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Household Finances and Well-Being in Australia: An Empirical Analysis of Comparison Effects

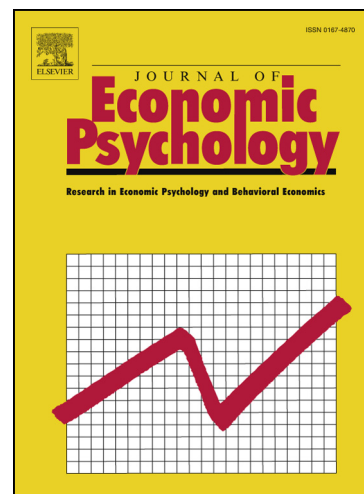
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Household Finances and Well-Being in Australia: An Empirical Analysis of Comparison Effects

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Abstract

This paper explores the importance of the household's financial position for an individual's level of well-being. Initially, the empirical analysis, based on the Household, Income and Labour Dynamics in Australia (HILDA) Survey, a large nationally representative panel survey, aims to ascertain the impact of the household's monetary financial position on overall life satisfaction and financial well-being, with the latter being measured by financial satisfaction and subjective prosperity. The empirical analysis confirms that the household's level of net wealth, assets and debt are important determinants of overall life satisfaction and financial well-being. The paper goes on to explore whether the financial situation of households in a comparison group influences an individual's overall life satisfaction and financial well-being. The results suggest that the financial position of households in the comparison group is an important determinant of an individual's level of overall life satisfaction and financial well-being, with information effects generally dominating comparison effects. In addition, the effects of the comparison group are asymmetric depending on whether a household's financial position is above or below the average of the reference group.

Keywords: Financial Satisfaction; Fixed Effects Ordered Logit; Household Finances; Overall Life Satisfaction; and Subjective Prosperity.

JEL codes: D14; G02; I31; and J28.

PsycINFO Classification: 2900; 3920.

Notes: This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS), and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either DSS or the Melbourne Institute.

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