Understanding money’s limits: People’s beliefs about the income – Happiness correlation

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It is claimed that the correlation between income and happiness is considerably weaker than people expect and recent research supports that contention. However, an important lesson from judgment and decision-making research is that judgments are constructed in response to the prevailing context, leaving open the possibility that some elicitation procedures may reveal accurate intuitions about income and happiness. We examined whether this is so. Study 1 participants ranked a set of empirical relationships according to the strength of correlation and we examined whether they ranked the income–happiness link where it actually falls in the set. In Studies 2 and 3, participants estimated the probability that someone with a higher income than another is also the happier of the two. The estimates of the participants were then compared to the actual probability based on the documented income–happiness relationship. Results indicate that, using these elicitation procedures, people have an accurate understanding of the relationship between income and happiness.

Keywords: income; wealth; happiness; subjective well-being

Introduction

It is not easy to summarize the relationship between income and happiness. There is a relationship between the two, but it is modest, leaving some to question how it should be cast. This problem applies to all modest relationships, but the problem is compounded in the case of income and happiness because of strong feelings about what one might like the relationship to be. Some would be happy if money were unrelated to happiness; others would prefer the two to be very strongly related, so that rising income might powerfully increase the well-being.

When empirical data on the subject first became available, some authors, understandably simplifying a bit, asserted that income, once beyond the level of extreme poverty, was unrelated to happiness (Freedman, 1978). This conclusion was based on such observations as that the pronounced increase in wealth in the United States and Japan since the end of the Second World War was not accompanied by an increase in average happiness (Easterlin, 1974; Smith, 1979). More recently, a great many authors have tried to put the relationship in an interpretive context by stating that although there is a relationship between income and happiness, it is not as strong as one might expect. For example, in his book Authentic Happiness, Seligman (2002) states that ‘wealth, which surely brings more possessions in its wake, has a surprisingly low correlation with happiness….’ (p. 49).

Argyle (2001) also describes the relationship as ‘surprisingly weak’ (p. 92) in his Psychology of Happiness, as do Dunn, Aknin, and Norton (2008) in their notable study of the benefits of spending money to benefit others, stating that ‘…income has a reliable, but surprisingly weak, effect on happiness….’ (p. 1687). Indeed, one of us has described the relationship this way, referring to it as ‘…not what one might expect’ (Gilovich, Keltner, & Nisbett, 2006).

Is it surprising? Recent work by Aknin, Norton, and Dunn (2009) suggests that it is indeed. In one study, they asked participants to report their own income and life satisfaction, and to estimate the life satisfaction of someone at each of 10 income levels. They found that people accurately estimated the life satisfaction of individuals at the top income levels in their samples, but that they substantially underestimated the life satisfaction of individuals at the bottom income levels. They replicated this finding in a second study that also asked people to estimate how happy they would be at each of the 10 income levels. Their respondents predicted that they themselves would be less happy at the lower income levels than their fellow participants with those incomes actually were. Thus, except when it comes to the rather well off, people seem to think that money has a bigger impact on happiness than it actually does.

However, one of the most important lessons to emerge from the field of judgment and decision-making is that people’s judgments and beliefs are
constructed in response to a particular context or line of questioning (Gilovich & Griffin, 2010; Schwarz & Strack, 1991; Thaler & Tversky, 1990; Tversky, Slovic, & Kahneman, 1990). The methods used by Aknin et al. (2009), although perfectly valid, straightforward, and representative of the kinds of questions people might ask themselves in everyday life, might nevertheless predispose participants to think about the link between money and well-being in a way that elicits an exaggerated faith in the power of money to influence happiness. By asking participants to estimate the well-being of someone at each of 10 different income levels (e.g., $15,000–$24,999, $50,000–$74,999, and $200,000+), the procedure invites participants to focus on the isolated effect of money. Because of the well-documented ‘focusing illusion’ or ‘focalism bias’ (Schkade & Kahneman, 1998; Wilson, Wheatley, Meyers, Gilbert, & Axsom, 2000), it is perhaps to be expected that participants might come to view the relationship between money and happiness, when asked about it this way, as being more pronounced than it actually is. This may be especially likely when people are asked to estimate their own happiness at different income levels, which invites them to hold constant both the person (themselves) and all other non-monetary influences on happiness and zero in on the influence of money.

