Planning Activity

Theme 2

This document provides an example of a plan for one topic within Theme 2. This resource goes into much more detail than is required in the specification but it provides some background to the topic and suggested approaches for planning content.

The approach to planning taken in this document was to:

- Identify the specification content and possible links to other topics in the specification
- Identify resources to support delivery – these might include:
  - Support resources including sample assessment materials and Getting Started guide
  - Published resources including textbooks
  - Websites and news stories
- Identify the knowledge, application, analysis and evaluation relevant to that content
- Develop activities and resources – these might include:
  - Multiple choice questions from past papers
  - Worksheets
  - Past and new case studies
  - Practice questions for explain, calculate, assess and evaluate (where appropriate)

Happiness

Specification content	2.1 Economic growth 2.1.1g National happiness - UK national well-being - The relationship between real incomes and subjective happiness
Possible specification links	1.1.6a Adam Smith wrote about happiness in his *Theory of Moral Sentiments*
	2.1.1f The limitations of using GDP to compare living standards between countries and over time. Should we review our obsession with GDP and consider happiness as more important?
	1.2.10 Alternative views of consumer behaviour Consumers are perhaps more interested in intangibles than in tangibles which can be measured in monetary terms. Behavioural economics can provide insights into these intangibles.
	2.6.1 Possible macro-economic objectives Should research into what makes us happy inform government policy and redefine what governments try to achieve?

Happiness economics seems to have become more popular as people question the GDP approach to measuring well-being and turn their attention to intangibles such as friendship and social interactions.

It is a topic which can be linked to other 'economic' issues and one which may interest students. It is possible to piece together different parts of the story which may be interesting using a number of sources:

Books	Richard Layard, *Happiness* Daniel Kahnemann, *Thinking Fast, Thinking Slow* Russ Roberts, *How Adam Smith can change your life*
Talks	The riddle of experience vs memory, Daniel Kahnemann (TED Talk) Measuring Happiness? A talk at the LSE, Jan 15th, 2014

You Tube	You may find episodes of The [Happiness Formula](#) (BBC 2006) interesting.

Suggested **key points** are:

Knowledge	Limitations of GDP, political interest in measuring happiness
Application	Measuring happiness is approached in different ways by different disciplines. It is not only economists who are interested.
Analysis	Factors which make us happy. Identifying causes.
Evaluation	Could happiness research inform policy? Problems with defining and measuring happiness may cast doubt over its usefulness.

Knowledge

1934: Simon Kuznets uses GDP measures but did warn that GDP cannot tell us about national welfare.

1972: Bhutan adopted Gross National Happiness (GNH) as a measure of the population's welfare rather than income. Bhutan was, at the time, ruled by an absolute monarch who defined happiness for his subjects rather than let them decide. In 2014, the government of the now democratic country seems to be moving away from GNH and the idea of the government telling people what happiness is.

1968: Robert Kennedy – the importance of intangibles

"Gross National Product… counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl….

Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures … everything, in short, except that which makes life worthwhile."

(Source: http://conversableeconomist.blogspot.co.uk/2012/01/robert-kennedy-on-shortcomings-of-gdp.html)

2006: "Well-being can't be measured by money or traded in markets. It's about the beauty of our surroundings, the quality of our culture, and above all, the strength of our relationships. Improving our society's sense of well-being is, I believe, the central political challenge of our lives." (David Cameron)

2008: President Sarkozy (of France) set up the Commission on the Measurement of Economic Performance and Social Progress. It reported a year later and the indicators it used showed that the gap between France and the US was not as wide as GDP figures suggested.

2010: Prime Minister Cameron launched the National Wellbeing programme to 'start measuring our progress as a country, not just by how our economy is growing, but how our lives are improving; not just by our standard of living, but by our quality of life'.

In 2012 the Office of National Statistics published 'Life in the UK' – a report into National Well-being: mixes data on unemployment, crimes, job satisfaction, satisfaction with leisure time, fear of crime.

2012: United Nations Conference on happiness and well-being followed in 2013 by the first World Happiness Report. It identified key factors which affect happiness:

- GDP per capita (via income and work)
- perceived freedom to make life choices
- freedom from corruption and generosity
- values and religion
- mental and physical health
- family experience
- education

Denmark was ranked first. The UK was 22nd.

Application

How to measure happiness?

