

**INCOME AND SUBJECTIVE WELL-BEING  
IN MALAYSIA**

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**INCOME AND SUBJECTIVE WELL-BEING  
IN MALAYSIA**

by

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## LIST OF ABBREVIATIONS

BI	Brain Imaging
CMEPSP	Commission on the Measurement of Economics Performance and Social Progress
DRM	Day Reconstruction Method
EASS	East Asian Social Survey
EMS	Experience Sampling Method
EPU	Economic Planning Unit
GSS	General Social Survey
GLS	Global Life Satisfaction
GHI	Green and Happiness Index
GDP	Gross Domestic Product
HDI	Human Development Index
HPI	Happy Planet Index
MQoL	Malaysian Quality of Life
MQLI	Malaysian Quality of Life Index
MWI	Malaysian Well-being Index
NVPC	National Volunteer and Philanthropy Centre
NEF	New Economics Foundation
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PE	Physical Education
TVET	Technical and Vocational Education and Training
VAS	Visual Analogue Scale
WEF	World Economic Forum
WVS	World Values Survey

## **PENDAPATAN DAN KESEJAHTERAAN SUBJEKTIF DI MALAYSIA**

### **ABSTRAK**

Bolehkah wang membeli kebahagiaan? Paradoks mengenai pendapatan-kebahagiaan (Easterlin Paradox) menunjukkan bahawa individu-individu memiliki pendapatan yang lebih tinggi adalah lebih bahagia daripada golongan individu yang berpendapatan rendah namun peningkatan pendapatan masyarakat tidak mengimbangi tingkat kebahagiaan secara keseluruhan. Tesis ini bertujuan untuk mengkaji pendapatan dan kesejahteraan subjektif di Malaysia. Penyelidikan ini memberi tumpuan kepada dua jenis ukuran terhadap kesejahteraan subjektif - kebahagiaan dan kepuasan hidup. Berdasarkan data gelombang 5 (2005-2009) dan gelombang 6 (2010-2014) yang diperoleh daripada 'World Values Survey', kajian ini membentangkan isu ketidakseimbangan kesejahteraan subjektif daripada golongan yang mempunyai pendapatan yang berbeza. Kajian ini dinilai pada tahun 2006 untuk gelombang 5 dan tahun 2011 untuk gelombang 6. Didapati, rakyat lebih bahagia dan berpuas hati pada tahun 2011 berbanding dengan tahun 2006. Walau bagaimanapun, dalam tempoh yang sama, jurang perbezaan kebahagiaan dan juga kepuasan hidup adalah lebih tinggi di kalangan kumpulan yang berpendapatan rendah berbanding dengan kumpulan yang berpendapatan lebih tinggi. Kajian ini juga memeriksa pengaruh pendapatan mutlak, pendapatan relatif dan pendapatan jangkaan terhadap kebahagiaan dan kepuasan hidup berdasarkan gelombang 6. Dengan menggunakan analisis regresi logit, didapati peningkatan pendapatan mutlak menyumbang pada peningkatan tahap kebahagiaan dan kepuasan rakyat Malaysia. Dari segi peranan pendapatan relatif terhadap kebahagiaan, kesan 'tunnel' dapat diperhatikan bagi kumpulan yang berpendapatan rendah. Rakyat Malaysia berasa kurang puas hati dengan kehidupan mereka sekiranya pendapatan orang lain adalah lebih lumayan

tetapi kesan ini adalah berbeza dari segi tahap kebahagiaan mereka. Peningkatan pendapatan jangkaan meninggikan tahap kepuasan rakyat Malaysia. Faktor-faktor lain dari segi aspek kesihatan, pekerjaan, keagamaan, kepercayaan dan demokrasi mempengaruhi kebahagiaan dan kepuasan hidup rakyat Malaysia. Sebagai langkah keberkesanan bagi pengukuran pembolehubah penting seperti pendapatan dan kesejahteraan subjektif, satu kajian kes dijalankan berdasarkan sampel 249 pelajar siswazah di Pusat Pengajian Pendidikan Jarak Jauh, Universiti Sains Malaysia. Kajian kes ini juga mengkaji kepuasan hidup rakyat Malaysia dari sudut domain yang berbeza dan membuat perbandingan mengenai faktor-faktor yang menyumbangkan pelbagai domain kepuasan hidup rakyat. Kaedah yang digunakan dalam kajian ini adalah analisis faktor dan analisis regresi berganda. Tiga domain kepuasan hidup telah dikenalpasti berdasarkan faktor analisis iaitu materialisme, post-materialisme dan dominasi sektor awam. Didapati, pendapatan isi rumah dan pendapatan jangkaan mempengaruhi kepuasan hidup dari dimensi materialisme dan bukan dari dimensi post-materialisme mahupun dimensi dominasi sektor awam.

# **INCOME AND SUBJECTIVE WELL-BEING IN MALAYSIA**

## **ABSTRACT**

Can money buy happiness? The income-happiness puzzle (Easterlin Paradox) points out that individuals with higher incomes are happier than people with lower incomes yet raising everyone's income does not compensate with overall higher levels of happiness. This thesis aims to examine income and subjective well-being in Malaysia. The research focuses on two measures of subjective well-being – happiness and life satisfaction. Based on the wave 5 (2005-2009) and wave 6 (2010-2014) data obtained from the World Values Survey, this study addresses the issue of subjective well-being inequalities from different income groups. The survey was carried out in year 2006 for wave 5 and year 2011 for wave 6. People were happier and more satisfied in year 2011 compared to year 2006. However, over the same period, happiness and life satisfaction inequalities were found to be higher among the low-income group compared with the higher income groups. This study also examines the influence of absolute income, relative income and expected income on happiness and life satisfaction based on wave 6. Using the ordered logit regression analysis, it is found that higher absolute income contributes to greater happiness and satisfaction levels among Malaysians. In terms of the role of relative income on happiness, 'tunnel effect' is observed in particular among those in the low-income group. When compared with others who earn relatively higher income, Malaysians are less satisfied with life but the effect is found to be reversed in their happiness levels. Higher expected income seems to generate greater satisfaction among Malaysians. Other factors such as health, employment, religiosity, trust and democracy do influence Malaysian happiness and life satisfaction. To rule out that the findings could be influenced by how important variables such as income and subjective well-being are being measured, a case study

