

The Economics of Well-Being
SYLLABUS
(subject to updating Summer 2019)

Chris Barrington-Leigh

McGill University
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Course description

The measurement of well-being, or happiness, through direct subjective assessment has come to complement and challenge established thought in economic theory and policy. This course treats modern understandings of the definition, measurement, and determinants of subjective well-being and their implications for policy, growth, and the environment.

The approach taken will reflect the preexisting treatment of welfare in economics as well as that of the field topics that the subjective well-being literature has addressed. The format of the course will be focused on reading and analysing the primary research literature.

Pedagogically, the course will emphasize oral articulation of ideas, dilemmas, and evidence. More than in any other course you've likely taken, preparation for class will be essential.

1 General information

ECON 430 / ENVR 430: THE ECONOMICS OF WELL-BEING. 3 credits

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Meetings: 09h35 – 10h55 on Monday, Wednesday

Prerequisites: ECON 230D1/D2 or ECON 250 D1/D2; ECON 227D1/D2 or ECON 257D1/D2 or equivalent; MATH 122 or MATH 139 or MATH 140 or MATH 150 or equivalent or permission of instructor.

Restrictions: You cannot get credit for both ENVR 430 and ECON 430, since they're the same course.

Office hours: By appointment

2 McGill policy statements

1. © Instructor generated course materials (e.g., handouts, notes, summaries, exam questions, etc.) are protected by law and may not be copied or distributed in any form or in any medium without explicit permission of the instructor. Note that infringements of copyright can be subject to follow up by the University under the Code of Student Conduct and Disciplinary Procedures.
2. McGill has policies on sustainability, paper use and other initiatives to promote a culture of sustainability at McGill.
3. McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see www.mcgill.ca/students/srr/honest/ for more information).
4. In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.
5. Additional policies governing academic issues which affect students can be found in the McGill Charter of Students' Rights (The Handbook on Student Rights and Responsibilities is available at www.mcgill.ca/files/secretariat/Handbook-on-Student-Rights-and-Responsibilities-2010.pdf).

3 Course content

The new science of well-being is necessarily multi-disciplinary. We will approach the material as economists, but we will spend time thinking about the psychological evidence as well as the inevitable philosophical considerations that come with trying to address the meaning of life, or the valuation of experience, or overarching policies for human society.

Nevertheless, some mathematical arguments are essential to understand the ideas that have emerged in the study of subjective well-being. In addition, the insights we have from subjective well-being are above all highly empirical. Accordingly, the course includes some theoretical problems as well as a module in which students will run their own regressions on real cross-sectional and panel data involving life satisfaction.

Discussing human well-being raises issues related to all of the current “crises of capitalism” under discussion by prominent economists, including big questions about the level of our material consumption, our impact on the planet, and the tradeoffs usually thought to justify these.

We will cover theory, empirical evidence, and implications for policy. The subject is now deep and rapidly evolving, and our treatment will represent only an introduction and overview of each topic.

See the reading list for details.

4 Learning outcomes

By the end of this course students should be conversant regarding the outlines of the major contributions from well-being research. Specific goals are to be able to:

Outcome ability	Assessment
Orally articulate arguments to peers and synthesize group ideas	class response
Be able to explain, defend, and critique role of new subjective well-being literature in economics	homework, quizzes, and class response
Contrast and compare different approaches to the measurement of welfare and progress	homework, quizzes, and class response
Interpret empirical findings in primary literature	homework, quizzes, and class response
Understand and classify relevant econometric methods	homework, quizzes, and class response
Carry out basic life satisfaction regressions using survey data	lab
Relate the main contribution from each of a dozen research papers	homework, quizzes, and class response

5 Instructional method

The course will be structured around readings done outside class in preparation for working together during class time. The instructor will be a guide, rather than a mere lecturer, and class time will largely be dedicated to working through concepts with peers. Students will be called upon to respond to conceptual questions after having had a chance to discuss them with peers.

N.B.: Class time is precious. Students must (a) arrive on time (b) with paper and pen, (c) with homework responses printed and ready for discussion, (d) with printed readings or the book if useful to discuss any of the homework questions, (e) stay mobile enough to be ready to move around the room multiple times during class, (f) avoid distracting software / functions of electronic devices. Distracting or distracted behaviour are not appropriate for this course.

