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**DIMENSIONS OF HAPPINESS: A SELECTED REVIEW OF LITERATURE**

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**ABSTRACT**

*Right from the dawn of civilization saints, seers, religious leaders went to Himalayas to search for happiness and peace of mind. Everybody in this world wants to be happy. Happiness in general sense can be stated as a state of mind. The economics of happiness is an approach to assessing welfare which combines the techniques typically used by economists with those more commonly used by psychologists.. Welfare or happiness can be increased by increasing income but it is not a sufficient condition. People have different preferences for material and non-material goods. A person may choose a lower paying but more personally rewarding job. They are acting to maximize utility in a classical Walrasian sense. This paper focuses on the factors affecting human happiness like income, age, gender, personality, education, health, unemployment, religious activities, type of work, inflation, attitude towards circumstances and life, climate and natural environment and urbanization. These factors affecting happiness can play a key role in policy formulation by the government. If government designs its welfare programmes and other development activity keeping in its view the factors which plays important role in enhancing people's happiness then the pace of both development and and thus happiness can rise.*

*Happiness surveys can serve as an important tool for public policy. Scholars such as Diener and Seligman<sup>14</sup> (2004) and Kahneman et al <sup>47</sup>(2004) advocate the creation of national well-being accounts to complement national income accounts.*

**KEYWORDS**

**Happiness, Gross National Happiness**

## I INTRODUCTION

Everybody in this world wants to be happy. Happiness is generally considered to be the ultimate goal of life. Right from the dawn of civilization saints, seers, religious leaders went to Himalayas to search for happiness and peace of mind. People work daily, they struggle to survive. Somehow they want to exist. However, they are not happy. In many countries, there are many who hope to win lottery some day, they think that they will find happiness in it. Welfare or happiness can be increased by increasing income but it is not a sufficient condition. People have different preferences for material and non-material goods. A person may choose a lower paying but more personally rewarding job. They are acting to maximize utility in a classical Walrasian sense.

Happiness in general sense can be stated as a state of mind. One may feel happy to go to parties but at same time other person may not feel happy. Even a rich person can be unhappy as he/she may be although loaded with money but their life is full of problems-they may be involved in lawsuits and may be overtaxed etc. Nobody experiences genuine happiness!

The economics of happiness is an approach to assessing welfare which combines the techniques typically used by economists with those more commonly used by psychologists. While psychologists have long used surveys of reported well-being to study well-being to study happiness, economists only entered into this area.

Early economists and philosophers ranging from Aristotle to Bentham to Mill and Smith incorporated the pursuit of happiness in their work.

The present paper focuses its discussion on happiness and related concepts used by various economists directly and indirectly in their studies.

This paper has been divided into various sections:-

Section I Introduction

Section II Definition of Happiness to Psychologists

Section III Definition of happiness to Sociologists

Section IV Meaning of happiness to economists

Section V Happiness in literature of economics

Section VI Factors affecting Happiness

Section VII Policy implications

Section VIII References

## II. DEFINITIONS OF HAPPINESS ACCORDING TO PSYCHOLOGISTS

**Ed Diener**, a precursor Positive Psychologist, "The Psychology of Happiness," and considered the "*leading authority on happiness (?)*", provided many scientific findings on well-being, its benefits and optimum levels as well as some causes for it like temperament, money attitudes, spirituality, good health and longevity. He describes what psychologists call subjective well-being as a combination of life satisfaction and having more positive emotions than negative emotions.

**Martin Seligman**, one of the leading researchers in positive psychology and author of *Authentic Happiness*, describes happiness as having three parts: pleasure, engagement and meaning. Pleasure is the feel good part of happiness. Engagement refers to living a good life of work, family, friends and hobbies. Meaning refers to using our strengths to contribute to a larger purpose. Seligman says that all three are important, but that of the three, engagement and meaning make the most difference to living a happy life.

**Jonathan Freeman** affirms "people generally agree about what they mean by happiness. It is a positive, enduring state that consists of positive feeling including both peace of mind and active pleasures or joy."

**Ruut Veenhoven** describes happiness as "the degree in which an individual judges the overall quality of his life-as-a-whole favorably."

