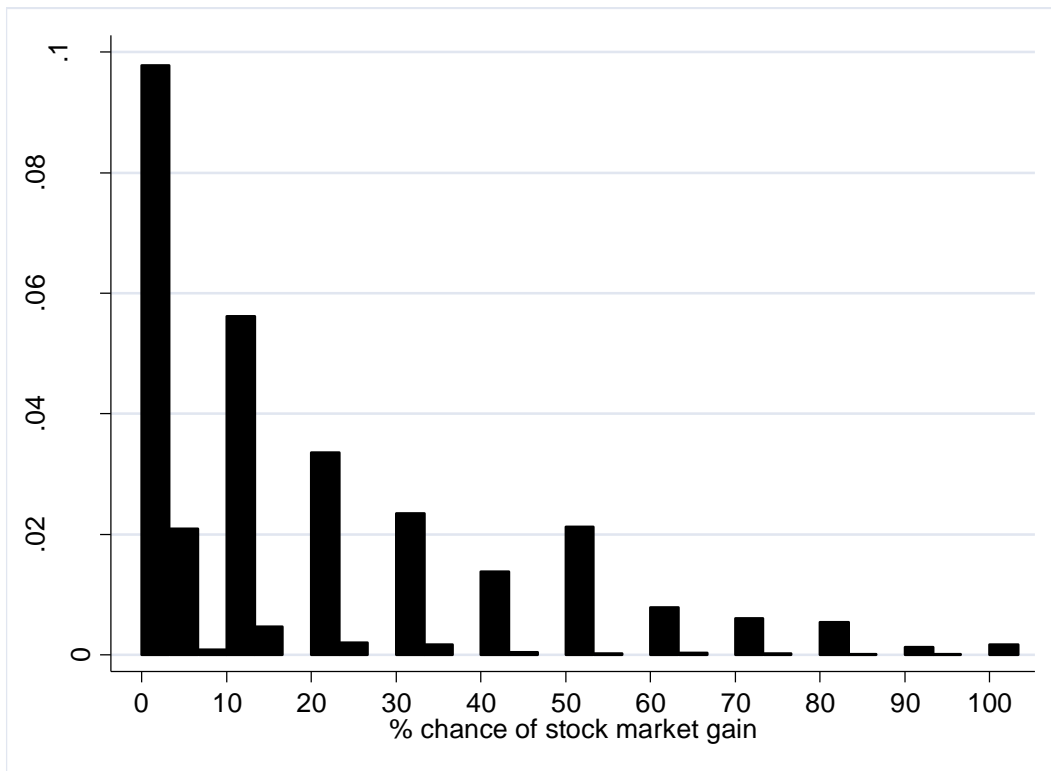
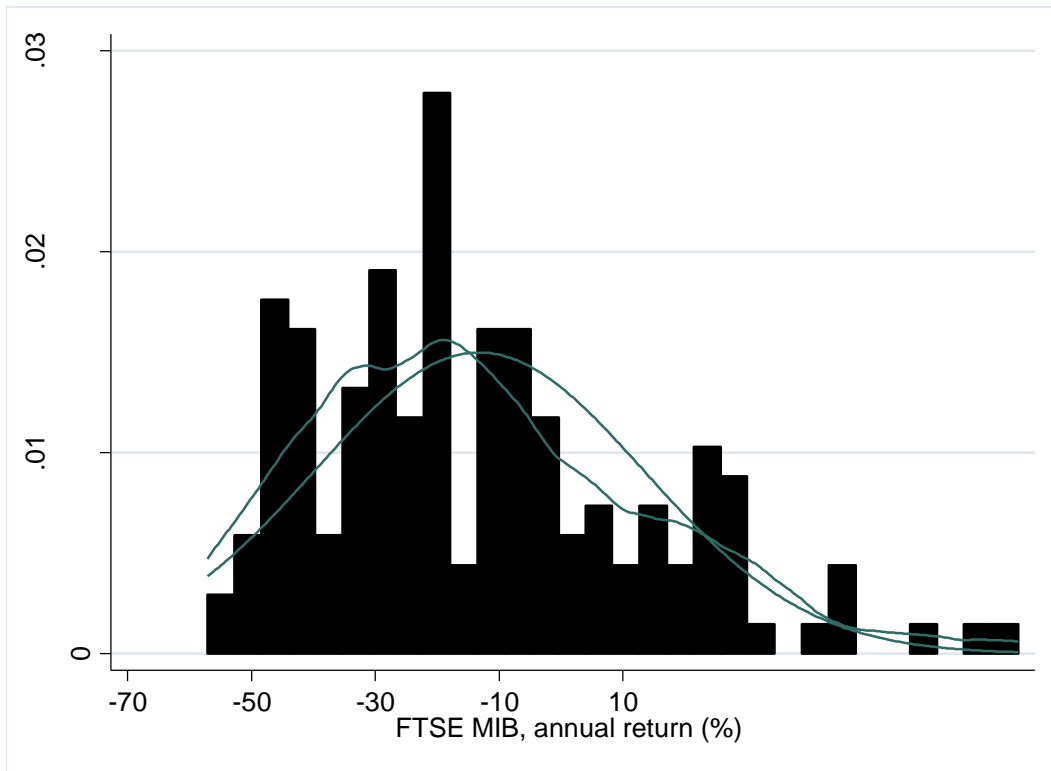


