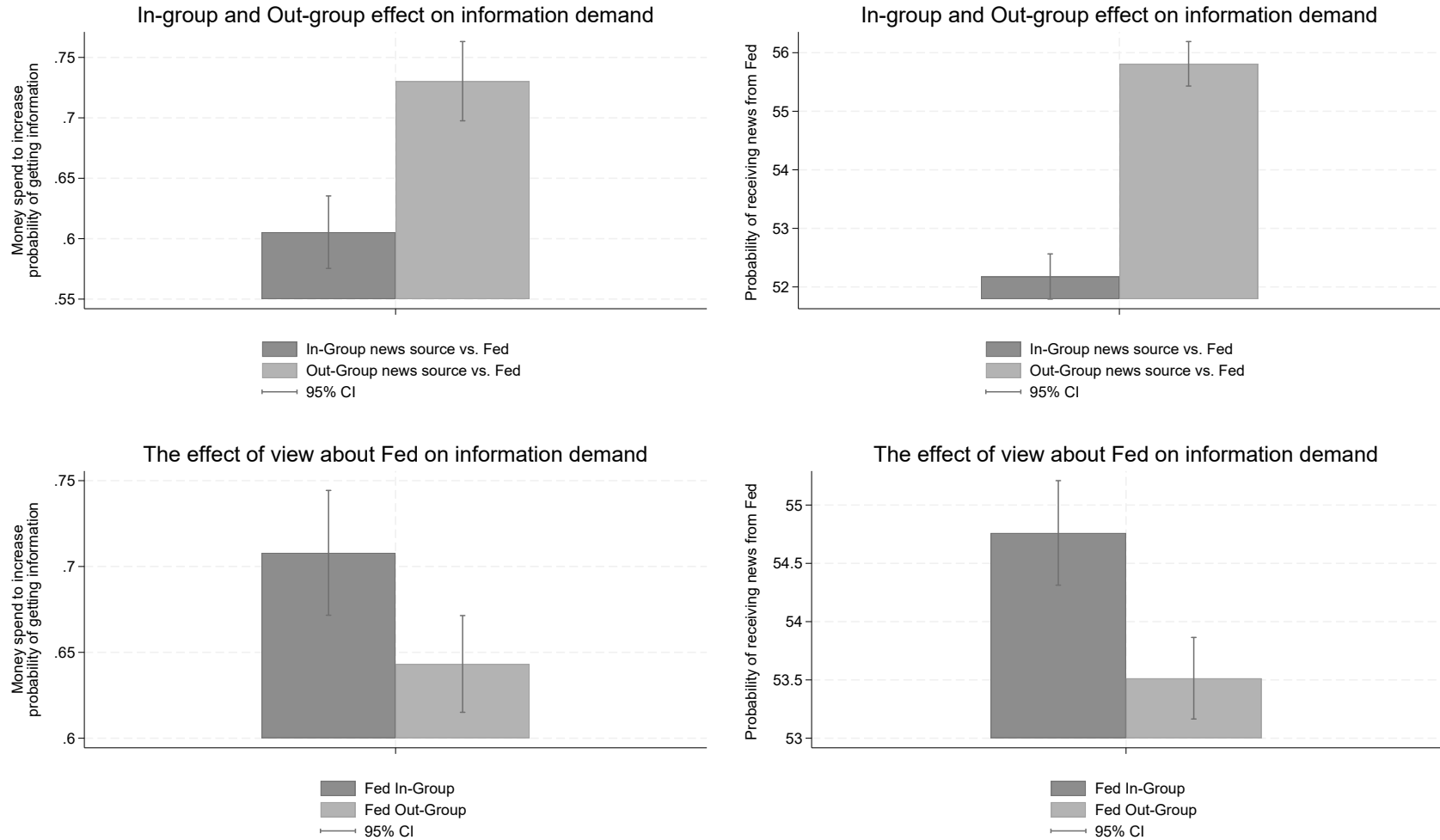
participants' willingness-to-pay in adjusting the probability of receiving news from CNN, Fox News, or the Federal Reserve, and explore how in-group and out-group dynamics affect these decisions.

During the information demand stage, participants in the treatment group can adjust the probability of receiving news from the Fed or a news agency. It costs \$1 to change the probability by 10 percentage points. On average, participants spend 67 cents on information acquisition out of a budget of \$2. Consequently, the proportion of participants in the treatment group receiving news from CNN, Fox News, or the Federal Reserve are 23%, 23%, and 54%, respectively.

We define a news source as *in-group* (*out-group*) if its political leaning matches (opposes) that of the participants. Participants choosing between an in-group news source and the Fed spent an average of 60 cents (top left panel of Figure 2) and had about a 52.2% probability of receiving news from the Fed (top right panel). In contrast, those choosing between an out-group news source and the Fed spent more, about 73 cents (top left panel), and had a higher probability – about 55.8% – of receiving news from the Fed (top right panel). These patterns suggest that participants are more willing to spend money to avoid out-group news sources, increasing their likelihood of selecting news from the Fed. Specifically, those choosing between an in-group news source and the Fed had a 3.6 percentage point lower probability of receiving news from the Fed (columns (1) and (2) of Table A.4) and spent about 13 cents less (columns (1) and (2) of Table A.5) compared to those choosing between an out-group news source and the Fed.

Furthermore, respondents who view the Fed as an in-group institution spent, on average, over 71 cents (bottom left panel of Figure 2) and had a higher probability of receiving news from the Fed, at over 54.7% (bottom right panel). In contrast, those who view the Fed as an out-group institution spent approximately 64 cents (bottom left panel) and had a statistically significantly lower probability of 53.5% to receive news from the Fed (bottom right panel). Participants who view the Fed as an out-group institution have a 1.2 percentage point lower probability of receiving news from the Fed (columns (3) and (4) of Table A.4) and spent approximately 7 cents less (columns (3) and (4) of Table A.5) compared to those who view the Fed as an in-group institution.

Among participants choosing between news from the in-group source and the Fed, those who view the Fed as an out-group institution have a 1.7 percentage point lower probability of



**Figure 2: HETEROGENEITY IN INFORMATION ACQUISITION**

*Notes:* This figure reports the money spent on information acquisition (left column) and the probability of receiving news from the Fed (right column).

receiving news from the Fed (columns (7) and (8) of Table A.4) but did not pay significantly different amounts (columns (7) and (8) of Table A.5) compared to those who view the Fed as an in-group institution.

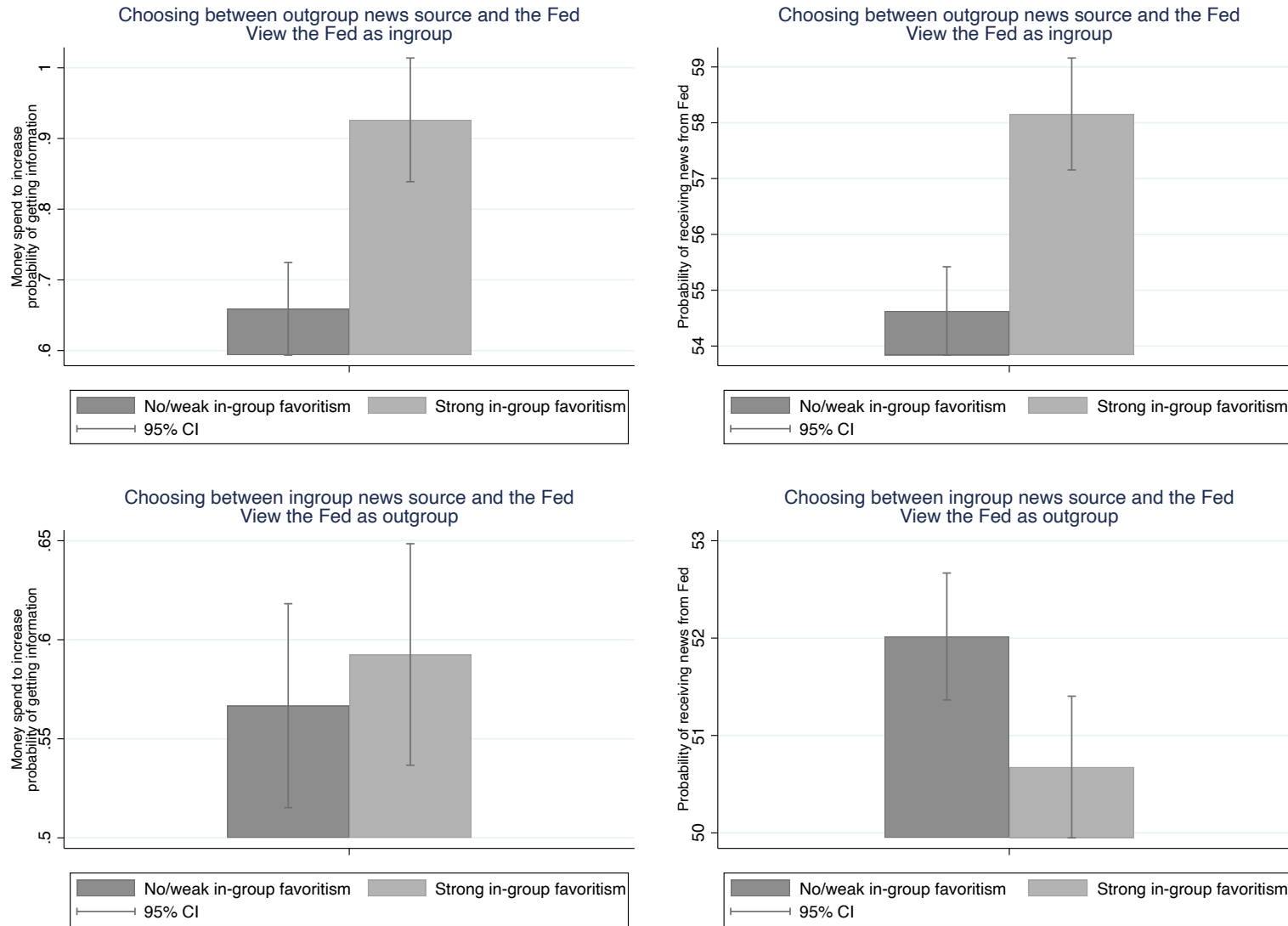
Next, we examine the role of in-group favoritism in information acquisition. The top two panels of Figure 3 suggest that when choosing between a news article from an out-group news source and one from the Fed, those who view the Fed as an in-group and exhibit a strong degree of in-group favoritism spend more and have a higher probability of receiving news from the Fed compared to those with weaker or no in-group favoritism. Specifically, the former group spent over 90 cents with a 58% probability of receiving news from the Fed, whereas the latter group spent 66 cents with a 54.6% probability.