was conducted based on a sample of 249 undergraduate students at the School of Distance Education, University of Science Malaysia. The case study also examines the life satisfaction of Malaysians from different domains and makes comparison on factors that contribute to different domain of life satisfaction. The methods used in the study are factor analysis and multiple regression analysis. The three main domains of life satisfaction identified based on factor analysis are: materialism, post-materialism and public sector dominance. It is found that household income and expected income influence life satisfaction from the materialism dimension but not the post-materialism and public sector dominance dimensions.



## CHAPTER 1

### INTRODUCTION

#### 1.1 Background of the Study

Over the past four decades there have been great concerns, among policy makers and scholars, whether economic growth is adequate in gauging the general well-being of a country. Although Gross Domestic Product (GDP)<sup>1</sup> growth has been a good measurement of a nation's economic performance, whether high growth in GDP raises well-being of a society is still questionable. Nobel Laureate Professor Joseph Stiglitz emphasises the need to re-examine the measures of GDP. He explained the weaknesses of GDP, as an inadequate measure of human well-being and consequently suggested a need to develop alternative and more comprehensive measures. Monetary socio-economic indicators such as real GDP have been found to be inadequate measures for the well-being of the society (Stiglitz, Sen & Fitoussi, 2009).

Others who indicated that GDP is an insufficient measurement for better quality of life of a society include Cummins et al. (2003), Graham (2005a), Van den Bergh (2007), Inoguchi and Fujii (2008), and Diener and Seligman (2009). For instance, Graham (2005a) stated that growth is necessary but is insufficient in resolving poverty. Van den Bergh (2007) argued that GDP per capita is very different from a robust indicator of social welfare and regarded it as a severe form of government and market failure. Inoguchi and Fujii (2008) agreed that GDP growth brings improvement in standard of living and levels of income level but it does not

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<sup>1</sup> Gross Domestic Product (GDP) measures all goods and services produced in the country whether by domestic or foreign companies. It excludes goods and services produced in other countries. Another indicator to measure economic progress is Gross National Product (GNP) which measures all production by domestic companies regardless of where in the world that production takes place. The difference between GDP and GNP is the production boundaries used. To simplify the discussion in this document, the term GDP will be used throughout this study.

necessarily enhance social stability. Diener and Seligman (2009) discussed the shortcomings of economic measures on national indicators and outlined the gains for society by enhancing the well-being of citizens. Yahaya and Selvaratnam (2015) claimed that the rapid economic growth does not necessarily reflect the quality of life of the people in Malaysia.

GDP does not take into account indicators that could influence the citizens' well-being such as leisure time, non-market production and pollution costs. In today's digital world, a growing fraction of innovation, such as free applications (apps) which bring hours of day-to-day entertainment to many people across nations at free of cost, is also not measured in GDP. There is a concern that GDP could be one of the misleading indicators (The Economist, 2016).

The World Economic Forum (WEF) stated that GDP is like a speedometer that tells us "how fast" we run, but unable to show "which direction" people are heading (Jakarta Post, 2016). Almost everyone is busily occupied in the rat race for making more money (Ng, 2002). Several authors (Daly, 1996; Costanza, Hart, Talberth & Posner, 2009; Diener & Seligman, 2009; Skousen, 2013) have emphasised the importance of monitoring social progress and well-being rather than merely measuring the growth of GDP. Ng (2003) also emphasised that modern economists' studies should go beyond production, towards the welfare of happiness.

Government leaders and policy makers have begun to formulate happiness related policies based on discoveries that happiness is influenced by societal circumstances. For instance, the United Nations Development Programme (1996) has introduced Human Development Index (HDI) in 1990, which provides a summary measure of human developments. In addition, the development of Happy Planet Index (HPI) formulated by the New Economics Foundation (NEF) in 2006, is an index to

measure human well-being and ecological efficiency. The HPI uses various sources of data such as Gallup, World Values Survey (WVS), and Ecological Footprint; integrates indicators of well-being with economic metrics, which have developed to a more sophisticated measurement (Schwartz, 2010).

‘Eudaimonia’, which is translated as happiness, is the term used by ancient Greek philosophers to designate the highest human good. As shown in some nations, well-being of their citizens has always been a primary concern. The late King of Bhutan, King Jigme Singye Wangchuck had made symbolic gesture to the rest of the world and replaced ‘Gross National Product’ with ‘Gross National Happiness’ as the official measure of his nation’s progress as early as 1971 (Priesner 1999, p. 28). His Majesty has announced that the ultimate purpose of a government is to promote the happiness of the people. Thus, Bhutan has placed people’s well-being ahead of income for its economic growth.

Government leaders in France and the United Kingdom have sought new roles for their states in broadcasting aggregate happiness issues guided by new happiness policies and metrics. In 2008, former French President Sarkozy commissioned a report on the ‘Measurement of Economic Performance and Social Progress’ presented by economists, namely Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi. The report contributes valuable and reliable evidences about people’s well-being. The Commission on the Measurement of Economics Performance and Social Progress (CMEPSP) helps to ascertain the limitations of GDP as an indicator of economic performance and include additional information for more relevant indicators of social progress (Stiglitz et al. 2009).

