

Do People Correctly Measure Their Life Satisfaction?*

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Abstract

In the literature of happiness, a lot of literature have discussed Easterlin Paradox, which Easterlin (1974) states that the increase in the level of reported happiness does not seem to be related with the economic growth. This study uses the British Household Panel Survey to estimate the criteria of people's happiness level. If the measurement of the happiness is changing over time, the level of happiness is not comparable across different time period. This paper estimated that the happiness-income relationship in the literature was underestimated. Also, the GMM estimation of the ordered probit estimation of happiness-income relationship yields that the one's criteria of the life satisfaction is changing over time. This implies the income increase results in the change in the one's status and in one's life satisfaction measurement. Thus the literature would observe the poor correlation between happiness and income, the Easterlin paradox.

JEL Classification Numbers: I31, J10, D10

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