**Sigmund Freud** believed that man is doomed to chronic unhappiness.

### III. MEANING OF HAPPINESS IN SOCIOLOGY

Georgetown sociologist Jose Casanova has observed some of these differences: In American life, the pursuit of happiness is thought as an individual "pursuit"—defined as something that is the moral duty of each individual to pursue actively. In contrast, Immanuel Kant speaks of "making ourselves worthy of happiness"—as if happiness is not something we attain or achieve, but rather a gift we receive. Then, there's also Zhuangzi (Chuang Tzu) and his idea that "Happiness is the absence of the striving for happiness."

According to Jiyuan Yu, the ancient Chinese notion of happiness has five elements: longevity, wealth, health, virtue, and living out one's natural span well.

### IV. MEANING OF HAPPINESS TO ECONOMISTS

Economists who work in the area broadly define happiness or subjective well-being as satisfaction with life in general. Indeed, the three phrases are used interchangeably.

Most studies are based on a very simple set of survey questions that ask respondents "How satisfied are you with your life?" or "How happy are you with your life?" Critics used to defining welfare or utility in material or income terms bemoan the lack of precise definition in these questions. Yet the economists who use these surveys emphasize their advantages in making comparisons across cohorts of individuals - in which they find a surprising consistency in the patterns of responses both within and across countries - over evaluating the actual happiness levels of specific individual.

Some of the earliest economists, such as Jeremy Bentham, were concerned with the pursuit of individual happiness. As the field became more rigorous and quantitative, however, much narrower definitions of individual welfare, or utility, became the norm. Economists have traditionally shied away from the use of survey data because of justifiable concerns that answers to surveys of individual preferences - and reported well-being - are subject to factors such as the respondents' mood at the time of the survey and minor changes in the phrasing of survey questions, which can produce large biases in results (Bertrand and Mullainathan 2001). Thus traditional economic analysis focuses on actual behavior, such as revealed preferences in consumption, savings, and labor market

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participation, under the assumption that individuals rationally process all the information at their disposal to maximize their utility.

Common market health measures such as GDP and GNP have been used as a measure of successful policy. On average richer nations tend to be happier than poorer nations, but this effect seems to diminish with wealth. This has been explained by the fact that the dependency is not linear but logarithmic, i.e., the same percentual increase in the GNP produces the same increase in happiness for wealthy countries as for poor countries.

## **V. HAPPINESS IN ECONOMICS LITERATURE**

The concept of utility is in a way related to happiness or satisfaction of an individual. Utility is the want satisfying power of a commodity. Thus it gives us satisfaction or happiness. But it is a narrow viewpoint as Utility was taken to depend only on income as mediated by individual choices or preferences within rational individual's monetary budget constraint. Happiness or utility cannot be limited to use of commodities and utilities derived out of it. Happiness or satisfaction is a broader concept.

The theory of revealed preference was also said to be related to welfare effect which leads to happiness to an individual.

Duesenberry hypothesis laid stress on relative income rather than absolute increase in income to attain satisfaction or happiness. Elite and mass consumption theory also lead to the prediction that attainments held by few will be more satisfying than the same attainments, if held by many. These theories posit that material goods which are commonly available and possessed by many, are consciously or unconsciously, considered by people as less desirable and less satisfying than the goods available to only a few and perceived as rare, exceptional, unaffordable and elitist. That is why elites prove their status by conspicuous consumption of luxury goods (Veblen 1967) or high culture. The more people have particular kind of consumer goods or have access to a cultural domain, the less desirable these goods are for both the elite and its followers. All these theories lead to the assumption that the more commonly possessed goods are, whether material or non-material, the less they enhance subjective well-being of their possessors.

One important innovation is the concept of bounded rationality, in which individuals are assumed to have access to limited or local information and to make decisions according to simple heuristic rules rather than complex optimization calculations (Conlisk 1996; Simon 1978). Easterlin was the first modern economist to revisit the concept of happiness in early 1970s. More generalized interest took hold in late 1990s.