In United Kingdom, the Office for National Statistics (ONS) has published three articles about Measuring National Well-Being programme: (i) where we live, (ii)

health and (iii) subjective well-being (Layard & Williamson, 2012). In 2011, the Organisation for Economic Co-operation and Development (OECD) had officially announced the “Better Life Initiative” to inform about how well people are doing in this modern societies besides collaborate internationally comparable measures of well-being (OECD, 2013).

In the Asian region, for instance, the Indonesian government has released the Indonesian Happiness Index (*Indeks Kebahagiaan*), which measures happiness and life satisfaction of Indonesian citizens in 2013 (Arif, 2014). In Singapore, the National Volunteer and Philanthropy Centre (NVPC) has introduced the Social Health Index that would complement existing economic measures of the nation’s progress in 2013 (Singapore Social Health Project, 2013). Thailand has a long-standing reputation as a nation of happy people and this country has been known for generations as ‘The Land of a Thousand Smiles’. Thailand has started to announce Green and Happiness Index (GHI) in 2007 to evaluate the performance of nationwide development and happiness. Since 2010, the government in Japan has started to collect data on personal happiness and its determining factors through national surveys (Tiefenbach & Kohlbacher, 2013).

In Malaysia, the Economic Planning Unit (EPU) has published the Malaysian Well-being Index (MWI) Report in 2013 to measure the welfare of the society. The MWI has replaced by the Malaysian Quality of Life Index (MQLI) which measures the quality of living standards of the people (refer to Appendix 1). The MWI is developed based on 14 components covering both economic and social perspectives, encompassing the following aspects - communications, culture, education, environment, family, governance, health, housing, income and distribution, leisure, public safety, social participation, transportation, and working life. This reflects the

widening of the government's strategic framework which has embedded some important qualitative components involving the different dimensions of development such as human, social and environmental.

As shown in Figure 1.1, the overall upward trend of both, GDP per capita and MQLI, indicated that income growth can be translated into improvement in the quality of life of the society. Between 1980 and 2010, Malaysia GDP per capita growth expanded at an average rate of 3.53 percent per annum while the growth rate of MQLI growth only showed slight improvement at an average of 1.09 percent per annum.

Figure 1.2 displays GDP per capita and MWI between 2000 and 2015, Malaysia GDP per capita growth expanded at an average rate of 3.14 percent per annum while the growth rate of MWI growth also showed slight improvement at an average of 1.40 percent per annum. The Economic Planning Unit of the Prime Minister's Department has developed the MWI to measure the well-being of the society, which covers the period from 2000 to 2015. It builds upon the MQLI with an expanded scope to include other pertinent aspects of well-being. Between 2000 and 2015, the MWI showed a slight improvement.

Although the Malaysia has gone through a few cycles of economic slowdown over the past three and a half decades, generally, MQLI and MWI have remained relatively stable. The Government has continuously improved the well-being of Malaysian society to ensure that sufficient resources are allocated in the interest of the citizens, focusing on education and training, health, and public housing. Various programmes have been introduced by the Malaysian Government, which include the Government Transformation Programme, the Economic Transformation Programme, the Political Transformation Programme and the Rural Transformation Programme.

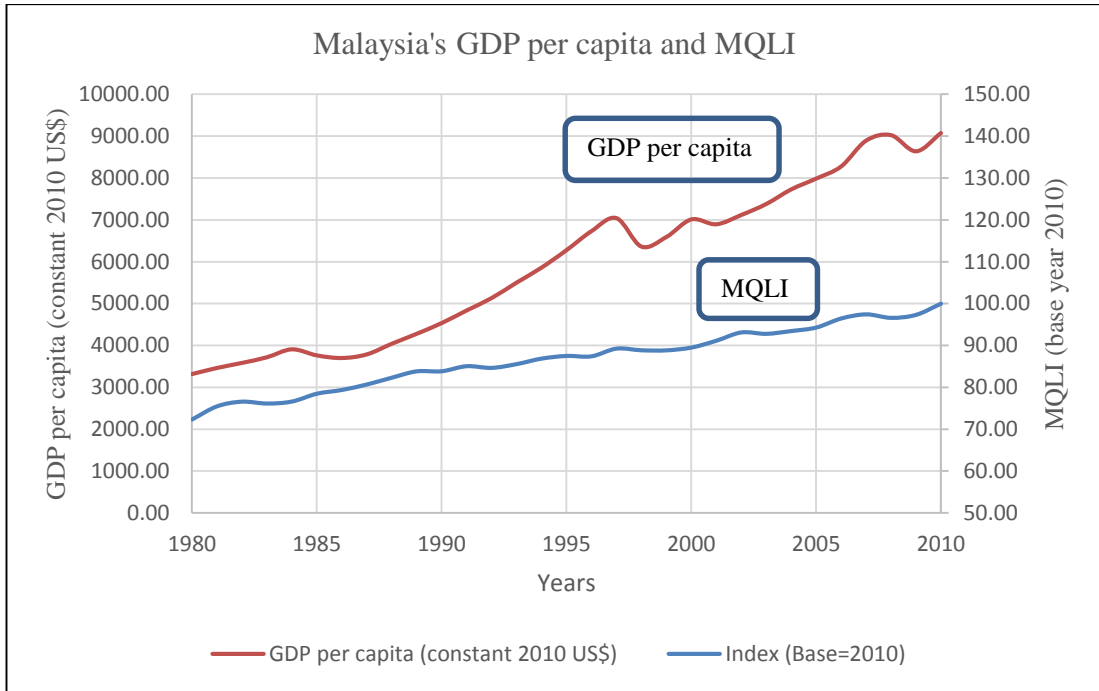


Figure 1.1: Malaysia's GDP per capita and MQLI

Source: World Development Indicators (2017) and MQLI Reports (various years)

