

Economics and Happiness

Class 8:

Pop Economics: Snob Effect in Economics



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

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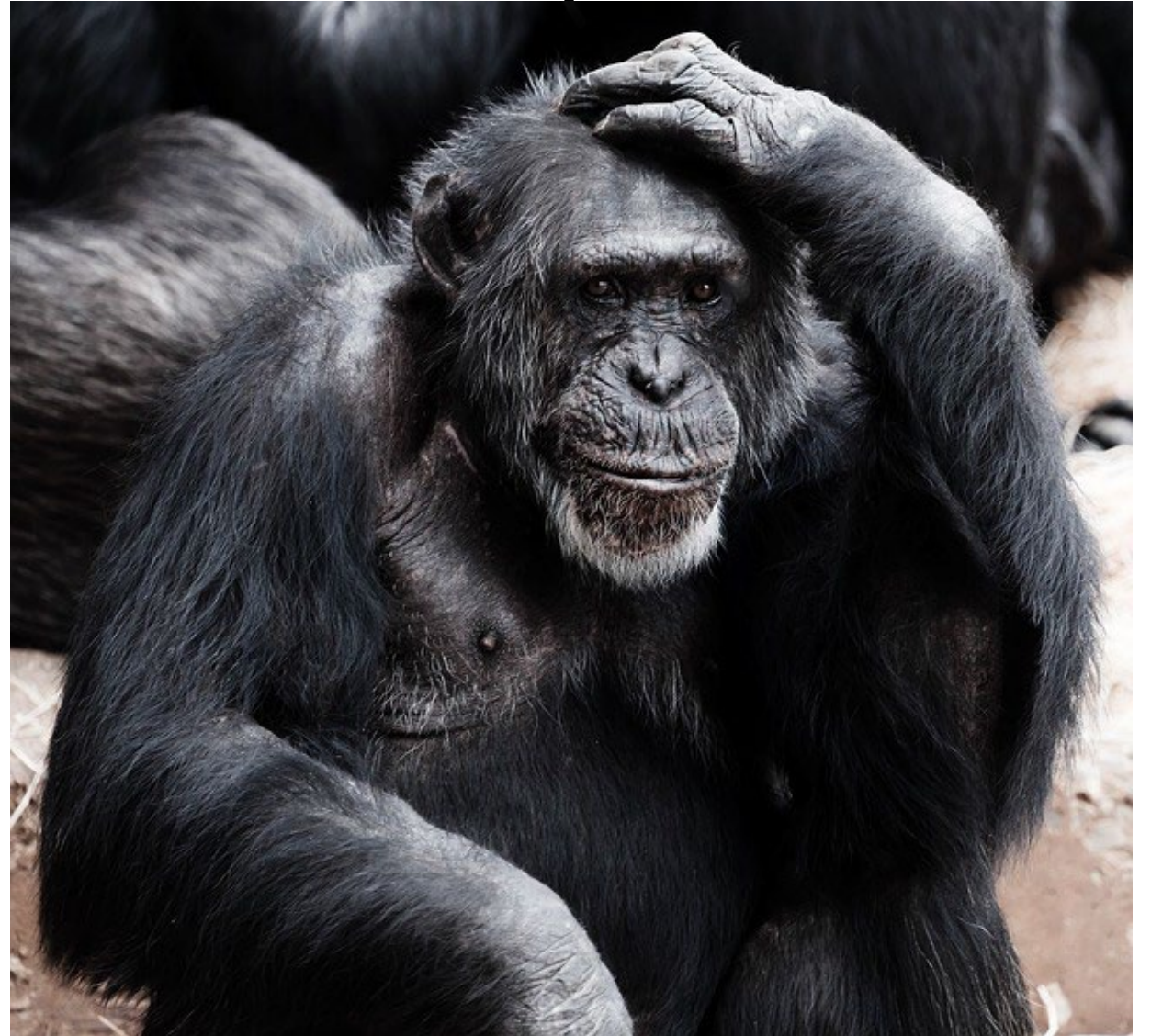
Hedonic adaptation (hedonic treadmill)

- tendency of humans to quickly return to a relatively stable level of happiness despite major positive or negative events or life changes*
- person's long-term happiness is not significantly affected by otherwise impacting events*
- Permanent salary increase does not bring happiness unless the salary increase pace is growing

* Source: <https://en.wikipedia.org/>

Social Status or Position is More Important than Money

- Alpha males: chimpanzees
 - Authority
 - Longer life
 - Respect
- Nobel Prize Laureates live longer
- Noble people
- Respect from our peer group makes our social status stronger.



