

Does money affect happiness? Experimental results from the tsunami “negative lottery”

Leonardo Becchetti and Stefano Castriota

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Abstract

Research on the nexus between life satisfaction and income has looked at lottery winners or post-communism transition to document that exogenous changes in income generate effects of the same sign on happiness. In this paper we consider the unfortunate tsunami event as a *negative* lottery and examine the effects of the tsunami related income losses, net of the most ample possible set of concurring factors, on life satisfaction and self-esteem of a sample of Sri Lankan microfinance borrowers. Our empirical findings help to discriminate between different effects of material damages and monetary losses, both having strong significant impact on the dependent variables. Our contribution to the literature is in: i) identifying an exogenous shock which is temporary and does not suffer from voluntary participation bias (unfortunate “winners” of the negative lottery, exactly as the control sample, did not decide to “buy the lottery ticket”); ii) testing the money-happiness nexus on a sample of individuals close to the poverty line.

Keywords: life satisfaction, quasi natural experiment, tsunami, natural catastrophe.

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