Course instruction has the following elements:

- preparation for class (essential)
- regular homework assignments will guide thinking during reading and preparation, and will form the basis for discussion and collaborative learning in class
- occasional talks by the instructor on concepts, methods, and important papers

- students will do most of the in-class “teaching” through one-on-one and small-group exercises and discussions
- regular quizzes, as part of interpreting and analysing concepts and methods, will reflect readings and class discussion
- one empirical exercise in which we will analyze real data

6 Course materials

- A light-reading book: **Layard-2011-happiness-lessons-new-science** (to buy; available for ~\$18 at the bookstore, and for less online. Buy the Kindle version if you can; Canada is low on stock of the paper version.)
- **Helliwell-Layard-Sachs-UNworldHappinessReport2012**
- **Helliwell-Layard-Sachs-UNworldHappinessReport2013**
- **Nettle-2005-happiness** (available as ebook at McGill Library)
- Primary literature from the reading list
- Secondary and popular writing (available online)
- Econometric software (R), open source and free
- Publicly available and/or individually licensed datasets
- [EdX course on Happiness](#) (UC Berkeley)
- <http://authentichappiness.org>
- McGill’s [MyCourses](#)

This is an ENVR course and it’s 2014, so ensure that if you print out any readings, you do it double sided or four sides to a sheet. Collaboration on the course site may make this easier if you don’t know how to do it.

7 Assignments and evaluation (subject to revision)

Generally, you will have an assignment for every class after the first day. You will have several questions to guide or provoke your thinking in the reading due for that day. Your homeworks must be printed out, double-sided, before class. You will refer to them during class but will hand them in (without further annotation) at the end of class. Each week, one more or more questions among those you’ve submitted will be graded. These assignments will be worth $2\frac{1}{2}\%$

per week. You should aim to come to class with your own additional thoughts and questions provoked by the reading.

Once in class, you will share what you've learned, solidify concepts, and debate the various contentious issues on which we'll touch. I will call on individuals randomly to answer questions that I've posed on the spot, as well as to report on your answers to the homework or other questions, but only *after* you have had a chance to articulate and discuss them with classmates. These responses will also be (gently) graded.

We will also have short quizzes in class, mostly on the same day that we will have other class activities. At the end of the term, each student will arrange a 5-minute chat with me which will serve as a comprehensive oral quiz. There will be no final exam after classes end.

The distributed nature of the grading scheme is designed to ensure that every single effort is low-pressure on the student, but that continuous participation, effort, and engagement is sustained throughout the term. My pedagogical objective is empowerment of students to sound (and be) smart (skilled and articulate) *outside* of the class and *after* the course. Class time is successful when as many minds as possible are actively engaged at any moment.

Students will not be competing with each other for marks. The more we work together to deepen our understanding of concepts, the better all students will perform in the course. The breakdown of marks is as follows:

Activity	Weight
In-class responses and contributions	20%
Daily assignments (12 weeks)	30%
Quizzes (4 or 5)	50%

Also because there are numerous assignments, no late work will be accepted. I will drop the lowest weekly score from your homeworks and the lowest score from your in-class contributions, to account for possible medical absences. Missed quizzes will earn a zero unless a doctor's note is provided, in which case your score on the missed quiz will be whatever you get on the last (oral) quiz. There's not much substitute for full participation in this course.

8 Written work

This course, like life, emphasizes and rewards oral and written articulation of ideas. There is writing to be done every week, though it is short-response. I will be grading a randomly-chosen subset of each week's assignments. Here are some important considerations for your written work:

1. Keep it succinct: each unnecessary, unclear, or ambiguous sentence counts against your score, just like coherent and salient sentences increase your score.

2. Grammar, spelling, and punctuation matter. Follow the rules of formal written communication. You may need to work with a proof-reader, language coach, or appropriate software to achieve this end.

9 Responsibilities

My responsibilities are to come to class prepared; to respond to questions and to encourage broad participation in class discussion; to provide timely results on graded problems and assignments; and to stimulate an enthusiasm for economics, for critical thinking, and for learning.