In contrast, the bottom two panels of Figure 3 suggest that when choosing between a news article from an in-group news source and one from the Fed, participants who view the Fed as an out-group and display a strong degree of in-group favoritism spend more (though not statistically significant) and have a lower probability of receiving news from the Fed compared to those with weaker or no in-group favoritism. Specifically, the former group spent about 59 cents with a 50.6% probability of receiving news from the Fed, whereas the latter group spent 55 cents with a 52% probability.

## 5 Information processing

This section studies the effects of information provision on inflation expectations, with a focus on how the political alignment of the information source influences expectation updating. To this end, we consider the specification following Coibion et al. (2022) and Coibion, Georgarakos, Gorodnichenko, Kenny and Weber (2024):

$$\begin{aligned}
 \text{Post}_i = & a_0 + b_0 \times \text{Prior}_i + \sum_{j=1}^k a_j \times I\{i \in \text{Treat } j\} \\
 & + \sum_{j=1}^k b_j \times I\{i \in \text{Treat } j\} \times \text{Prior}_i + \Gamma X_i + \epsilon_i,
 \end{aligned} \tag{5.1}$$



**Figure 3: HETEROGENEITY IN INFORMATION ACQUISITION BY STRONG IN-GROUP FAVORITISM**

*Notes:* This figure plots the money spent on information acquisition (left column) and the probability of receiving news from the Fed (right column) based on the strength of in-group favoritism.

where  $i$  denotes respondent,  $\text{Prior}_i$  denotes the respondent's prior belief,  $\text{Post}_i$  refers to the respondent's posterior belief after receiving the news article, and  $I\{i \in \text{Treat } j\}$  is an indicator variable if respondent  $i$  is in treatment group  $j$ . The coefficients  $\{a_j\}_{j \neq 0}$  and  $\{b_j\}_{j \neq 0}$  are interpreted as relative to the baseline, which is the control group and is captured by  $a_0$  and  $b_0$ . We use Huber-robust regressions to systematically control for outliers and include additional demographic controls  $X_i$ .

This specification is consistent with Bayesian learning, where agents partially update their beliefs by a weighted average of their prior knowledge and the new information they receive. Given the heterogeneous inflation perception gaps we observed among respondents, the average treatment effects may not accurately reflect the degree to which agents adjust their beliefs in response to new information. Instead of focusing on average treatment effects, this specification estimates the weight placed on prior beliefs, which is inversely related to how informative agents perceive the new signals to be. In other words, the more informative the agents find the signals, the less they rely on their prior beliefs when updating their expectations.

For treated households, the coefficient on prior beliefs, measured as  $b_0 + b_j$ , should generally fall between 0 and 1. A coefficient of 1 suggests that agents disregard the new information entirely and fully anchor to their prior beliefs, while a coefficient of 0 indicates that agents fully adopt the new information and disregard their prior beliefs. We allow this slope coefficient to differ across subgroups within the treatment group, providing insight into how respondents respond to the signal from various new sources when updating their beliefs. The coefficients  $b_j$  allow us to identify the effects of news sources among different groups of respondents.

We begin our analysis by pooling all respondents in the treatment group. Recall that in the control group, participants received the same article about economic forecasts without any indication of its source. Since the only difference between the treatment groups is the displayed logo of the information source, any treatment effects on expectation updating should stem solely from the displayed news source. Columns (1) - (3) of Table 3 show that control group participants placed a weight of 0.16 - 0.17 on prior information. In comparison, treatment group participants – those receiving news from both left-leaning, right-leaning media, or the Fed – placed 0.037 less weight on prior information. These results hold regardless of whether survey day fixed effects are included and remain robust after controlling for demographic variables, political affiliation,



**Table 3: EFFECT OF PRIOR INFLATION EXPECTATIONS ON POSTERIOR INFLATION EXPECTATIONS**

	Posterior Inflation Expectations					
	(1)	(2)	(3)	(4)	(5)	(6)
Prior Inflation Expectations	0.168*** (0.013)	0.171*** (0.013)	0.165*** (0.013)	0.168*** (0.013)	0.171*** (0.013)	0.165*** (0.013)
Prior × Treatment	-0.037** (0.015)	-0.037** (0.015)	-0.037** (0.015)			
Treatment	0.036 (0.078)	0.059 (0.079)	0.064 (0.078)			
Prior × Received News				-0.034** (0.017)	-0.033** (0.017)	-0.034** (0.017)
Prior × Received Fed				-0.040** (0.016)	-0.041** (0.016)	-0.040** (0.016)
Received News				0.070 (0.088)	0.081 (0.088)	0.085 (0.087)
Received Fed				0.012 (0.085)	0.045 (0.085)	0.049 (0.085)
Constant	2.309*** (0.070)	2.084*** (0.234)	2.230*** (0.235)	2.307*** (0.070)	2.093*** (0.234)	2.234*** (0.236)
<b>Survey Day FE</b>	No	Yes	Yes	No	Yes	Yes
<b>Demographic Controls</b>	No	Yes	Yes	No	Yes	Yes
<b>Political Affiliation Controls</b>	No	No	Yes	No	No	Yes
<b>Fed in/out-group Controls</b>	No	No	Yes	No	No	Yes
<i>N</i>	5205	5205	5205	5205	5205	5205
<i>R</i> <sup>2</sup>	0.090	0.101	0.102	0.090	0.101	0.102

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Table 4: EFFECT OF PRIOR INFLATION EXPECTATIONS ON POSTERIOR INFLATION EXPECTATIONS BY FED INTER-GROUP PREFERENCES**

	Fed In-Group			Fed Out-Group		
	(1)	(2)	(3)	(4)	(5)	(6)
	Posterior	Posterior	Posterior	Posterior	Posterior	Posterior
Prior Inflation Expectations	0.172*** (0.0223)	0.168*** (0.0224)	0.167*** (0.0225)	0.160*** (0.0166)	0.163*** (0.0167)	0.160*** (0.0167)
Prior × In-group News Source	0.0334 (0.0358)	0.0428 (0.0359)	0.0427 (0.0360)	-0.0659*** (0.0248)	-0.0608** (0.0250)	-0.0627** (0.0250)
Prior × Out-group News Source	-0.0399 (0.0320)	-0.0416 (0.0321)	-0.0418 (0.0322)	-0.0304 (0.0237)	-0.0314 (0.0239)	-0.0302 (0.0238)
Prior × News from Fed	-0.0630** (0.0273)	-0.0654** (0.0274)	-0.0650** (0.0274)	-0.0211 (0.0207)	-0.0215 (0.0209)	-0.0214 (0.0208)
In-group News Source	-0.249 (0.161)	-0.242 (0.162)	-0.241 (0.162)	0.207 (0.137)	0.193 (0.139)	0.205 (0.138)
Out-group News Source	0.0603 (0.154)	0.0698 (0.155)	0.0711 (0.155)	0.109 (0.132)	0.144 (0.133)	0.142 (0.133)
News from Fed	0.187 (0.126)	0.190 (0.127)	0.190 (0.127)	-0.127 (0.114)	-0.0901 (0.115)	-0.0818 (0.115)
Constant	2.204*** (0.104)	2.301*** (0.371)	2.310*** (0.374)	2.396*** (0.0929)	1.997*** (0.304)	2.085*** (0.305)
<b>Survey Day FE</b>	No	Yes	Yes	No	Yes	Yes
<b>Demographic Controls</b>	No	Yes	Yes	No	Yes	Yes
<b>Political Affiliation Controls</b>	No	No	Yes	No	No	Yes
<i>N</i>	1921	1921	1921	3284	3284	3284
<i>R</i> <sup>2</sup>	0.093	0.109	0.108	0.088	0.104	0.104

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. Columns (1) - (3) are based on the sub-sample of respondents who view the Fed as an in-group institute. Columns (4) - (6) are based on the sub-sample of respondents who view the Fed as an out-group institute. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

and perceptions of the Fed as an in-group or out-group institution.

Next, we divide the participants in the treatment group into two subgroups: those who received news from the Fed and those who received news from media outlets (either left-leaning or right-leaning). Columns (4) - (6) of Table 3 show that the former group placed 0.034 less weight on the prior, whereas the latter group placed 0.040 less weight, both relative to the control group. Hence, no significant difference in the weight placed on the new information between the two subgroups is present.

