IGM
Initiative on Global Markets
2019–20

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  Steven G. Rothmeier Professor of Economics

- **Anil K Kashyap**
  Stevens Distinguished Service Professor of Economics and Finance

**Executive Board:**

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  AQR Capital Management Professor of Finance and Fama Faculty Fellow

- **Brent Neiman**
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- **Peggy Eppink**
  Senior Associate Director

- **Mary Lagdameo**
  Assistant Director

**Initiative on Global Markets, 2019–20**
A Bold Reposition

The 2019–20 year marked significant changes for the Initiative on Global Markets (IGM). After pioneering designs and procedures for speakers, visitors, and project sponsorships—formats often used by other Booth centers—the IGM Board reevaluated the center, its accomplishments, and its future. The board members carefully considered where the IGM had been, where it was, and where they wanted it to go. They then went a step further and examined the IGM’s role via-a-vis Booth and other Booth centers. Ultimately, the board decided it was time to boldly reposition the IGM and to move forward with a new streamlined mission and a strong external focus.

Our Mission

The Initiative on Global Markets aims to organize Booth faculty efforts to “influence public policy and the practice of business” around the world. As such, it focuses on three broad forms of engagement. They are:

Expert Panels—Through its unique experts panels, the IGM helps inform the public, policymakers, and journalists of how top US and European economists think about important questions of the day.

Visitors—The IGM sponsors campus visits of policymakers, public intellectuals, business leaders, and journalists to create opportunities for interactions with Booth faculty and the broader university community.

Conferences—The IGM sponsors the USMPF, an annual high-visibility conference on a monetary policy issue in the United States, as well as other large-scale conferences on different, timely public policy topics. It also organizes smaller, private meetings between policymakers, academics, and business leaders that foster frank discussions on topics of mutual interest and encourages an exchange of thoughts, ideas, and knowledge.

Collectively, these activities raise the impact of Chicago Booth research, catalyze new research ideas, and more generally enrich the Chicago Booth environment.
COVID-19
As the events surrounding the COVID-19 pandemic unfolded, the IGM used its forum site (igmchicago.org) as a central repository for people to find reliable, thoughtful, and reputable columns, articles, and research on COVID-19 and its global impact. The COVID-19 tab (igmchicago.org/covid-19) contains items not only by Booth faculty, but also from economists affiliated with the IGM at other institutions.

The FiveThirtyEight/IGM COVID-19 Economic Outlook Survey Series
In late May 2020, the IGM, in collaboration with FiveThirtyEight.com, launched the FiveThirtyEight/IGM COVID-19 Economic Outlook Survey Series (igmchicago.org/economic-outlook-survey). The goal of this project is to gain insight from leading economic forecasters into the potential ramifications resulting from the COVID-19 pandemic. The initial two rounds of data were promising, and well received. We look forward to subsequent rounds and the information they will highlight or uncover.

New and Notable

COVID-19
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Thank You
The IGM is grateful for the generous support provided by Myron Scholes MBA, '64, PhD '70, Ramsey A. Frank, '86; Constance M. Frydenlund, '87; and Ram P. Subramaniam, '97, and Ellen M. Subramaniam, '97.
The Economic Experts Panels are two groups—US and European—comprised of preeminent economists from a variety of specialties. Each panel of 40-plus scholars responds to polls on timely, relevant topics that reflect current economic issues and discussions from around the world.
Panelist Highlights

- Abhijit Banerjee, of the US panel, was awarded the 2019 Nobel Prize in Economics.
- Pinelopi Goldberg returned to the US panel after serving as the chief economist for the World Bank.
- Agnès Bénassy-Quéré and Luis Garicano, both of the European panel, took leaves from the panel upon accepting governmental positions with the French Treasury and the European Parliament, respectively.

