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“The ultimate purpose of economics is ... to understand and promote the enhancement of well-being.”

Ben S. Bernanke, former Chairman,
Board of Governors of the Federal Reserve System

ECON 432
Economics of Happiness
Spring 2017
Syllabus and Assignments

Purpose

An interdisciplinary analysis of the nature and determinants of subjective well-being, with special attention to the importance of income and other economic factors

Prerequisites: Economics 203, 205 or instructor approval.

Course Description

Since World War II there has gradually accumulated a large body of social survey data on self-reported happiness and its causes. These data have generated a large research literature (a recent bibliography lists over 3,000 items), mostly in psychology and sociology. In economics, there are a few studies dating from the 1970s, but the subject has languished until the last two decades, when a surge in interest has occurred. Serious consideration is now being given to happiness as a policy goal by a number of governments

Based on the data and the research literature in psychology, sociology, and economics, this course will examine the subjects on pages 3 and following.

Surveys and Questions on Assignments

Homework, including surveys and questions on reading materials, are designed to prepare you well for class and thus improve your learning experience. Both questions and surveys are available in the folders within the ‘Assignments’ section on <https://blackboard.usc.edu>. All homework assignments are *due before 12 noon on the date*

shown. Late homework will NOT be accepted and will be counted as missing (0 points). It is your responsibility to make sure that your assignments are submitted properly.

Answers to questions on reading materials can only be submitted via Blackboard. Do *not* email any assignment to your TA. It will not be accepted that way. Number your answers clearly. You will not receive full credit if the answers are not numbered clearly. To receive full credit your answer does not have to be long, but it has to address all parts of the question. Please note that you might find it easier to type your answer in a word document file and attach it to the submission page. (You will still need to click 'Attach the file' even after you select the file.)

For data collection purposes, we would like to identify each survey response with a particular student, while maintaining your anonymity. Therefore, we ask you to create, and keep throughout the semester, a survey ID that cannot be directly associated with you. This survey ID should be a combination of two letters and two numbers. You will be asked to provide this survey ID at the beginning of every survey so please make sure that you remember it throughout the semester. Your TA will be able to see whether you complete the surveys and will give you credit for each completed survey. However, he or she will not be able to associate a survey response with a particular student, so the response will remain completely anonymous.

Exams and Grading

Grading:

- Participation = 20% of grade divided as follows:
10% On-time (submitted on the due date before 12 noon) response to Blackboard questions on assignments and Blackboard surveys
10% Oral participation and on-time class attendance
- Two midterm exams = 25% each (*Reserve* dates: 2/14, 4/11)
- Final exam = 30% (*Reserve* date: May 10, 2-4)

Students are expected to attend all classes on time and take all exams as scheduled. If an exam is missed, a paper on a mutually agreed topic and deadline is to be done.

Required texts and materials (letters in parentheses, such as FS, are abbreviations used in the list of assignments)

(FS) Frey, Bruno S. and Alois Stutzer, *Happiness & Economics: How the Economy and Institutions affect Human Well-being*. Princeton: Princeton University Press, 2002.

(E) Easterlin, Richard A., *Happiness, Growth, and the Life Cycle*. New York: Oxford University Press, 2010. (hereafter referred to as HGLC)

(B) Blackboard (blackboard.usc.edu), Questions on Assignments, Class Documents. To log in use the same username and password you use for your USC e-mail account.

You will have to be connected to the USC network to access some of the papers (look at the ISD website to see how you can access the USC network when you are off-campus).

(R) Reader (available at the bookstore)

Reading Assignments

(For participation credit both surveys and Blackboard questions on the assignment must be submitted before 12 noon on the date shown.)

I. CONCEPT AND MEASUREMENT OF UTILITY

A. Organization

1/10/16

B. Objective and Subjective Measures of Well-Being

1/12 (B) Do surveys of happiness, life satisfaction, and affect. (Survey 1)

(B) Assignment 1

(FS-2) “Well-Being and Economics”, pp. 19-30, pp. 36-43

(B) Ryff, Carol D. (1995), “Psychological Well-Being in Adult Life”, *Current Directions in Psychological Science*, 4(4), pp. 99-103.

C. Measurement of Subjective Well-Being

1/17 (B) Do Ladder Survey. (Survey 2)

(B) Assignment 2

(E) Easterlin, Richard A., “Does economic growth improve the human lot? Some empirical evidence”, pp. 13-23.

(FS-1, 2) “Happiness”, “Well-Being and Economics”, pp. 30-36.