Note that there are other equally valid, straightforward, and representative ways of asking people about the relationship between income and happiness that might be less likely to tap the influence of focalism. People can be asked, for example, to estimate the likelihood that one randomly selected person from the general population who is wealthier than another is also the happier of the two. With such a procedure, the respondent cannot assess the impact of money holding the person constant, but must contemplate how money stacks up against all the ways that people differ from one another. People can also be asked to compare the strength of the relationship between income and happiness to a host of other bivariate relationships, spanning the full range of zero to perfect association. Here too, people are not implicitly asked to hold other variables constant and look at the residual impact of money, but must assess the impact of money in the context of the impact of all sorts of variables on one another.

This research used these very two procedures as alternative means of assessing people’s intuitions about the strength of the relationship between income and happiness. The goal was to examine whether people’s beliefs about the relationship are indeed constructed in light of particular methods of elicitation and whether, under these alternative methods, people’s intuitions about the relationship might be much better calibrated. In Study 1, we asked participants to rank a number of empirical relationships in terms of relationship strength. Do they get it right about income and happiness, ranking it where it should be in comparison with the others? In Study 2, we asked people to imagine two randomly selected adults from the US population, with one person being wealthier than the other. We then asked them to indicate which person they thought would be happier and to estimate the probability that their selected individual would be the happier of the two. The estimates of the participants were then compared to the actual ‘concordance rate’ given the relationship between income and happiness reported in the literature. Are people’s estimates close to the mark or do they reveal (as many authors have stated and as one important set of studies has documented) a pronounced tendency to overestimate the relationship between income and happiness?

When attempting to quantify people’s beliefs about the relationship between income and happiness, and to compare their beliefs to what has been established empirically, it makes no sense to ask people about what sort of correlation coefficient they would expect between income and happiness. Few people have a firm understanding of the statistic or how different linear relationships map onto different values of \( r \), but intuitions about the link between income and happiness can be assessed in other ways. In this study, participants indirectly estimated the strength of the association between income and happiness by ranking it among a set of other correlations of varying strength. The question of interest is whether most participants would rank it properly among the others.

**Method**

**Participants**

Individuals were approached at various locations around the Cornell campus and at a local shopping mall and invited to participate in a short experiment assessing people’s understanding of the strength of the relationship between pairs of variables. Two hundred twenty-six individuals who agreed to do so participated in the study.

**Procedure**

After obtaining informed consent, the experimenter provided participants with a single-page questionnaire that contained 21 pairs of variables (e.g., brain size and IQ, age of husband and wife) and asked them to rank
the 21 pairs in terms of strength of association, from 1 (strongest) to 21 (weakest). Participants were instructed to assign each rank to exactly one empirical relationship (i.e., ‘ties’ were not permitted). Four different orders of the 21 pairs of variables were created, and each was presented to roughly equal numbers of participants (two randomly ordered lists of the 21 pairs were generated and the order of each was reversed to create two more).

As previous research has typically found the true correlation between income and happiness to fall in the range of 0.15–0.3 (Kahneman et al., 2006), the true rank of income and happiness relative to the other pairs would fall between 15 and 18 in this set. The correlations between the other pairs of variables were obtained from various empirical reports and were selected to include an extremely broad range of positive associations (Table 1). The variable pairs included relationships such as that between lifespan for parents and offspring ($r = 0.07$, rank = 20), height and weight among individuals ($r = 0.47$, rank = 11), and body size and gestation period among primates ($r = 0.95$, rank = 1). Negative correlations were not included to prevent confusion between the strength of the association and its direction. After completing the ranking task, participants were debriefed and thanked.

