

## **Abstract to the paper “Testing rationality of consumers’ inflation expectations for countries with different monetary policy regimes: cases of Poland and USA.”**

Over the past few decades there has been a considerable effort to combine social sciences and economics, shifting its analysis tools to a more top-down approach. One of the most profound results of such combination for monetary macroeconomics is growing popularity of expectations and their role in determining important macro indicators. This paper assesses one of the most widely used theories of expectations modelling – Rational Expectations Theory, focusing on inflation expectations. In its essence, it states that average economic agents have sufficient knowledge and capability to predict future price changes just as good as professional economists. The way in which expectations are formed and degree of its influence over macro categories is of greater interest to Central Banks that employ direct inflation targeting strategy. Hence sample of countries was chosen to contrast rationality of expectations for countries with two different policy regimes: Poland and the USA. Using already quantified data from consumer surveys on expectations, the author examines most important properties of Rational Expectations Hypothesis: testing accuracy of public forecasts, particularly how well can they predict future inflation rate, whether expectations contain any bias. Second test is aimed at checking how efficient are consumers with respect to using information on macroeconomic indicators when evaluating future price changes. The results showed that expectations do not constitute a true predictor of inflation one-year ahead, hereby refuting Rational Expectations Hypothesis. Despite being at intermediate level of macroeconomic efficiency, the impact of expectations is declining over sub-samples for USA, whereas for Poland it does not explain actual inflation at all. Yet when comparing two countries, US consumers generally performed better on rationality tests than Polish ones, bringing ‘a food for thought’ for Polish Central Bank, taking into account its policy of direct inflation targeting.

**Key words:** Rationality, Inflation Expectations, Monetary Policy, Poland, USA.