

# The anatomy of subjective well-being

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## Abstract

This paper contributes to the literature on subjective well-being (SWB) by taking into account different aspects of life, called domains, such as health, financial situation, job, leisure, housing, and environment. We postulate a two-layer model where individual total SWB depends on the different subjective domain satisfactions. A distinction is made between long-term and short-term effects. The individual domain satisfactions depend on objectively measurable variables, such as income. The model is estimated using a large German panel data set.

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## 1. Introduction

The recent issue of this journal, devoted to the theme of ‘Subjective well-being and economic analysis’, may be seen as a significant step towards the lifting of the virtual ban on measuring utility that has dominated economics since [Robbins \(1932\)](#). To be honest, it should be noted that various prominent economists, such as [Frisch \(1932\)](#) and [Tinbergen \(1991\)](#) always refused to take such a stand. [Van Praag \(1968\)](#), [Easterlin \(2001\)](#), and [Holländer \(2001\)](#) a.o. make a strong case that this anathema has actually caused a stagnation in the development of economic analysis.

In the last decade, but prior to the work published in *JEBO*, scattered economists have started to study subjective well-being (SWB)<sup>1</sup> as a serious subject. See, for example, [Clark](#)

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<sup>1</sup> We use the terms subjective well-being, satisfaction with life, and general satisfaction as interchangeable.

and Oswald (1994), Di Tella et al. (2001), Frey and Stutzer (2000), McBride (2001), Oswald (1997), Pradhan and Ravallion (2000), and Van Praag and Frijters (1999). Earlier studies include Easterlin (1974), Van Praag (1971), and Van Praag and Kapteyn (1973).

This paper extends this line of research by making a first attempt to develop a joint model based on satisfaction with life as a whole and on domain satisfactions. Domain satisfactions relate to individual satisfaction with different domains of life, such as health, financial situation, and job. Satisfaction with life as a whole can be seen as an aggregate concept, which can be unfolded into its domain components.

Most studies in this literature have the following structure. Individuals are asked how satisfied they are with their life as a whole or with a specific domain of it. They are invited to cast their response in terms of a small number of verbal response categories, such as ‘dissatisfied’, and ‘very satisfied’. Alternatively, the categories are numbered from 0 or 1 to 5, 7 or 10, where ‘most dissatisfied’ corresponds to level 0 or 1 and ‘most satisfied’ with the highest level. The responses are explained by ordered probit or logit models, using objective variables, such as age, income, gender, and education. When two respondents give the same answer, they are assumed to enjoy similar satisfaction levels, implying that ordinal comparability is permitted. In other words, ordinal interpersonal comparability is a basic assumption in these models. Next, the effect of the explanatory variables on individual well-being can be assessed. Additionally, one can also consider the substitution ratio between explanatory variables.<sup>2</sup> This paper aims at a somewhat more sophisticated model in which we will assume that satisfaction with life is an aggregate of various domain satisfactions.

This paper is structured as follows. [Section 2](#) presents the model and the estimation procedure. [Section 3](#) describes briefly the data, introduces the satisfaction questions used in the empirical analysis, and highlights the main underlying assumptions. [Section 4](#) shows and discusses the estimation results. [Section 5](#) concludes.

## 2. The model and estimation procedure

This section introduces the structural model of well-being as well as the estimation procedure. Some technical aspects of the estimation are presented in [Appendix A](#).

### 2.1. The model

The model assumes that there is a set  $X$  of objectively measurable explanatory variables  $X_1, \dots, X_k$  that explain the various domain satisfactions, which we denote by  $DS_1, \dots, DS_J$ . It is probable that there will be variables that only affect certain domains but not all of them. In its turn, General Satisfaction (GS) is explained by  $DS_1, \dots, DS_J$ . We sketch the structure in [Fig. 1](#).

We might surmise that the structure in [Fig. 1](#) is too simple. It is quite probable that the endogenous variables DS would influence each other. For example, job satisfaction depends,

<sup>2</sup> For instance: [Frey and Stutzer \(2000\)](#) look at the impact of democratic institutions on subjective well-being; [Clark and Oswald \(1994\)](#) assess the importance of unemployment for well-being; and [Cutler and Richardson \(1997\)](#) and [Groot \(2000\)](#) study the effect of various illnesses on health satisfaction.

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