Economics and Happiness

Class 7:

Pop Economics: Economics and Happiness

Crisis of Economics as Science

- Before financial crisis:
  - Economics is as an exact science
  - People are racional and make their choices based on information and calculations
  - Profit and utility maximization
  - "no transaction cost" assumption (Ronald Coase, Coase Theorem)
  - Example: Buyer of real estate has perfect information about the real estate including unseeable problems.

  - This approach to economics is based on economic models, reality simplification and does not reflect an asymetry of information; A seller has more information than a buyer.

20th Century: Appreciation of Exact Sciences

Date	Inventor	Process or Machine
1830s	Samuel F. B. Morse	Telegraph (1835)
		Morse code (1838)
1850s	Henry Bessemer	Bessemer process
	William Kelly	
1853	Elisha Otis	Mechanized passenger elevator
1867	Christopher Sholes	Typewriter
1876	Alexander Graham Bell	Telephone
1877	Thomas Alva Edison	Phonograph
1879	Edison and Lewis Latimer	Lightbulb
1869	George Westinghouse	Compressed-air brake
1886	Westinghouse and Nikola Tesla	High-voltage alternating electric current (AC)
1893	Charles and Frank Duryea	First practical motorcar in the United States
1903	Wilbur and Orville Wright	First powered piloted plane flight
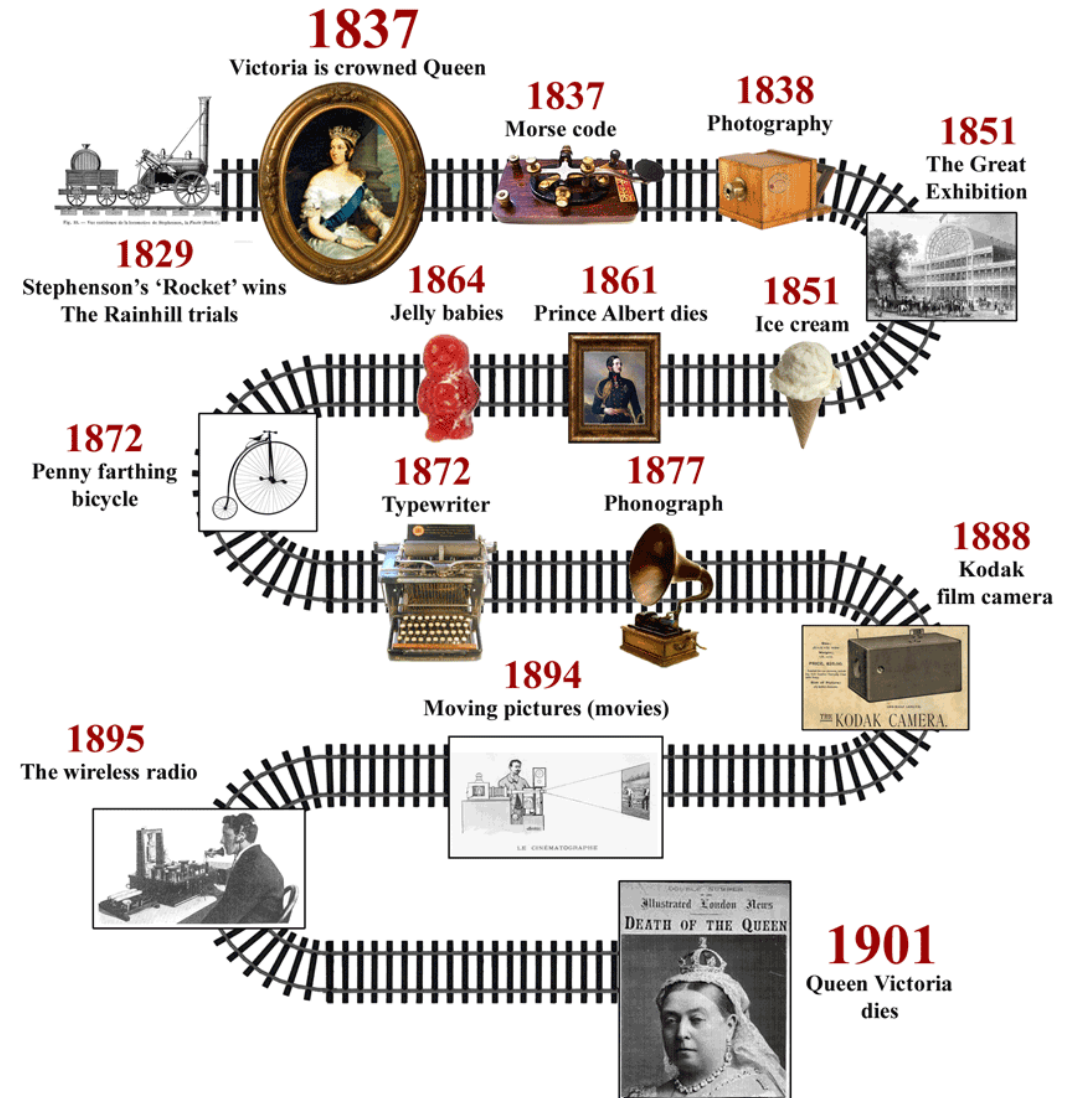
Source: https://industrialrev2.weebly.com/inventions.html, Pinterest