News

This year Romesh Vaitilingam joined the IGM as a collaborator on our Experts Panels. He, in coordination with Anil Kashyap (US panel) and Christian Leuz (European panel), develops the questions that are posed to the two panels. Vaitilingam also provides contextual articles that help frame the poll results within the broader discussions surrounding the topic. Read more about him on the next page.
Romesh Vaitilingam is a writer and media consultant, and a member of the editorial board of Vox. He is the author of numerous articles and several successful books in economics, finance, business, and public policy, including *The Financial Times Guide to Using the Financial Pages* (FT-Prentice Hall), now in its sixth edition (2011). As a specialist in translating economic and financial concepts into everyday language, Vaitilingam has advised a number of government agencies and international institutions, including the European Central Bank, the European Bank for Reconstruction and Development, and the UK’s Department for International Development.

His work also involves consultancy for the economic research community, notably advising the Royal Economic Society, the Centre for Economic Performance at LSE, and the Centre for Economic Policy Research on the management and development of their public profile; and training economists in communication skills. In 2003, he was awarded an MBE for services to economic and social science.
“The ability to attract talented workers and researchers from abroad is a great [strength] of the US economy, and should not be squandered.”
—Larry Samuelson; New Visa Ban

“The social value of a vaccine is many trillions of dollars. The value to the inventor is likely billions.”
—Aaron Edlin; The Search for a Vaccine

“Both firms and individuals need (more) support. In terms of who should get more, much depends on what you think firms will do with their money.”
—Barry Eichengreen; Income Support in the COVID-19 Crisis

Panelists’ Thoughts Regarding
“a ban on very short-term loans at very high annualized interest rates (aka payday lending) would make most people who use or might use them better off.”
Source: Payday Lending (igmchicago.org/surveys/payday-lending)

Panelists’ Thoughts Regarding
“if replacing the current US health insurance system (including employer-based health insurance, ACA exchange policies, and Medicaid) with universal ‘Medicare for All’ (mandatory enrollment in a modified version of the existing traditional Medicare program with drug coverage and no cost-sharing of any form, and current Medicare reimbursement rates) funded by federal taxes would lead to improved access to healthcare for a meaningful subset of the population.”
Source: Mandatory Medicare I (igmchicago.org/surveys/mandatory-medicare-i)

Panelists’ Thoughts Regarding
“even if it is temporary, the ban on visas for skilled workers, including researchers, will weaken US leadership in STEM and R&D.”
Source: New Visa Ban (igmchicago.org/surveys/new-visa-ban)
Panelists’ Thoughts Regarding
“whether government support to private firms in the form of debt (either directly or with the help of public guarantees) is desirable, but risks leaving them with too much leverage to invest and grow in the future.”

![Graph showing the percentage of respondents agreeing, uncertain, and disagreeing.]

Panelists’ Thoughts Regarding
“whether the European Union goal of reaching net zero emissions of greenhouse gases by 2050 will be a major drag on economic growth.”

![Graph showing the percentage of respondents agreeing, uncertain, and disagreeing.]

Panelists’ Thoughts Regarding
“Laws to prevent high prices for essential goods in short supply in a crisis would raise social welfare.”

![Graph showing the percentage of respondents agreeing, uncertain, and disagreeing.]

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**European Poll Highlights**

“My understanding is that governments have used their monopsony power to make vaccines marginally profitable. They need to revisit this.”

—Franklin Allen; The Search for a Vaccine

“There is still considerable uncertainty for firms (particularly in services) about the nature of the UK’s future trading relationship.”

—Karl Whelan; Getting Brexit Done

“Monetary policy is not a useful tool to tackle climate risks. We will need investment in science and regulation of emission standards, etc.”

—Antoinette Schoar; Central Banking and Climate Change

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**TOP EUROPEAN POLLS OF 2019–20**

<table>
<thead>
<tr>
<th>TOP EUROPEAN POLLS OF 2019–20</th>
<th>UNIQUE SESSIONS</th>
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</thead>
<tbody>
<tr>
<td>Inequality, Populism, and Redistribution</td>
<td>4K</td>
</tr>
<tr>
<td>European Fiscal and Monetary Policy</td>
<td>Nearly 2K</td>
</tr>
<tr>
<td>European Economic Policy for the COVID-19 Crisis</td>
<td>Nearly 1K</td>
</tr>
<tr>
<td>Coronavirus</td>
<td>700+</td>
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**Recent European Poll Titles**

