

An Examination of the Effects of Consumption Expenditures on Life Satisfaction in Australia

Abstract:

This paper studies how consumption expenditures, especially spending on certain types of goods and services, affect people's life satisfaction. The results demonstrate that conspicuous (i.e., visible and positional) spending increases life satisfaction. The analysis suggests that it is one's conspicuous consumption expenditures relative to those of other households in one's reference group that really matter. In contrast, savings and spending on basic goods and services, the less visible components of income, do not contribute to life satisfaction. This paper also evaluates the often-discussed relationship between income and life satisfaction, finding that the relationship is largely driven by conspicuous spending. Evidence of relationship heterogeneity across income groups is presented: conspicuous consumption expenditures have a positive influence on life satisfaction for individuals in all income groups; basic consumption expenditures, however, have a negative influence for people in the lowest income quartile. The results are based on the Arellano-Bond generalized method of moments estimation, which controls for bias from unobserved individual heterogeneity and endogenous variables. The data come from the Household, Income and Labour Dynamics in Australia Survey (2006–2010).

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