Is Economics an Exact Science?

Does profit maximization lead to utility maximization?

Do money increase our happiness?
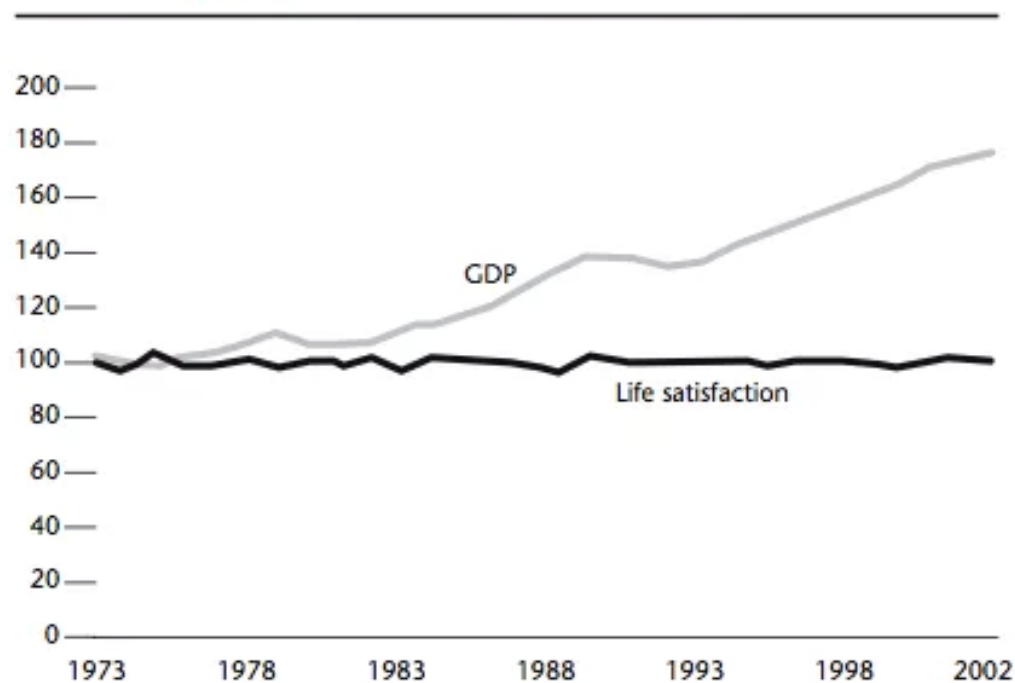
What if not?