- ECB Appointments
- European Fiscal and Monetary Policy
- Inequality, Populism, and Redistribution
- Stakeholder Capitalism
- Experimental Research, Dev. Econ., and Poverty Reduction
- Research and Development
- Central Banking and Climate Change
- Getting Brexit Done
- The European Green Deal
- German and European Economic Policy
- Coronavirus
- European Economic Policy for the COVID-19 Crisis
- Inequality and the Covid-19 Crisis
- Supporting European Businesses in the COVID-19 Crisis
- Covid-19 and the World Economy
- Prices of Medical Supplies
- Political Economics
- The Search for a Vaccine
The Initiative on Global Markets sponsors extended visits by prominent faculty from other institutions to contribute to the research environment at Chicago Booth.
Moritz Schularick’s research focuses on macroeconomic and financial history. He has published extensively in leading journals including the American Economic Review, the Journal of Political Economy, and the Quarterly Journal of Economics, among others. His work with Alan Taylor using long-run historical data to study credit cycles has had a broad influence on recent research on credit cycles.

Schularick was visiting Chicago Booth from the University of Bonn, where he serves as professor of economics and leads the macrofinance and macrohistory lab. During the visit, he presented his recent work titled “Modigliani Meets Minsky: American Household Debt, 1949–2016” in the finance workshop. He attended various other workshops and had a number of meetings with faculty members in finance, macro, and accounting groups.

Adrien Auclert’s research focuses on the implications of heterogeneity for macroeconomics and monetary policy. He has published in top economics journals including American Economic Review and Journal of Monetary Economics.

Auclert was visiting Chicago Booth from Stanford, where he is an assistant professor of economics. He received his PhD from MIT in 2015. During his visit, he presented “Micro Jumps, Macro Humps: Monetary Policy and Business Cycles in an Estimated HANK Model” in the money and banking workshop. He attended various seminars and workshops including money and banking and the international macro workshop and met regularly with faculty.
Conferences take various forms, including discussion panels, political debates, and lectures by individuals. Featured speakers range from members of Chicago Booth’s faculty to global economic leaders.
The Future of Life and Health Insurance Markets
SEPTEMBER 13, 2019
The IGM hosted a conference in Chicago to discuss the future of life and health insurance markets. The conference brought together industry leaders of life and health insurance companies and actuarial consultancy companies, regulators, academics, and medical experts to explore how to ensure access to frontier medical technologies in the United States. Attendance at the conference was by invitation only and the conference itself was held under Chatham House Rule.

The Global Economy and Financial Stability Conferences
SEPTEMBER 2019 AND FEBRUARY 2020
The IGM hosted conferences in Miami (in September 2019 and February 2020) to discuss the state of the global economy and issues related to financial stability. The conference consisted of an off-the-record discussion among central bank and government officials, senior financial services executives, and academic economists. Attendance was invitation-only.

The Chicago Booth Conference on Economic Policy
OCTOBER 19–20, 2019
The Initiative on Global Markets hosted a conference in Annapolis to discuss the state of economic policy in the United States. The conference consisted of an off-the-record discussion among central bank and government officials, senior executives, and academic economists. Attendance at the conference was by invitation only.

Task Force on Financial Stability
DECEMBER 13, 2019
In mid-2019, Initiative for Global Markets at the University of Chicago Booth School of Business and the Hutchins Center on Fiscal & Monetary Policy at the Brookings Institution organized a Task Force on Financial Stability. The group was formed to review what steps might be necessary to make the US financial system more resilient to adverse developments. It will recommend ways to assure that the financial system can support growth during the ups—and, particularly, the downs—of the economy.

The IGM hosted a meeting of the Task Force in December 2019 in Chicago.

US Monetary Policy Forum
FEBRUARY 21, 2020
The IGM held its 14th annual US Monetary Policy Forum (USMPF) in New York in February 2020. The USMPF brings together academic researchers, market economists, and policymakers. A standing group of academic and private sector economists share rotating responsibility for reporting on a critical medium-term issue confronting the Federal Open Market Committee (FOMC).

