BASICS OF BUSINESS ECONOMICS - exercises
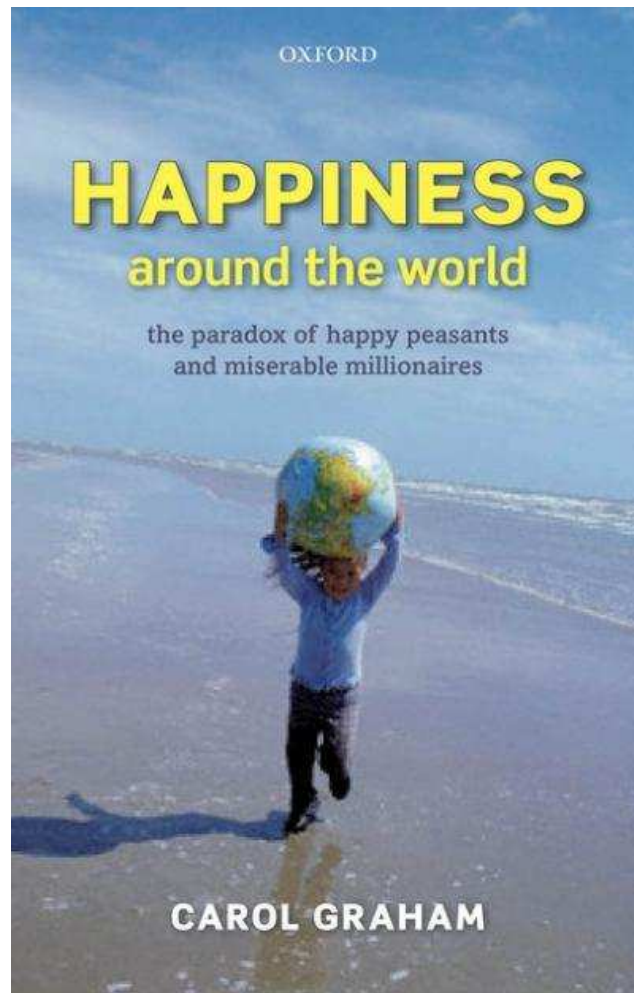
The economics of happiness - the paradox of happy peasants and miserable millionaires

OXFORD

HAPPINESS
around the world

the paradox of happy peasants
and miserable millionaires

CAROL GRAHAM

- What and how much do we need to be happy?

- Can happiness be measured?

- Economics of happiness- a scientific discipline that studies the quality of life in a particular country or group of countries by combining knowledge of economics and psychology

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Traditional economy

- Measure of individual satisfaction/happiness = disposable income; the higher the disposable income, the more we can buy and the happier we are

- Measure of country's satisfaction/happiness = "total" income or GDP and/or GDP per capita, the higher the GDP per capita the more prosperous the state and the more satisfied/happy the population is

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Easterlin' paradox

- Researcher Richard Easterlin in 1974 questioned the existing paradigm in traditional economy that richer countries are more happy than poorer countries (measured with GDP and other economic indicies)

- Through combination of data from psychology (happiness questionnaires) and economy (GDP per capita, disposable income) he examined countries considered to be rich (e.g. USA) and poor (e.g. Cuba)

Easterlin's paradox

- As countries become richer, above the level of coverage of basic needs (food and housing), research shows that people are not happier (average happiness does not grow). (e.g., a survey showed that Americans are less happy than they were 40 years ago, even though incomes and living standards have risen)

- Easterlin"s research on the sample of all countries - On average, once people cover more than basic needs (food and housing), there is no difference in the level of happiness between people in rich countries and those considered poor (measured by GDP)

- Easterlin's research within individual countries shows that, on average, richer people are happier than poor people.

- The paradox is that we would expect people in richer countries to be generally happier than those in poorer ones but this is not the case.

Explanation of the Easterlin's paradox - relative wealth hypothesis

- Human happiness depends less on their absolute wealth and more on comparing their wealth with other people who mean something to us, i.e. relative wealth.

- If we live in a country where most people have one cow and we have 3 cows, then we are of better status, self-confidence and we feel happier. If the people we compare ourselves to, drive a luxury car, we will not feel happy if we do not have a luxury car but also an SUV on top of it.