Easterlin paradox, 1974

- Richard Easterlin

- Happiness does not trend upward as income continues to grow

- research based on data from 1946 to 1970 in post-WW2 world

United Kingdom

Figure 1   UK life satisfaction and GDP, 1973–2002
1973 = 100

Source: NEF (2004)

Japan

Figure 2. Satisfaction with Life and Income Per Capita in Japan between 1958 and 1991

Sources: Penn World Tables and World Database of Happiness.
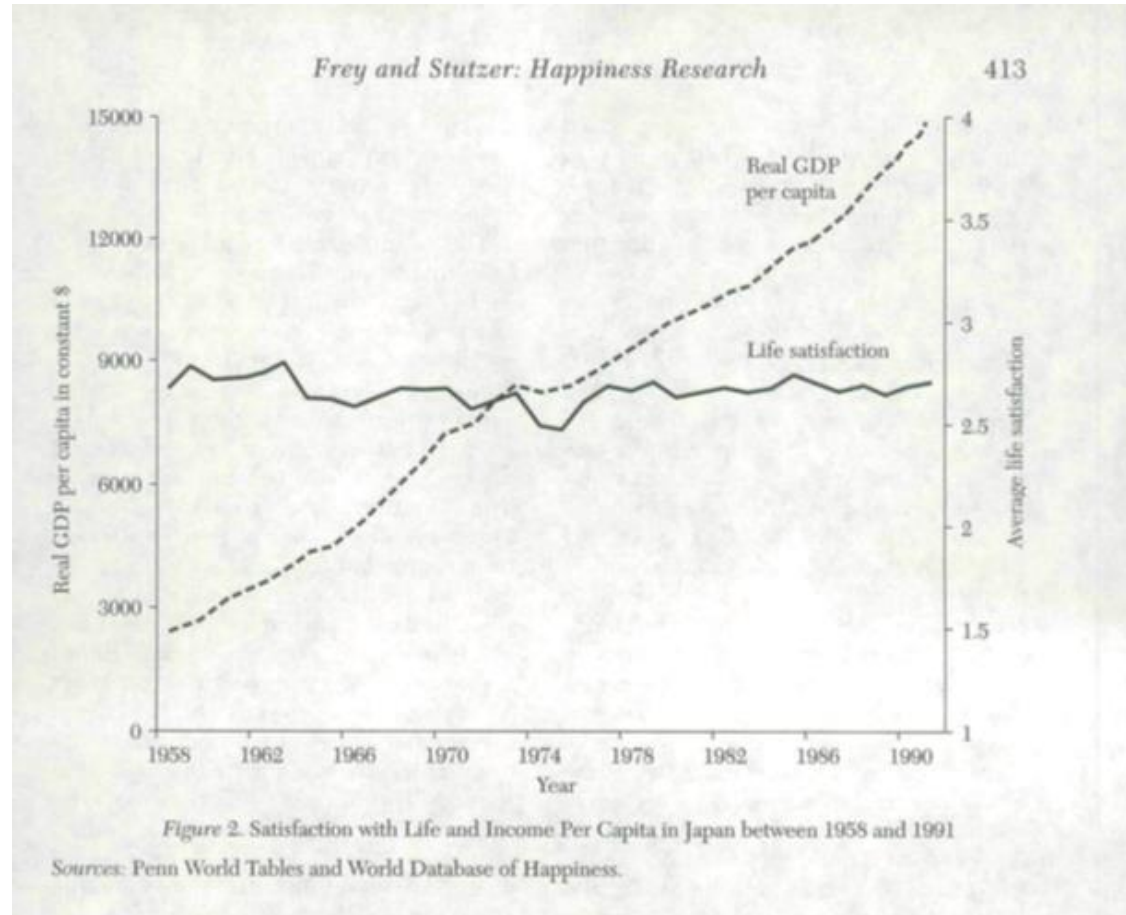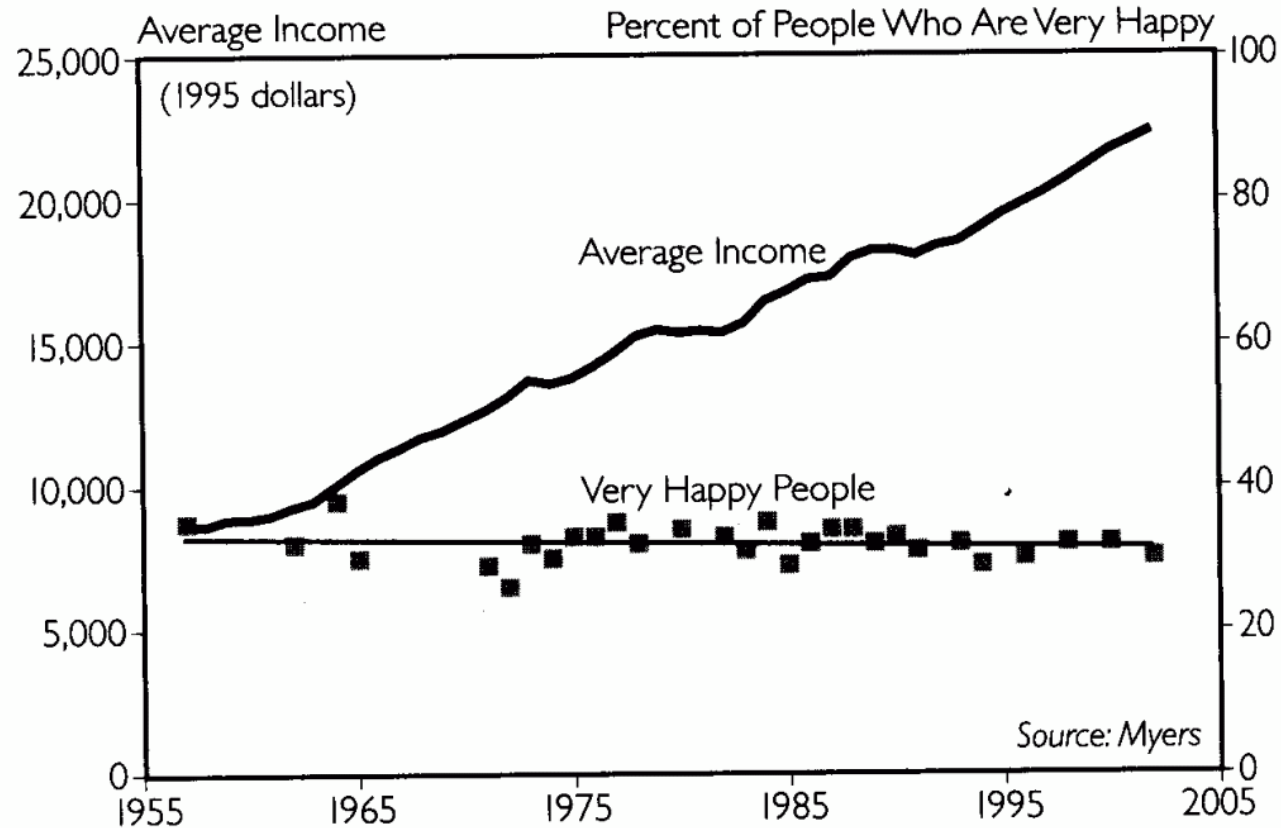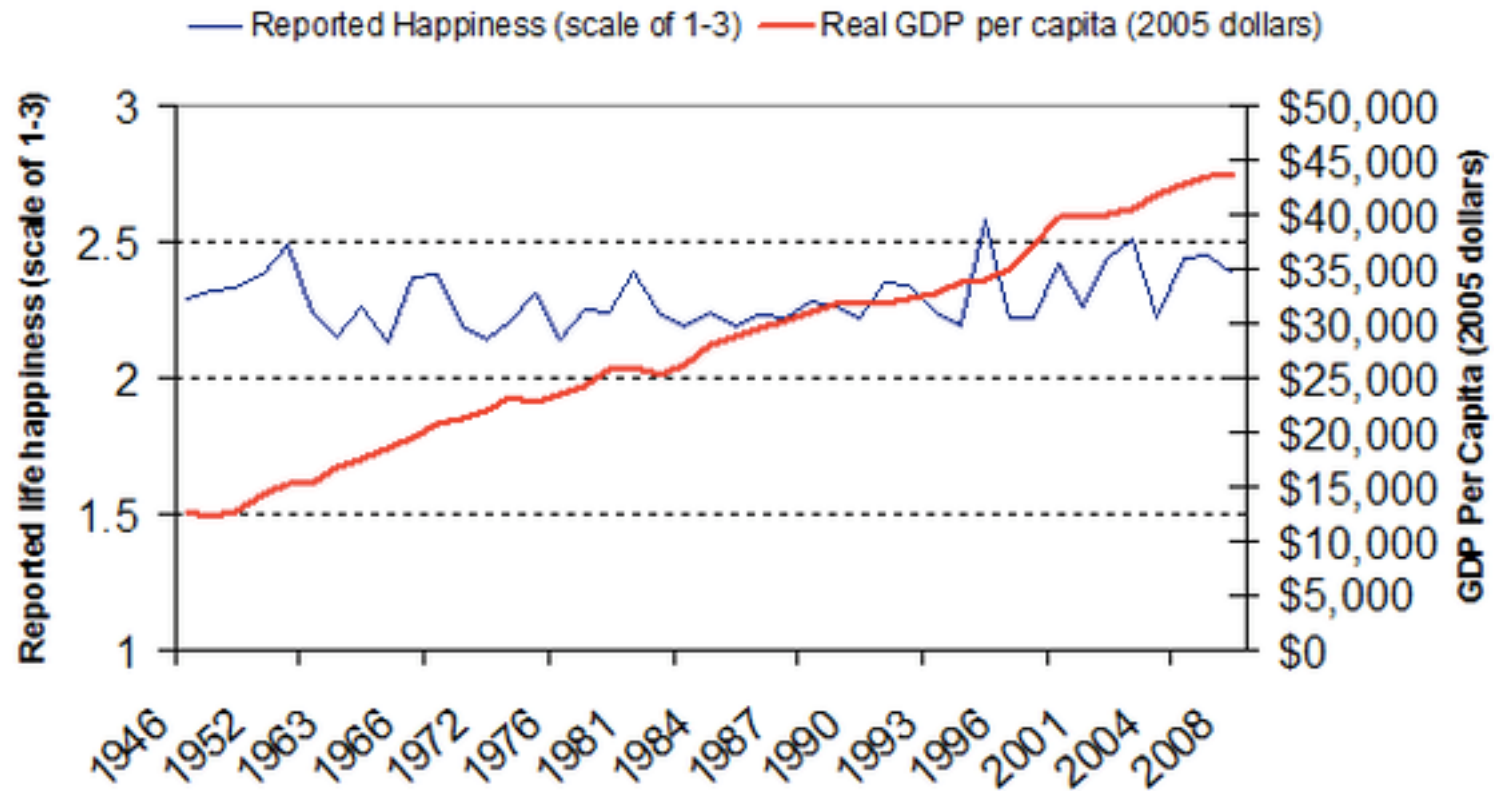
United States of America