The topic of the USMPF’s main report this year was “Monetary Policy in the Next Recession?” The report was written by Stephen G. Cecchetti (Brandeis University), Michael Feroli (JP Morgan), Ami K Kashyap (University of Chicago Booth School of Business), Catherine L. Mann (Citi), and Kermit L. Schoenholtz (New York University Stern School of Business). The report was discussed by Governor Lael Brainard (board of governors of the Federal Reserve) and President Raphael Bostic of Federal Reserve Bank of Atlanta, and was moderated by Amir Sufi (University of Chicago Booth School of Business).

The conference concluded with a panel discussion entitled “Hall of Mirrors: Feedback Between Monetary Policy and Financial Markets.” This session featured Richard Clarida (board of governors of the Federal Reserve), Rick Rieder (BlackRock), and Silvana Tenreyro (London School of Economics and the Bank of England). Loretta Mester (Federal Reserve Bank of Cleveland) moderated the panel. Philip Lane (executive board of the European Central Bank) gave the keynote lunch address.

Copies of the report, the discussants’ comments and panelists’ remarks, and a list of conference participants are available on the IGM website.

Modeling the Economic Effects of the COVID-19 Crisis
APRIL 9, 2020
James Stock moderated a panel discussion with Andrew Atkeson, Martin Eichenbaum, Francesco Lippi, Thomas Philippon, and Eric Budish. Each of the panelists had written recent papers on how to approach the problems in modeling the economic effects of COVID-19 and spoke for 10 minutes giving their high-level takeaways about the lessons from their analysis. We reserved the remaining time for questions.

Both the papers and the video of the event can be viewed at chicagobooth.edu/research/igm/events-forums/2020-effects-covid-19-crisis.
The Task Force on Financial Stability

Laurie Goodman, Housing Finance Policy Center, Urban Institute

Glenn Hubbard, Columbia Business School

Kathryn Judge, Columbia University

Anil Kashyap, University of Chicago Booth School of Business

Donald Kohn, Brookings Institution

Ralph Koijen, University of Chicago Booth School of Business

Nellie Liang, Brookings Institution

Blythe Masters, Motive Partners

Sandie O’Connor, Terex Corp.

Kara Stein, Carey Law School, UPenn

David Wessel, Brookings Hutchins Center

INITIATIVE ON GLOBAL MARKETS, 2019–20
The Initiative on Global Markets is a resource for those who seek to critically analyze the day’s most pressing issues. To that end, we fund research projects in the areas of international business, financial markets, and public policy. Our goal is to foster an exchange of ideas and evidence in order to generate insights that can help solve the biggest issues facing people in the rapidly changing global economy.

