



# How does happiness relate to economic behaviour? A review of the literature

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## ABSTRACT

This article reviews research on the relationship between happiness (subjective wellbeing) and economic behaviour. I describe how experimental and non-experimental methods have been used, across the social sciences, to investigate how happiness drives, and is driven by, particular behavioural tendencies. I consider interpersonal behaviour (selfishness, trust and reciprocity) and individual behaviour (risk and time preferences). Regarding interpersonal behaviour, a general conclusion is that happiness results from pro-social behaviour. Happiness negatively correlates with selfishness and positively correlates with trust; in both cases there is stronger evidence that the behaviour is a cause of happiness than a consequence of it. Individuals also gain happiness from inflicting costly punishment on those who have harmed them, although being happy reduces the degree to which people are willing to dole out such punishment in the first place. Regarding individual behaviour, the relationship between happiness and risk preferences remains unclear despite a large body of research on the topic, while there is evidence that happiness affects time preferences by reducing impatience. In all cases, I draw distinctions between the long- and short- term relationships between happiness and behaviour.

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## 1. Introduction

There is much in common between behavioural economics, the field applying psychological insight into human behaviour to explain the economic decisions people make, and happiness economics, the study within economics of happiness and its relationships with other factors. Both are heterodox but increasingly influential fields within the discipline; both have produced important empirical findings which challenge the received neoclassical wisdom that individuals are capable of maximising their wellbeing without systematically making mistakes. This paper reviews research at the interface of the two fields which has attempted to address how economically-relevant behavioural tendencies relate to happiness. This body of research is interested in how the tendency to behave in specific ways increases or decreases one's level of happiness, and conversely how one's level of happiness increases or decreases the likelihood of one engaging in such behaviours. In particular, how does behaving selfishly, trustingly, reciprocally, risk-aversely or impulsively affect one's happiness, and how does being happy affect the likelihood of one behaving in such ways?

Understanding the relationships between happiness and economic behaviour is of intrinsic interest to academics, across the

social sciences, as well as laypeople. Happiness is a concept of such fundamental importance that it has preoccupied philosophers and religions for millennia. Happiness, and how it can be maximised, has long been of interest to economists, too. Utility entered economic analysis as a close synonym of happiness; although the two concepts later departed from one another, in recent decades economists have developed a renewed interest in happiness and ways it can directly be measured.

Being happy is an important goal for most people; according to one view, it is the ultimate goal to which all others are aimed (Layard, 2011). Understanding the causes of happiness is, therefore, beneficial to society. Policymakers concerned with helping people enhance their future happiness have an interest in knowing which types of behaviour exert a positive hedonic effect and are therefore worth encouraging. Furthermore, understanding the consequences of happiness is important. There is mounting evidence that emotions, including happiness, exert considerable influence on decision-making. Taking this into consideration, behavioural economists have in recent years been paying increasing attention to the study of happiness.

There is now a substantial amount of available evidence on how happiness relates to economic behaviour. The literature is sufficiently advanced that it is worth taking stock by bringing all this evidence together, and such is the purpose of this paper. I aim to

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summarise a series of findings of cross-disciplinary and cross-field interest: to show how behavioural scientists and their methodologies have contributed to knowledge on human happiness, and how happiness researchers have aided our understanding of human behaviour.<sup>1</sup> The research discussed in this paper is not restricted by academic discipline. Much of the recent work is within economics and business-related disciplines, but psychologists have been studying the effect of emotions on behaviour for decades (see e.g. [Isen, 2008](#)). Other studies come from political science, sociology, ecology, neuroscience and medical sciences. The research discussed is furthermore not restricted by the methods it uses; I outline the main research methods employed in this literature in [Section 2](#), and also raise important methodological considerations relating to findings as they arise throughout the paper. The literature search for this paper was concluded in December 2016.

This paper focuses on behaviours which both 1) are of great interest to behavioural economists, and 2) have been most researched in relation to happiness.<sup>2</sup> I first address interactive behaviour. Specifically, I consider: selfishness (and by extension its counterpart, generosity), the prioritisation of one's own material wellbeing over that of others; trusting behaviour, wherein individuals invest time, money or effort on endeavours which depend on the assistance of others; and reciprocity, the act of punishing or rewarding others for behaviour which has harmed or benefitted oneself. I then turn to individual behavioural traits: risk preferences and time preferences. It is true that some of these behaviours are interrelated – for instance, trusting behaviour may be affected by one's risk preferences and level of generosity. Nevertheless, this paper sub-divides the discussion into topics as they are generally defined in the literature itself. In all cases, I focus not only on identifying associations between happiness and behavioural tendencies, but also on attempting to discern the direction of causality. Aware that the causes and effects of short-lived and long-lasting happiness may differ (see e.g. [Kahneman and Riis, 2005](#)), this paper also systematically highlights whether research has linked happiness to behavioural traits on a long- or short-term basis.