Figure 8–1. Average Income and Happiness
in the United States, 1957–2002

United States of America

United States: Life Happines vs. Real GDP Per Capita

— Reported Happiness (scale of 1-3) — Real GDP per capita (2005 dollars)


- *Data from the World Database of Happiness, Erasmus University of Rotterdam, and the St. Louis Federal Reserve Bank,* www.clearerthinking.org

Development of Economics as Science

Funeral by funeral, theory advances. Paul Samuelson, 2003

Neoclassical synthesis

- a WW2 academic movement
  in economics

- Aim: incorporate thoughts of John
 Maynard Keynes into neoclassical
  economics
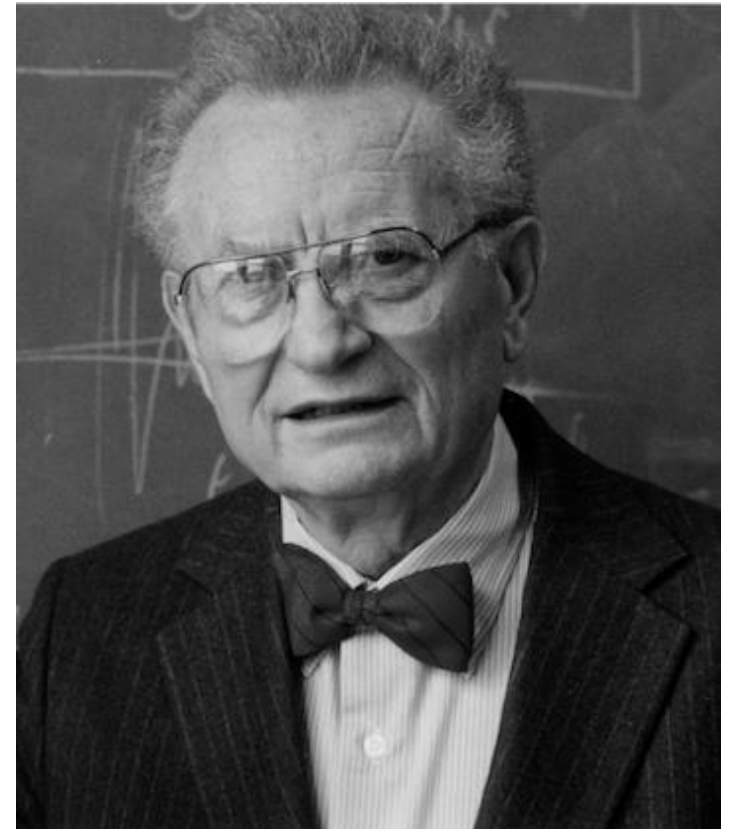
# Economics of Happiness or Happiness Economics

