

„Realized Preferences and Subjective Well-Being“

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Abstract

Subjective well-being (SWB) comprises, next to positive and negative affect, cognitive evaluations of life satisfaction which are likely to be dependent on the situation in several domains of life¹. Differences in subjective well-being can be seen as an overall indicator for inequality. This is especially convincing if differences in SWB display differences in opportunities and abilities to pursue a good life in terms of what people value most. This implies that not resources as such, and also not achievements, in Sen's (1999)² terms functionings, in various life domains are the most important inequality dimensions, but the capabilities to reach those functionings which match the interindividually varying preferences.

Explaining differences in SWB, previous research mainly considered the direct impact of factual life situations such as income, status or partnership status. However, this approach misses the fact that there may be a discrepancy between what people aspire and what they actually have. Thus, similar life circumstances may be assessed differently, and different persons might be more or less satisfied with the same situation. To assess the impact of a match or mismatch between factual life situations and individual aspirations or preferences, there is a need to measure the latter. The standard theoretical approach in economics, to view actions and life situations as revealed preferences, is infeasible, because this does not allow for a mismatch. This is possible as the economic models are based on mechanisms like perfect information and full rationality and the assumption that people always maximize their utility, which might indeed lead to outcomes that show realized preferences³. Drawing on Sen's capabilities approach mentioned above, we investigate instead how a match or mismatch between preferences and realized life situations may help to explain differences in SWB. Our research question thus is: *To what extent does the realization of preferences explain subjective wellbeing?*

We expect that not only the actual life situation, e.g. holding a bad job, to define individuals' SWB, but that in particular the match or mismatch between the realized life situations and preferences to define individuals' SWB. Furthermore, we also rely on ideas expressed in the research centered around the domain-of-life approach and in the social production function (SPF). In line with the

¹ Diener, Ed, Eunkook M. Suh, Richard E. Lucas, and Heidi L. Smith. 1999. *Subjective Well-Being: Three Decades of Progress*. Psychological Bulletin 125: 276-302.

² Sen, Amartya. 1999. *Development as Freedom*. Oxford: Oxford University Press.

³ Dolan, Paul, Tessa Peasgood, and Mathew White. 2008. *Do we really know what makes us happy? A review of the economic literature on the factors associated with subjective well-being*. Journal of Economic Psychology 29:94-122.

domains-of life research and SPF theory, we thus focus on the subjective importance of domains of life such as family, friends, financial means, status and health for investing SWB.

We use a factorial survey and multilevel modeling to measure and extract individual preferences. The factorial survey method allows us to assess the importance of the different life domains independent from one another. We then compare these individual preferences in the life domains to the actual life situation and assess how a match or a mismatch influences SWB.