Your responsibilities are to attend and participate actively in class; to arrive on time and prepared; to complete readings and assignments as scheduled (allowing time to re-read difficult material); to learn from and contribute to your peers' understanding; to seek help if you are struggling; and to strive, where given the opportunity, to make the material interesting and relevant to your own passions and ideas.

10 Academic Integrity (my version)

Students are encouraged both to help to teach each other difficult concepts and to collaborate on working through problems and discussing assignments. Because the target skills in this course emphasize oral and written articulation of ideas, you may learn as much from working with your diverse peers as you do from me or the text. However, for computer-based, in-class, and problem-solving questions, you must ultimately write up your own solutions without copying from other students', or enter your own answer which you can defend independently. For expository answers, writing must be in your own words, and ideas of others' must be cited. When you have worked in a group and your assignment represents the ideas of more than one person, you should recognise your collaborators by listing their names at the beginning of your assignment. This will not detract from your grade, but will rather let me know that you are, as intended, benefiting from group work.

To reiterate from the McGill policy, no course materials may be shared at all with anyone outside of this term's cohort.

11 Course schedule

Detailed weekly reading assignments will be released as we go.

Date	Topic	
W Sep 3	Course introduction	
	Section: Intro, measurement, philosophy, and psychology	
M Sep 9	Well-being and economics	
W Sep 10	Utilitarianism, philosophy, and measurement	
M Sep 15	Utilitarianism, philosophy, and measurement	
W Sep 17	Positive psychology	
M Sep 22		Quiz 1
	Section: Growth, adaptation, and Veblen effects	
M Sep 22	Well-being, income, and growth	
W Sep 24	Adaptation and Veblen effects	
M Sep 29	Adaptation and Veblen effects	
W Oct 1	Adaptation and Veblen effects	
W Oct 8		Quiz 2
	Section: Empirical lab, empirical topics (development, social capital, labour)	
M Oct 6	Empirical methods	
W Oct 8	Analysis in R	
M Oct 13	Thanksgiving (no class)	
M Oct 15	Empirical lab	
M Oct 20	Happiness and development	
W Oct 22	Social capital	
M Oct 27	Social capital	
W Oct 29	Labour; macro	
M Nov 3	Inequality and distributional issues	
W Nov 5		Quiz 3
	Section: Benefit/cost, aggregation, and policy	
W Nov 5	Environment	
M Nov 10	Affective forecasting	
W Nov 12	Affective forecasting	
M Nov 17	Behaviour	
W Nov 19	Cost benefit analysis and policy	
M Nov 24	Aggregation and indicators	
W Nov 26	Aggregation and indicators	
M Dec 1		Quiz 4 / spare day
W Dec 3		Oral exams (scheduled individually)
Thurs Dec 4	Wrap up	

Reading topics: supplemental references

Economic growth

A basic question which initiated the field of SWB in Economics is, “Does economic growth, or increased economic performance, lead to happier societies?” As for each of the topics to follow, we will assess the evidence and its implication for standard welfare measures and theorems.

Deaton-JEP2008-GWP
Easterlin-JEBO1995
Easterlin-Plagnol-JEBO2008
Kahneman-Deaton-PNAS2010-income-SWL-emotions
Stevenson-Wolfers-DRAFT2008egs
VanPraag-EER-1971wfi
VanPraag-EER-1973fei
oswald1997hae

Unemployment, inflation, and business cycles

Besides growth, other macroeconomic measures might also show effects on well-being at an aggregate level. Special attention has been given to inflation and unemployment, with their relevance to central bank policy.

Deaton-NBER2011-Daily-Poll-recession
DiTella-MacCulloch-Oswald-AER2001
DiTella-MacCulloch-NBER2007

Consumption externalities and “Veblen effects”

Economists have always expected that current individual utility will depend on the consumption levels of others and of other times, in addition to own instantaneous consumption. However, this idea was deemphasized in the latter part of the 20th Century. A major contribution of the SWL literature is to offer a new way to quantify such effects.

