



# The association between experiential and material expenditures and subjective well-being: New evidence from Hungarian survey data



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## ABSTRACT

In the last decade, a number of studies using experimental designs have stated that spending money on experiences rather than on material goods tends to make people happier. In this research we used a novel survey approach to examine the relationships between experiential and material expenditures and life satisfaction. In two studies based on cross-sectional survey data from nationally representative samples in Hungary, we estimated linear and non-linear models. We found no significant evidence supporting the greater return received when buying experiences. Even in the non-linear models the difference between the marginal utilities was not statistically significant at any expenditure rate, although the marginal utility of experiential purchases appeared to be linear, whereas the marginal utility of material purchases was rather decreasing. Nevertheless, our results suggest that a reallocation of an average person's expenditures (spending more on experiences and less on material goods) might be associated with a slightly higher well-being.

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## 1. Introduction

A substantial section of the subjective well-being literature addresses the relationship between material welfare and satisfaction or happiness. Since the first study conducted by Easterlin (1974), numerous studies have tried to answer the same question: Does more money make people happier? (Frijters, Haisken-DeNew, & Shields, 2004; Hajdu & Hajdu, 2014; Kahneman & Deaton, 2010; Kahneman, Krueger, Schkade, Schwarz, & Stone, 2006; Kushlev, Dunn, & Lucas, 2015; Layard, Mayraz, & Nickell, 2008; Stevenson & Wolfers, 2008, 2013). The second wave of studies addressing this topic modified the question to concentrate on whether the types of consumption had an effect on subjective well-being. These results consequently supported the idea that money can buy happiness if it is spent right (Dunn, Gilbert, & Wilson, 2011; Dunn &

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Norton, 2013). One of the main findings was that spending money on experiences rather than on material goods makes people happier (Van Boven, 2005; Van Boven & Gilovich, 2003).

The studies mentioned above used similar experimental designs. Typically, a small sample of university students were randomly assigned into two groups, and members of one group were asked to think about the most recent experiential purchase they made, and members of the other group were asked to think about the most recent material purchase they made. Participants were then asked to rate how happy this purchase made them.

In this paper, we add to the literature on the relationship between consumption and subjective well-being. We aimed to investigate whether spending on experiences or on material goods is associated more strongly with life satisfaction. Our second aim is methodological: we sought to contribute an important new perspective on this topic by using a survey approach instead of the usual experimental method. Based on two studies of Hungarian cross-sectional survey data, we estimated the association between the most typical experiential and material expenditures and life satisfaction. In these databases, expenditures and life satisfaction are not explicitly linked, thus an *ex post* connection can be made between subjective well-being and the purchase of different types of goods. Our paper estimated the associations using both linear and non-linear models, which is a novel contribution. Importantly, the latter estimates allow us to calculate the optimal allocation of experiential and material expenditures to maximize the life satisfaction of an average person. Although our models are based on cross-sectional data, we argue that omitted variable bias and reverse causality are not a serious problem in terms of the hedonic difference between experiential and material expenditures.

The paper is structured as follows. The next section reviews the existing literature on the effects of experiential and material purchases on well-being. Then, we describe the usual experimental method and the survey method used in this paper. Next, we present Study 1 and Study 2, respectively. We then discuss our results and the differences from previous studies and list the study limitations. In the last section we provide a conclusion.

## 2. Literature review

The first paper that examined the relationship between experiential versus material purchases and subjective well-being was by Van Boven and Gilovich (2003). They defined experiential purchases as “those made with the primary intention of acquiring a life experience: an event or series of events that one lives through”, whereas “material purchases are those made with the primary intention of acquiring a material good: a tangible object that is kept in one’s possession.” (Van Boven & Gilovich, 2003; p. 1194). Although many purchases are in between the material–experiential spectrum, studies have shown that there are certain types of expenditures that people consider to be a prototypical material or experiential purchase. The most frequently listed examples of material purchases are clothing, electronics and jewelry, whereas the most typical examples of experiential purchases are travel, various tickets and admissions (e.g., to a concert) and outdoor sport activities (Guevarra & Howell, 2015; Van Boven, Campbell, & Gilovich, 2010; Van Boven & Gilovich, 2003).

In Van Boven and Gilovich’s study (2003), participants were asked to describe a recent material or experiential purchase and to rate their happiness with that purchase. The authors showed that thinking about experiences made people happier and contributed more to their overall happiness than thinking about material purchases. This result was confirmed by numerous studies that used the same experimental methodology (Caprariello & Reis, 2010, 2013; Carter & Gilovich, 2010; Carter & Gilovich, 2012; Howell & Hill, 2009; Kumar & Gilovich, 2015; Millar & Thomas, 2009; Nicolao, Irwin, & Goodman, 2009; Rosenzweig & Gilovich, 2012; Thomas & Millar, 2013).

There are several reasons why experiential purchases might make people more satisfied.<sup>1</sup> First of all, material goods tend to be more comparable than experiences (Carter & Gilovich, 2010; Howell & Hill, 2009; Rosenzweig & Gilovich, 2012); they are more interchangeable, thus it is easier to find competing alternatives. The ease of comparing material goods is especially stressed in the retrospect, when the forgone options are more important in the evaluation of material goods than they are in the evaluation of experiences. For example, after the purchase of a smartphone, it is much easier to compare its features with newer or unchosen smartphones or ones possessed by others than it is to compare a day hiking in the mountains. Because experiences live in our memories and are more unique, the pool of relevant alternatives is smaller. In sum, we are more likely to be concerned with the better or missed options if we buy material goods, and this concern can lead to disappointment. Material purchases are more likely than experiential ones to be positional goods, and thus people are more likely to rate their happiness with material goods by considering other people’s possessions (Frank, 2005).<sup>2</sup>

Second, experiences are more closely connected to the self and to one’s identity (Carter & Gilovich, 2012; Thomas & Millar, 2013). For example, in a series of experiments, Carter and Gilovich (2012) showed that people kept their experiences physically closer to their self, mentioned their experiences more often in their life stories, stated that experiences portrayed more about a person’s true self than material purchases, and were more reluctant to exchange their experiential memories. Based on these results, the authors claimed that experiences are the main building blocks of our self: “we are quite literally the sum total of our experiences” (Carter & Gilovich, 2012; p. 1304). Thomas and Millar (2013) found that experiential purchases had more impact on the self than material purchases, and they showed that this impact mediated the relationship

<sup>1</sup> For a detailed review see Gilovich and Kumar (2015) and Gilovich, Kumar, and Jampol (2015).

<sup>2</sup> A series of previous studies found that individuals are more concerned with relative position of material things (e.g. car, housing) than experiences (e.g. vacation) (Alpizar, Carlsson, & Johansson-Stenman, 2005; Carlsson, Johansson-Stenman, & Martinsson, 2007; Solnick & Hemenway, 1998, 2005).

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