Source: Pixabay

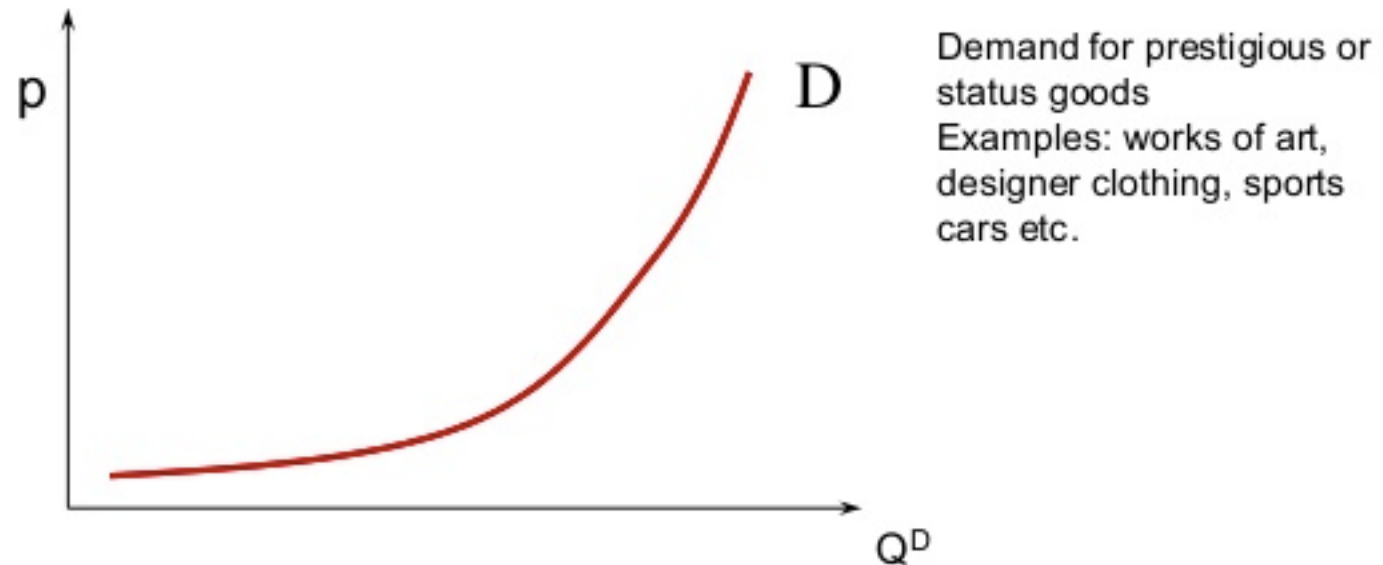
Status Symbols

Positional goods, positionality

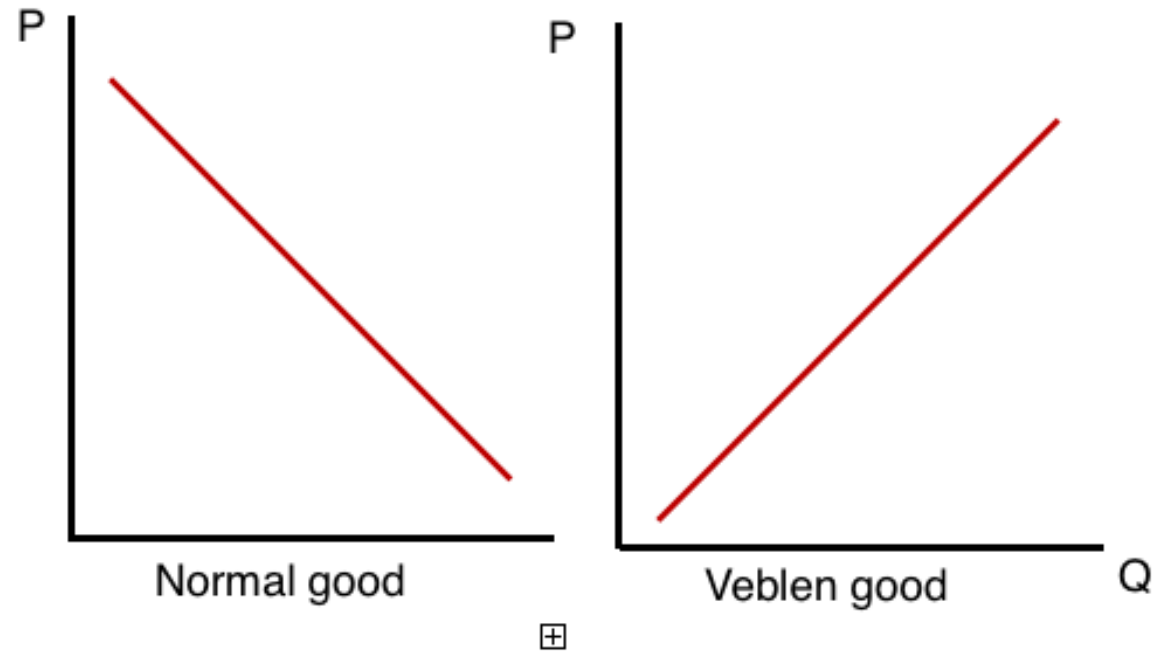
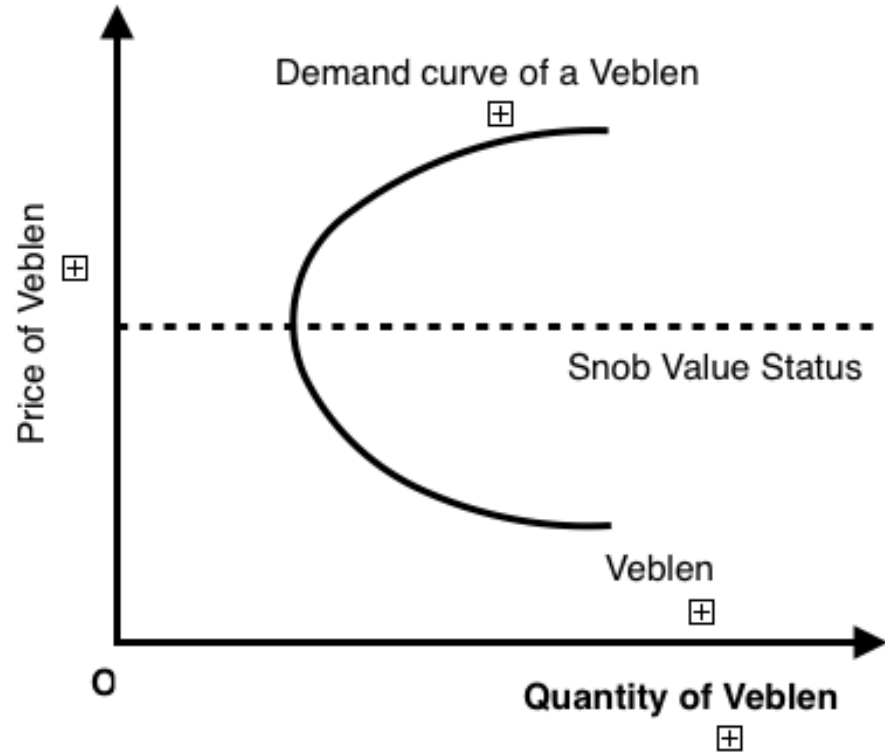
- Express which position in society we hold
- Higher effect when we are the only one who has it
- The more people possess it, the lower degree of positionality is.
- Income and the value of cars are more positional than leisure and car safety, on average (Fredrik Carlsson, Olof Johansson-Stenman, Peter Martinsson)
- **Easterlin hypothesis:** happiness increases with relative income, but is independent of absolute income levels

Snob Effect (Microeconomics)

- situation where the demand for a certain good by individuals of a higher income level is inversely related to its demand by those of a lower income level



Veblen Effect



How Much Should These Truffles Cost?



Source: Pixabay

Snobs Help New Innovations and Inventions

- Cars
- Hindenburg Airship
- Concorde
- Spacetrip



Source: www.kpbs.org, Wikipedia

Expenditure Cascades

- Robert H. Frank
- *experiment*: people choose a world in which they own a larger home than everyone else, over having larger homes for everyone yet a smaller home than his neighbors.
- *conclusion*: people will give up absolute consumption in order to obtain a better relative position.
- *expenditure cascades*: consumption by the wealthy triggers increased consumption in the class below them. The poorer attempt to keep up with others' spending habits.

Positional Externalities

- a good becomes a popular item to own is a positional externality
- changed context within which that good exists
- Increased unhappiness occurs when a person realizes the items that he does not own relative to the others in his class system.

Facebook

- help spur expenditure cascades
- We consume do that we impress others and inspire others via Facebook or other social networks

Maslow Pyramid



Source: Simply Psychology, <https://society6.com>

What to Remember

- Hedonic adaptation
- Hedonic treadmill
- Positional goods, positionality
- Status symbol
- Snob effect
- Veblen effect
- Expenditure cascades



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