We cannot measure happiness by just asking people what they think about their life and ignore what actually happens in their life. Happiness also needs to measure what people want in life and how likely they are to attain it.

Happiness surveys ask a variant of this question: 'would you say that you are (a) very happy, (b) 'fairly happy' or (c) 'not happy' with life at the moment?

There is a problem here with what psychologists have identified as the difference between the *experiencing self* and the *remembering self*.

The experiencing self	The remembering self
Lives in the present	Maintains the story of our life
Judges if you are happy *in* your life	Judges if you are happy ***about*** your life

Our remembering self has the greatest influence on how we answer questions about happiness. When asked to evaluate our life the remembering self defines our story in terms of changes, significant moments and endings. Time has little impact on the story. For example, we might be enjoying listening to a CD for 19 minutes when in the 20th minute the disc jumps and loops into continual repeat. Our remembering self will tell us and anyone who asks that this 'ruined the whole experience' but this isn't true because for the first 19 minutes the experience was enjoyable. We confuse experience with memory. It ruined the memory of the experience. The remembering self is in charge. This can be applied to how we see past relationships – they may have been very happy until an acrimonious end. Our remembering self will say that the relationship was never that good (which would not be true). The critical part of the story is how it ends.

This confusion of the experiencing self and the remembering self leads to confusion about happiness. It might be better to think of two types of happiness – happiness for moments (the happiness of the experiences); satisfaction when one thinks about one's life (the satisfaction of the remembering self).

This means that the two should be measured separately:

i.   questions about life satisfaction (life evaluation) – answers often mention money, goals. Money is very important for the remembering self
ii.   questions about experiences (how you are living your life) – answers usually focus on spending time with people we like

1. Measuring how satisfied people are with their lives:

- Survey question: how satisfied are you with your life? (This is a question for the remembering self.)
- Surveys such as the British Household Panel Survey also identify factors. These generally report that being married, healthy, in work, financially comfortable, living in a nice community, having political freedom and (in the US) having religion, are things which make people happy.
- US research: below an income of $60,000 per annum people are unhappy. Above that the line is flat. Money does not buy happiness. Lack of money gives you misery. Being rich improves life satisfaction but not life experience.

Other economists have conducted happiness surveys which rely on asking people whether or not they are happy.

One of the conclusions is that there might be a happiness life-cycle. A U shaped curve has been suggested and has been cross checked with data on the ages of people suffering with depression and with the prescription of anti-depressants. The trough tends to happen in middle age when one has teenage children. Happiness seems to increase when the children leave home.

What makes us happy?

- spending time with friends and family
- getting married
- getting a degree
- going to church (US data)
- being in the open air

2. Measuring how people feel about particular activities (time-use surveys).

Behavioural scientists have challenged the results of happiness surveys. They argue that when we are evaluating our life, we tend to evaluate positively but when we describe experiences we tend to moan. A distinction is made between life evaluation and experience. There are a number of pressures which might push us to answer positively to life evaluation but this will mask what we are feeling about our experiences. Our life evaluations tend to follow a narrative that we have constructed in our heads and we repeat it because it seems acceptable. A conclusion might be that we should measure happiness by measuring experience in time-use surveys by asking people how they are feeling at different points of the day/week when they are undergoing different activities.

The experience data from time-use surveys does not support the U shaped happiness life-cycle hypothesis. Rather, it suggests that we get happier as we get older.

Time-use surveys:

- The Day Reconstruction Method – people are asked to relive the previous day by breaking it up into activities and then rating them.
- The Experience Sampling Method – you program someone's mobile phone to bleep at random times of the day with a question menu about what they are doing and how they feel about it.

- Experience surveys allow you to measure what percentage of each day is spent in a state of unhappiness.
- At work, mood is influenced by the chance to socialise, how noisy it is at work, time pressure and commuting. (Factors like pay, status, benefits are felt by the remembering self but are not picked up in experience surveys).
- At leisure – we enjoy active leisure (socialising, exercise) much more than passive leisure (TV)
- For the experiencing self, happiness is about spending time with people you love and who love you.

Economists and psychologists

Economists are not the only people interested in studying happiness. Psychologists also ask questions about what makes us happy and their insights can help economists see things differently.

A simple example of reference dependence:

Are these two people equally happy?

Person A has a personal wealth of £100,000	Person B has a personal wealth of £100,000
Last year, Person A's personal wealth was £25,000	Last year, Person B's personal wealth was £200,000

An economist would assume that they are. A psychologist might argue that the change in wealth is more important than the wealth itself. Person A will be happier.