Bagwell-Bernheim-AER1996
Eaton-Eswaran-EJ2009-veblen-GE
Eaton-Eswaran-CJE2003
Falk-Knell-SJE2004
Frank-EJ1997
Leibenstein-QJE1950
Luttmer-QJE2005
Neumark-Postlewaite-JPubE1998
Vigdor-NBER2006

Social capital and social contact

Measures of the strength of trust and other social liens have traditionally been studied as a form of capital in the context of transaction costs and economic efficiency. Use of SWB as a welfare measure has led to the compelling idea that much of our utility comes from the the process of interacting, and the degree or nature of social capital, regardless of instrumental outcomes.

Akerlof-Econometrica1997
Benjamin-Choi-Strickland-NBER2007
Helliwell-EM2003
Helliwell-NBER2004

The labour market and the workplace

Economists have always considered the tradeoffs made in the workplace, where work conditions are valued against the wage. SWB data provide a new way to calculate compensating differentials, ie to evaluate in income terms the various aspects of work life.

Benz-Frey-JEBO2008vdw
Stevenson-Wolfers-DRAFT2008pdf

Adaptation effects

Another form of consumption externality is one's own past habits. To what extent does SWB show permanent shifts in well-being after major, permanent positive and negative shocks? There is also a principal-agent evolutionary model for our affective response systems.

DiTella-Haisken-De-New-MacCulloch-HBS2005
Rayo-Becker-2007
Stutzer-JEBO2004
Oswald-Powdthavee-JPE2008

Inequality and distribution

Alesina-DiTella-MacCulloch-JPubE2004-happiness-inequality
Senik-JPubE2004-inequality-well-being
Tomes-JEP1985
Rousseau-DRAFT2009-happiness-income-inequality

Development

Kingdon-Knight-JEBO2007

Methodology

Psychological and econometric issues both present special challenges to the analysis of SWB. A great deal of work has gone in to understanding the robustness and meaning of SWB, and to comparing and developing techniques for the analysis of latent response variables in panel (and cross-sectional) data.

Bertrand-Mullainathan-AER2001
Krueger-Schkade-JPubE2008
Loewenstein-AER2000
vanPraag-Frijters-Ferrer-i-Carbonell-JEBO2003
Ferrer-i-Carbonell-Frijters-EJ2004

Environment

Many economists have noted the implications for evaluating environmental costs if welfare implications of growth are revised. However, there is also interest in direct benefits and costs of environmental amenities and pollution.

Ng-SCW2003-preference-to-happiness-environment-advertising
Welsch-Kyklos2002-envir-evaluation-SWB
Frijters-VanPraag-CC1998-climate-SWB
Luechinger-EJ2009-air-quality-SWL
Simon-Luechinger-EL2010-air-pollution-SWL
Carroll-Frijters-Shields-JPopE2009-drought-SWL
Luechinger-Raschky-JPubE2009-flood-SWL
vanPraag-Baarsma-EC2005

Intertemporal preferences

Assumptions on intertemporal preferences are at the core of macroeconomics and environmental economics. Again, subjective well-being offers a new way to investigate these tradeoffs.

Loewenstein-ODonoghue-Rabin-QJE2003

Religion

Clark-Lelkes-DRAFT2009-religion-spillovers
Blanchflower-Oswald-SSM2008-UShapedSWB

Other

Other factors have been found to predict SWB reports and are important at least to understand their role as controls. These include the role of religion, age, gender, and other demographic variables.

Frey2009

Benefit-cost and policy applications

Wellbeing and Policy (O'Donnell, Deaton, Durant, Happern and Layard, 2014)

Using Well-Being as A Guide to Policy (in WHR 2013, O'Donnell, 2013)

Some Policy Implications (in WHR 2012, Helliwell, Layard and Sachs, 2012)

Well-Being for Public Policy (Diener, Lucas, Schimmack and Helliwell, 2009)

Measuring National Well-Being (The Commission on Measuring Well-Being,
Japan, 2011)

Reviews

There are a number of worthwhile reviews of the SWB literature.

Dolan-Peasgood-White-JEPsych2008

Kahneman-Krueger-JEP2006-SWB-review

MacKerron-JES2011-SWL-survey

DiTella-MacCulloch-JEP2006

Frey-Stutzer-JEL2002