TABLE 4

ANCHORED VS. BACKWARD-LOOKING EXPECTATIONS

$$\pi_t^e = \lambda 2.5 + (1-\lambda)\frac{1}{1-\gamma^{40}}[(1-\gamma)\pi_{t-1} + \gamma(1-\gamma)\pi_{t-2} + \ldots + \gamma^{39}(1-\gamma)\pi_{t-40}] + \epsilon_t$$

	1985Q1–2015Q4 (with 1998Q1 Break in λ)	
$\lambda^{prebreak}$	0.067	0
	(0.046)	
$\lambda^{postbreak}$	0.773	1
	(0.066)	
γ	0.875	0.859
	(0.018)	(0.017)
DW	0.357	0.312
SE of Reg.	0.189	0.203
$\overline{R}^2$	0.940	0.930

NOTE: NLLS with Newey–West (1987) standard errors in parentheses. π_t^e is the average forecast of long-term CPI inflation from the Survey of Professional Forecasters, and π_t is median CPI inflation. The break date of 1998Q1 is the quarter that produces the largest Wald statistic for the hypothesis that $\lambda^{prebreak} = \lambda^{postbreak}$.