What about these two people?

Person C has a personal wealth of £50,000	Person B has a personal wealth of £100,000
Last year, Person C's personal wealth was £25,000	Last year, Person B's personal wealth was £200,000

Are they both equally happy? An economist might assume that Person B should be happier – the psychologist that Person C is happier.

For the economist, the rational individual appraises their current situation. For the psychologist, people compare their current situation with a reference point.

Happiness is not a constant – we have reference points with which we compare our current situation.

Cognitive bias

Neuro-psychologists may take a different approach, with a different starting point – individual differences. People differ between optimists and pessimists. Optimists tend to be happier.

Tests of cognitive bias have measured reaction times when people are shown negative information. Pessimists and people with anxiety disorders are much quicker to recognise negative information than optimists.

One can also measured brain activity. People with more brain activity in the right hemisphere tend to be more pessimistic. Those with more activity on the left side tend to be more optimistic.

So, our general sense of well-being is affected by this cognitive bias.

Happiness and the purpose of life: happiness is not just about hedonic pleasure, it is also about purpose. Purpose can make us happy.

Other traits which are associated with optimists.

- Optimists tend to be more persistent
- Optimists have a stronger sense of control and empowerment (although there is the paradox of choice – having a choice makes us happier but having too many choices makes us anxious and leads to indecision)
- Anticipation makes us happy (anticipation is an experience)
- People with higher expectations tend to be happier (lowering your expectations will not make you happier). High expectations may often lead to disappointment but what matters is how we interpret the disappointment.

Other insights:

- happiness is positively correlated to productivity
- happier people tend to live longer
- happy youngsters will earn more than their miserable siblings

Analysis

Factors contributing to happiness

Richard Layard has summarised the factors which do affect how happy we are. He suggests that happiness is affected by:

- Family relationships (having to go through divorce, separation, widowhood will reduce happiness)
- Financial situation (a fall in income is likely to reduce happiness)
- Work (not being employed or job insecurity will reduce happiness)
- Community and friends (not feeling part of community or lacking trust of people generally in your local area will reduce happiness)
- Health (chronic pain or mental illness significantly reduces happiness, although with some medical conditions it is possible to adapt)
- Personal freedom (lack of political freedom and war reduces happiness)
- Personal values (lack of belief in God or inability to look for comfort 'within' reduces happiness)

Does money make us happy?

We prefer to have more wealth and income than we have at the moment and yet we may suspect that having more money may not make us happier. Things can't make us happy but we may feel that we are missing out if we don't have the latest Apple products. Once we have them, we take them for granted and want the next new gadget. Do we want the gadget itself or do we want the gadget because of what it signals to the world about us?

Does a rise in real income make us happier?

Layard believes that happiness depends on relative income and wealth. We compare ourselves with reference points (could be other people, could be past income, could be expected future income) and we are happier if we are better off than our reference points.

Our reference points are continually changing so we quickly get used to a higher income and adjust our reference points upwards.

Richard Easterlin has suggested that richer people are happier than poorer people but that the rise in real incomes in the second half of the 20th century had not increased happiness. (This was called the Easterlin Paradox). This could be due to the way in which data is collected – GDP can increase, our definitions of happiness do not allow for a very sophisticated gradation of happiness.

Adam Smith (the 'Invisible Hand' from Theme 1) had ideas about how to find happiness in his book, *The Theory of Moral Sentiments*.

One of the things that make us happy is the respect of others. This encourages us to 'do the right thing' – not because we care for the rest of the human race but because if we behave in a way which harms others we would be disliked by others or by our 'impartial spectator'. We carry this 'impartial spectator' around in our heads and it encourages a standard of behaviour in us which will make us respected by our peers.

In a way this is similar to the belief that some religious people have that God is always watching them. For Smith, it is not God who is watching but you – you watch yourself like an impartial spectator and this encourages you to act in a way which others will consider honourable. This means that our sense of morality comes from our desire for the approval of those around us. We learn from the approval and disapproval of others. We want to think of ourselves as good people. We want others to think of us as good people. Our imaginary 'impartial spectator' helps us to make decisions which others would approve of. This can help to explain anonymous donations to charity, blood donors, tipping in a restaurant you will never visit again.

