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Hedonic Recall Bias. Why You Should Not Ask People How Much They Earn

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Abstract

The empirical literature which explores the effect of wage on job satisfaction typically uses data drawn from social surveys. In these surveys, the amount of wage is reported by the respondents themselves: thus, the explanatory variable of the econometric models may differ from the true wage people earn. Our paper shows that the use of survey data can lead to considerable over-estimation of the importance of wage as a determinant of wage satisfaction. In particular, responses seem to be affected by a recall bias: people who are satisfied with their wage are more likely to over-report their wage in questionnaires. The more satisfied they are the more they over-report (and *vice-versa* unsatisfied people). We name this behavioral disposition “hedonic recall bias”.

Keywords:

recall bias, job satisfaction, wage satisfaction, measurement error, survey income

JEL:

D03, J28

1. Introduction

“The soul is and becomes what it remembers”
Plotinus

1.1. Asking people how much they earn: how bad could it be?

During the last two decades, the number of inquiries about the observable determinants of subjective well-being has substantially grown. The majority of this literature has considered the effect of income on subjective well-being (Kahneman & Deaton, 2010; Diener & Biswas-Diener, 2002; Gardner & Oswald, 2007; Dunn *et al.*, 2008; Layard *et al.*, 2008, Li *et al.*, 2011; Easterlin, 2003). In particular, relative income, i.e. income with respect to some reference point, seems to play a fundamental role (Clark & Senik, 2010; Clark & Oswald, 1996). Much research has found a consensus on the fact that richer people tend to be more satisfied with numerous aspects of their lives, including their job.

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