



# Unemployment expectations, excessive pessimism, and news coverage

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## ABSTRACT

This study employs monthly survey data and information obtained from media content analyses to investigate the potential link between (negativity in) economic news coverage and the pessimism in German unemployment expectations. For the period from 2001 to 2009, time-series estimates do not indicate a link in the short-run, but the cumulative effects of repeated media coverage affect long-run attitudes. A single negative report has a long-term effect similar to that of a positive one, but the quantitative dominance of negative over positive news causes an asymmetric reaction in unemployment expectations, which promotes pessimism.

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## 1. Introduction

Unemployment expectations may have considerable negative effects on aggregate consumption and wage growth (Blanchflower, 1991; Carroll & Dunn, 1997), because consumers and employees restrain themselves when they are uncertain or pessimistic about the future. Previous research indicates that people usually expect substantially higher unemployment rates than the rates that actually appear in the future (Dickerson & Green, 2012; Dua & Smyth, 1993; Tortorice, 2012).

Why are people so pessimistic about future unemployment? The impact of information transmitted by news media on unemployment expectations has been studied by some authors (Carroll, 2003; Curtin, 2003; Hagen, 2005; Mutz, 1992), though without considering the possible link between pessimism and the news media. Using survey data and information obtained from media content analyses, this study addresses this research gap by examining the role of two categories of coverage in German news media: reports on the development of unemployment and coverage of the general economic situation. During the period from 2001 to 2009, it is possible to distinguish immediate agenda-setting effects from the long-run consequences of repeated news coverage.

News media are an obvious candidate cause of biased unemployment expectations, because reporting on the economy tends to be disproportionately negative (Hagen, 2005; Kepplinger, 2000). Prior research suggests that news media distort

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economic expectations or perceptions in general; for example, Brettschneider (2003) finds that negativism in television news coverage is associated with pessimistic perceptions of the general economic situation, and Soroka (2006) shows that public responses to negative economic information are greater than to positive news. Dräger (2011) uncovers asymmetry in regard to inflation perceptions, and Hollanders and Vliegthart (2011) find interrelations among the real economy, consumer confidence, and negative news.

In addition to addressing an important research gap, this article contributes to research on the media effects of economic news coverage in two ways. First, this study applies the asymmetric error correction approach proposed by Shin, Yu, and Greenwood-Nimmo (2011) to evaluate the cumulative influence of repeated media coverage, because its long-run effects might not be detected by usual time-series methods. Second, simple empirical tests are constructed to test for different forms of asymmetry in media effects. In particular, the distinction between *per-unit* and *quantity-related* asymmetry allows for a more detailed evaluation of the influence of (biased) news coverage.

The next section provides a brief discussion of the theoretical background for this study, followed by a description of the data. After explaining the econometric strategy and presenting the estimation results, this article concludes with a discussion of the implications.

## 2. Theoretical background

The assumption that economic news coverage affects unemployment expectations can be justified by media dependency theory (Ball-Rokeach & DeFleur, 1976; Palmgreen & Clarke, 1977; Zucker, 1978). According to this theory, information transmitted by news media affects individual knowledge more extensively when less information is available from alternative sources (e.g., personal experience, interpersonal communication). In this regard, it is important to distinguish between unemployment as a personal versus a national problem (Hagen, 2005; Mutz, 1992). In the first case, expectations are ego-tropic; employees evaluate the likelihood of losing their own job, which is mostly influenced by job searches and displacements in the personal environment or interpersonal communication. In contrast, when individuals form expectations about unemployment as a national problem, it requires a sociotropic evaluation, which often depends on economic news coverage, because alternative sources of information are barely available.

With regard to the time horizon at which news coverage affects unemployment expectations, it is necessary to distinguish between immediate and long-run effects (van Raaij, 1989). Agenda-setting theory (McCombs & Shaw, 1972; McCombs, 2004) mainly refers to the short-run or immediate influence of media coverage. However, no unique definition exists to describe how long the short run lasts. Depending on the topic, the medium, and the frequency of measurement, periods of a few days up to two months are usually considered as the time span for immediate effects.

Long-run media effects may result from repeated coverage of a topic (Salwen, 1988). This corresponds to the idea of cultivation put forward by Gerbner and Gross (1976), who find a positive relation between television use and attitudes congruent with those portrayed on television. Due to availability heuristics, people often base their judgements on the most accessible information; repeated activation affects the ease with which they can recall information (Shrum, 2009). By analogy, repeated news coverage of a certain topic may lead to long-term changes in attitudes due to the accumulation of effects.

A possible relationship between pessimism in unemployment expectations and media coverage requires some asymmetry in the effects of negative and positive news. Perhaps the media impact differs between individual reports, such that a single negative report has a greater impact than a positive one, or vice versa. This *per-unit* asymmetry relates to the marginal effects of news reports. A possible explanation for this form of asymmetry could be confirmation biases and selective exposure to information (Klapper, 1960; Zillmann & Bryant, 1985). People avoid unfavourable news, fit it to their beliefs or preferences, or forget it. In contrast, news that corresponds to their existing attitudes receives increased attention and may have a greater effect on the formation of unemployment expectations. In this regard, prospect theory (Kahneman & Tversky, 1979) suggests stronger effects of negative information, because decisions-making processes are often influenced by loss-aversion and endowment effects. Therefore, people respond differently to favourable and unfavourable changes in economic variables (Kahneman, Knetsch, & Thaler, 1991; Tversky & Kahneman, 1991). In fact, the increased sensitivity to negative information is a robust finding in the psychological literature (see Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001; Cacioppo & Gardner, 1999; Rozin & Royzman, 2001, for reviews), especially in the context of attitude and impression formation (e.g., Peeters & Czapinski, 1990).

Another form of asymmetry might stem from the quantitative dominance of negative over positive coverage, which would suggest a *quantity-related* asymmetry. According to Iyengar (1990), media can create an accessibility bias through the frequent coverage of a particular topic, which affects judgements about the topic's salience. In that case, the quantitative negativity in economic news coverage would affect perceptions of reality, which might influence the formation of people's expectations towards pessimism.

## 3. Data

Data availability allows for investigation of the research question on a monthly basis for the period from 2001 to 2009 in Germany. The data set includes time series for unemployment expectations, news reporting, and control variables.

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