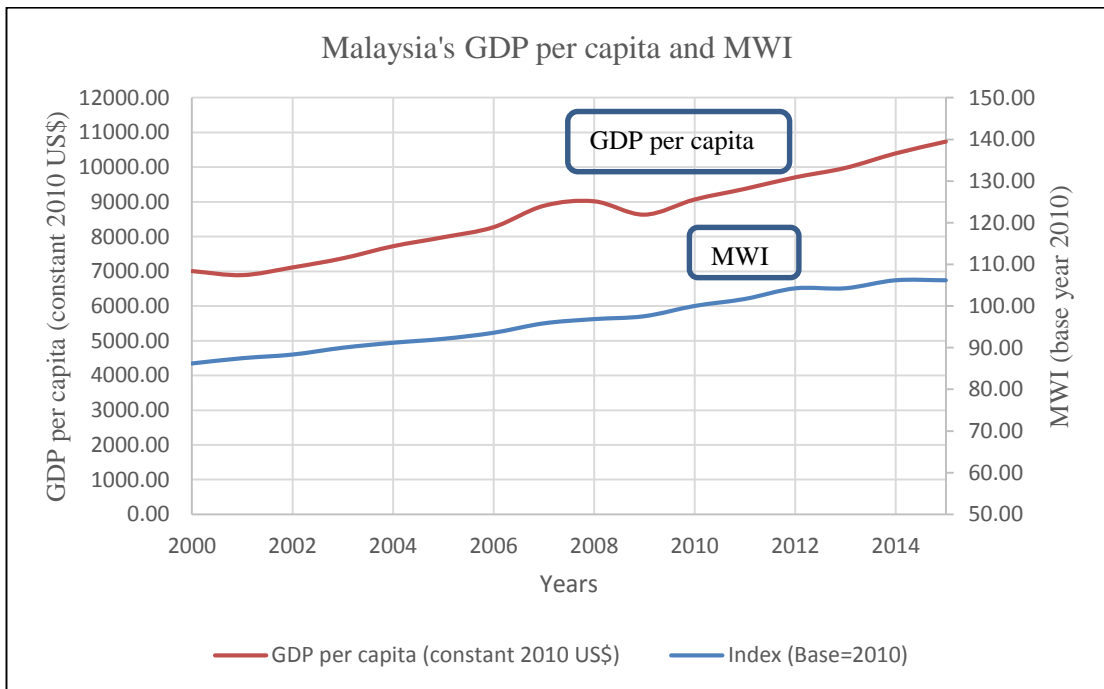


Figure 1.2: Malaysia's GDP per capita and MWI

Source: World Development Indicators (2017) and MWI 2013 Report  
 Note: Preliminary data for MWI in 2015

Besides that, the five-year strategic plan of the Eleventh Malaysian Plan (2016-2020) guided by the Malaysian National Development Strategy not only give priority in delivering high impact on capital economy but also the people economy. The capital economy focuses on GDP growth, financial markets and investment projects while the people economy concerns about the welfare of society; these include employment, the standard living costs, social inclusion and family well-being. The Eleventh Plan is based on the theme “anchoring growth on people” and it represents the government’s commitment to fulfil the aspirations of the people.

One of the earliest studies on whether economic growth could make us happier was examined by an economist, Richard Easterlin. Based on a long run global survey data on self-reported happiness mapped to real GDP, Easterlin (1974) highlighted a paradox: as countries grew materially wealthier over time, average happiness levels did not increase. There are ongoing debates over Easterlin’s (1995) original question: “Will raising the incomes of all increase the happiness of all?”

## **1.2 Subjective Well-being**

Happiness and life satisfaction are concepts that are mutually inter-related and used interchangeably in research dealing with subjective well-being. Subjective well-being is defined as a general evaluation of a person’s life (Diener & Seligman, 2002). It is concern about the respondents’ personal judgement evaluative response to various aspects of a person’s life (Frey & Stutzer, 2002c). Subjective well-being is a useful goal for a more holistic growth because it has the great potential to apprehend mental, social and physical well-being (Böckerman, Laamanen & Palosaari, 2016). Given its nature, happiness studies are usually more subjective (Frey & Stutzer, 2002c; Diener & Seligman, 2002).

Measuring subjective well-being such as self-reported happiness have gained prominence among academic researchers in various field of studies, scientists, policy makers and the public alike. A consensus emerged that people's self-evaluation of how well life is going can convey important message about their emotional states.

Malaysia ranked the second happiest country in Asia, according to World Happiness Report 2018. The overall rankings are based on the pooled results gathered by the Gallup World Poll surveys covering 2015-2017. Compared to last year's report, Malaysia's ranking has improved from 42<sup>nd</sup> to 35<sup>th</sup> happiest country among 156 nations. The World Happiness Report is published to create awareness on the importance of happiness, which is used as a guide for sustainable development. The United Nations World Commission on Environment and Development (1987, p. 54) defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Subjective well-being as a concept seems to be readily embraced by society and shows to be more valued than the pursuit of money. There is a paradox that in the heart of our lives, people want more money, but as societies become richer, they do not seem to be happier. The truth regarding the relationship between happiness and income remains largely in the eyes of the beholder. It is a search to discover the uniqueness of the correlation between income and happiness.

### **1.3 Income and Subjective Well-being**

From a macro perspective, the relationship between economic growth and subjective well-being has given rise to two contradictory issues. In the early studies carried out by Easterlin (1974), he found that economic growth does not improve the average



subjective well-being at a country level. This has sparked a debate on income-happiness paradox, also known as ‘Easterlin Paradox’.