## **VI. FACTORS INFLUENCING HAPPINESS OR SOCIAL WELL-BEING AND THEIR REVIEW OF LITERATURE**

### **HAPPINESS AND INCOME ACROSS TIME: THE EASTERLIN PARADOX**

There arises always a question in mind that does higher income related to more happiness. In 1974 Easterlin showed that, for the United States, individually self-reported happiness increased with individual income, although there were rapidly "decreasing happiness returns" to increases in income. The cross-individual relationship between income and happiness was found to be far from linear, and essentially flat for high levels of income. Although this is consistent with the diminishing

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returns to increases in consumption that are typically assumed for theoretical utility functions, there is debate on this topic. Thus, Easterlin found clear evidence of a positive effect of income on happiness at the individual level, in-line with the assumptions of standard economic theory—but in contrast with the findings of objective measures of quality of life (Easterlin 1974). However, Easterlin also found in the same study that aggregate national happiness over time was essentially flat, seemingly irresponsive to sustained increases in GDP per capita. This finding is often known as the “Easterlin Paradox,” in that growth in per capita income is not reflected in increasing happiness.

A comprehensive review of the relationship between income and social well-being was provided by Clark, Frijters and Shields (2007). The result suggest positive but diminishing returns to income. Some association is likely to be due to unobserved individual characteristics such as personality factors, as indicated by studies which find a reduces income effect after controlling for individual effects. ( Ferrer -i-Carbonell and Frijters , 2004; Luttmer ,2005).

### **AGE**

Studies consistently find a negative relationship between age and SWB and a positive relationship between age squared and SWB (Blanchflower & Oswald, 2004a; Ferreri- Carbonell , & Gowdy , 2007). Studies suggest a U-shaped curve with higher levels of well-being at the younger and older age points and the lowest life satisfaction occurring in middle age, between about 32 and 50 years, depending on the study. Easterlin (2006) notes that this U-shaped relationship found when many age-related differences in life circumstances (income, health, employment, etc.) have been controlled for may be misleading since it says little about how the SWB of young and old compare to those at middle age.

### **GENDER**

Women tend to report higher happiness (Alesina, Di Tella , & MacCulloch , 2004) but worst scores on the GHQ (Clark & Oswald, 1994), although a few studies report no gender differences (e.g. Louis & Zhao, 2002) even using the same datasets. This suggests that other correlates may also be more important than gender per se given that different studies have different control variables. Indeed, when specific subsets are examined, such as those who cannot work due to health problems (Oswald & Powdthavee , 2006) or those who provide informal care for others (van den Berg & Ferrer-i-Carbonell, forthcoming), the gender effect often disappears.

### **PERSONALITY**

A considerable amount of psychological research has considered the relationship between personality and SWB (for a review see, De Neve & Cooper, 1998). However, few studies have examined this relationship. Using the WVS data, Helliwell (2006) found a very moderate relationship between personality and SWB once other factors such as social trust and religious beliefs were controlled for. People higher in self-esteem seem less likely to suffer from depression. In addition, many of the sub-scales of the GHQ, which could also be interpreted as personality variables (e.g. self-worth), correlate positively with life satisfaction using the UK, BHPS data ( Ferrer-i-Carbonell & Gowdy, 2007).

### **EDUCATION**

Some studies find a positive relationship between each additional level of education and SWB (subjective well-being) (Blanchflower & Oswald, 2004b), while others find that middle level education is related to the highest life satisfaction (e.g. Stutzer , 2004). However, there is some

evidence that education has more of a positive impact on low income countries (Fahey & Smyth, 2004; Ferrer-i-Carbonell<sup>26</sup>, 2005). Flouri (2004) finds no significant relationship with the GHQ in the BHPS, and some studies find that education is associated with worse GHQ scores (e.g. Clark, 2003a). Education qualifications may be related to unobservable traits at the individual level, such as motivation, intelligence or family background and so ideally we should look to those studies which control for unobserved heterogeneity.

Education is likely to be positively correlated with income and health, Graham and Pettinato<sup>35</sup> (2001) find that years of education increases overall happiness in Latin America, but that the effect becomes non-significant once social mobility and relative economic standing is included, which indicates that the benefits to education may be positional rather than absolute.