- Relative wealth hypothesis - explains why rich people in the same country are happier than poor, but also why people in richer countries are not happier on average than those in poorer countries. Our sense of wealth stems from comparison with our peers. If we have more than them, we will be happier.

An explanation of the Easterlin paradox - human adaptation

- Rich or poor, people adapt to their life circumstances and each person has natural level of happiness (higher or lower).

- "If I get this job / buy this car / win the lottery, I'll be happier!" - SCIENTIFICALLY INCORRECT! No particular achievement can guarantee long-term happiness, because people get used to it. The level of happiness returns to its average before the event.

- Research on lottery money winners (Arvey et al., 2004)
  - Over 60% of participants continued to work on their current job
  - Some stopped working for a while, then started their own business
  - Only 4% completely stopped working

- "Every person's mind, in the long or short period, returns to its natural and normal state of calm. In prosperity, after a while, it returns to that state; in difficulty, after a while, it rises to that level again ".

Examples of adaptation

- Afghans (war, poverty in sub-Saharan Africa, GDP per capita = $ 486) - happy as people in Latin America (GDPs per capita more than 10.000 $ in average)

- Being a victim of crime makes people unhappy, but the effect is less if crime is a common occurrence in society; it is the same with corruption and unemployment

- Freedom and democracy make people happy, but the effect is greater if they are used to such freedoms than if they are not.

ARE WE TORTURING HIM? NO, HE'S JUST ALLERGIC TO SUNLIGHT.

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The paradox of "unhappy growth"

- Countries with high GDP per capita have higher levels of happiness on average, but individuals in countries with fast positive growth rates have lower levels of happiness (transition countries, Ireland)

- In countries with fast-growing economies - growth is accompanied by changes in wages, skills required to do work, increased differences between rich and poor, job insecurity

GDP and life satisfaction: New evidence

Eugenio Proto, Aldo Rustichini 11 January 2014

The link between higher national income and higher national life satisfaction is critical to economic policymaking. This column presents new evidence that the connection is hump-shaped. There is a clear, positive relation in the poorer nations and regions, but it flattens out at around $30,000–$35,000, and then turns negative.

Figure 1 Relationship between GDP per capita and life satisfaction
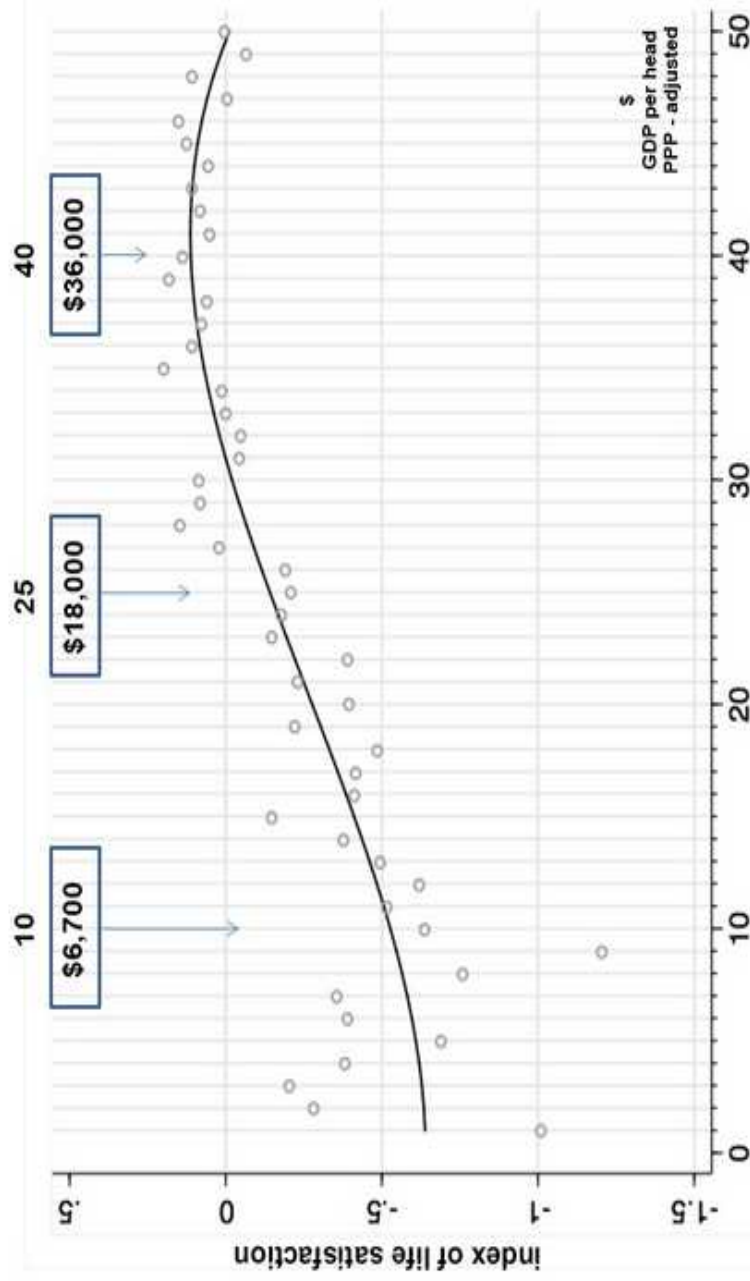
Happy peasant and frustrated achiever