Stevenson and Wolfers (2008a) challenged Easterlin’s findings and argued that economic growth is significantly and positively associated with subjective well-being, using both cross-sectional and time-series data at a country level. However, Easterlin et al. (2011) disputed such claims and asserted that the evidence of non-existence long term (10 years or more) relationship between subjective well-being and income are discovered mainly in developing countries, the Eastern European countries transitioning from socialism to capitalism and developed countries. They claimed that the positive association between subjective well-being and income for all three groups of countries studied only happened in the short run, for instance a rise in happiness during business cycle expansion and fall during economic contractions. Again, the debate about income-happiness relationship remains unresolved. Veenhoven and Vergunst (2014) defended that GDP growth in nations goes with rising happiness particularly nations with higher economic growth had higher average happiness. Thus, they concluded the paradox is an illusion.

There are other studies carried out in various countries that indicate positive association between income and subjective well-being which include Cummins (2000), Di Tella, MacCulloch and Oswald (2003), Clark, Frijters and Shields (2008), Headey, Muffels and Wooden (2008), Selim (2008), Stevenson and Wolfers (2008a), Sacks, Stevenson and Wolfers (2010), and Veenhoven and Vergunst (2014). In addition, there are studies that also showed the existence of nonlinear relationship between income and happiness (Frey & Stutzer, 2002a; Aurthaud-day & Near, 2005).

Many efforts have been taken to improve the income levels in order to eliminate the income inequality gap between urban and rural areas. Another issue that

should be given attention to is happiness inequality, notably, among different income groups within a nation over time.

The World Happiness Report 2016 has highlighted the issue of well-being inequality (measured by the standard deviation of the distribution of life evaluations), which suggests as a better predictor of life evaluations than the income inequality (measured by the Gini coefficient). From year 2012 to 2015, the report ranked 157 countries by the level of happiness equality. The top 5 countries listed as the highest happiness equality (based on rankings) were Bhutan, Comoros, Netherlands, Singapore and Iceland. On the other hand, countries that listed the lowest happiness inequality were South Sudan, Sierra Leone, Liberia, Dominican Republic and Honduras. Malaysia was ranked 82<sup>nd</sup> for happiness inequality, meaning that happiness was relatively uneven throughout the society. Compared to the neighbouring countries, the rankings of happiness inequality were as follows: Vietnam (11<sup>th</sup>), Indonesia (26<sup>th</sup>) Thailand (35<sup>th</sup>) and Philippines (145<sup>th</sup>).

Some studies have found the correlation between income inequality and happiness inequality were negatively related (Stevenson & Wolfers, 2008b; Clark, Flèche & Senik, 2014). Studies on happiness inequality at cross-country and individual country analyses are mainly focused in developed nations (Ott 2005; Veenhoven 2005b; Ovaska & Takashima, 2010; Nimii, 2016). Most of the studies concluded that happiness inequality in developed nations declined over time. For example, Stevenson and Wolfers (2008b) and Clark et al. (2014) found economic growth in the United States (US) experienced falling happiness inequality despite an upward trend in income inequality in 1970 to early 2000s. Looking at the micro level, a study on happiness inequality carried out by Nimii (2016) found that household income in Japan had a negative and significant impact on happiness inequality.

There are limited studies that examined happiness inequality among different income groups in developing nations. A study by Easterlin, Wang and Wang (2017) showed an interesting relationship between subjective well-being and GDP growth in China. In China, GDP per capita had increased tremendously over the past quarter century but the subjective well-being fell for 15 years before it began to recover. Brockmann et al. (2009) also found that an enormous economic progress in China did not change the life satisfaction of the people and happiness levels actually dropped among them.

From year 1990 to 2001, China's GDP average growth was more than 8 percent but there was no evidence showing that the quality of life was better (Easterlin et al., 2012). Easterlin (2014) found that the happiness inequality among the high-income group in China has increased from 1990 to 2007. Whereas, happiness inequality among the medium and low-income groups declined and the gap of happiness inequality widened significantly between the low-income group and high-income group over the same period.

Whether the relationship between subjective well-being and economic growth remains either positive or non-existent, such relationship could be different from one nation to another. One possible reason could be the influence of relative income. Some economists have also discussed the importance of relative income hypothesis, suggesting that people's happiness seem to be more affected by their relative income rather than the absolute level (Easterlin, 1974; Clark & Oswald, 1996; Ng, 2002; Ferrer-i-Carbonell, 2005; MacKerron, 2012; Tsui 2014).

People's satisfaction from consumption is generally compared to the levels of income or consumption rather than the intrinsic usefulness of goods and services. According to Duesenberry (1949), people tend to compare their own income with

others. Duesenberry described “a person’s satisfaction is influenced by others’ consumption level in relation to his or her own level of consumption” (ibid. p. 32). Thus, individuals tend to get unhappier from being poorer than their reference group but are not affected from being richer (Ferrer-i-Carbonell, 2005).

As the study of subjective well-being gains a wider perspective, other income related factors such as education levels and employment status have emerged as key determinants of happiness. Frey and Stutzer (2002c) distinguished three broad groups of factors related to happiness namely economic factors, demographic and personality factors, and political factors. Bjørnskov, Dreher and Fischer (2008) listed four main categories of variables as potential determinants of happiness such as economic, political, institutional, and human development and culture. Inoguchi (2015) segregated life priorities into three main factors that could influence well-being among Asians. Those factors were: materialist, post-materialist and public sector dominance which represent Quality of Life (QoL) sustaining, QoL enriching and QoL enabling respectively.

Economists have hypothesised the existence of micro-level data to link subjective well-being with socio-economic and socio-demographic variables. For example, happiness has been linked to age (Blanchflower & Oswald, 2008), physical health status (Veenhoven, 1991; Graham, 2008), marriage (Lucas & Clark, 2006), watching television (Frey, Benesch & Stutzer, 2007), being employed or not (Lim, 2010), religiosity (Okulicz-Kozaryn, 2010), education (Chen, 2012), and even corruption (Arvin & Lew, 2014). The list of subjective well-being studies as discussed here may not be exhaustive; however, it indicates the diversity of research in the study of economics of happiness.