In short, this paper shows that happiness is inversely related to selfishness; the two may well be co-dependent, but the evidence that selfishness causes unhappiness is stronger than the converse ([Section 3](#)). Trust is positively correlated with happiness, and again there is more evidence that trust causes happiness than the reverse ([Section 4](#)). Unhappiness enhances the degree to which individuals are willing to engage in negative reciprocity by inflicting costly punishment on those who have harmed them; but exacting such retribution is apparently beneficial to one's subsequent wellbeing, demonstrating a negative feedback loop between happiness and negative reciprocity. However, the limited available evidence suggests a different relationship between happiness and the ten-

dency to engage in positive reciprocity by rewarding those who have acted to one's benefit, with each exerting a positive effect on the other ([Section 5](#)).

There is a large literature on the relationship between happiness and risk-preferences, but as [Section 6](#) shows it yields inconclusive findings, with competing schools of thought contending that happiness either increases or decreases risk-aversion. This lack of consensus is examined and possible explanations for it are discussed. There is moderate evidence that happiness increases one's patience over monetary rewards, which is reviewed in [Section 7](#). Finally, [Section 8](#) concludes; it highlights the important general finding that happiness appears to result from socially beneficial behaviour, and also discusses possible future research directions.

## 2. How researchers have investigated relationships between happiness and economic behaviour

For the great majority of studies in this literature, happiness is elicited through the self-reports of individuals in questionnaires. The scientific validity of such subjective wellbeing (SWB) measurements is a controversial issue. I will not attempt to fully address the controversy here (for extensive discussions, see e.g. [MacKerron, 2012](#); [Diener et al., 2013](#)) but will briefly note the following, in defence of the use of SWB: self-reported happiness correlates with happiness as judged by observers ([Diener, 1984](#); [Pavot et al., 1991](#); [Sandvik et al., 1993](#); [Schneider and Schimmack, 2009](#)); it also correlates with such objective variables as brain activity ([Urry et al., 2004](#)), heart rate ([Shedler et al., 1993](#); [Steptoe et al., 2005](#)), physical stress ([Steptoe et al., 2005](#)), Duchenne smiles ([Ekman et al., 1990](#)), suicide ([Di Tella et al., 2003](#)) and antidepressant usage ([Blanchflower and Oswald, 2011](#)), all of which are at least plausibly related to happiness; SWB is reasonably stable within individuals over time ([Fujita and Diener, 2005](#); [Schimmack and Oishi, 2005](#); [Krueger and Schkade, 2008](#); [Michalos and Kahlke, 2010](#)); it predicts future behaviours such as divorce ([Gardner and Oswald, 2006](#)); and it consistently yields theoretically plausible results, such as the ubiquitous finding that happiness is negatively associated with unemployment.

This paper is, therefore, written from the intellectual position that SWB measures, while imperfect, are worth taking seriously. Occasionally, studies in this literature use physical happiness measures such as brain activity (e.g. [De Quervain et al., 2004](#); [Harle et al., 2012](#)) or levels of serotonin ([Crockett et al., 2013](#)) or cortisol ([Dunn et al., 2010a](#)), instead of or in addition to SWB. However, given the predominant use of self-reported happiness in this literature, for simplicity I will hereafter use happiness and SWB synonymously. Note that SWB measures can relate either to immediate happiness, i.e. mood (e.g. 'how happy are you right now?'), or to long-term happiness (e.g. 'how happy are you these days?'; 'how satisfied are you with your life?'). Research on the short-term causes and effects of happiness will elicit immediate SWB, while research on its long-term relationships with behaviours will elicit long-term SWB.

How economic behaviour is measured in this literature differs. A large strand of the literature takes data from social surveys to measure associations between happiness and self-reported behavioural traits, such as selfishness or trust. This approach requires one now to accept the validity not only of self-reported happiness but also of self-reported behaviour. This paper will cautiously do so because, while the measurement of these variables may be noisy, there is no compelling reason to believe the accuracy of behavioural self-reports should be systematically biased across happiness levels (which would potentially lead to spurious correlations). However, it seems a reasonable assertion that laboratory experiments – which constitute the other main research method

<sup>1</sup> Note that this paper is not an attempt to review all research at the interface of behavioural and happiness economics. For instance, it does not discuss studies such as [Carter and McBride \(2013\)](#) which use subjective wellbeing measures as an alternative barometer with which to test findings from behavioural economics. I also do not discuss happiness research which has inferred the existence, in general, of certain behavioural tendencies, such as reference dependence (e.g. [Hagerty, 2000](#)). Specifically, the focus is on research identifying how happiness affects the likelihood of an individual behaving in a particular way, and vice versa.

<sup>2</sup> One broad area which is certainly of great interest to behavioural economists is bounded rationality. Behavioural science has identified a wide range of behavioural tendencies resulting from deviations from rationality. However, this paper does not include a section on bounded rationality, because the topic has not yet received sufficient research in relation to happiness (beyond the assumption that less rational behaviour reduces happiness through material losses) from which to build a synthesis warranting standalone discussion. Some relevant research on overconfidence and time-inconsistency is discussed in the context of risk and time preferences. For research on the relationship between happiness and the endowment effect, see [Lerner et al. \(2004\)](#), [Lin et al. \(2006a\)](#) and [Cavazotte et al. \(2009\)](#). For research showing happiness is inversely related to preference reversals, see [Drichoutis et al. \(2010\)](#).

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