## HEALTH

Studies consistently show a strong relationship between SWB and both physical and psychological health. Psychological health appears to be more highly correlated with SWB than physical health but this is not surprising given the close correspondence between psychological health and SWB. Some of the association may be caused by the impact that well-being has on health but the effect sizes of the health variables are substantial suggesting that even accounting for the impact of SWB on health, health is still impacting on SWB. Furthermore, specific conditions, such as heart attacks and strokes reduce well-being (Shields & Wheatley Price, 2005), and the causality here is most likely to be from the health condition to SWB. Of course, a third factor (such as personality) may be related to both SWB and health, and this would make finding a significant relationship between health and SWB more likely. Studies using fixed effects models continue to show a strong effect of health on SWB but they are still unable to control for time variant unobservable variables, such as current mood, and using self-rated health as the health variable may serve to exacerbate this problem.

Oswald and Powdthavee (2006) present some evidence that individuals adapt somewhat to disability status, finding that the length of time an individual has experienced the disability reduces the negative impact of the disability. However, adaptation is far from complete. The fixed effects model finds that disability reduces life satisfaction (on a 1–7 scale) by 0.596 points for those with no past disability, by 0.521 points after 1 year of disability, 0.447 points after 2 years and 0.372 after 3 years. An interpretation of adaptation requires that the scale is being consistently used throughout the time period, and is independent of health status.

## UNEMPLOYMENT

The empirical literature on happiness has found that unemployment makes one very unhappy (e.g. Clark and Oswald, 1994; Winkelmann and Winkelmann, 1998; Di Tella et al., 2001)

Studies consistently show a large negative effect of individual unemployment on SWB. Models which treat life satisfaction scales as a continuous variable, tend to find that the unemployed have around 5–15% lower scores than the employed (e.g. Di Tella et al., 2001; Frey & Stutzer, 2000, 2002; Helliwell, 2003; Stutzer, 2004). Using European data, Lelkes<sup>48</sup> (2006) found that unemployment reduces the probability of a high life satisfaction score (at least 8/10) by 19%, and a high overall happiness score by 15%. Data for Switzerland suggest this reduction may be even higher (Frey & Stutzer, 2000, 2002). Studies which use a reduced form model, instrumenting for health, suggest that the full effect size may be an underestimate when health status is controlled for (Bukonya et al., 2003; Gerdtham & Johannesson, 2001). Whilst there are some exceptions to the finding of strong negative effect of unemployment (Smith, 2003), these may have arisen due to small numbers of unemployed in their data. The possibility that unhappy people have selected into unemployment has been raised in the past. Individuals who have low SWB may be more likely to become employed, if for example, they are less productive, have poorer health or are more likely to choose to become unemployed. Furthermore, controlling for psychological distress in earlier periods (Korpi, 1997) and



controlling for individual heterogeneity using fixed effects models, again finds a strongly robust impact of unemployment (e.g. Ferrer-i-Carbonell & Gowdy, 2007; Weinzierl, 2005; Winkelmann, 2004). Some studies have found a reduction in effect size once fixed effects are controlled for (Gerlach & Stephan, 1996; Luttmer, 2005; Oswald & Powdthavee, 2006), while others have found that it remains virtually identical (Meier & Stutzer, 2006). Men have been found to suffer most from unemployment (Clark, 2003a, 2003b; Dockery, 2003; Gerlach & Stephan, 1996; Lucas et al., 2004; Theodossiou, 1998) in developed world and some studies also find that the middle aged suffer more than the young or old (Clark & Oswald, 1994; Pichler, 2006; Winkelmann & Winkelmann, 1998). Those with higher education suffer more in Britain (Clark & Oswald, 1994), those with right wing political leanings in the US (Alesina et al., 2004) and those in high income countries (Fahey & Smyth, 2004).

### **RELIGIOUS ACTIVITIES**

The evidence is fairly consistent and suggests that regular engagement in religious activities is positively related to SWB (e.g. Clark & Lelkes, 2005; Hayo, 2004). While some studies only examine whether or not the person actually attends church, others examine different amounts of time spent in these activities. Using WVS data, Helliwell (2003) finds higher life satisfaction to be associated with church attendance of once or more a week. A similar finding is found in Eastern Europe (Hayo, 2004) though less frequent attendance did not result in higher levels of life satisfaction than no attendance. Contrary to this latter finding, and using ESS data, Clark and Lelkes (2005) report that church attendance of at least once a month is enough to have an effect on life satisfaction. However, since attendance of once a week or more is included within 'at least once a month', the significant effect may be due to weekly attendance rather than less frequent attendance.