### Table 1. Pairs of variables that participants ranked according to strength of correlation, with actual rank and estimate of $r$, and source of the estimate.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Actual rank</th>
<th>Actual strength of correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gestation period and primate size</td>
<td>1</td>
<td>0.95 (Watkins, 2000)</td>
</tr>
<tr>
<td>Age of husband and wife</td>
<td>2</td>
<td>0.95 (Freedman, Pisani, &amp; Purves, 1998)</td>
</tr>
<tr>
<td>Female height and navel height from ground</td>
<td>3</td>
<td>0.888 (Anderson, Echols, Fang, &amp; Prothero, 1999)</td>
</tr>
<tr>
<td>Female height and arm span</td>
<td>4</td>
<td>0.83 (Anderson et al., 1999)</td>
</tr>
<tr>
<td>Living in fraternity (yes/no) and alcohol consumption</td>
<td>5</td>
<td>0.763 (Williams, Powell, &amp; Wechsler, 2003)</td>
</tr>
<tr>
<td>Payroll size and winning in baseball</td>
<td>6</td>
<td>0.76 (Mizak &amp; Stair, 2004)</td>
</tr>
<tr>
<td>Height and shoe size</td>
<td>7</td>
<td>0.63 (Anderson et al., 1999)</td>
</tr>
<tr>
<td>Birth order and intelligence</td>
<td>8</td>
<td>0.63 (Zajonc &amp; Sulloway, 2007)</td>
</tr>
<tr>
<td>Parents’ rating of child’s irritability at 2 months and child’s irritability at 1 year</td>
<td>9</td>
<td>0.5 (Worobey &amp; Blajda, 1989)</td>
</tr>
<tr>
<td>Cognitive abilities of older patients with psychosis and their ability to function in society independently</td>
<td>10</td>
<td>0.54 (Twamley et al., 2002)</td>
</tr>
<tr>
<td>Height and weight</td>
<td>11</td>
<td>0.47 (Freedman et al., 1998)</td>
</tr>
<tr>
<td>Height of parents and height of offspring</td>
<td>12</td>
<td>0.42 (Clemens, 2000)</td>
</tr>
<tr>
<td>Brain volume of humans and IQ</td>
<td>13</td>
<td>0.35 (Reynolds &amp; Kamphaus, 2003)</td>
</tr>
<tr>
<td>High school GPA and college freshman year GPA</td>
<td>14</td>
<td>0.345 (Geiser &amp; Studley, 2002)</td>
</tr>
<tr>
<td>SAT I score and college freshman year GPA</td>
<td>15</td>
<td>0.29 (Geiser &amp; Studley, 2002)</td>
</tr>
<tr>
<td>Living in single-sex dorms (yes/no) and hours spent studying</td>
<td>16</td>
<td>0.227 (Williams et al., 2003)</td>
</tr>
<tr>
<td>\textit{Income and happiness}</td>
<td>17</td>
<td>0.202 (see method for calculation)</td>
</tr>
<tr>
<td>Lifespans of siblings</td>
<td>18</td>
<td>0.15–0.35 (Christensen &amp; Vaupel, 1996)</td>
</tr>
<tr>
<td>Years of education and income for men aged 18–24</td>
<td>19</td>
<td>0.15 (Freedman et al., 1998)</td>
</tr>
<tr>
<td>Lifespan of parents and lifespan of offspring</td>
<td>20</td>
<td>0.07 (Christensen &amp; Vaupel, 1996)</td>
</tr>
<tr>
<td>Food intake and corpulence</td>
<td>21</td>
<td>0.00 (Rolland-Cachera &amp; Bellisle, 1986)</td>
</tr>
</tbody>
</table>

Notes: Given that the reported correlations between income and happiness range from 0.15 to 0.3 (Kahneman et al., 2006), the appropriate rank in this set is anywhere between 15 and 18. To give it a precise location in this table, we used an average figure reported by Diener and Biswas-Diener (2002), which corresponds to a rank of 17.

### Results and discussion

Due to the considerable skewness in the data, we computed the median rank participants assigned to the relationship between income and happiness. The median was 14, a figure that falls remarkably close to the correct rank in the set (15–18) given an actual correlation between income and happiness of between 0.15 and 0.3. The modal response was the lowest ranking possible, 21, reflecting a belief on the part of a substantial number of participants ($n = 34$; 15%) that the relationship between income and happiness is modest indeed. Overall, then, when it comes to comparing the strength of the relationship between income and happiness to other empirical relationships, people’s intuitions seem rather well-calibrated, contrary to what is widely claimed.

One might argue that participants were only able to place the relationship between income and happiness accurately among the others because they overestimated the strength of all or the majority of the other 20 of these bivariate relationships. That may be true, but that does not diminish the significance of participants accurately locating the income–happiness link among the others. How one thinks about any empirical relationship is inherently relative. People fear the thought of smoking more than the thought of living in cities in part because the correlation between
smoking and cancer is stronger than that between urban living and cancer. In addition, how vigorously people might pursue wealth to boost their happiness is powerfully influenced by their impressions of the strength of the relationship between income and happiness compared to their impressions of the strength of the full set of empirical relationships they have encountered and thought about in their daily lives. In the end, the relationship between income and happiness can only really be understood in terms of how it compares to other empirical relationships one has intuited or learned about.

Of course, the elicitation procedure used in this study is only one method of assessing people’s intuitions. Are there other methods of elicitation that might similarly yield evidence of a well-calibrated and accurate understanding of the relationship between income and happiness? Study 2 was designed to find out.