Furthermore, we explore the role of intergroup preferences toward the Fed in expectation updating. Table 4 presents the results of expectation revisions for participants who perceive the Fed as either an in-group or out-group institution. In this analysis, we further divide the treatment group respondents into three subgroups: those who received news from in-group news media, out-group news media, and those who received news from the Fed. Among participants who view the Fed as an in-group, those who receive news directly from the Fed place significantly less weight on their prior beliefs (0.065) compared to the control group. However, those receiving news from either in-group or out-group media do not place a significantly different weight on their prior beliefs.

Conversely, participants who perceive the Fed as an out-group do not place significantly different weight on their prior beliefs when receiving news directly from the Fed, compared to the control group. However, those receiving news from an in-group media source place significantly less weight on their prior beliefs (0.0627) relative to the control group.

In summary, individuals who perceive the Fed as an in-group place significantly more weight on information directly from the Fed, whereas those who see the Fed as an out-group do not react significantly differently to Fed news compared to the control group. Additionally, participants who view the Fed as an out-group assign significantly more weight to news from an in-group source, whereas those who view the Fed as an in-group do not exhibit significant differences when receiving news from either in-group or out-group sources compared to the control group.

In Appendix C, we further examine how participants' familiarity with the FOMC, political affiliation, and in-group favoritism influence expectation updating. Participants familiar with the FOMC place less weight on prior information when receiving news from the Fed, regardless of whether they view the Fed as in-group or out-group, whereas this effect is absent among those

unfamiliar with the FOMC. Political alignment also plays a role: Republicans, especially those with strong in-group favoritism, reduce the weight placed on prior information based on their perception of the Fed. In contrast, Democrats' expectation updating is minimally influenced by in-group or out-group perceptions, regardless of favoritism strength. These results suggest that political alignment and in-group perceptions significantly shape expectation revisions, particularly among Republicans.

Lastly, in [Appendix D](#) we analyze the effects of paying for news on the updating of inflation expectation. We find that participants who did not pay for information spent the most time on news articles and placed significantly more weight on the new information compared to the control group. In contrast, participants who paid for news, whether they received their desired article or not, spent similar time on the news as the control group and did not significantly adjust their prior beliefs. Overall, a positive relationship between the time spent on the news and the weight placed on it is present.

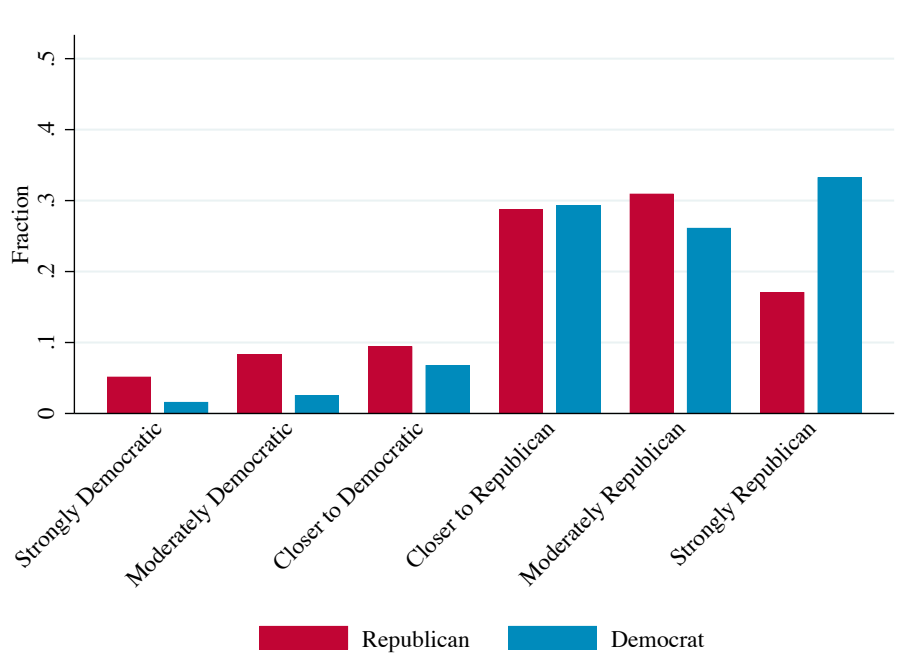
## 6 A hypothetical scenario: Trump wins the election

Figure 4 shows that under the scenario that Trump is elected president, a large majority (84%), including both Democrat-leaning and Republican-leaning individuals, would perceive the Fed as favoring the Republican Party. The proportion of participants who view the Fed as an out-group would remain relatively stable, decreasing a bit from 63% to 60%. However, this scenario would result in a dramatic shift in the composition of participants who perceive the Fed as an out-group. The proportion of Republican-leaning participants who view the Fed as an out-group would decline from 60% to 23%, whereas the proportion of Democrat-leaning participants who view the Fed as an out-group would rise from 66% to 89%.<sup>9</sup>

Figure 5 illustrates how Republicans' and Democrats' trust in the Fed would change in this hypothetical scenario. The election of Trump as president would result in minimal changes to the aggregate level of trust in the Fed. The first trust measure would shift slightly from 3.19 to 3.22 on a scale from 1 to 7 (where 1 represents no trust at all, and 7 indicates complete trust), whereas

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<sup>9</sup>Participants believe the political independence of the U.S. Fed would be significantly undermined. The proportion of participants who view the Fed as politically neutral is expected to drop from 60% to 35%.



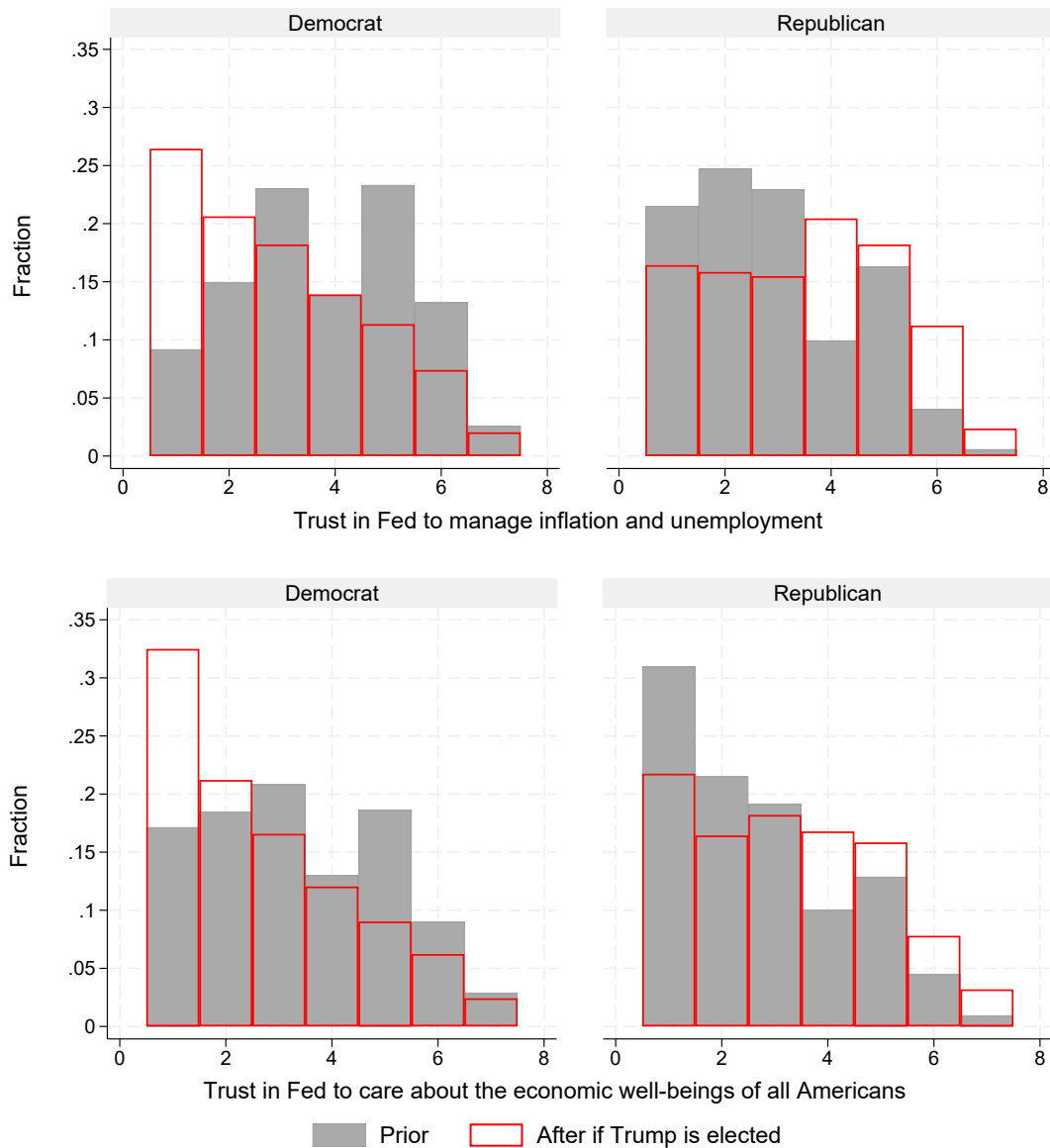
**Figure 4:** PERCEPTION OF THE FED’S POLITICAL LEANING IF TRUMP IS ELECTED

*Notes:* This figure plots the distribution of respondents’ perceptions of the Fed’s political leaning under the hypothetical scenario of Trump being elected. The blue bars represent Democrat-leaning respondents, while the red bars represent Republican-leaning respondents.

the second measure would decrease from 3.49 to 3.43.<sup>10</sup> However, significant heterogeneity in the changes in trust across consumers with different political affiliations arises. Democrats’ trust in the Fed would decline significantly, whereas Republicans’ trust would increase substantially. Among Democrats, the first trust measure would drop from 3.36 to 2.72, and the second measure would fall from 3.77 to 2.93. For Republicans, the first measure of trust would rise from 2.98 to 3.83, and the second measure would increase from 3.14 to 4.04.