#### **1.4 Problem Statement**

Debates among scholars whether GDP is an appropriate indicator to measure society's well-being has been going on for a few decades. The interpretation and the use of GDP as a proxy for social welfare appear to be too simplistic. As people start achieving a better standard of living, they become inured to its lifestyles and its pleasure. It is commonly believed that economic growth ought to be broad-based rather than merely depends on economic growth and wealth accumulation.

The Easterlin Paradox indicates that individuals with higher incomes are happier than people with lower incomes yet raising everyone's income does not compensate with overall higher levels of happiness. Human happiness has begun to creep into economic thoughts. People are still searching for an answer whether money buys happiness. There is no clear association between the levels of economic growth and happiness among societies. Cross-sectional analysis revealed that money does bring happiness. Within a country, richer people are on average happier than poorer people, and between countries, richer countries are generally happier than poorer countries.

Other studies in developed countries have also shown that economic growth has not been associated with the increase in subjective well-being over the past decades. For instance, the United States, France, United Kingdom, Germany and Japan - encountered consistent rise in income per capita for more than a decade, and yet the mean subjective well-being did not bring much changes. By contrast, there are other studies reported that subjective well-being increases with income within countries.

The East-Asian countries have high income growth rates but happiness survey in these countries have not been consistent which resulted in the existence of gaps. For instance, GDP per capita in China had increased remarkably over the past quarter

century but the well-being of societies were actually declined, particularly the low-income and middle-income groups. In Malaysia, although the people are striving for material wealth, it is uncertain whether the overall quality of life has actually improved. Has development in Malaysia also brought about the widening of happiness inequality among the people over time?

One would expect that happiness is determined in a different manner. It is a common belief that the greatest concern among low income earners are to meet their basic physical needs such as food, shelter and clothing, whereas higher income earners are more concerned with their positions and achievements in society. Subjective well-being may depend on absolute income, but relative income could also influence the well-being among the society. Whether absolute income or relative income has more influence over the level of subjective well-being could be a crucial matter to look into for better public policy measures.

Studies have shown that other factors other than income could also contribute to greater happiness. For instance, at an individual level, one's financial satisfaction on household, personality traits, health conditions, social relation, religion and leisure have proven to have influence on the level of happiness. At the national level; democracy, gender equality, employment, inflation and social capital do influence the subjective well-being among the people.

In recent years, researchers have diverted towards subjective well-being studies and find ways to measure the human experience and subjective well-being. As a result of the subjective nature of happiness study, there is still lack of uniformity or consensus in defining an appropriate measurement for subjective well-being.

## 1.5 Research Questions and Research Objectives

The central research question in this study is to examine the relationship between income and subjective well-being in Malaysia. Since the terms happiness and life satisfaction have been used interchangeably to represent subjective well-being in most studies, this study will examine happiness and life satisfaction separately and observe if there are any difference in them. Based on the problem statement discussed in Section 1.4, three specific questions can be raised and mapped with the main objectives derived from the research questions which are listed down in Table 1.1.

Table 1.1: Mapping of research questions and research objectives:

Research Questions	Research Objectives
1. Over time, do happiness inequality and life satisfaction inequality change among Malaysians from different income groups?	1. To examine if there are changes in happiness and life satisfaction inequalities among Malaysians from different income groups over time.
2. What type of income: absolute income, relative income or expected income has more influence on happiness and life satisfaction in Malaysia?	2. To investigate the influence of absolute income, relative income and expected income on happiness and life satisfaction.
3. Would different types of measurement for income and happiness/life satisfaction matter?	3. To conduct a case study to observe income and happiness/life satisfaction relationship based on alternative measurements for income and happiness/life satisfaction.

## **1.6 Significance of the Study**

Malaysian economy has undergone structural transformation from specialisation in the primary sectors to a more diversified and open economy with strong links to global value chains. Economic progress has contributed to the increase in GDP per capita which hopes to improve on the quality of life and well-being among the Malaysian citizens. A survey carried out in 43 countries by the Pew Research Center Survey (2014b), showed that Malaysians had one of the highest economic growth since 2007 and exhibited one of the biggest increases in life satisfaction.

Happiness and life satisfaction are both important sources of motivation. A good society will be inhabited by happy people and they are more likely to live longer, stay healthier, better interpersonal skills and be more productive at work. Happiness and life satisfaction create positive externality whereby one's actions will have beneficial impact on a bystander. Studies have shown that people who are happier and more satisfied can be successful in many life domains which include being more sociable, love themselves, having better conflict resolution and promote creative thinking (Lyubomirsky, King & Diener, 2005); optimistic about the future (Blanchflower, 2008); and may help to facilitate governance by earning more money and creating job opportunities for others (Larsen & Eid, 2008).

The debate on whether higher income in a country is associated with greater happiness and life satisfaction is crucial in particular for more holistic public policy planning. If income has been proven as the main contributor to happiness and life satisfaction, then the traditional measurement based on GDP suffice. Otherwise, there is a fundamental need for policy makers to re-evaluate what other criteria should be considered in gauging a country's performance. Graham (2005b) stated that studies on the economics of happiness not only contribute to research on well-being, it also



enriches the scope of behavioural economics studies as well as contributing to a more accurate national well-being indicators for economic growth, political behaviour patterns and the creation of a better policy. This study hopes to provide a more comprehensive coverage particularly in examining the relationship between income and subjective well-being in Malaysia. It analyses whether there is a widening of happiness and life satisfaction inequalities over time or is it such phenomena only happen among those in the higher income group as witnessed in China. A simple correlation between income and happiness and life satisfaction among different income groups can also reveal whether more income could bring higher level of subjective well-being for Malaysians who are already in the high-income group.

Besides, examining the impact of absolute income on happiness and life satisfaction, this study also takes into consideration the influence of relative and expected income. It also extends its observation on the effects of non-material factors on subjective well-being such as health, trust, ethnicity, religion and democracy in the country.

