

# Life Satisfaction, Household Income and Personality Traits

By Eugenio Proto and Aldo Rustichini

**Recently economists have recognized the importance of introducing personality traits into the economic model (Borghans et al., 2008; Rustichini, 2009; Almlund et al., 2011). Data on Personality traits are considered at least as stable as economic preferences on risk, intertemporal discount rates, altruism and leisure; traits have a stronger predictive power than economic preferences for many important economic outcomes (Anderson et al., 2011) and have a comparable predictive power with respect to cognitive abilities. Personality seems also heavily related to genetic factors.**

Our paper aims to shed more light on the relationship between personal income and life satisfaction by bringing into the analysis the big 5 personality traits (Openness, Conscientiousness, Extraversion, Agreeableness, Neuroticism). Our analysis shows that neuroticism affects not just the level of life satisfaction, but also modulates the relationship between income and life satisfaction in both the British Household Panel Survey and the German Socioeconomic Panel. When the interaction between income and neuroticism is introduced, income does not have significant effect on his own. Neuroticism increases the usually observed concavity of the relationship between income and life satisfaction. Individuals with higher neuroticism scores enjoy income more than those with a lower score if they are poorer; conversely, they enjoy income less if they are richer.

## Why do we observe this strong effect?

Neuroticism is linked to higher sensitivity to negative emotions like anger, hostility or depression. Modern studies identify this personality trait with sensibility to negative outcomes, threats and punishments. It is therefore reasonable to argue that people with higher levels of neuroticism experience higher sensitivity to losses or failure to meet expectations. Accordingly, we propose an explanation of why neuroticism decreases the elasticity between income and life satisfaction for high income levels and increases this elasticity for lower income levels. The explanation is based on the sensitivity to the gap between aspiration and realisation in income. Thus aspirations are in average fulfilled for low income and in average unfulfilled for high income.

The analysis unveils other relevant empirical results. Traits underlying motivation, like conscientiousness, openness and extraversion, increase income significantly.

*Continued on back page*

## INSIDE

- | CAGE people  
Recent visitors
- | News  
CAGE/Chatham House  
Policy Briefing
- | Events  
RES Policy Lecture  
ESRC Festival  
of Social Science



Eugenio Proto



Aldo Rustichini



## Dr Anandi Mani

**Anandi Mani is Associate Professor in the Department of Economics at the University of Warwick. She joined CAGE at its inception in 2010 as Capacity Building Fellow at the Centre. Anandi has been a Senior Researcher at Ideas42, a research centre at Harvard University. She is currently a consultant to the World Bank on projects related to gender. She is also an invited contributor to a newly launched policy portal on development issues in India, funded by the International Growth Centre (IGC).**

Her current research lies in the interface of development economics and psychology, as well questions related to the political economy of development. Her ongoing projects focus on the impact of poverty (on cognitive abilities, decision-making and aspirations) and the impact of political representation for women.

She has published papers on a wide range of issues in development economics, including inequality and poverty, the political economy of the provision of public goods and governance, and the consequences of political representation. Her work has appeared in well-regarded academic journals including the *Review of Economics and Statistics*, *American Economic Journal*, *Applied Economics*, *Journal of Labour Economics*, *Journal of Development Economics* and *Journal of Economic Growth*. Her recent work has received wide media coverage in several leading newspapers in Europe and India.

## CAGE Visitors

### Dr Maximilian von Ehrlich



This term we have been pleased to welcome Maximilian von Ehrlich as CAGE visiting fellow. Maximilian spent a month at CAGE this Summer. During his stay he worked with Prof. Sascha O. Becker on a project relating to the role of absorptive capacity for the growth and investment effects of regional transfers. Their study shows that only about 30 percent of the regions receiving EU Structural funds - those with sufficient human capital and good-enough institutions - are able to turn the transfers into faster per-capita income growth and per-capita investment.

Maximilian is Assistant Professor at ETH Zurich. His current research projects deal with the interaction between financial markets and regional inequalities; and with the advent of online technologies and its effect on media markets.

## Congratulations to:

### Mariela Dal Borgo



CAGE Ph.D. student Mariela Dal Borgo's paper 'Productivity and Growth in UK Industries: An Intangible Investment Approach', written with co-authors Peter Goodridge, Jonathan Haskel, and Annarosa Pesole, has been accepted for publication in the *Oxford Bulletin of Economics and Statistics*.

The paper seeks to uncover the sources of growth in the 'knowledge economy' using a growth accounting framework. Its contribution is to estimate, for the first time, the substantial impact of 'intangible capital' (organisational capital, training and software) on UK economic growth.

## Professor Mark Harrison



CAGE Research Associate, Professor Mark Harrison, has been awarded the Russian National Prize for Applied Economics in recognition of research that filled the last remaining gap in the national income records of 20th Century Russia.

Prof. Harrison shares the prize with Andrei Markevich, assistant professor at the New Economic School in Moscow and an associate fellow of Warwick's Department of Economics.