Figure 1
Distribution of responses to the question on the probability
of a stock price rise (2008 survey)



Note: We have dropped those observations where individual responses imply a declining c.d.f., which amount to 6% of observations.

Figure 2
Distribution of annual return to the Italian Stock Market (2008-2010)



Note: Distribution of annual returns to the Italian FTSE MIB, 2008-2010. The graph is based on end-of-week values (weeks from Dec. 31st, 2007, Dec. 31st, 2010, for a total of 156 weeks). Corresponding weekly returns have been averaged over the previous 52 weeks and then annualized. The mean annual return is -13%, with a standard deviation of 27. The median is 19%. The curves are a fitted normal distribution and a kernel density estimate of the empirical density.

Table 1
Number of observations and distribution of answers
to the subjective expectations questions

Panel A: Interest rate (2008 survey)

Response interval	$r_{t+1} > r_t$		$r_{t+1} > r_t + 0.01$	
	N	Distribution	N	Distribution
0%	633	9%	199	12%
1-25%	751	11%	711	42%
25-50%	549	8%	253	15%
50-75%	184	3%	50	3%
75-100%	200	3%	12	1%
Do not know	4,480	66%	459	27%
All	6,797	100%	1,684	100%

Panel B: Stock prices (2008 survey)

Response interval	$p_{t+1} > p_t$		$p_{t+1} > 1.1p_t$	
	N	Distribution	N	Distribution
0%	797	11%	587	29%
1-25%	1,237	17%	977	48%
25-50%	571	8%	143	7%
50-75%	138	2%	22	1%
75-100%	81	1%	5	0%
Do not know	4,642	62%	293	14%
All	7,466	100%	2,027	100%

Panel C: House prices (2010 survey)⁽ⁱ⁾

Response interval	$p_{t+1} < p_t$		$p_{t+1} < 0.9p_t$	
	N	Distribution	N	Distribution
0%	847	23%	354	31%
1-25%	674	18%	510	44%
25-50%	324	9%	97	8%
50-75%	91	2%	12	1%
75-100%	71	2%	7	1%
Do not know	1,653	45%	189	16%
All	3,660	100%	1,160	100%

Note: From the initial sample we have dropped those observations where individual responses imply a declining c.d.f.. (i) In the 2010 survey, subjective expectations questions are asked only to half of the sample.

Table 2
Subjective expectations of returns: descriptive statistics

Percentile	<i>Bank deposits⁽ⁱ⁾</i>		<i>Long-term bonds</i>		<i>Stocks (FTSE MIB)</i>		<i>Housing</i>	
	Mean (%)	Standard dev. (%)	Mean (%)	Standard dev. (%)	Mean (%)	Standard dev. (%)	Mean (%)	Standard dev. (%)
5	-1.80	0.21	0.87	0.22	-35.27	2.19	-9.54	1.77
25	-0.18	0.78	2.49	0.78	-16.53	2.66	1.15	2.66
Median	1.30	1.70	3.97	1.70	-4.86	9.73	4.31	9.73
75	1.73	2.75	4.40	2.75	-1.82	22.73	16.60	22.73
95	2.78	4.08	5.40	4.08	6.16	36.68	40.23	36.89
Mean	0.93 (1.55)		3.60 (1.56)		-9.59 (13.46)		9.59 (15.47)	
N	1,204	1,204	1,204	1,204	1,703	1,703	965	965
Avg. realized								
returns in 2008:	2.17%		4.46%		-48.84%			
in 2009:	1.00%		3.54%		16.52%			
in 2007-2008:							1.59% ⁽ⁱⁱ⁾	
in 2009-2010:							1.03%	

Note: (i) The mean and standard deviation of the individual distributions of one-year ahead expectations of the returns on bank deposits and on long-term bonds are computed using the return on bank deposits at the end of 2008, which amounted to 1.7%, and the return on a basket of long-term government bonds of different maturities at the end of 2008, which amounted to 4.4%, respectively. (ii) Realized returns on housing are based on household self-reported house prices taken from the 2006, 2008 and 2010 surveys. Returns are based on changes in average prices by province and are per year.