In summary, if Trump were elected U.S. president, consumers would largely perceive the Fed as favoring Republicans. While the overall proportion of consumers viewing the Fed as an in-group would remain stable, its composition would shift: Democrat-leaning consumers would see the Fed less as an in-group, while more Republican-leaning consumers would view it as one. Similarly, public trust in the Fed would stay steady overall, but trust would decline significantly among Democrat-leaning consumers and rise among Republican-leaning ones. These shifts in perception and trust, combined with differences in expectation formation between in-group

<sup>10</sup>Recall the first measure is trust in the Fed’s ability to manage inflation and unemployment effectively and the second measure is trust in the Fed’s concern for the economic well-being of all Americans.



**Figure 5: TRUST IN FED: PRE- AND POST-TRUMP IS ELECTED**

*Notes:* This figure plots the distribution of trust in the Fed among Democrat-leaning respondents (left column) and Republican-leaning respondents (right column) before and after Trump is elected. The top and bottom panel plots the trust in the Fed to “manage inflation and unemployment” and “care about the economic well-beings of all Americans”, respectively.

and out-group consumers, would likely impact the effectiveness of monetary policy and its communication.

## 7 Conclusion

This paper examines how public perceptions of the Fed's political bias shape macroeconomic expectations and trust in the institution. We find significant disagreement among the public about the Fed's perceived political leanings. These perceptions help us assess whether individuals see the Fed as aligned with their political affiliation (in-group) or opposed to it (out-group). Our findings show that consumers' intergroup preferences play a crucial role in shaping their macroeconomic expectations, trust in the Fed, and how they acquire and process economic information.

The findings have broad implications for monetary policy. First, while economic experts generally consider the U.S. Fed as politically independent, consumers do not necessarily share this view. Second, a perceived political bias of the Fed is a crucial factor in shaping the credibility of monetary policymakers and influencing macroeconomic expectations, which, in turn, affects the effectiveness of both monetary policy and its communication. Third, political events, such as presidential elections, may cause a significant shift in how consumers perceive and trust the Fed.

The findings beget further analysis into the sources of the perceived political bias of the Fed. In addition, the heterogeneity in expectations resulting from these perceptions may have significant implications for individual economic decision-making and welfare. Furthermore, it may be possible to develop communication strategies to reduce the number of consumers who perceive the Fed as an out-group. These strategies might involve educating the public on the institution's non-partisan nature, as well as addressing the perception that the Fed is closely aligned with business, money, or wealth.

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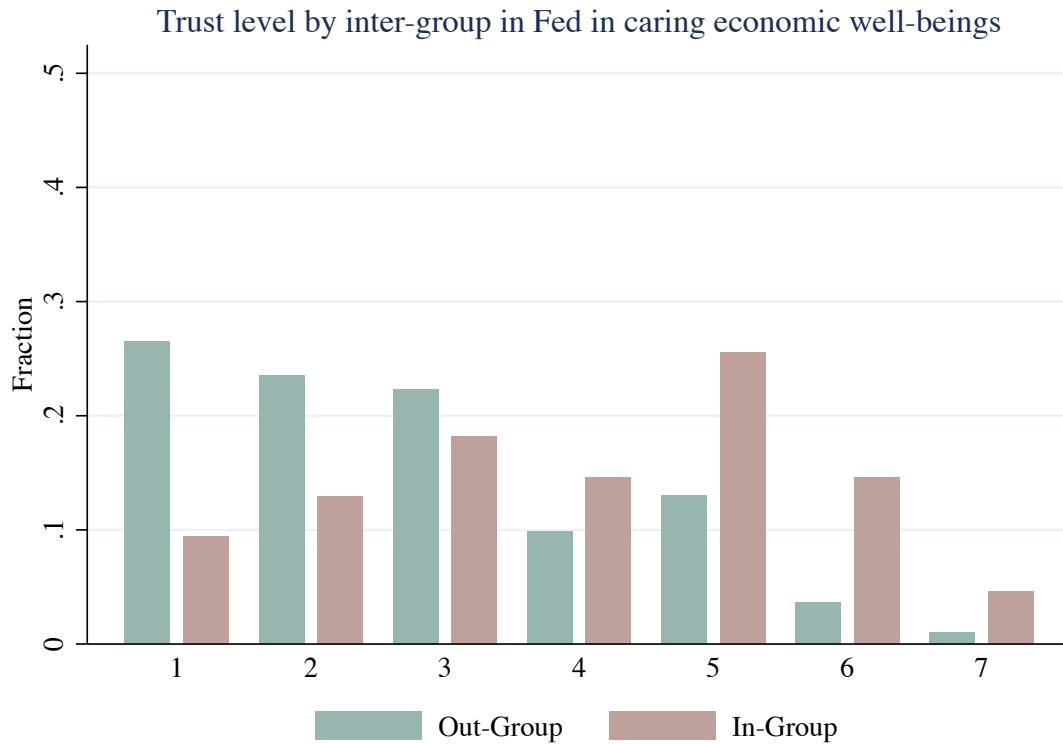
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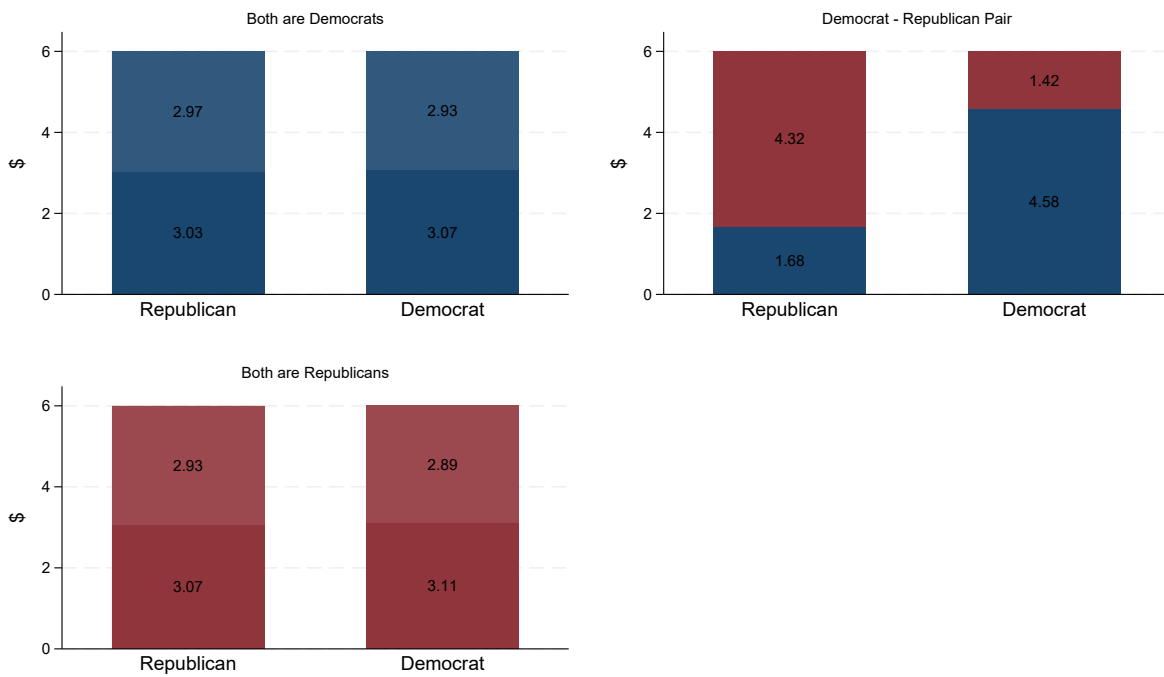
# Appendix

## Appendix A Additional Tables and Figures



**Appendix Figure A.1:** LEVEL OF TRUST BY VIEWING FED AS IN-GROUP VERSUS OUT-GROUP

*Notes:* This figure plots the distribution of trust levels in the Fed to care about the economic well-being of all Americans, with Out-Group respondents shown in green and In-Group respondents in brown.



**Appendix Figure A.2: OTHER-OTHER ALLOCATION GAME**

*Notes:* This figure plots the average allocation of Democrat- and Republican-leaning respondents in the other-other allocation game.