(B) Frank, Robert H. (1997), “The Frame of Reference as a Public Good,” pp.81-82.

(B) Helliwell, John F. and Shun Wang, “World Happiness Trends: Explanation, and Distribution” in World Happiness Report 2012, ch. 2, pp1-7, Fig II-3, Fig II-10.

(B) Kapteyn, Arie, Tassot, Caroline (and others), “Dimensions of Subjective Well-Being”, Introduction and Conclusion

(B) Helliwell and Wang, “The Geography of World Happiness” in World Happiness Report 2015, pp13-20 top.

II. THE UTILITY OF INCOME

A.1 Empirical studies: Cross section

1/19 (B) Do “Goal” Survey. (Survey 3)

(B) Assignment 3

(E) Easterlin, Richard A., “Does economic growth improve the human

- lot? Some empirical evidence”, pp. 24-32.
 (FS-4) “Income”, pp. 74-76, pp. 81-85.
 (B) Veenhoven, Ruut (1991), “Is Happiness Relative?” *Social Indicators Research*, 24(1), pp. 9-12.
 (B) Inglehart, Ronald (2000), “Globalization and Postmodern Values”, *Washington Quarterly*, 23(1), pp. 215-219 (through Figure 4).
 (B) Easterlin, Richard A. (2005), “Diminishing Marginal Utility of Income? Caveat Emptor”, *Social Indicators Research*, 70(3), pp. 243-255.

A.2 Empirical studies: Time series

- 1/24 (B) Assignment 4
 (E) Easterlin, Richard A. “Does economic growth improve the human lot? Some empirical evidence”, HGLC Ch. 1, pp. 32-35.
 (FS-4) “Income”, pp. 76-77.
 (E) Easterlin, Richard A., *HGLC*, Ch. 2, pp. 46-55.
 (B) Hagerty, Michael R. and Ruut Veenhoven (2003), “Wealth and Happiness Revisited,” *Social Indicators Research*, 64(1), pp. 1-18 and conclusion.
 (B) Easterlin, Richard A. (2005), “Feeding the Illusion of Growth and Happiness: A Reply to Hagerty and Veenhoven”, *Social Indicators Research*, 74(3), pp. 429-443.

A.3 Recent empirical studies: Cross section and time series

- 1/26 (B) Do Income Survey 1. (Survey 4)
 (B) Assignment 5
 (B) Sacks, D.W., Betsey Stevenson, and Justin Wolfers 2012. “Subjective Well-Being, Income, Economic Development, and Growth.” In P. Booth (Ed.) *... and the Pursuit of Happiness*, London, *The Institute of Economic Affairs*, top, pp.76-84
 (B) Easterlin, R.A. “Life Satisfaction in the Transition from Socialism to Capitalism: Europe and China.” 2014. *passim*.
 (B) Easterlin, R.A. “Paradox Lost”, *Review of Behavioral Economics*, forthcoming.
- 1/29 Last day to drop a class without mark of “W”

B. Social comparison

- 1/31 (B) Do Income Survey 2. (Survey 5)
 (B) Assignment 6
 (B) Frank, Robert H. (1997), “The Frame of Reference as a Public Good”, pp.81-90.
 (E) Easterlin, Richard A., “Does Economic Growth Improve the Human Lot? Some Empirical Evidence”, *HGLC*, Ch 1, pp. 35-41.
 (E) Easterlin, Richard A., “Will Raising the Incomes of All Increase the Happiness of All?”, *HGLC*, Ch 2, pp. 46-47, 51-54.

C. Hedonic adaptation and social comparison

- 2/2 (B) Assignment 7
 (B) Do Personality Survey (Survey 6)
 (R) Frederick, Shane and George Loewenstein (1999). “Hedonic Adaptation,” ch. 21 in Kahneman, Daniel, Ed Diener and Norbert Schwarz (eds.). *Well-Being: The*

Foundations of Hedonic Psychology, New York: Russell Sage Foundation. pp. 302-307, 311-314

(E) Easterlin, Richard A. (2001), "Income and Happiness: Towards a Unified Theory," HGLC, Ch 6. pp 133-152.

(B) Senik, Claudia (2009), "Direct Evidence on Income Comparisons and their Welfare Effects." *Journal of Economic Behavior and Organization*, pp. 408-24.

D. Loss Aversion

2/7 (E) HGLC, pp. 126-128.

(B) Boyce, Christopher J. and others (2013), "Money, Well-Being, and Loss Aversion Does an Income Loss Have a Greater Effect on Well-Being Than an Equivalent Income Gain?" *Psychological Science*, 20(10). pp. 1-6.