The two received the prize for their work in generating estimates of the real national income of Russia and the USSR over the years from 1913 through 1928, a period of enormous human and economic tragedy.

The pair undertook the complex task of calculating Russia's national income year by year - an endeavour complicated by incomplete and poor-quality data, and by boundary changes that took place over the period. Their work showed that Russia's economic performance up until the revolution in 1917 was better than was previously thought. After that, a combination of revolutionary mobilisation and civil war drove the economy down to the level of the poorest countries in the world today, not seen in Europe since the Middle Ages.

The Russian National Prize for Applied Economics is awarded every second year by a consortium of Russian universities, institutes and journals.

The award-winning research paper, "Great War, Civil War, and Recovery: Russia's National Income, 1913 to 1928," was published in the *Journal of Economic History* in September. A postprint is available at <http://goo.gl/ua8cM>

## CAGE/CEP Workshop on Trade Policy in a Globalised World

June 8th and 9th 2012  
Palazzo Pesaro Papafava,  
Venice, Italy



The process of globalisation has brought numerous benefits to both poor and rich economies. It hinges on the reduction of regulations, tariffs, taxes and other impediments that suppress international trade. But during periods of economic stress, those benefits are put at risk by potential policy reversals. It is therefore imperative to design policies and institutions that preserve and advance globalisation gains.

This conference brought together leading international trade academics from the United States and Europe to discuss and advance those issues. The papers

presented focused on the main players in today's global economy - Europe, the U.S. and China - and discussed the design and implementation of trade policies, the increasing importance of trade agreements and their role in the stability of the trade policy environment.

The conference was organised by Dennis Novy (University of Warwick) and Emanuel Ornelas (London School of Economics) and sponsored by the UK's Economic and Social Research Council (ESRC) through the Centre for Competitive Advantage in the Global Economy (CAGE) and the Centre for Economic Performance (CEP).

## Chief Economists' Workshop

CAGE Research Associate Jennifer Smith gave a Keynote Speech, "Unemployment and Mismatch in the UK", at the Chief Economists' Workshop held recently at the Bank of England. In her speech Dr Smith looks at the rise in unemployment during the recession that began in 2008 detailing that half of this rise was due to mismatch between the types of vacancies available and the characteristics of unemployed workers.

The workshop brought together central bank chief economists from across the world and top academics to discuss developments in labour markets during the financial crisis.

Jennifer's presentation and the full article are available at [www.bankofengland.co.uk/publications/pages/events/ccbs\\_cew2012/programme.aspx#day1](http://www.bankofengland.co.uk/publications/pages/events/ccbs_cew2012/programme.aspx#day1)

Jennifer Smith is an associate professor in the Department of Economics at the University of Warwick. Her research explores labour market dynamics.

## 5th ESRC Research Methods Festival

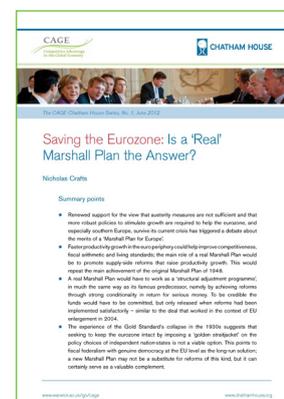
The National Centre for Research Methods held the 5th ESRC Research Methods Festival on 2 – 5 July at St Catherine's College in Oxford.

Festival themes this year included the interface between social and natural sciences; methodological innovations; mixed and multimodal methods; career and skills development and interventions and evaluations.

Researchers from CAGE participated in the Festival. Professor Sayantan Ghosal, Research Director of CAGE, convened a session on 'Methods in Field Experiments in Economics and Political Science' on 4 July which included presentations by Prof. Chris Woodruff and Dr Anandi Mani and Prof. Donald Green (Columbia University). This was followed by another session on 5 July, 'Happiness, Income and Welfare', which included presentations from Prof. Peter Hammond, Dr Eugenio Proto and Prof. Ghosal.

The presentation slides and podcasts of the presentations will be available late July/early August on the NCRM website [www.ncrm.ac.uk/](http://www.ncrm.ac.uk/)

## New CAGE/Chatham House Policy Briefing 'Saving the Eurozone: Is a 'Real' Marshall Plan the Answer?'



In this policy briefing Nicholas Crafts argues that the rationale for a new Marshall Plan would be both to reduce the chances of a chaotic break-up of the eurozone and to allow more time to prepare for this eventuality – while at the same time working to improve the medium term economic performance of the euro periphery.

The objective of a Marshall Plan for crisis-hit countries in the euro periphery of southern Europe would be to underpin European economic integration and the survival of the eurozone by raising productivity growth. This would entail increased but not massive transfers of funds. However, this is not appreciated by most economists today, let alone the politicians who argue for such a plan.

This report was launched at Chatham House on 26th June to an audience that included policy makers and members of the business community and academics. To see a pdf of the paper or to listen to the podcast recorded at the launch visit the CAGE website.