**Appendix Table A.1: SUMMARY STATISTICS OF DEMOGRAPHICS**

	Control Group 1,079 (20.7%)	Treatment Group 4,126 (79.3%)	Total 5,205 (100.0%)	p-value
<b>Gender</b>				
Female	48.1%	50.5%	50.0%	0.173
Male	50.2%	47.9%	48.4%	
Other	1.6%	1.2%	1.3%	
Prefer not to answer	0.1%	0.4%	0.3%	
<b>Age</b>				
Age (18-34)	32.3%	32.9%	32.7%	0.629
Age (35-54)	39.9%	38.4%	38.7%	
Age (55+)	27.8%	28.8%	28.6%	
<b>College education</b>				
College or higher	55.3%	57.8%	57.3%	0.151
Less than college	44.7%	42.2%	42.7%	
<b>Income</b>				
Less than \$49,999	31.0%	33.5%	32.9%	0.285
\$50,000 to \$99,999	38.3%	36.5%	36.9%	
\$100,000 or more	30.8%	30.0%	30.1%	
<b>Employment status</b>				
Working full-time (for someone or self-employed)	57.3%	54.6%	55.1%	0.145
Working part-time (for someone or self-employed)	15.8%	18.0%	17.6%	
Not working, but would like to work	6.0%	7.5%	7.2%	
Not actively looking for work	7.4%	7.9%	7.8%	
Student, at school or in training	4.4%	3.8%	3.9%	
Other	9.1%	8.2%	8.4%	
<b>Home ownership</b>				
Homeowner	61.7%	60.4%	60.7%	0.427
Not owner	38.3%	39.6%	39.3%	
<b>Political affiliation</b>				
Democrat	30.5%	31.0%	30.9%	0.917
Republican	28.6%	28.1%	28.2%	
Independent	39.9%	39.6%	39.7%	
None of the above	1.0%	1.2%	1.2%	

**Appendix Table A.2: HETEROGENEITIES BY POLITICAL SPECTRUM**

	<b>Inflation expectations</b>	
	(1)	(2)
Strong Democrat	-1.099*** (0.136)	-0.980*** (0.142)
Moderate Democrat	-0.816*** (0.147)	-0.753*** (0.149)
Moderate Republican	0.028 (0.135)	0.110 (0.137)
Strong Republican	0.036 (0.162)	0.144 (0.165)
Constant	3.877*** (0.074)	4.011*** (0.469)
<b>Survey Day FE</b>	No	Yes
<b>Demographic Controls</b>	No	Yes
Observations	5205	5205
$R^2$	0.018	0.031

*Notes:* This table reports heterogeneity in prior inflation expectations by political affiliation. The dependent variable is pre-treatment inflation expectations. The regressors are dummies of respondents' political leaning. The baseline group is Independent respondents. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table A.3: HETEROGENEITIES BY TRUSTING IN FED**

	<b>Inflation &amp; unemployment</b>		<b>Economic well-being</b>	
	(1)	(2)	(3)	(4)
Trust level=2	-1.301*** (0.166)	-1.351*** (0.166)	-1.091*** (0.145)	-1.160*** (0.145)
Trust level=3	-2.092*** (0.158)	-2.160*** (0.158)	-1.631*** (0.142)	-1.693*** (0.143)
Trust level=4	-2.872*** (0.182)	-2.893*** (0.183)	-2.278*** (0.168)	-2.309*** (0.169)
Trust level=5	-2.962*** (0.160)	-2.996*** (0.163)	-2.584*** (0.149)	-2.611*** (0.151)
Trust level=6	-3.408*** (0.191)	-3.387*** (0.195)	-2.841*** (0.193)	-2.817*** (0.197)
Trust level=7	-3.824*** (0.350)	-3.775*** (0.352)	-3.326*** (0.316)	-3.261*** (0.319)
Constant	5.778*** (0.127)	5.853*** (0.463)	5.197*** (0.101)	5.423*** (0.459)
<b>Survey Day FE</b>	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes
Observations	5199	5199	5201	5201
$R^2$	0.096	0.107	0.083	0.094

*Notes:* This table reports heterogeneity in prior inflation expectations by trust levels. The dependent variable is pre-treatment inflation expectations. The regressors are dummies of the level of trust in the Fed. Columns (1) - (2) are based on trust in the Fed to manage inflation and unemployment. Columns (3) - (4) are based on trust in the Fed to care about the economic well-being of all Americans. The baseline group is respondents with a trust level of one. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table A.4: RELATION OF THE PROBABILITY OF RECEIVING NEWS FROM THE FED WITH RESPONDENT VIEWS**

	Probability of receiving news from the Fed							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
In-Group news source vs. Fed	-3.633*** (0.276)	-3.635*** (0.277)			-3.652*** (0.276)	-3.654*** (0.276)	-2.610*** (0.453)	-2.589*** (0.453)
Viewing Fed as out-group			-1.246*** (0.290)	-1.166*** (0.291)	-1.303*** (0.286)	-1.227*** (0.287)	-0.460 (0.404)	-0.370 (0.404)
In-group news source vs Fed × Viewing Fed as out-group							-1.657*** (0.570)	-1.693*** (0.571)
Constant	55.811*** (0.194)	55.680*** (1.298)	54.761*** (0.229)	54.838*** (1.326)	56.639*** (0.267)	56.307*** (1.309)	56.103*** (0.323)	55.678*** (1.327)
<b>Survey Day FE</b>	No	Yes	No	Yes	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes	No	Yes	No	Yes
Observations	4126	4126	4126	4126	4126	4126	4126	4126
$R^2$	0.040	0.047	0.004	0.010	0.045	0.051	0.047	0.053

*Notes:* The dependent variable is the probability of receiving news from the Fed. The regressors are a dummy variable indicating facing a choice between the in-group news source and the Fed, a dummy of viewing the Fed as out-group, and their interaction term. and All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table A.5: RELATION OF COST PAID TO ACQUIRE INFORMATION WITH RESPONDENT VIEWS**

	Cost paid to acquire information							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
In-Group news source vs. Fed	-0.125*** (0.023)	-0.126*** (0.023)			-0.126*** (0.023)	-0.127*** (0.023)	-0.122*** (0.037)	-0.123*** (0.037)
Viewing Fed as out-group			-0.065*** (0.023)	-0.067*** (0.024)	-0.067*** (0.023)	-0.069*** (0.023)	-0.064* (0.035)	-0.065* (0.035)
In-group news source vs Fed × Viewing Fed as out-group							-0.006 (0.047)	-0.007 (0.047)
Constant	0.730*** (0.017)	0.543*** (0.107)	0.708*** (0.019)	0.527*** (0.108)	0.773*** (0.022)	0.578*** (0.108)	0.771*** (0.027)	0.575*** (0.110)
<b>Survey Day FE</b>	No	Yes	No	Yes	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes	No	Yes	No	Yes
Observations	4126	4126	4126	4126	4126	4126	4126	4126
$R^2$	0.007	0.016	0.002	0.011	0.009	0.018	0.009	0.018

*Notes:* The dependent variable is the money spent on information acquisition. The regressors are a dummy variable indicating facing a choice between the in-group news source and the Fed, a dummy of-viewing the Fed as out-group, and their interaction term. and All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.



## **Appendix B Reasoning behind the perceived political leanings of the Fed**

This appendix provides examples of the reasoning behind consumers' perceptions of the Fed's political leaning.

### **Appendix B.1 Reasoning behind the Fed favoring Democrats**

Below are some examples of the reasons consumers believe the Fed favors Democrats.

- The federal reserve currently operates under a democrat president and senate. The party in power has more influence on the reserve.
- The Democrats hold the white house right now. I feel they have some pull over the Fed.
- I thought the Fed leaned toward the Democrats because the current president's party is Democratic party. I think they are leaning moderately because the Fed should not be biased and should not support a party strongly.
- Based on what I've seen they seem to make decisions based on economic conditions (i.e. inflation). I have them favoring Democrats because they are trying to get the economy under control and currently doing that would favor Democrats because they are the part in the White House.
- They will go with whatever party is in charge. I don't know how they make their decisions to change things. I don't see them being one or the other.
- I saw trump fighting interest rate hikes. When he opposes something, it means the government is against him. In my opinion the fed is on dems side.
- When the president is a certain party the feds tend to their advantage. The president gets the feds advantage.
- I was thinking about the interest rates and who its helping the most. It seems its helping every day Americans which is more democrat.

### **Appendix B.2 Reasoning behind the Fed favoring Republicans**

Below are some examples of the reasons consumers believe the Fed favors Republicans.

- I think the fed is mostly concerned with economic conditions. They mainly consider how to help business and keep economic spending in control, but also flowing. With the pro business stance, I put the fed more in the GOP corner.
- Presidents, especially Republican ones, have historically nominated individuals to chair the Federal Reserve who align with their economic philosophies. For instance, Alan Greenspan, Ben Bernanke, and Jerome Powell—all chairs of the Federal Reserve—were appointed by Republican presidents.

- Generally speaking, my perception of anything regarding money matters such as business, etc always seems to be run by very conservative individuals. So I would assume that those types of groups would favor republicans since they're generally run by and compromised by republicans.
- Rich white men control the world. They are republicans.
- generally the fed worries about the economy as a whole and business impacts in particular so since I associate the Republican party with businesses (at least the pre crazy trump republican party) I think of the Fed as more associated with the republicans.
- I feel like Republicans are more the party of business. I also feel like economists are generally conservative and not comfortable with a lot of spending.
- In general, there's a bias towards the Republican party in the financial sector.
- The Federal Reserve represents wealth to me. Therefore, I chose the Republican party because they seem to be comprised of mostly wealthier individuals.
- It seems like capitalism is inherently more of a republican ideal instead of democratic. In theory it shouldn't necessarily be that way but in practice it's very much set up to punish poorer people and make more poor people in general.
- Republicans seem more concerned about accumulating wealth. The Fed is responsible for similar interests.
- The fed is now doing things that support big corporations, since prices are high and they are getting record profits now. That is a stance that republican politicians support more.

## Appendix C Heterogeneities in information processing

In this appendix, we explore other heterogeneities in information processing. In these analyses, we divide the treatment group respondents into four subgroups: those who received news from in-group news media, out-group news media, those who received news from the Fed and view the Fed as in-group, and those who received from the Fed but view it as out-group.

**Knowing the FOMC or not** Table C.6 presents results based on participants' awareness of the FOMC as the monetary policy maker. Among those who are aware, participants who view the Fed as part of their in-group place 0.05 less weight on prior information, and the same applies to those who see the Fed as part of an out-group. Additionally, participants who receive news from an in-group source do not place a statistically significantly different weight on prior information compared to the control group; this is also true for those receiving news from an out-group source. For participants unaware of the FOMC's role, no significant differences in weight on prior information are observed, regardless of their perceptions of the Fed or the source of news.