2/9 Review

2/14 FIRST MIDTERM EXAM

III: THE GENERAL UTILITY FUNCTION

A. Psychological factors, life circumstances, and happiness

A-1. Psychological factors

2/16 (B) Do surveys of life satisfaction, happiness, and affect. (Survey 7)

(B) Assignment 8

(FS-3) "Personality and Socio-Demographic Influences on Happiness", pp. 49-52.

(D) Layard, Richard (2005), *Happiness: Lessons from a New Science*, Penguin Press, pp. 55-58.

(B) Rietveld, Cornelius A and others, "Molecular Genetics and Subjective Well-Being." PNAS 110(24), June 11 2013, p. 9692. Abstract only.

(B) Costa, Paul T. Jr., Alan B. Zonderman, Robert R. McCrae, Joan Cornoni-Huntley, Ben Z. Locke, and Helen E. Barbano (1987), "Longitudinal Analyses of Psychological Well-Being in a National Sample: Stability of Mean Levels," *Journal of Gerontology*, 42(1), pp. 50-55.

(R) Diener, Ed and Richard E. Lucas (1999). "Personality and Subjective Well-Being," in Kahneman, Daniel, Ed Diener and Norbert Schwarz (eds.). *Well-Being: The Foundations of Hedonic Psychology*, New York: Russell Sage Foundation. pp. 213-220, 226-227.

A-2. Life circumstances

2/21 (B) Do "Good Life" survey. (Survey 8)

(B) Assignment 9

(FS-3) "Personality and Socio-Demographic Influences on Happiness," pp. 52-66.

(B) Blanchflower, David G. and Andrew J. Oswald (2004). "Well-Being Over Time in Britain and the USA," *Journal of Public Economics*, 88, pp. 1359-1386.

B-1. Life goals

2/23(1)(B) Do Domain Satisfaction survey. (Survey 9)

(B) Assignment 10

(B) Robinson, J.P. and G. Godbey, Robinson (1997). *Time for Life: The Surprising Ways Americans Use their Time*, 2nd ed. University Park, PA: Pennsylvania State University Press. App. 0. (1 page)

(R) Cantril, Hadley (1965), *The Pattern of Human Concerns*, NJ: Rutgers University Press, chapter VIII, pp. 21-29, 159-162, 169-171.

(E) Easterlin, Richard A. (2003), "Explaining Happiness", HGLC, Ch 11, only section on "Aspirations and Adaptation", pp. 241-245.

B-2. Life circumstances and happiness: Domain Analysis

2/23(2)(B) Assignment 11

(R) Campbell, Angus (1981), *The sense of well-being in America: Recent patterns and trends*, New York: McGraw-Hill. pp. 39-51.

(E) HGLC (Sections on "Conceptual Framework" and "Prior Work"), Ch. 7.2, pp. 160-161, Ch. 10.1, pp. 208-209.

C-1. Family Life: Formation of Unions

2/28 (B) Assignment 12

(B) Waite, Linda (1995), "Does Marriage Matter?", *Demography*, 32(4), pp. 483-507. (skim)

(B) Lucas, R. E., Andrew E. Clark, Yannis Georgellis, Y, and Ed Diener (2003), Reexamining Adaptation and the Set Point Model of Happiness: Reactions to Changes in Marital Status, *Journal of Personality and Social Psychology*, 84, pp. 527-539.

(B) Zimmermann, Anke and Richard A. Easterlin (2006), "Happily Ever After? Marriage, Divorce, and Happiness in Germany", *Population and Development Review*, 32(3), pp. 511-528.

(B) Blanchflower, David and Andrew Oswald (2004), "Money, Sex, and Happiness: An Empirical Study", *Scandinavian Journal of Economics*, 106, pp. 393-416.(skim)

C-2. Dissolution of Unions; Children

3/2 (B) Assignment 13

(B) Waite, Linda J. and Y. Luo, "Marital Happiness and Marital Stability: Consequences for Psychological Well-Being", *Social Science Research*, 38(1), pp. 201-212.

(B) Delbes, C. and J. Gaymu (2002), "The Shock of Widowhood in the Eve of Old Age: Male and Female Experiences", *Population*, 57(6), pp. 885-914, esp. pp. 906-911.