The following are working papers from this year.
We (Budish and coauthors Matteo Aquilina and Peter O’Neill) use stock exchange message data to quantify the negative aspect of high-frequency trading, known as “latency arbitrage.” The key difference between message data and widely-familiar limit order book data is that message data contain attempts to trade or cancel that fail. This allows the researcher to observe both winners and losers in a race, whereas in limit order book data you cannot see the losers, so you cannot directly see the races. We find that latency-arbitrage races are very frequent (about one per minute per symbol for FTSE 100 stocks), extremely fast (the modal race lasts 5–10 millionths of a second), and account for a large portion of overall trading volume (about 20 percent). Race participation is concentrated, with the top six firms accounting for over 80 percent of all race wins and losses. Most races (about 90 percent) are won by an aggressive order as opposed to a cancel attempt; market participants outside the top six firms disproportionately provide the liquidity that gets taken in races (about 60 percent). Our main estimates suggest that eliminating latency arbitrage would reduce the market’s cost of liquidity by 17 percent and that the total sums at stake are on the order of $5 billion annually in global equity markets.
This paper examines a business support intervention in which international professionals from different functional backgrounds (e.g., marketing, consulting) volunteered their time to help Ugandan entrepreneurs improve performance. Findings from a multi-year field experiment show that entrepreneurs randomly matched with volunteer marketing coaches significantly increased firm growth. Compared to control firms, the entrepreneurs in the marketer-treatment grew monthly sales by 24.5 percent, on average, while their monthly profits improved by 35.8 percent, total assets increased by 21.6 percent, and paid employees rose by 16.2 percent. Mechanism analyses indicate that volunteer marketers focused the intervention around helping the entrepreneurs’ businesses become more differentiated, an outcome that appears to be elusive for many emerging market entrepreneurs. As a result, average prices, profits, margins, and value-add per unit increased for the products of entrepreneurs who collaborated with a marketer. Moreover, in line with this process evidence, firms with greater market knowledge and go-to-market resources (i.e., differentiation readiness) benefitted significantly more when matched with a volunteer marketer. As small-scale businesses form the commercial backbone in most emerging markets, their performance and resultant development is critically important. Marketers’ positive impact augurs well for the influence they can have in supporting entrepreneurial-led growth in emerging markets.
We (Christensen and Maffett with coauthor Eric Floyd) examine the effect of charge-price-transparency regulation (PTR)—a common policy solution intended to curb rising healthcare costs—on hospitals’ prices. We find that, although PTR does not affect payments or consumer search, it does cause hospitals to reduce charges by approximately 5 percent. The reputational costs of perceived overcharging appear to be one impetus for the reduction in charges, suggesting that certain stakeholders who are able to impose costs on hospitals are unaware that hospitals can decouple charges from payments. The ineffectiveness of PTR policies in reducing payments and the apparent inability of some stakeholders to realize this fact could explain why charge-transparency policies have been widely adopted with little opposition. Overall, our findings provide a cautionary note—transparency regulation focusing on an indicator that can be decoupled from the construct of interest might placate some stakeholders without actually solving the underlying problem.
We (Leuz and coauthors Luzi Hail and Mark H. Lang) have little knowledge about the prevalence of irreproducibility in the accounting literature. To narrow this gap, we conducted a survey among the participants of the 2019 JAR Conference on their perceptions of the frequency, causes, and consequences of irreproducible research published in accounting journals. A majority of respondents believe that irreproducibility is common in the literature, constitutes a major problem, and receives too little attention. Most have encountered irreproducibility in the work of others (although not in their own work) but chose not to pursue their failed reproduction attempts to publication. Respondents believe irreproducibility results chiefly from career or publication incentives as well as from selective reporting of results. They also believe that practices like sharing code and data combined with stronger incentives to replicate the work of others would enhance reproducibility. The views of accounting researchers are remarkably similar to those expressed in a survey by the scientific journal Nature. We conclude by discussing the implications of our findings and provide several potential paths forward for the accounting research community.

We (Leuz and coauthors Matthias Breuer and Steven Vanhaverbeke) investigate the impact of reporting regulation on corporate innovation activity. Exploiting thresholds in Europe’s regulation and a major enforcement reform in Germany, we find that forcing a greater share of firms to publicly disclose their financial statements reduces firms’ innovative activities at the industry level. At the same time, it increases firms’ reliance on patenting to protect their innovations, to the extent they continue innovating. Our evidence is consistent with reporting mandates having significant real effects by imposing proprietary costs on innovative firms, which diminishes their incentives to engage in innovative activities. Importantly, we examine and find that this decline in innovative activity is not fully compensated by positive information spillovers (e.g., to competitors, suppliers, and customers) within industries. Thus, our evidence implies that proprietary costs induced by reporting mandates are important consideration for regulators and policymakers.
We (Rajan, Zingales, and coauthor Sai Krishna Kamepalli) study why high-priced acquisitions of entrants by an incumbent do not necessarily stimulate more innovation and entry in an industry (like that of digital platforms) where customers face switching costs and enjoy network externalities. The prospect of an acquisition by the incumbent platform undermines early adoption by customers, reducing prospective payoffs to new entrants. This creates a “kill zone” in the space of startups, as described by venture capitalists, where new ventures are not worth funding. Evidence from changes in investment in startups by venture capitalists after major acquisitions by Facebook and Google suggests this is more than a mere theoretical possibility.
How is a developing country affected by its odious government’s ability to borrow in international markets? We (Rajan with coauthors Viral V. Acharya and Beumseok Shim) examine the dynamics of a country’s growth, consumption, and sovereign debt, assuming that the government is myopic and wants to maximize short-term, socially unproductive, spending. Interestingly, access to external borrowing can extend the government’s effective horizon; the government’s ability to borrow hinges on its convincing investors they will be repaid, which gives it a stake in the future. The lengthening of the government’s effective horizon can incentivize it to tax less, resulting in higher steady-state household consumption than if it could not borrow. However, in a developing country that saves little, the government may engage in more repressive policies to enhance its debt capacity, which only ensures that successor governments repress as well. This leads to a “growth trap” where household steady-state consumption is lower than if the government had no access to debt. We characterize circumstances in which odious government leads to odious debt and those in which it does not, and discuss policies that might ameliorate the welfare of the citizenry.
Lenders are unwilling to accept lower credit spreads for secured debt relative to unsecured debt when a firm is healthy. However, they accept significantly lower credit spreads for secured debt when a firm’s credit quality deteriorates, the economy slows, or average credit spreads widen. This contingent valuation of collateral or security, coupled with the borrower perceiving a loss of operational and financial flexibility when issuing secured debt, may explain why firms issue secured debt on a contingent basis; they issue more when their credit quality deteriorates, the economy slows, and average credit spreads widen.