- Relatively vs. Absolutely rich
- People compare themselves to their peers
- Peer pressure
- Our happiness derives from our position in our peer group. Position is not always related to money (altruism, meditation in Tibet)
- If all are rich, we will not be happy.

When Do We Feel Happy?
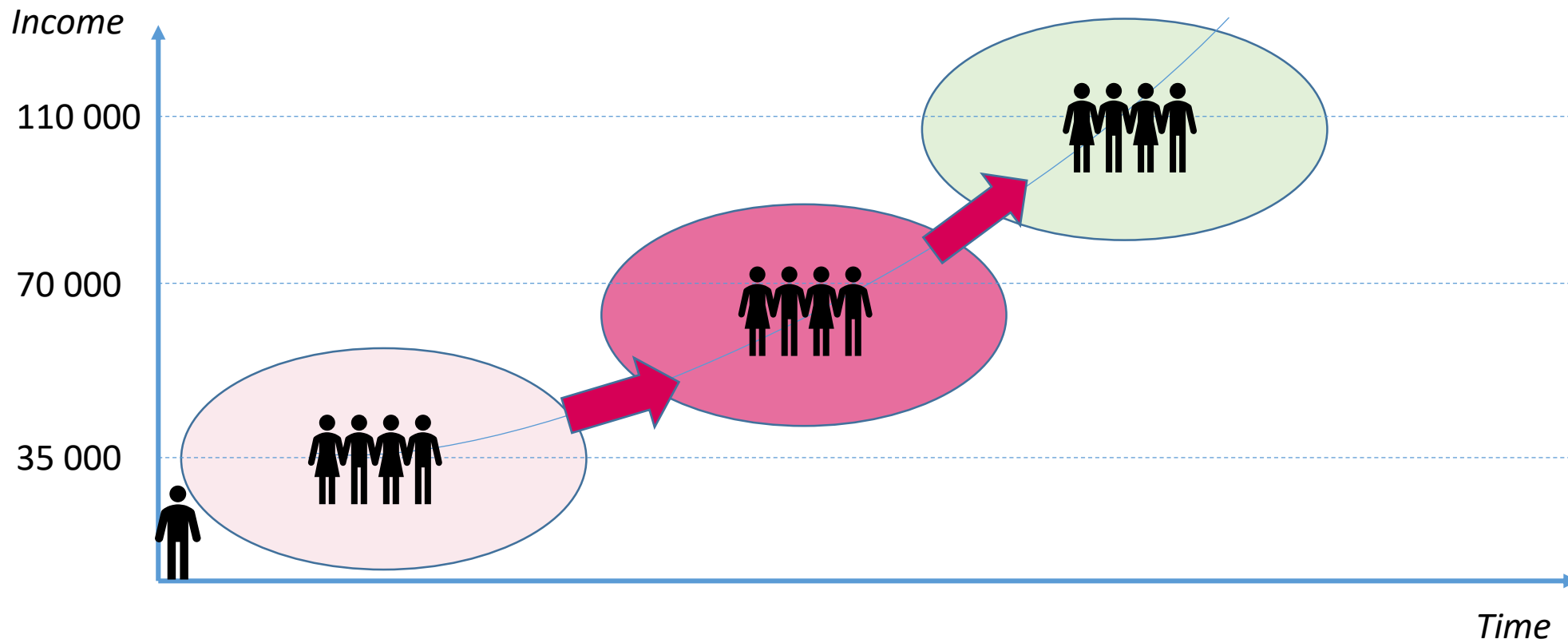
When is Football Player Happy?