### **TYPE OF WORK**

There is insufficient evidence to draw clear conclusions about the impact of type of work on well-being. Given the amount of time people spend at work, this is an area that requires more investigation. Some evidence from the UK suggests that casual work is detrimental to SWB (Bardasi & Francesconi, 2004), and that belonging to a union is beneficial to life satisfaction (Blanchflower & Oswald, 1998). There is a little more evidence on self-employment. Many European studies fail to find any significant difference between being employed and being self employed but Blanchflower and Oswald (1998) find a robust positive effect of self-employment using UK, International (ISSP) and US (GSS) data. Using US and European data, Alesina et al. (2004) find that the positive effect of self-employment is limited to the rich.

### **INFLATION**

Investigating the impact of inflation is limited to comparisons across countries over time. Within the same country it would be impossible to isolate an inflation effect from any other time effects. Using aggregate data, Bjørnskov failed to find a significant effect of inflation on life satisfaction. However, controlling for individual personal characteristics and country and year fixed effects inflation has been found to have a consistent negative effect on SWB in Europe (Alesina et al., 2004; Di Tella et al., 2001, 2003; Wolfers, 2003), in Latin America (Graham & Pettinato, 2001) and in the US (Alesina et al., 2004; Di Tella et al., 2003). The inflation impact is worst for those with right wing political leanings (Alesina et al., 2004).

### **ATTITUDE TOWARDS CIRCUMSTANCES AND LIFE**

The evidence suggests that perceptions of our circumstances can be very important predictors of life satisfaction. One dimension that has been researched is financial satisfaction. As might be expected, poorer perceptions of one's current financial situation are usually associated with lower

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life satisfaction. (Graham & Pettinato ,2001 ; Hayo & Seifert,2003; Louis & Zhao , 2002). There is also evidence that perceptions of change in financial circumstances ,as opposed to current circumstances , may also be important for well-being.

#### **CLIMATE AND NATURAL ENVIRONMENT**

Current evidence of the impact of pollution and environmental factors on well-being is very limited. Welsch (2002) notes the difficulty of isolating any effect of pollution due to the high negative correlation between income and pollution. However, he does provide evidence that suggests that pollution, as measured by nitrogen dioxide, has a detrimental impact on overall happiness (Welsch, 2002, 2006). Ferrer-i-Carbonell and Gowdy (2007) find that environmental problems where one lives reduce life satisfaction but although income is controlled for in this model, this could still be picking up socio-economic status and household wealth. There is little evidence on the impact of climate on SWB but Rehdanz and Maddison (2005) study gives a reasonable indication that extreme weather is detrimental to Social well-being.

#### **URBANISATION**

There is some evidence across a range of geographical locations that living in large cities is detrimental to life satisfaction and living in rural areas is beneficial (e.g. Hudson (2006) for Europe; Dockery (2003) for Australia; Gerdtham and Johannesson (2001) for Sweden; Graham and Felton (2006) for Latin America; Hayo, (2004) for Eastern Europe). However, some results are non-significant and population density was not found to effect happiness (Rehdanz & Maddison , 2005), or mental health (Shields & Wheatley Price, 2005) , or the Satisfaction with Life Scale (Peterson, Park, & Seligman, 2005).

#### **VII. POLICY IMPLICATIONS**

From above we notice that there are many factors which affect Happiness of an individual and of society. If government frames its welfare programmes and other policies keeping in view the happiness of its people then the pace of economic development will be accelerated. Richard Layard (2005) makes a bold statement about the potential of happiness research to improve people's lives directly via changes in public policy. He further highlights the extent to which people's happiness is affected by status resulting in rat race approach to work and to income gains, which in the end reduces well-being. He further notes the strong positive role of security in the workplace and in the home and of quality of social relationships and trust. He identifies direct implications for fiscal and labour market policy in the form of taxation on excessive income gains and via re-evaluating the merits of performance based pay. However many do not agree with Layard's views but there is a consensus that happiness surveys can serve as an important tool for public policy. Scholars such as Diener and Seligman (2004) and Kahneman et al (2004) advocate the creation of national well-being accounts to complement national income accounts. The major challenge in happiness studies is that we need more and better quality panel data which at times is unavailable in developing world like India.



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