(B) Steptoe, Andrew and others "Social Isolation, Loneliness, and All-Cause Mortality in Older Men and Women", *PNAS* 110(15), April 9, 2013, p.5795 to "Results"; p.5800 "Measures of Social Isolation and Loneliness"

(B) Glass, Jenifer and others (2014) "Parenthood and Happiness: Effects of Work-Family Reconciliation Policies in 22 OECD Countries," working paper

- (B) Myrskylä, Mikko, and Margolis, 2014. "Happiness: Before and after the Kids", *Demography*, 51, 1843-1866.
- (B) van den Berg, Gerard, Petter Lundborg, and Johan Vikstrom, "The Economics of Grief" IZA Discussion Paper (November 2010), only non-technical summary
- (B) Fletcher, Jason, and others, "A Sibling Death in the Family", *Demography*, 2013, p.803. Abstract only.

C-3. Health, Lottery

- 3/7 (B) Assignment 14
- (B) Brickman, Philip and Dan Coates (1978), "Lottery Winners and Accident Victims: Is Happiness Relative?", *Journal of Personality and Social Psychology*, 36(8), pp. 917-927.
- (B) Mehnert, Thomas, Herbert H. Krauss, Rosemary Nadler, and Mary Boyd (1990), "Correlates of Life Satisfaction in Those with Disabling Conditions", *Rehabilitation Psychology*, 35(1), pp. 3-17.
- (B) Easterlin, Richard A. (2005). "Health and health satisfaction over the life cycle".
- (B) Oswald, Andrew and Jonathan Gardner (2007). "Money and mental wellbeing: A longitudinal study of medium-sized lottery wins." *Journal of Health Economics* 26, pp. 49-60.

C-4a. Work: Macro-economic circumstances

- 3/9 (B) Assignment 15
- (B) Do "Job Satisfaction" survey. (Survey 10)
- (FS-5, 6) "Employment," "Inflation," pp. 95-119.
- (B) Di Tella, Rafael, Robert J. MacCulloch and Andrew J. Oswald (2001), "Preferences over Inflation and Unemployment: Evidence from Surveys of Happiness," pp. 178-184.
- (B) Winkelmann, L. and R. Winkelmann (1998), "Why are the Unemployed So Unhappy? Evidence from Panel Data", *Economica*, 65, pp. 1-15.
- (B) Clark, Andrew E. and Andrew J. Oswald (1994), "Unhappiness and Unemployment," pp. 166-177. (skim)
- (B) Lucas, Richard E., Andrew Clark, Yannis Georgellis and Ed Diener (2004). "Unemployment Alters the Set-Point for Life Satisfaction", *Psychological Science*, 15(1), pp. 8-13.

3/12-19 Spring Recess

C-4b. Job satisfaction, Retirement

- 3/21 (B) Assignment 16
- (B) Krause, A. Aug. 2014. "Happiness and Work" IZA DP 8435, pp.1-11.
- (B) Clark, Andrew, "Work and Well-being" (PowerPoint).

D. Social capital and Religion

- 3/23 (B) Assignment 17

- (FS-8) Constitution: Popular Referenda and Federalism
- (B) Helliwell, John F. and Robert D. Putnam (2004), “The Social Context of Well-Being”, *Philosophical Transactions: Biological Science*, 359, pp. 1435-1446.
- (B) Inglehart, R., C. Petersen, and C. Wetzel (2008), “Development, Freedom, and Rising Happiness: A Global Perspective (1981-2007)”, *Perspectives on Psychological Science*, 3(4), passim.
- (E) Easterlin, Richard A. (2010), Happiness, Growth and the Life Cycle, Ch. 4, pp 103-104.
- (B) Myers, David G. (2000), “The Funds, Friends, and Faith of Happy People”, *American Psychologist*, 55(1), pp. 63-65 (“Faith and Well-Being”).

E. Demographic Characteristics: Gender and ethnicity

- 3/28 (B) Assignment 18
- (FS-3) “Influences on Happiness”, pp. 54-56.
- (B) Marcelli, Enrico and Richard A. Easterlin (2010), “The Cross-over in the Life Cycle Happiness of American Women and Men” in Richard A. Easterlin, *Happiness, Growth, and the Life Cycle*, NY: Oxford University Press, Chapter 8.
- (B) Easterlin, R. A. (2003). “Happiness of Women and Men in Later Life: Nature, Determinants, and Prospects”, in Sirgy, M. J., Rahtz, D., Coskun Samli, A. (Eds.), *Advances in Quality-of-Life Theory and Research*, Dordrecht: Kluwer Academic Publishers, 13–26.
- (B) Easterlin, Richard A., 2001. “Life Cycle Welfare: Trends and Differences,” *Journal of Happiness Studies*, 2(1), pp. 1-12.
- (B) Zweig, Jacqueline S (2014) “Are Women Happier than Men? Evidence from the Gallup World Poll.” *Journal of Happiness Studies*, available at: <http://link.springer.com.libproxy.usc.edu/article/10.1007/s10902-014-9521-8>