We (Rajan with coauthors Efraim Benmelech and Nitish Kumar) document a steady decline in the share of secured debt issued (as a fraction of total debt) in the United States over the twentieth century, with some pickup in this century. Superimposed on this secular trend, the share of secured debt issued is countercyclical. The secular decline in secured debt issuance seems to result from creditors acquiring greater confidence over time that the priority of their debt claims will be respected even if they do not obtain security up front. Borrowers also do not seem to want to lose financial and operational flexibility by giving security up front. Instead, security is given on a contingent basis—when a firm approaches distress. Similar arguments explain why debt is more likely to be secured in the down phase of a cycle than in the up phase, thus accounting for the cyclicality of secured debt share.
In early March 2020, two crises emerged: the COVID-19 public health crisis and a corresponding economic crisis resulting from business closures and skyrocketing job losses. While the link between socioeconomic status and infectious disease is well-documented, the psychological relationship among economic considerations, such as financial constraint and economic anxiety, and health considerations, such as perceptions of disease spread and preventative actions, is not well understood. Despite past research illustrating the strong link between financial fragility and a wide range of behaviors, surprisingly little research is examining the psychological relationship between the economic crisis and beliefs and behaviors related to the co-occurring health crisis. We show that financial constraint predicts people’s beliefs about both their personal risk of infection and the national spread of the virus as well as their social distancing behavior. In addition, we compare the predictive utility of financial constraint to two other commonly studied factors: political partisanship and local disease severity. The strength of the effect of financial constraint equals or eclipses the influence of partisanship on beliefs and is much larger than that of local disease severity. We also show that negative affect partially mediates the relationship between financial constraint and COVID-19 beliefs and social distancing behaviors. These results suggest that the economic crisis created by COVID-19 is spilling over into people’s beliefs about the health crisis and their behaviors. We call upon psychologists to further investigate important connections across these co-occurring economic and health crises.
We (Weber and coauthors Olivier Coibion, Dimitris Georgarakos, and Yuriy Gorodnichenko) compare the causal effects of forward guidance communication about future interest rates on households’ expectations of inflation, mortgage rates, and unemployment to the effects of communication about future inflation in a randomized controlled trial using more than 25,000 US individuals in the Nielsen Homescan panel. We elicit individuals’ expectations and then provide 22 different forms of information regarding past, current and/or future inflation and interest rates. Information treatments about current and next year’s interest rates have a strong effect on household expectations but treatments beyond one year do not have any additional impact on forecasts. Exogenous variation in inflation expectations transmits into other expectations. The richness of our survey allows us to better understand how individuals form expectations about macroeconomic variables jointly and the non-response to long-run forward guidance is consistent with models in which agents have constrained capacity to collect and process information.

Expectations about macro-finance variables, such as inflation, vary significantly across genders, even within the same household. We (Weber and coauthors Francesco D’Acunto and Ulrike Malmendier) conjecture that traditional gender roles expose women and men to different economic signals in their daily lives, which in turn produce systematic variation in expectations. Using unique data on the contributions of men and women to household grocery chores, their resulting exposure to price signals, and their inflation expectations, we show that the gender expectations gap is tightly linked to participation in grocery shopping. We also document a gender gap in other economic expectations and discuss how it might affect economic choices.