

The Impact of Real Estate and Stock Market Fluctuations on Human Well-Being

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First draft: May 2007

This draft: January 2008

Abstract

Fluctuations of house and stock prices have an important effect on household wealth and, consequently, on household consumption patterns. The literature has found that house price variations have a stronger effect on households' consumption patterns than stock market variations, although results are not fully conclusive. In this paper I analyze the effects of real estate and stock market fluctuations on self-reported life-satisfaction levels of around 400,000 Western European citizens from 1975 to 2002. There are two main findings. First, in line with research on the link between financial wealth and consumption, only real estate variables display a strong and robust effect on happiness, while stock market price changes have a negligible effect. Second, house price increases generate a temporary rise in life-satisfaction due to the capital gain and to the higher borrowing capacity, but also a permanent negative effect due to the lower affordability of houses. Therefore, real estate speculations increase life-satisfaction only in the short term, while in the medium-long term the negative effect connected to the lower affordability of houses prevails.

Keywords: real estate, stock markets, life satisfaction, happiness.

JEL Codes: E21, E44, I31, R31.