**Political affiliation** Table C.7 analyzes expectation revisions across political affiliations. Among Republicans, participants who view the Fed as part of their in-group place 0.055 less weight on prior information, while those who see the Fed as part of an out-group place 0.077 less weight on prior information (column (2)). For Democrats, those viewing the Fed as an in-group place 0.050 less weight on prior information, whereas those who view the Fed as an out-group place 0.040 less weight on prior information.

**in-group favoritism** Table C.8 suggests that Republican-leaning participants with strong in-group favoritism assign significantly less weight to prior information when they perceive the Fed as an in-group institution compared to when they view the Fed as independent. A similar result occurs if they perceive the Fed as an out-group institution.

For Republican-leaning participants with weak in-group favoritism, the weight placed on prior information does not vary based on their perception of the Fed or the news source.

For Democrat-leaning participants, regardless of the strength of in-group favoritism, their weight on prior information remains unaffected by whether they view the Fed as an in-group or out-group institution or the source of the news.

**Appendix Table C.6: EFFECT OF PRIOR INFLATION EXPECTATIONS ON POSTERIOR INFLATION EXPECTATIONS ACROSS KNOWING FOMC SETS THE INTEREST RATE OR NOT**

	Knowing FOMC		Not knowing FOMC	
	(1) Posterior	(2) Posterior	(3) Posterior	(4) Posterior
Prior Inflation Expectations	0.170*** (0.014)	0.169*** (0.014)	0.159*** (0.026)	0.164*** (0.026)
Prior × In-group News Source	0.012 (0.020)	0.015 (0.020)	-0.001 (0.035)	-0.005 (0.035)
Prior × Out-group News Source	-0.013 (0.019)	-0.011 (0.019)	0.019 (0.032)	0.021 (0.032)
Prior × Fed In-group	-0.052** (0.021)	-0.050** (0.021)	-0.026 (0.036)	-0.032 (0.037)
Prior × Fed Out-group	-0.051*** (0.019)	-0.050*** (0.019)	-0.039 (0.034)	-0.038 (0.034)
In-group News Source	0.090 (0.098)	0.067 (0.099)	-0.220 (0.191)	-0.229 (0.191)
Out-group News Source	0.161* (0.093)	0.144 (0.093)	0.052 (0.182)	0.033 (0.183)
Fed In-group	-0.093 (0.101)	-0.096 (0.102)	0.018 (0.193)	0.042 (0.194)
Fed Out-group	0.000 (0.096)	0.027 (0.097)	0.182 (0.189)	0.227 (0.190)
Constant	2.500*** (0.074)	2.470*** (0.250)	2.003*** (0.143)	1.503*** (0.500)
<b>Survey Day FE</b>	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes
<i>N</i>	3415	3415	1790	1790
<i>R</i> <sup>2</sup>	0.105	0.111	0.073	0.090

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. Columns (1) - (2) are based on the sub-sample of respondents who know the FOMC sets the interest rate. Columns (3) - (4) are based on the sub-sample of those who did not know. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table C.7: EFFECT OF PRIOR INFLATION EXPECTATIONS ON POSTERIOR INFLATION EXPECTATIONS ACROSS POLITICAL AFFILIATIONS**

	Republicans		Democrats	
	(1) Posterior	(2) Posterior	(3) Posterior	(4) Posterior
Prior Inflation Expectations	0.168*** (0.020)	0.169*** (0.020)	0.169*** (0.018)	0.178*** (0.018)
Prior × In-group News Source	0.052* (0.028)	0.055* (0.028)	-0.020 (0.024)	-0.017 (0.025)
Prior × Out-group News Source	0.038 (0.028)	0.042 (0.028)	-0.013 (0.021)	-0.018 (0.021)
Prior × Fed In-group	-0.057* (0.031)	-0.055* (0.031)	-0.037 (0.024)	-0.050** (0.024)
Prior × Fed Out-group	-0.073*** (0.027)	-0.077*** (0.027)	-0.036 (0.023)	-0.040* (0.023)
In-group News Source	-0.219 (0.166)	-0.250 (0.166)	0.151 (0.107)	0.127 (0.109)
Out-group News Source	-0.088 (0.160)	-0.100 (0.161)	0.178* (0.098)	0.174* (0.100)
Fed In-group	-0.116 (0.169)	-0.097 (0.169)	0.028 (0.109)	0.071 (0.111)
Fed Out-group	0.085 (0.159)	0.126 (0.159)	0.113 (0.107)	0.170 (0.109)
Constant	2.430*** (0.119)	2.005*** (0.413)	2.248*** (0.084)	2.128*** (0.281)
<b>Survey Day FE</b>	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes
<i>N</i>	2315	2315	2890	2890
<i>R</i> <sup>2</sup>	0.080	0.091	0.094	0.113

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. Columns (1) - (2) are based on the sub-sample of Republic-leaning respondents. Columns (3) - (4) are based on the sub-sample of Democratic-leaning respondents. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table C.8: EFFECT OF PRIOR INFLATION EXPECTATIONS ON POSTERIOR INFLATION EXPECTATIONS ACROSS INGROUP FAVORITISM MEASURE**

	Republicans (In-group measure < 2)		Republicans (In-group measure ≥ 2)		Democrats (In-group measure < 2)		Democrats (In-group measure ≥ 2)	
	(1) Posterior	(2) Posterior	(3) Posterior	(4) Posterior	(5) Posterior	(6) Posterior	(7) Posterior	(8) Posterior
Prior Inflation Expectations	0.159*** (0.035)	0.183*** (0.036)	0.168*** (0.025)	0.163*** (0.025)	0.166*** (0.033)	0.165*** (0.035)	0.164*** (0.021)	0.174*** (0.022)
Prior × In-group News Source	-0.013 (0.044)	0.001 (0.044)	0.128*** (0.037)	0.123*** (0.038)	-0.010 (0.041)	0.030 (0.042)	-0.023 (0.031)	-0.027 (0.031)
Prior × Out-group News Source	0.050 (0.042)	0.061 (0.043)	0.033 (0.037)	0.038 (0.037)	-0.004 (0.033)	0.008 (0.034)	-0.015 (0.027)	-0.024 (0.028)
Prior × Fed In-group	0.001 (0.052)	-0.029 (0.053)	-0.132*** (0.040)	-0.132*** (0.040)	-0.044 (0.042)	-0.043 (0.043)	-0.029 (0.029)	-0.044 (0.030)
Prior × Fed Out-group	-0.035 (0.045)	-0.069 (0.045)	-0.103*** (0.034)	-0.096*** (0.035)	-0.074* (0.042)	-0.070 (0.043)	-0.014 (0.027)	-0.014 (0.028)
In-group News Source	0.108 (0.255)	0.051 (0.259)	-0.603*** (0.219)	-0.605*** (0.222)	0.092 (0.186)	-0.039 (0.191)	0.183 (0.130)	0.184 (0.134)
Out-group News Source	-0.158 (0.240)	-0.215 (0.245)	-0.055 (0.216)	-0.033 (0.218)	0.098 (0.160)	0.070 (0.164)	0.230* (0.126)	0.252* (0.129)
Fed In-group	-0.259 (0.259)	-0.091 (0.264)	0.102 (0.225)	0.080 (0.226)	0.054 (0.188)	0.041 (0.193)	-0.003 (0.134)	0.062 (0.139)
Fed Out-group	0.015 (0.244)	0.195 (0.248)	0.159 (0.211)	0.109 (0.213)	0.321* (0.187)	0.369* (0.192)	-0.018 (0.130)	0.025 (0.134)
Constant	2.353*** (0.183)	2.122*** (0.635)	2.506*** (0.156)	1.927*** (0.565)	2.186*** (0.145)	2.242*** (0.488)	2.308*** (0.102)	2.129*** (0.355)
<b>Survey Day FE</b>	No	Yes	No	Yes	No	Yes	No	Yes
<b>Demographic Controls</b>	No	Yes	No	Yes	No	Yes	No	Yes
<i>N</i>	975	975	1340	1340	1045	1045	1845	1845
<i>R</i> <sup>2</sup>	0.091	0.111	0.077	0.092	0.074	0.127	0.107	0.119

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. Columns (1) - (4) are based on the sub-sample of Republic-leaning respondents. Columns (5) - (8) are based on the sub-sample of Democratic-leaning respondents. An in-group measure of (no) less than 2 indicates respondents (with) without strong in-group favoritism. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