Income

Frustration

Injury

Time
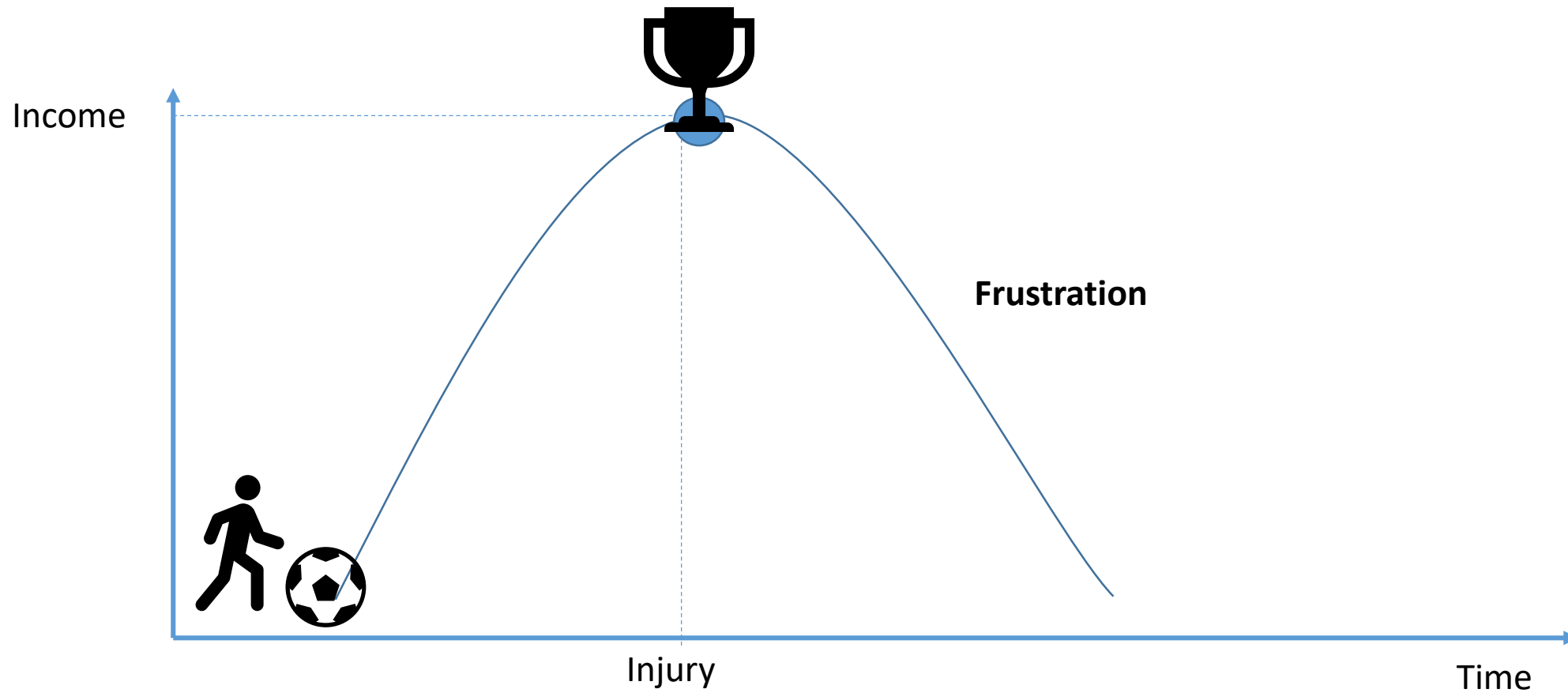
What to Remember

- Coase theorem
- Transaction cost
- Profit/utility maximization
- Asymmetry of information
- Easterlin paradox
- Bruno Frey
- Neoclassical synthesis
- Peer pressure

Národohospodářská fakulta VŠE v Praze