Arthaud-day and Near (2005), the methodology for income-happiness study, in particular, is still lacking. To rule out that the findings could be influenced by how important variables such as income and subjective well-being are being measured, this study explores different ways of measurement for income and happiness/life satisfaction by carrying out a case study.

## **1.7 Scope of study**

This study aims to provide some evidences in Malaysia about income and subjective well-being. Based on the wave 5 (2005-2009) and wave 6 (2010-2014) data obtained from the WVS, this study examines the change in happiness inequality and life

satisfaction inequality among Malaysians in different income groups. In Malaysia, the survey was carried out in year 2006 for wave 5 and 2011 for wave 6. Happiness and life satisfaction inequalities could give relevant signal to monitor social inequality over time. By observing the correlation between subjective well-being and income among different income groups, it may indicate that higher income could bring greater happiness to certain income groups and may not have the same impact for another.

Besides, this study explores different types of income that influence self-reported subjective well-being. The types of income studied are absolute income, relative income and expected income. Life satisfaction and happiness are components of subjective well-being and often both of these concepts used interchangeably among researchers. This study will further examine happiness and life satisfaction as dependent variables, and aims to determine whether life satisfaction models produce similar outcomes as the happiness models. Furthermore, the empirical analysis provides additional clues whether other factors such as age, democracy, ethnicity, gender, marital status, religiosity and social capital influence happiness in Malaysia.

Single-item questionnaire is used to evaluate both happiness and life satisfaction in Malaysia based on the WVS data. Thus, an alternative measurement for subjective well-being is explored. In addition, this study will also examine the consistency of the outcomes by using alternative measurement for income and also the dependant variables, happiness and life satisfaction.

Although the analyses of long-term relationship between income and happiness were carried out with the constraint of unavailability of relevant data, they hope to contribute to the body of research to have better understandings on this subject. A consistent survey on happiness among the Asian countries can fruitfully help

researchers to produce effective and more accurate comparative studies on income-happiness relationship.

### **1.8 Outline of the Study**

This study is divided into six chapters. This chapter discusses the basis of the study, issues, significance and the objectives. Chapter 2 presents the review of literature. Chapter 3 describes the types of data and methods used in the study. Chapter 4 discusses the relationship between income and happiness in the long run and also examines the cross-sectional analysis of different types of income that influence happiness and life satisfaction in Malaysia. Chapter 5 presents a case study on the findings of the field research. Lastly, chapter 6 discusses the outcomes, limitations, implications and conclusion of the study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews the literature that covers studies on the main concepts, theories and empirical analyses on the effect of income on happiness. Section 2.2 presents different views on how to define well-being in general. Section 2.3 reviews the theory of Easterlin paradox. Different happiness theories based on economical perspectives, sociological, psychological perspectives related to subjective well-being were also discussed. Section 2.4 examines studies on the effects of income on happiness carried out in various nations. This section also reviews studies that observe the impact of absolute, relative and expected income on subjective well-being. Studies on the association between income inequality and happiness; as well as issues regarding happiness inequality are also covered in this section. Section 2.5 presents the literature review on other factors that influence subjective well-being besides income. Section 2.6 describes literature that covers different approaches in measuring subjective well-being. Section 2.7 summarises this chapter.

#### 2.2 Subjective Well-being

Inoguchi (2015, p. 597) defined “well-being as how positively or negatively an individual feel about his or her existence in society, whether it is about happiness, health, prosperity, accomplishment, or whatever other area under consideration”. The general concept of well-being is categorised into objective well-being and subjective well-being, which provides a fundamental understanding about human’s quality of life.

In recent years, academicians and policy makers have diverted their research from objective to subjective well-being. Objective well-being also known as social indicator (Diener & Suh, 1997) is based on ‘objective indices’ that contribute to people’s happiness or better life. This concept is based on the axiomatic revealed preferences, where the actual choices display required information to measure individual’s well-being (Frey & Stutzer, 2002c, p. 404). However, the objective well-being is still insufficient to provide acceptable understanding of the prudential goodness that consider good for human beings (Varelius, 2013).

Many studies interpret subjective well-being in different manners. The concepts of subjective well-being encompass a wide range of components such as individuals’ subjective experiences of their lives in terms of hedonic feelings or cognitive satisfaction (Diener, 1984; Diener & Suh, 1997; Veenhoven, 2009a) or experienced pleasant and unpleasant affect with life (Diener & Suh, 1997; Frey, Benz & Stutzer, 2004; Arthaud-day & Near, 2005; Wills, 2009). Some specified affective component as happiness whereas cognitive component represents as life satisfaction (Andrews & Withey, 1976; Diener & Suh, 1997; Tsou & Liu, 2001; Diener, Lucas, Schimmack & Helliwell, 2009; Brockmann, Delhey, Welzel, & Yuan, 2009; Tov & Diener, 2009; Duncan, 2010).

Given the lack of consensus over the precise definition of subjective well-being, the OECD (2013, p. 10) reported that subjective well-being is good mental states, which includes various evaluations such as positive and negative feelings, and people’s affective reactions towards their experiences. As a guideline, the report suggests three elements of subjective well-being which are: (i) life evaluation – a reflective assessment on one’s life or some specific aspects of it; (ii) affect – a person’s emotional states or feelings; and (iii) ‘eudaimonia’ – a sense of meaning and purpose

in life, or good psychological functioning. ‘Eudaimonia’, a Greek word which is commonly known as happiness (Schumaker, 2007).