Table 3
Expected and unexpected returns on assets

	(1) Bank deposits	(2) Bonds	(3) Stocks	(4) Housing
<i>(A) Predicted expectations for 2009</i>				
Estimation Sample	0.76%	3.39%	-12.80%	10.69%
	(0.48%)	(0.48%)	(4.64%)	(6.06%)
Whole sample	0.73%	3.36%	-15.40%	10.31%
	(0.43%)	(0.43%)	(4.76%)	(6.34%)
<i>(B) Ex-post realizations for 2009</i>				
	1.00%	3.54%	16.52%	1.03%
<i>(C) Expectation error [(A)-(B)]</i>				
Estimation Sample	0.24%	0.15%	29.32%	-9.66%
Whole sample	0.27%	0.18%	31.92%	-9.28%

Table 4
Wealth Effect Regressions

	Respondents sample				Whole Sample				
		Baseline		Predicted expectations					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>Unexpected gain on:</i>									
Total assets	0.030 (0.012)*			0.031 (0.012)*			0.013 (0.004)**		
Deposit and Bonds		-0.282 (0.182)			0.864 (0.306)			0.597 (0.046)	
Stock		-0.295 (0.827)			-19.461 (0.164)			4.021 (0.957)	
Financial assets			-0.065 (0.543)			-0.054 (0.601)			0.081 (0.356)
Real assets		0.031 (0.016)*	0.030 (0.020)*		0.031 (0.018)*	0.031 (0.016)*		0.013 (0.006)**	0.013 (0.004)**
<i>Expected gain on:</i>									
Total assets	0.034 (0.006)**			0.034 (0.006)**			0.012 (0.014)*		
Deposit and Bonds		-0.046 (0.681)			-0.060 (0.649)			-0.067 (0.328)	
Stocks		-0.273 (0.831)			-19.184 (0.164)			3.932 (0.959)	
Financial assets			-0.026 (0.735)			0.004 (0.853)			0.032 (0.378)
Real assets		0.035 (0.008)**	0.034 (0.010)**		0.033 (0.010)**	0.034 (0.010)**		0.011 (0.020)*	0.012 (0.016)*
Observations	410	410	410	410	410	410	3180	3180	3180
R-squared	0.11	0.11	0.11	0.11	0.11	0.11	0.01	0.01	0.01

Note: In column (1)-(6) the sample is restricted to the household who answer the subjective expectations questions of the 2008 survey, while in columns (7)-(9) we use the whole sample. In columns (4) through (9), expectations are predicted using a Heckman selection model which allows for non-random non-response to the subjective expectations questions. All regressions include the following additional controls: a constant term, age, a second-order polynomial in years of education, dummies for gender, married, in employment, in public employments and for self-employed, a second-order polynomial in the number of income recipient, a dummy for debt, dummies for living

in a municipality with 20,000 inhabitants or less and dummies for living in the North-West, Center, South or Islands of the country. Bootstrapped p-values in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table A1
Heckman selection model: two-step estimates of subjective expectations of individual mean returns

	(1) Bank deposits	(2) Bonds	(3) Stocks	(4) Housing
Age/100	-0.012***	-0.012***	-0.002	0.084**
Education (yrs)	-0.001	0.000	0.190**	0.002
Gender	0.001	0.001	0.019***	-0.024**
White collar	-0.003***	-0.003***	-0.015*	0.019
> 1 earner	0.002*	0.002*	0.007	-0.017*
Literacy index	0.001	0.001	0.074***	0.027
Risk attitude	-0.004	-0.004	0.101***	-0.006
Risk att. sq.	0.001	0.001	-0.020***	-0.002
Own risky assets	0.005***	0.005***	0.021***	-0.022*
House prices in 2006 (avg in prov.)	-0.002	-0.002	-0.046***	0.029
House prices squared	0.000	0.000	0.006***	-0.003
Bank branches in 2004 (avg in prov.)	-0.009**	-0.010**	-0.096***	0.086*
Ineff. judiciary system (> median)	0.001	0.001	-0.008	0.031*
Prov. GDP growth(>75 th pctl)	0.006***	0.006***	0.025	-0.046*
Prov. GDP growth	-0.001	-0.001	-0.008**	1.888
GDP growth squared	0.005	0.006	0.085**	-7.002
North East	0.007***	0.007***	0.061***	-0.081
Center	0.001	0.001	0.030**	-0.120
South	0.002	0.001	0.005	-0.250**
Islands	0.001	0.001	-0.008	0.071
20-40.000 inhab	-0.001	-0.002	-0.010	0.059
40-500.000 inhab	0.001	0.000	-0.014*	-0.002
>500.000 inhab	0.003	0.003	0.022*	-0.218**
Purchase price (if owner)				0.045***
Purchase price squared				-6.022***
Recently renovated (if owner)				-0.027**
Year of acquisition (if owner)				-0.151
Year of acquisition sqrd				0.038
Not owner				-150.234*
Bathrooms>1				-0.025**
Price per m ² (avg. in the province)				-0.061
Price per m ² squared				0.011
Lagged returns	YES	YES	YES	-
Price per m ² x city size dummies				YES
Price per m ² x area dummies				YES
Mills ratio	0.003***	0.002**	0.030***	-0.020
Constant	0.013	0.022	-0.404***	150.255*
<u>Selection equation</u>				
Understanding of questions	-0.004	0.006	0.153***	-0.092
Reliability of income information	-0.016	-0.021	-0.055***	0.002
Good atmosphere	0.046**	0.054**	0.079***	0.025
Answer other subj. expect. questions	1.412***	1.410***	1.157***	-1.017***
Age/100	-0.021	0.011	-0.312**	-0.460**
Education (yrs)	3.519***	3.464***	2.042***	0.003
Gender	0.059	0.065	0.108***	0.020
White collar	-0.086	-0.082	0.003	0.066
> 1 earner	1.713***	1.735***	0.117***	0.052
Literacy index	0.114**	0.101**	1.715***	0.480***
Risk attitude	0.164	0.122	0.451**	0.317

