

Analyzing the Impact of Happiness Volatility

Idea for Future Research

By James Sly

Economics has recently put an increasing amount of effort into measuring the overall levels of happiness in a society and then using those measures to develop strategies for improving the lives of the people who live there. Most of the focus so far has been on measuring and analyzing the overall levels of happiness in society, where behavioral economics suggests that how much your happiness changes over time is going to have a big impact on the quality of your overall life experience. The loss aversion that results from reference dependent preferences theorizes that if people suddenly do well in life only to lose those positive developments quickly after, that the gains from the new fortune will be experienced half as strongly as the losses that occur after. This might suggest that experiencing a lot of happiness volatility, where you see dramatic gains and losses in happiness over a short period of time, might make us worse off overall compared to just experiencing the lower levels of happiness without all the ups and downs. It also might be reasonable to expect that people might value the rise and fall of happiness somewhere in between the lowest and highest levels of happiness, or it might be the case that the incredible highs get indelibly fixed in our memories that we look back on fondly for the rest of our lives, much like sports fans will always reminisce positively about the year they won the national championship.

How happiness volatility impacts the way we experience life overall over time could have important implications on the way we structure society. If happiness volatility has a strong negative impact, then perhaps a lot of effort should be put into minimizing the ups and downs we experience, much as a lot of effort is put into minimizing the ups and downs of the business cycle in macroeconomics. If positive experiences are often looked back on fondly for long periods of time, then maybe happiness volatility might be beneficial overall, and societies should look at rotating people through high status jobs more quickly, or breaking up long running dynasties that dominate the highest levels of success in a particular sport. Whether or not dramatic increases and decreases in our happiness makes our lives better or worse overall is still an open question, and determining under what circumstances it makes us worse off and under what circumstances it makes us better off would be valuable to know and fully understand.