- Research by Stefan Pettinato and Carol Graham in Peru and Russia

- Poor people are relatively happier, while the richer ones are more unhappy and more frustrated with their economic and general situation - frustration with „being just average".

- The most unhappy is the middle class

Why are the poorer happier?

- Because they have a higher natural level of happiness or they have adjusted their wishes to the situation. People who climb the social ladder have ever-growing desires.

- People who want more and are frustrated with poverty and want to change their position (eg through migration) even when they achieve a better standard remain prone to change - frustration with „being average" or greed factor

- Aversion to loss - those who have a lot, have more to lose, the poor do not have much to lose and adapt better to insecurity

Exercise - measures of satisfaction / happiness

- Determine for your measure of happiness:

- What is it / what does it represent?

- What does it measure and how is it calculated?

- RANK: SCANDINAVIAN COUNTRIES, COSTA RICA, CROATIA, YOUR NATIVE COUNTRIES

Finland was elected on Friday **"Happiest country in the world"**And the For the fifth year in a rowFor the "World Happiness Report" ranking, which puts Afghanistan last.

Costa Rica ranked 23rd, Uruguay (30th) and Brazil (39th) the best Latin American countries in this ranking. Spain ranks 29th out of a total of 146.

Venezuela (ranked 108) is the worst country in Latin America, even after Iraq.

According to the World Happiness Report, funded by the United Nations and implemented ten years ago, "the three most important achievements were those of Serbia, Bulgaria and Romania. The strongest setbacks occurred in Lebanon, Venezuela and Afghanistan."

Finland, with a score of 7.82 out of ten, is ahead of Denmark, Iceland, Switzerland and the Netherlands, which are next on this list.

The report is based on opinion polls that ask people how happy they feel and this information overlaps with GDP data, individual levels of freedom or the **corruption**among other things.

"The lesson from the report, in these 10 years, is that generosity among people and honesty among governments are critical to well-being," according to Jeffrey Sachs, one of the report's authors.

"World leaders will have to take it into account," he added.

If you're used to looking at more traditional measures of development – the HPI results will be surprising.

TOP 10 COUNTRIES

1	COSTA RICA	62.1	6	PANAMA	57.9
2	VANUATU	60.4	7	JAMAICA	57.9
3	COLOMBIA	60.2	8	GUATEMALA	57.9
4	SWITZERLAND	60.1	9	HONDURAS	57.7
5	ECUADOR	58.8	10	URUGUAY	57.5

HAPPY
PLANET
INDEX

For the full
HPI rankings, visit
www.happyplanetindex.org

The *Happy Planet Index rankings*, based on 2019 data

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What makes people happy?

- In average, within countries, richer people are happier than poor; other factors - age, marriage, health, employment, friends, family are important

- "We would emphasize that a happy person is blessed with a positive character," her/his glass is half full ", does not constantly talk about negative things, lives in a more economically developed society, is surrounded by loved ones and has enough resources to achieve desired goals."

- Ed Diener, Eunkook M. Suh, Richard E. Lucas, and Heidi L. Smith (1999), "Subjective Well-Being: Three Decades of Progress," *Psychological Bulletin* , vol. 125 (2), pp. 276-302 .

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