E-2a. Age and life cycle

- 3/30 (B) Assignment 19
- (FS-3) “Influences on happiness”, pp. 53-54.
- (E) Easterlin, Richard A. (2006). “Life Cycle Happiness and Its Sources: Intersections of Psychology, Economics, and Demography,” *HGLC*, Ch. 7 pp 153-174.
- (B) Morgan, Robson () “Experienced Life Cycle Satisfaction in Europe,” *Review of Behavioral Economics*, forthcoming.

E-2b.

- 4/4 (B) Switek and Easterlin (2016) “Life Transitions and Life Satisfaction during Young Adulthood,” *Journal of Happiness Studies*, 2016.
- (B) Anke C. Plagnol. (2011) “Financial satisfaction over the life course: The influence of assets and liabilities”, *Journal of Economic Psychology*, 32(1), pp. 45-64.
- 4/6 Review
- 4/7 Last day to drop class with mark of “W”.

IV. POLICY

A. Psychological Needs, Eudamonia, Utilitarianism

- 4/13 (B) Assignment 20
(R) Sen, Amartya (2000), *Development as Freedom*, Anchor, Chapter 3, pp. 54-63, 74-76.
(R) Cox, W. Michael and Richard Alm (1999), *Myths of Rich & Poor*, Basic Books, pp. 179-184.
(B) Ryff, Carol D. (1995), "Psychological Well-Being in Adult Life", *Current Directions in Psychological Science*, 4(4), pp. 99-103.
(B) Ryan, R.M. and E.L. Deci (2000), "Self-Determination Theory and the Facilitation of Intrinsic Motivation, Social Development, and Well-Being", *American Psychologist*, 55(1), pp. 74-76.

B. Misprediction of utility

- 4/18 (B) Do "Goal" Survey. (Survey 11)
(B) Assignment 21
(B) Kahneman, Daniel (2003) "A Psychological Perspective on Economics", AEA Papers and Proceedings (93,2), 162-168, esp 163-165.
(E) Easterlin, Richard A. "Income and Happiness: Towards a Unified Theory", *HGLC*, Ch 6, pp. 141-142.
(B) Easterlin, Richard A. (2005), "A Puzzle for Adaptive Theory," *Journal of Economic Behavior and Organization*, 56: 4, pp. 513-521.

C. Consumer sovereignty and paternalism

- 4/20 (B) Assignment 22
(B) Friedman, Jeffrey and Adam McCabe (1996), "Preferences or Happiness? Tibor Scitovsky's Psychology of Human Need", pp. 49 middle-53.
(B) Sugden, Robert 2008. "Capability, Happiness, and Opportunity" in Luigino Bruni et al. eds. *Capabilities and Happiness*. NY. Oxford Press, 299-322 (esp. last few pages).
(B) Sen, Amartya (1996), "Rationality, joy and freedom".
(B) Holt, Jim (2006), "The New, Soft Paternalism", *New York Times Magazine*, December 3.
(B) Bernanke, Ben S. (2010) University of South Carolina Commencement Address, available at:
<http://www.federalreserve.gov/newsevents/speech/bernanke20130602a.htm>

D. Self-help

4/25 (B) Assignment 23

(B) Seligman, Martin E.P. (2004), "Can Happiness Be Taught?" *Daedalus*, 133(2), pp. 80-87.

(B) Christopher Peterson, Nansook Park, Martin E.P. Seligman (2005). "Orientations to Happiness and Life Satisfaction: the Full Life versus the Empty Life". *Journal of Happiness Studies*, 6, 25-41.

(E) Easterlin, Richard A. (2003), "Explaining Happiness", *HGLC*, Ch. 11, 231-247.

E. Public policy

4/27 (B) Assignment 24

(B) Stiglitz, Joseph E., Sen, Amartya, and Jean-Paul Fitoussi (2009), Report of the Commission on the Measurement of Economic and Social Progress ("Sarkozy Report"), Available at www.stiglitz-sen-fitoussi.fr, pp. 7-18 (Executive Summary).

(B) Easterlin, Richard A. (2013) "Happiness, Growth, and Public Policy," *Economic Inquiry*, January 2013 51(1), 1-15.

5/10 FINAL EXAM (2-4)