Forthcoming papers in the CAGE-Chatham House Series:  
8 Oct 2012, Chatham House  
'Adjusting to Global Economic Shocks'  
Prof. Sharun Mukand

*Continued from page 1*

These results confirm that personality traits are important for predicting life outcomes, income in this case.

Kahneman et al. (2006) and Akin et al. (2009) show that individuals tend to underestimate the life satisfaction of the poorer. Their conclusion is that individuals work to become richer because of the illusion that wealth brings happiness. Our paper brings personality theory into the analysis and suggests a different reading of these empirical findings. Richer people, having a different personality from those who are poorer, estimate correctly how bad they would feel if they themselves were poorer, and this is also the reason why they are not poorer.

This article draws on the CAGE Working Paper 'Life Satisfaction, Household Income and Personality Traits', Eugenio Proto and Aldo Rustichini (2012) in which full bibliographic references can be found.

## Working Papers

CAGE publishes a series of working papers which are available online at [go.warwick.ac.uk/cage](http://go.warwick.ac.uk/cage)

Recent papers include:

### Globalisation and the (Mis)Governance of Nations

*Authors: Arthur Blouin, Sayantan Ghosal and Sharun W. Mukand No. 69/2012*

In this working paper the authors analyse whether or not the globalisation of capital 'disciplines' governments and improves governance. They demonstrate that globalisation affects governance by increasing a country's vulnerability to sudden capital flight.

This increased threat of capital flight can discipline governments and improve governance and welfare by placing countries in a 'golden straitjacket'. However, globalisation may also 'overdiscipline' governments - resulting in a perverse impact on governmental incentives that catalyses (mis)governance. Accordingly, the paper suggests a novel (and qualified) role for capital controls.

### Russia's Home Front, 1914 -1922: The Economy

*Authors: Mark Harrison, Andrei Markevich No. 74/2012*

This paper describes the main trends of the Russian economy through the Great War (1914 to 1917), Civil War (1918 to 1921), and post-war famine (1921 to 1922). During its Great War mobilisation the Russian economy declined, but no more than other continental economies under similar pressures. In contrast, the Civil War inflicted the greatest economic trauma that Russians suffered in the course of the twentieth century. The paper identifies the main shocks in each period, evaluates the relative contributions of circumstances and policy, and sums up their historical significance.

#### Department of Economics

University of Warwick, Coventry CV4 7AL

Tel: +44 (0) 24 7615 1176

Fax: +44 (0) 24 7652 3032

Email: [cage.centre@warwick.ac.uk](mailto:cage.centre@warwick.ac.uk)

Web: [go.warwick.ac.uk/cage](http://go.warwick.ac.uk/cage)

Twitter @cage\_warwick

## Forthcoming Events

### Royal Economic Society Policy Lecture

17 October, Bloomsbury Theatre, UCL

This year's RES Policy Lecture will be given by Professor Nick Crafts in the evening of Wednesday 17 October at the Bloomsbury Theatre, UCL. The topic will be 'Returning to Growth: Policy Lessons from History' and will focus on what can be learned from the strong recoveries from recession in the 1930s and 1980s which might help the design of economic policy today.

The Policy Lecture series was initiated by the RES in 2011 as an opportunity for leading economists to speak to both academics and policy-makers and to others interested in the development of economic policy.

### ESRC Festival of Social Science

The ESRC Festival of Social Science for 2012 will run from 3 to 10 November 2012. The Festival, now in its tenth year, celebrates the importance of the social sciences with a wide variety of events across the UK – conferences, workshops, film screenings etc – with different events designed to appeal to all sections of our community.

**CAGE is delighted to participate in the Festival and will be running two events this autumn:**

### Economics and the Real World

6 November, Warwick Arts Centre Cinema

This event, aimed at Sixth Form students will showcase CAGE research. Researchers will demonstrate how their work addresses real world issues and can have an impact on government policy. They will focus on the importance of understanding economic history and drawing on lessons from the past; whether economic growth can be enough to raise happiness in poor countries; and how randomised experiments in developing countries can help UK Policy Makers make decisions to foster economic development. The aim of this event is not just to help pupils appreciate the importance of economics, but also to evoke interest in studying social science at University.

### Religion, Gender, Education and Economics

9 November, The Chaplaincy, University of Warwick

This event, based on current research by Professor Sascha Becker, will give the audience the opportunity to discover how religion still makes a difference in educational attainment and earnings, even though its role in public life has diminished, and will serve as a basis for a wider discussion on how religion, education and economics interact.

CAGE Newsletter Editor: Tracy Evans

CAGE Newsletter is published every 4 months. If you would like to be added to our mailing list please email [cage.centre@warwick.ac.uk](mailto:cage.centre@warwick.ac.uk)

Designed by WarwickDesign, [www.designatwarwick.com](http://www.designatwarwick.com)