Risk att. sq.	-0.039	-0.032	-0.090**	-0.069
Own risky assets	0.029	0.024	0.366***	0.093
House prices in 2006 (avg in prov.)	-0.304***	-0.296***	-0.293***	0.440***
House prices squared	0.034**	0.034**	0.036***	-0.055***
Bank branches in 2004 (avg in prov.)	-0.160	-0.094	-0.528***	-0.178
Ineff. judiciary system (> median)	-0.060	-0.048	-0.006	-0.209**
Prov. GDP growth(>75 th pctl)	0.244**	0.250**	-0.165*	-0.010
Prov. GDP growth	-0.028	-0.025	-0.023	22.512
GDP growth squared	0.328	0.300	0.294	-243.735
North East	-0.522***	-0.537***	-0.389***	-0.380
Center	-0.405***	-0.421***	-0.254***	-1.164***
South	-0.285**	-0.288**	-0.715***	0.147
Islands	-0.401***	-0.394***	-0.907***	0.214
20-40.000 inhab	0.021	0.018	0.139**	-0.321
40-500.000 inhab	-0.023	-0.032	0.054	-0.249
>500.000 inhab	-0.157	-0.154	0.072	-0.191
Purchase price (if owner)				-0.006
Purchase price squared				-0.497
Recently renovated (if owner)				0.204***
Year of acquisition (if owner)				0.952**
Year of acquisition squared				-0.239**
Not owner				946.072**
Bathrooms>1				0.035
Price per m ² (avg. in the province)				-0.575
Price per m ² squared				0.063
Lagged returns	YES	YES	YES	-
Price per m ² x city size dummies				YES
Price per m ² x area dummies				YES
Lagged returns	YES	YES	YES	-
Constant	-5.348***	-0.825	-2.833***	-946.775**
Observations	6797	6797	7466	3660
Censored	5593	5593	5763	2695
Uncensored	1204	1204	1703	965
Test signif. excluded var. (p-value)	0.0000	0.0000	0.0000	0.0000
<i>Fitted expectations</i>				
Respondents sample	0.69%	3.38%	-12.31%	11.45%
	(0.49%)	(0.50%)	(4.82%)	(6.09%)
Whole sample	0.65%	3.35%	-14.91%	11.52%
	(0.45%)	(0.45%)	(4.89%)	(6.24%)

Note: We have dropped those households whose mean expected return fall above the top or below the bottom 1% of the cross-sectional distribution of the corresponding means.

The variables included only in the selection equation are: a dummy that takes on value 1 if the interviewer's impression is that the respondents has a good understanding of the questions; a dummy that takes on value 1 if the interviewer's impression is that income information is truthful; an index ranging between 1 and 10 reflecting the interviewer's rating of the climate of the interview and a dummy for answering the other subjective expectation questions. Standard errors are not reported for brevity: * significant at 10%; * significant at 5%; ** significant at 1%.

Table A2
AR(1) estimates for annual returns

	(1) Stocks	(2) Bank deposits	(3) Bonds
Lagged return	0.4558 (0.2200)	0.7393 (0.0834)	0.7531 (0.1010)
Constant	0.0139 (0.0523)	0.2799 (0.2276)	0.9904 (0.5928)
No. observations	19	19	19
R-squared	0.2015	0.8289	0.7764

Note: Annual returns, years 1994 to 2012.