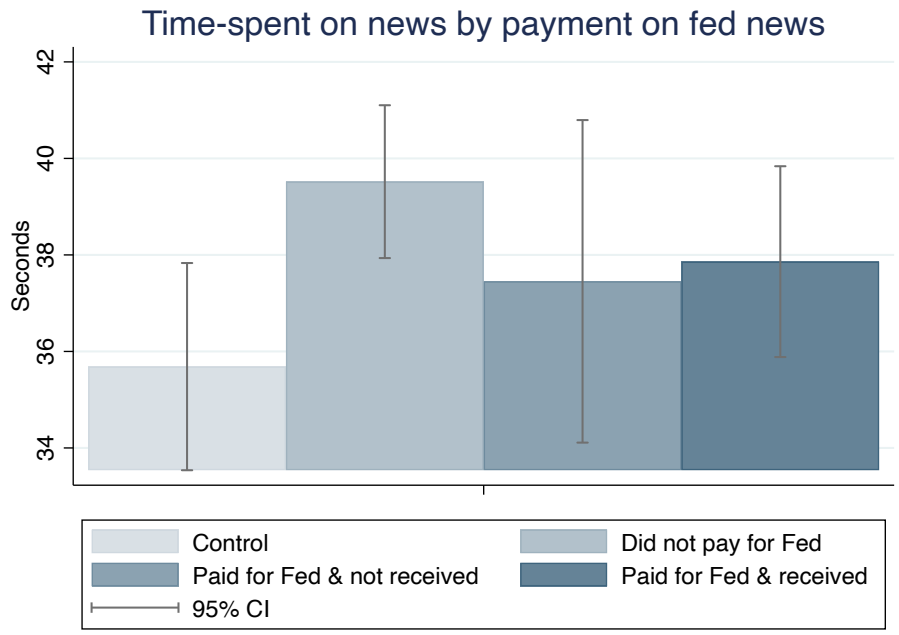
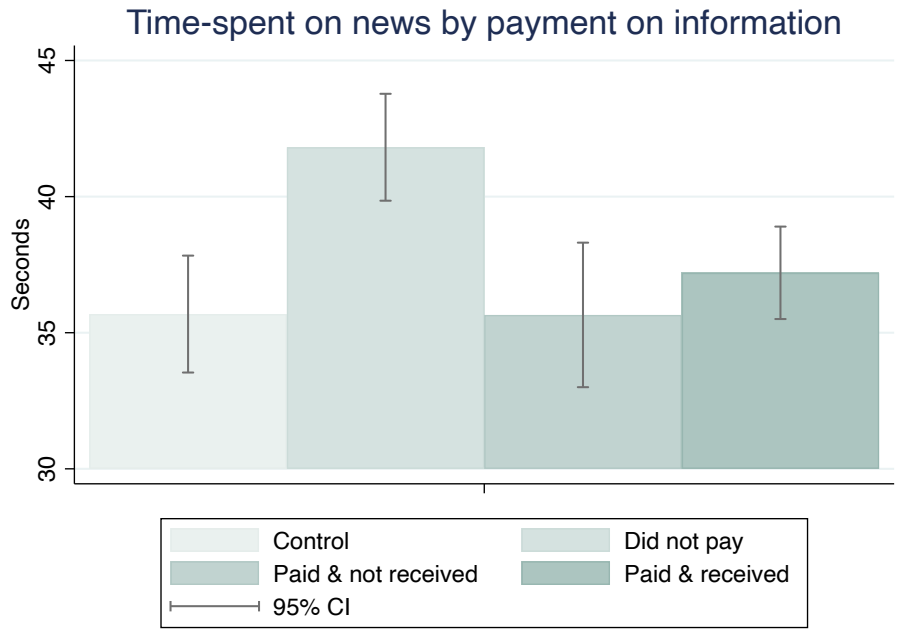
## Appendix D Time-spent on news

We analyze the effects of paying for news on inflation expectation updating. The top panel of Figure D.3 shows the time spent on news based on payment for information. Those who did not pay for information spent the most time on the news article, averaging 42 seconds, and placed 0.072 more weight on the article compared to the control group (see Table D.9).

For those who paid and received their desired article, the time spent on the news was not significantly different from the control group, and the same applies to those who paid but did not receive their desired article (see the top panel of Figure D.3). Neither group placed a statistically different weight on their priors compared to the control group (column (1) and (2) of Table D.9).

Those who did not pay for news from the Fed spent the most time on the article (see the bottom panel of Figure D.3), averaging just under 40 seconds, and placed 0.046 more weight on the news compared to the control group.

On average, those who paid for news from the Fed and received it spent about 2 seconds more than the control group, as did those who paid for Fed news but did not receive it (see the right panel of Figure D.3). However, both groups spent less time on the news than those who did not pay for news from the Fed. While both groups placed more weight on the news than the control group, they placed less weight than those who did not pay (see Table D.10).



**Appendix Figure D.3: HETEROGENEITY IN TIME-SPENT ON NEWS**

*Notes:* This figure plots the average time spent on reading the news article. The top panel plots the average of the control group, those in the treatment who did not pay for the news source, paid but did not receive from the source desired, and those who paid and received from the source desired. The bottom panel plots the average of the control group, those in the treatment who did not pay for Fed news, paid but did not receive from the Fed, and those who paid and received from the Fed.



**Appendix Table D.9: EFFECT OF PAYING FOR NEWS ON POSTERIOR INFLATION EXPECTATIONS**

	<b>Posterior Inflation Expectations</b>	
	(1)	(2)
Prior Inflation Expectations	0.167*** (0.013)	0.170*** (0.013)
Prior × Did not pay	-0.071*** (0.018)	-0.072*** (0.018)
Prior × Paid & not received	-0.019 (0.019)	-0.018 (0.019)
Prior × Paid & received	-0.012 (0.017)	-0.012 (0.017)
Did not pay	0.272*** (0.092)	0.286*** (0.092)
Paid & not received	-0.117 (0.098)	-0.077 (0.099)
Paid & received	-0.144 (0.090)	-0.121 (0.090)
Constant	2.314*** (0.069)	2.083*** (0.232)
<b>Survey Day FE</b>	No	Yes
<b>Demographic Controls</b>	No	Yes
Observations	5205	5205
$R^2$	0.098	0.108

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

**Appendix Table D.10: EFFECT OF PAYING FOR NEWS ON POSTERIOR INFLATION EXPECTATIONS**

	<b>Posterior Inflation Expectations</b>	
	(1)	(2)
Prior Inflation Expectations	0.167*** (0.013)	0.170*** (0.013)
Prior × Did not pay for Fed	-0.044*** (0.016)	-0.046*** (0.016)
Prior × Paid for Fed & not received	-0.029 (0.021)	-0.024 (0.021)
Prior × Paid for Fed & received	-0.033* (0.019)	-0.032* (0.019)
Did not pay for Fed	0.132 (0.086)	0.160* (0.087)
Paid for Fed & not received	-0.034 (0.105)	-0.027 (0.106)
Paid for Fed & received	-0.098 (0.095)	-0.073 (0.095)
Constant	2.318*** (0.069)	2.093*** (0.234)
<b>Survey Day FE</b>	No	Yes
<b>Demographic Controls</b>	No	Yes
Observations	5205	5205
$R^2$	0.093	0.103

*Notes:* This table reports the estimation of equation (5.1). The dependent variable is posterior inflation expectations. All estimates are based on the Huber-robust estimator. Standard errors are in parentheses. \*\*\*, \*\*, \* denote statistical significance at 1, 5, and 10 percent levels.

## Survey Questionnaire

In the survey, we ask about your perceptions of the current economic situation and your personal outlook.

No special knowledge is required, and there are no right or wrong answers to the survey. It is important for us that you state your own opinion, not others' opinions, so please do not consult with others or look for external sources of information. Any answer is correct as long as it truly reflects your opinion!

### Section 1: Economic conditions, political leaning, and personal finances

Q1. During the last month, have you consulted any of the following sources of information on economics and business conditions in the U.S.? Please select all that apply.

- Official sources (like the webpages of the Government, statistical agencies or the Fed)
- Traditional media (television, radio, newspapers –in print or online)
- Social media (for example, blogs, discussion forums Facebook, Twitter, Instagram, etc.)
- Friends, relatives, and colleagues
- I did not come across any information on economic and business conditions
- Other sources of information (please specify)

Q2. Eight times a year a group of people meets to set the basic level of interest rates in the United States. Who do you think comprises this group?

- The President of the United States and his advisors
- The U.S. Treasury
- The Federal Open Market Committee (part of the Federal Reserve, or Fed)
- The U.S. Senate and House of Representatives
- The CEOs of the largest U.S. banks
- Other
- Don't know

Q3. Do you consider yourself a(n):

- (a) Democrat
- (b) Republican
- (c) Independent
- (d) None of the above

Q3a. (Conditional on choosing option a or b) Are you a strong or moderate Democrat/Republican?

- (a) Strong
- (b) Moderate

Q3b. (Conditional on choosing option c or d) Do you consider yourself closer to the:

- (a) Democratic party
- (b) Republican party

Q4. [An other-other allocation game based on political groups.]

In this part of the experiment, you will be asked to make decisions in three scenarios. For each scenario, you will have \$6. You will be asked to allocate these \$6 between two other participants under three scenarios.

- if both are Democrats;
- if both are Republicans;
- if one is a Democrat, and the other a Republican.

Whether someone is labeled as Democrat or Republican depends on her/his responses in the previous questionnaire:


Democrats and those closer to the Democratic party are labeled Democrats. Similarly, Republicans and those closer to the Republican party are labeled Republicans.

[Decision Screen: Each participant makes three decisions, each involving splitting \$6 between two other participants in the amount of (\$1, \$5), . . . , (\$5, \$1).]

Please allocate \$6 between one Democrat and one Republican.


0 1 2 3 4 5 6

Person D:  
Democrat



0

Person R:  
Republican



0

**Total:** 0

Q5. The Federal Reserve, often referred to as “the Fed”, is the central bank of the United States. The Fed conducts the nation’s monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices. The headquarter of the Fed is in Washington, D.C.

Do you consider the Federal Reserve currently as leaning towards:

- (a) the Democratic Party
- (b) the Republican Party
- (c) no political party
- (d) None of the above

Q5a. (Conditional on choosing option a or b) Do you consider the Federal Reserve currently as leaning towards the Republican/ Democratic Party

- (a) Strongly
- (b) Moderately

Q5b. (Conditional on choosing option c or d) Is the Federal Reserve closer to the:

- (a) Democratic party
- (b) Republican party

Q6. What was your main consideration when choosing your answer? Please respond in 2 -3 sentences.

Q7. How much do you trust the Fed to adequately manage inflation and unemployment?

