Reversing the Question. Does Happiness Affect Individual Economic Behavior? Evidence from Surveys from the Netherlands and Germany

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Cahit Guven *
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Abstract

I examine the impact of happiness on economic behavior. I use self-reported happiness data from the DNB Household Survey from the Netherlands and the German Socio-Economic Panel. I consider changes in regional sunshine as an exogenous determinant of happiness. Both long-run and transitory increases in sunshine increase happiness. Instrumenting individual happiness with regional sunshine, I find that happy people save more, spend less, and that the marginal propensity to consume is lower for the happy people. Happy people appear to be more risk-averse in financial decisions and (accordingly) choose safer investments. Happy people spend more time before making decisions and have more control over expenditures. Happy people also expect a longer life and (accordingly) seem more concerned about the future than the present; they also seem to expect less inflation in the future. Secondary findings suggest that happy people are less likely to smoke and have less desire to move.

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*Department of Economics, University of Houston, TX, 77204. E-mail: cguven@mail.uh.edu, Tel: 832 876-3324. I thank my advisors Bent E. Sorensen, Nathaniel Wilcox, and Dietrich Vollrath for their valuable help during my research. I thank Daniel Kahneman, Richard Easterlin, Andrew Oswald, Alan Krueger, Ed Diener, John Helliwell, Bernard Van Praag, Claudia Senik, Gergely Ujhelyi, and the participants at the 6th Tilburg Psychology and Economics Conference, and the University of Houston Spring 2007 workshop. I also thank climatologists Barry Lefer, Bernhard Mayer, and Hermann Manstein for their comments and suggestions.