### **2.2.1 Happiness and Life Satisfaction**

Happiness and life satisfaction are both considered to be components of subjective well-being. There are others who asserted that life satisfaction is generally considered to be synonymous with happiness (Oswald, 1997; Easterlin, 2001, 2003; Ng, 2003; Arthaud-day & Near, 2005; Frey, 2008; Brockmann & Delhey, 2010; Leung et al., 2011). Chui and Wong (2016) explained that happiness is an immediate, short-term, temporary and retrospective mental state, whereas life satisfaction is a relatively long-term judgment of life conditions. There are few studies that attempt to evaluate if there are any differences between happiness and life satisfaction.

Tov and Diener (2009) claimed that happiness consists of other dimensions such as meaning and purpose in life. The term happiness does not merely regard as something positive, it also includes pleasure, excitement, enthusiasm, joy, interest, relief and peace (De Bono, 1977, pp. 111-112). The concepts of happiness, life satisfaction, utility, well-being and welfare are often used interchangeably by Easterlin (1995, 2001, 2003, 2006)<sup>2</sup>.

Telfer (1980, p. 2) distinguished happiness based on four elements which are: (i) a happy temperament; (ii) a happy mood or feeling happy; (iii) happy as equivalent to enjoyable and pleasant; and (iv) happiness in life. She stated that the first element

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<sup>2</sup> Happiness or subjective well-being or individual’s utility are used interchangeably (Easterlin, 1995). The terms happiness, subjective well-being, satisfaction, utility, well-being, and welfare are used interchangeably (Easterlin, 2001).

The terms well-being, utility, happiness, life satisfaction, and welfare are used interchangeably (Easterlin, 2003).

The terms happiness, life satisfaction, and affect balance are used interchangeably. Although these concepts are not identical but are highly correlated (Easterlin, 2006).

(happy temperament) is often attributed to happiness in young children, being cheerful and agreeable with things. The second element (happy mood or feeling happy) refers to someone who manages to lead a happy life even in difficult situations and this element is often explained by causes rather than reasons. The third element is often link with enjoyment or pleasant situation and the last element (happiness in life) refers to achievement of one’s major goals.

Table 2.1: Happiness and its components

Global assessment	<b>OVERALL HAPPINESS</b> Satisfaction with one’s life-as-whole	
Sub-totals	<b>Hedonic level of affect</b> Balance of pleasant and unpleasant affect	<b>Contentment</b> Perceived realization of wants
Information basis	Affective experience	Cognitive comparison

Source: Veenhoven (2009a, p. 51).

Veenhoven (2009a, p.49) defined “happiness as one judges the overall quality of his or her own life-as-a-whole favourably”. As shown in Table 2.1, the components of happiness are divided into hedonic level of affect and contentment. From the hedonic level, the author explained human experience different types of ‘affective’ approaches such as feelings, emotions and moods. From the contentment perspectives, adults perceive their wants to be met and compare life-as-it-is with how one wants-life-to be. The author explained when people developed some conscious wants and formed an idea about their realisation, it applied the ‘cognitive’ definition of happiness.

Life satisfaction captures a more long-term component of individual well-being compared to happiness (Gamble & Gärling, 2012). It is measured based on one’s

evaluation of his or her life as a whole, which presumably requires cognitive processing (Lyubomirsky et al., 2005).

Deaton (2008) affirmed that life satisfaction and happiness are not synonyms. The author stated that life satisfaction studies usually require respondents to make an overall evaluation of their lives and the results are often interpreted as measures of happiness. However, for studies on happiness, the outcomes may vary with the ordered of questions asked, the time of survey and the mood of the subject.

Ng (2008) used happiness and life satisfaction interchangeably in his written article but he acknowledged that life satisfaction differs from happiness. Ng (2015) stated that life satisfaction is more liable to a shift in the aspiration level and may also differs from happiness due to a concern for the happiness of others. He explained a scenario when individuals contributed their time, efforts and happiness to others but were not being appreciated by others, they felt unhappy. However, they felt reasonably satisfied because they believed what they have done for the society made their life worthwhile. He claimed that doing something good for the society is more satisfied and this offsets a person's unhappiness and the divergence that exists between happiness and life satisfaction depends on the degree of altruism.

Most studies revealed high correlation between happiness and life satisfaction (Tsou & Liu, 2001; Alesina, Di Tella & MacCulloch, 2004; Selim, 2008). However, the correlation between happiness and life satisfaction was relatively low in Rwanda (Abbott & Wallace, 2012b). Cummins (1998) suggested that happiness and life satisfaction (which form part of a subjective well-being construct) can be measured and analysed separately because both may be influenced by different domains of people's lives. Likewise, Frey and Stutzer (2002b), and Bjørnskov (2003)



acknowledged that both of these terms can be defined in different ways although they contained some similar components.

### **2.3 The Easterlin Paradox's Theory**

The process of rediscovery of happiness study in economics is mainly driven by earlier research carried out by the psychologists. For instance, findings by the psychologists, Brickman and Campbell (1971), claimed that income or wealth does not have lasting effects on personal well-being. Such findings could have triggered economists into researching further on the relationship between income and happiness. One of the most prominent studies is by Richard Easterlin in his article entitled 'Does economic growth improve the human lot? Some empirical evidence' which was published in 1974.

Easterlin (1974) found that economic growth did not improve the human welfare in United States and concluded that well-being was not substantially related to the income of nations. In an article entitled "Will raising the income of all increase the happiness of all?" by Easterlin (1995), he found that the change in happiness was small relative to remarkable increased in incomes and living standards which occurred over time. His studies covered the periods between 1972 and 1991 for United States, 1973-1989 for the nine European countries, and 1958-1987 for Japan.

In a cross-sectional analysis, Easterlin and Angelescu (2009) found that rich and poor countries experienced higher life satisfaction with the absolute amount of GDP per capita but at a diminishing rate. Figure 2.1 displayed the diminishing marginal utility of income based on 195 pooled observations for 89 countries surveyed in waves 1 to 4 of the WVS. They found that poorer nations experienced greater impact on happiness as compared to richer nations when income increased.