Smith believed that if we go through life imagining that this 'impartial spectator' is with us throughout, when we make decisions, when we interact with others, it will lead us to happiness. So, to be happy, we think about how others view your behaviour.

Evaluation

Could this research inform policy?

There are many factors which contribute to happiness which governments can do nothing about but there might be some policy implications.

Unemployment makes people very unhappy so policies to maintain high employment levels might increase national happiness.

Good health might be worth prioritising as it is another factor which makes people happier.

Governments can have an impact on personal freedom – promoting democratic engagement, decentralised local democracy (like In Switzerland) might increase national happiness.

Social policy make people happier: helping the elderly to socialise; better child care for working parents; better transport to get to work. (Time use surveys suggest that these would all reduce unhappiness.)

Cross-country comparisons have allowed the researchers to suggest that they have identified social factors which make people happy. Their suggestions for making people happier are:

- reducing 'background fear' (high social welfare spending and health provision, low inflation and unemployment, low crime and corruption)
- improving the physical environment (clean air)

This is fine but vague. Who should we make happy? Spending more on welfare now may make people happy but spending now means foregoing spending in the future. We could make people in the future happier by saving now. This might imply not spending now on welfare.

Anything which suggests that governments spend implies that governments have to raise revenue through taxes or through borrowing. How can you measure the happiness of those who will pay higher taxes, or those who will have to service the borrowing?

Problems with the measurement of happiness: different research methodologies

Happiness surveys yield different results to time-use surveys. This may be due to a difference between our remembering self and our experiencing self. This suggests that 'happiness' may be very difficult to define, mean different things to different people, and mean different things to us at different times of the day!

It is also clear that economists, psychologists, behavioural scientists, neuro-psychologists approach research into happiness from different angles and come to very different conclusions.

Problems with the measurement of happiness: mood

Well-being surveys are easily influenced by the mood of the respondent when asked (the results are therefore seriously flawed).

When asked the question – 'how happy are you with your life?' we may be influenced by our experiencing self and not give the question a considered response.

An experiment described by Daniel Kahnemann in his book *Thinking Fast, Thinking Slow*: two groups were asked the question. Just before being asked each respondent was asked to photocopy a piece of paper. At the photocopier, each member of one group found some money (e.g. a £2 coin). The other group did not. The first group evaluated their life much more positively than the second. Changing the mood of people seems to influence how they answer a question about life satisfaction.

Problems with measurement of happiness: the scale of happiness

Happiness surveys ask a variant of this question: 'would you say that you are (a) very happy, (b) 'fairly happy' or (c) 'not happy' with life at the moment?

This does not give much room for change. People who were very happy at one level of income have no way of expressing their increased happiness when their income increases. (This may help to explain the Easterlin paradox).

Case study: Nothing rotten in the state of Denmark?

Denmark has topped the UN World Happiness Report, and EU wellbeing and happiness index and is the happiest nation according to the UK Office of National Statistics. Clearly something seems to be going well in the state of Denmark!

Danish office hours fall between 8am and 4pm with late working frowned upon. The latest Eurobarometer survey has the Danes as the happiest workforce in the EU. Danish workers are third in the world for worker productivity (according to University of Warwick research).

Unemployment benefit is 80% of former salary for the first two years. Healthcare and education are free and pensions are generous. Denmark has low levels of corruption and violent crime and high levels of trust (according to the Happiness Research Institute).

The problem with surveys is that they tell us what people say and not what they do. Could it be that Danes are 'satisfied' rather than 'happy'? In a culture where complaining is seen as selfish, people may be more inclined to state that they are content. Economists tend to look at the behaviour of those who are rich enough to be able to make choices – the internationally mobile. Do they choose to live in London or Copenhagen? The evidence seems to suggest that those rich enough to be able to afford both tend to choose London.

Denmark also has one of the world's highest suicide rates – is this due to the long hard winters and the large numbers of people suffering from SAD (seasonally affective disorder)? Denmark has the second highest use of anti-depressants in Europe, after Iceland (OECD). Denmark is the most expensive country in Europe to live in and Danes have the highest level of personal debt. Taxes and the cost of living are very high.

(adapted from 'Oh happy Danes', The i, 16/01/2015)

Questions

1. Assess the value of happiness surveys as an economic indicator.

2. Discuss the validity of the survey ranking which claims that Denmark is the happiest nation in the world.

3. To what extent should happiness be considered more important than economic growth as an objective of government policy?