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# Permanent Income and Subjective Well-Being<sup>1</sup>

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## *Highlights*

- *A new explanation is provided for stronger (weaker) impact of income on subjective well-being (SWB) using individual cross-sectional (panel) data.*
- *A rational expectations model of utility predicts that SWB is more affected by permanent income shocks than transitory income shocks.*
- *Predictions are confirmed by analysing panel data from China.*
- *Greater importance of permanent component of income in cross-sectional data explains stronger impact of income on SWB.*

## *Abstract*

We provide a new explanation for the stronger relationship between income and subjective wellbeing (SWB) found in cross-sectional versus panel studies based on the predictions of a

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