Slider from 1 to 7 (1 = “no trust at all”; 7 = “completely trust”)

Q8. And how much do you trust the Fed to care about the economic well-being of all Americans, including people like yourself?

Slider from 1 to 7 (1 = “no trust at all”; 7 = “completely trust”)

Q9. Suppose that you have an emergency expense that costs \$400. Based on your current financial situation, how would you pay for this expense? If you would use more than one method to cover this expense, please select all that apply.

- Put it on my credit card and pay it off in full at the next statement
- Put it on my credit card and pay it off over time

- With the money currently in my checking/savings account or with cash
- Using money from a bank loan or line of credit
- By borrowing from a friend or family member
- Using a payday loan, deposit advance, or overdraft
- By selling something
- I wouldn't be able to pay for the expense right now

Q10. We would like to ask you about the rate of inflation/deflation (Note: inflation is the percentage rise in overall prices in the economy, most commonly measured by the Consumer Price Index and deflation corresponds to when prices are falling).

In THIS question, you will be asked about the probability (PERCENT CHANCE) of something happening. The percent chance must be a number between 0 and 100 and the sum of your answers must add up to 100.

What do you think is the percent chance that, over the next 12 months...

Percentage Chance

the rate of inflation will be 12% or more	_____
the rate of inflation will be between 8% and 12%	_____
the rate of inflation will be between 4% and 8%	_____
the rate of inflation will be between 2% and 4%	_____
the rate of inflation will be between 0% and 2%	_____
the rate of deflation (opposite of inflation) will be between 0% and 2%	_____
the rate of deflation (opposite of inflation) will be between 2% and 4%	_____
the rate of deflation (opposite of inflation) will be between 4% and 8%	_____
the rate of deflation (opposite of inflation) will be between 8% and 12%	_____
the rate of deflation (opposite of inflation) will be 12% or more	_____
% Total [TOTAL ANSWERS FROM ABOVE – MUST SUM TO 100%]	_____

Q11. Over the last 12 months, what do you think the overall rate of inflation/deflation has been in the economy?

Note: If you think there was inflation or deflation, please enter a positive number representing the percentage points of inflation/deflation.

- (a) Inflation [ ]%
- (b) Neither inflation nor deflation
- (c) Deflation [ ]%

Q12. What is your best guess about the annual inflation rate that the Federal Reserve tries to achieve on average over longer time periods?

\_\_\_\_\_ % per year [RANGE: -100-100 allow for up to ONE decimal points]

Q13. What is your best guess about what the current unemployment rate in the U.S. is and what it will be in 12 months?

Current unemployment rate: \_\_\_\_\_ % [RANGE: 0-100, ONE DECIMAL]

Unemployment rate in 12 months: \_\_\_\_\_ % [RANGE: 0-100, ONE DECIMAL]

Q14. Over the next 12 months, I expect the level of interest rates in the U.S. to

Note: Please enter a positive number representing the absolute changes of percentage points in interest rates.

- (a) Go up by [ ] percentage points OR
- (b) Go down by [ ] percentage points OR
- (c) Stay the same as today

Q15. This is a question to check whether you are paying attention and reading the questions carefully. Please select both “strongly disagree” and “strongly agree” to continue. Otherwise, you will leave the survey.

- Strongly agree
- Agree
- Neither strongly agree or disagree
- Disagree
- Strongly disagree

## Section 2A: Information demand and processing

### Instruction screen:

You are almost done with the survey but before you continue, you will have the choice to select from two pieces of articles about the U.S. economy. One article will come from a news agency, and the other will come from the Federal Reserve. Subsequently, we will ask you a few more questions.

The slider indicates the likelihood that you will receive one of the articles. The default probability is 0.5. That is, each article is equally likely to be selected. You have a \$2 budget which you can use to change the probabilities. Moving the slider to the left increases the likelihood that the article on the left is chosen, and vice versa. It costs \$1 to change the probability by 10 percentage points. The amount of budget you do not spend will be paid out to you at the end of the experiment. An article will be drawn with your chosen probabilities.

After you finish reading the article, you will be asked to forecast the unemployment rate, inflation, and interest rates again. This time, you will be rewarded based on the accuracy of your forecast: you will have a chance of receiving \$10. Out of the three forecasts, for every forecast that falls within 1% of an expert forecast, you will have an additional 10% chance of receiving this award.

Decision screen: One of the following pair of news sources will be displayed in random order:

- CNN and Fed
- Fox news and Fed

The default choice gives you a 50 - 50 chances of receiving information from Fox news versus the Federal Reserve. For every dollar spent, you can change the probabilities by 10%. Please make your choices below.

You choose to spend \$0.90 out of \$2.00

Your chance of receiving information from the Fox news is 59%.

Fox news

Federal Reserve

Probability





Participants will be presented a piece of article along a logo of a news agency or the Federal Reserve. The same information (including wording) on the projection of economic conditions will be presented.

Reading screen:



Please read the following news curated from [source]

Recent economic indicators show robust expansion with strong job gains and low unemployment. Inflation has eased from last year but was slightly elevated to 3.2% in February. The Federal Reserve aims to sustain employment maximally and stabilize inflation at 2% over time. To support these objectives, the Fed has decided to keep the federal funds rate between 5.25 and 5.50 percent, continuing its cautious approach to rate adjustments and its commitment to reducing its securities holdings, all in effort to steer inflation back to the 2% target.

*The content has been modified for readability without changing the essential facts.*

### **Control group**

The control group will not go through the information demand stage but will be presented the same piece of article without any news logos.

Instruction screen:

“You are almost done with the survey but before you continue, we will present you a news articles about the U.S. economy. After you finish reading the article, you will be asked to forecast the unemployment rate, inflation, and interest rates again. This time, you will be rewarded based on the accuracy of your forecast: you will have a chance of receiving \$10. Out of the three forecasts, for every forecast that falls within 1% of an expert forecast, you will have an additional 10% chance of receiving this award.”

[Questions on this page applies to everyone]

Evaluation screen:

- Have your heard of this news before? [Yes/Somewhat/No]
- On a scale of -3 to +3, with negative numbers representing left leaning, positive numbers representing right leaning, and 0 representing neutral, how would you rate this article?
- On a scale of -3 to +3, -3 being not reliable at all and 3 being very reliable, how would you rate the information in this article?

**Section 2B. post-treatment expectations**

In the next few questions, you will be asked to forecast the unemployment rate, inflation, and interest rates again. This time, you will be rewarded based on the accuracy of your forecast: you will have a chance of receiving \$10. Out of the three forecasts, for every forecast that falls within 1% of an expert forecast, you will have an additional 10% chance of receiving this award.

Q15. Over the next 12 months, what do you think the overall rate of inflation/deflation will be in the economy?

Note: If you think there will be inflation or deflation, please enter a positive number representing the percentage points of inflation/deflation.

- (a) Inflation [ ]%
- (b) Neither inflation nor deflation
- (c) Deflation [ ]%

Q16. What is your best guess about what the current unemployment rate in the U.S. is and what it will be in 12 months?

Unemployment rate in 12 months: \_\_\_\_\_% [RANGE: 0-100, ONE DECIMAL]

Q17. Over the next 12 months, I expect the level of interest rates in the U.S. to

Note: Please enter a positive number representing the absolute changes of percentage points in interest rates.

- (a) Go up by [ ] percentage points OR
- (b) Go down by [ ] percentage points OR
- (c) Stay the same as today

### Section 3

We're interested in hearing your thoughts on a hypothetical scenario in the next set of questions. Even if you consider the scenario to be unlikely, please share your view as if the situation materializes.

The next US presidential election will take place in November this year. Consider the scenario that democrats lose the presidency, and [a republican] gets elected as the US president in the next election. We would like to know your view on the US Federal Reserve after [a republican] gets elected as the US president.

Note: [a republican] will be randomly filled with the name of **Donald Trump**

Q10. After [a republican] gets elected as US president, would you consider the Federal Reserve as leaning towards

- (a) Democrat
- (b) Republican
- (c) Independent
- (d) None of the above

Q11. (Conditional on choosing option a or b) After [a republican] gets elected as US president, would the Federal Reserve strongly or moderately lean towards Democrat/Republican?

- (a) Strong
- (b) Moderate

Q12. (Conditional on choosing option c or d) After [a republican] gets elected as US president, would the Federal Reserve be closer to the:

- (a) Democratic party
- (b) Republican party

[Display the same trust questions again.]

#### Section 4: Background

Q1. What is the state of your primary residence?

Q2. How would you describe your present employment situation?

- Working full-time (for someone or self-employed)
- Working part-time (for someone or self-employed)
- Not working, but would like to work
- Not actively looking for work
- Student, at school or in training
- Other (please specify)

Q3. Which of the following best characterizes your household:

- Own our house/apartment without a mortgage
- Own our house/apartment and have a fixed-rate mortgage
- Own our house/apartment and have a variable-rate mortgage
- Rent our house/apartment
- Other

Q4. Which category represents the total combined pre-tax income of all members of your household (including you) during the past 12 months?

- Less than \$10,000
- \$10,000 to \$19,999
- \$20,000 to \$29,999
- \$30,000 to \$39,999
- \$40,000 to \$49,999
- \$50,000 to \$59,999
- \$60,000 to \$74,999
- \$75,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 to \$199,999
- \$200,000 or more

Q5. Does your household have total financial investments (excluding housing) worth more than one month of combined household income?

- Yes
- No

Q6. What is your gender?

- Male
- Female

- Other
- Prefer not to answer

Q7. What is your age (dropdown menu)

Q8. What is the highest level of school you have completed, or the highest degree you have received?

- Less than high school
- High school diploma
- Some college but no degree
- Bachelor's Degree or higher