Study 2
In this study, participants assessed the strength of the correlation between income and happiness by providing an estimate of the likelihood that one person would be happier than another given a single piece of information about the two of them— that the former has a higher income than the latter. These probability assessments were then compared to the actual probability derived from the documented association between income and happiness in the US population.

Method
Participants
Individuals were approached at various locations around the Cornell campus and at a local shopping mall and invited to participate in a short experiment assessing people’s understanding of the relationship between income and happiness. Sixty-four individuals agreed to participate.

Procedure
After providing informed consent, participants were given a questionnaire that first asked them to indicate which of the two individuals they thought would be happier— either the wealthier Sam or the poorer Jake. They were then asked to specify the probability that the person they selected would be the happier of the two, using a scale that ranged from 50% to 100%, in 5% increments. They were told, furthermore, that ‘…a probability of 50% means that there is an equal probability of Sam or Jake being happier than the other; a probability of 100% means that (the selected individual) is certain to be the happier of the two.’ After completing the questionnaire, participants were debriefed and thanked.

Results and discussion
To assess the accuracy of participants’ likelihood estimates, we first re-coded participants’ answers so that they always reflected the probability that the wealthier Sam was happier than the poorer Jake. We did this by re-coding the probability estimates of anyone who indicated that they thought Jake would be the happier of the two (i.e., a 55% probability estimate that Jake would be happier was re-coded as a 45% likelihood that Sam would be happier). We then calculated the probability, given the best point-estimate of the correlation between income and happiness (0.202), that the richer member of a randomly selected pair of individuals would also be the happier member of the pair. To perform this calculation, we used simulation software to generate a large sample of data (n = 10,000) for each value of Pearson’s correlation coefficient from 0.01 to 0.99, in 0.01 increments.1 For each sample, we calculated the number of pairs in the sample that were concordant (i.e., the individual with a higher value on one of the variables—such as income—also had a higher value on the other—such as happiness). We then used these counts to calculate an estimate of the true concordance rate in each sample. Using this procedure, we constructed a table that translated every correlation coefficient from 0.01 to 0.99 to a corresponding probability of concordance.

The concordance value corresponding to a correlation of 0.202, the average correlation between income and happiness reported in the literature (Diener & Biswas-Diener, 2002), is 56.4%.2 The median estimate provided by participants was 55, a value extremely close to the actual concordance rate. If we exclude those participants who thought that the wealthier Sam would be less happy than the poorer Jake, the median estimate is 60—also very close to the actual probability. Note, furthermore, that if these measures of participants’ beliefs about the relationship between income and happiness are subject to error, they are more likely than not to inflate participants’ actual convictions because of the nature of the response scale. That is, the response option closest to the actual value (55%) was second on the scale. If participants were reluctant to endorse a value near either of the two endpoints, they would have endorsed an estimate higher than the true 56.4% concordance rate. Nevertheless, despite any contamination introduced by this possible scale artifact, we obtained no evidence that people tend to overestimate the strength of the relationship between income and happiness. Instead, people’s estimates of the impact of wealth on happiness were remarkably accurate. Note, finally, that the modal response, 50 (n = 21), also reflects a widespread conviction that the link between money and happiness is not great.

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Because we provided no information to participants about the incomes of Sam or Jake, participants were free to imagine whatever incomes they wished. As a result, our evidence of the remarkable accuracy of participants’ intuitions about money and happiness may have been an artifact of the salaries they imagined. For instance, if all or most participants imagined a relatively small difference in Sam and Jake’s relative incomes, it is not surprising (or terribly informative) that they would not think it especially likely that Sam would be happier than Jake. On the other hand, if all or most participants imagined that Sam and Jake both had relatively large incomes (say, in excess of $100,000), their estimates may have been skewed by a (valid) belief that differences in income have relatively less of an impact on the happiness of the wealthy than the poor.

To determine if participants’ modest estimates of the probability that the wealthier Sam would be happier than Jake were the product of a narrow range of imagined incomes, we distributed the same survey to a new sample of 66 Cornell undergraduates with three additional questions appended. The first asked the subjects to indicate whether they imagined a small or large difference between Sam and Jake’s incomes with forced choice responses relatively small difference and substantial difference. Next, participants reported the income difference they imagined in actual US dollars. Finally, participants reported what they had imagined the annual incomes of both Sam and Jake to be, again in US dollars. We excluded one participant’s responses because they were not internally consistent (i.e., the income difference the individual imagined was not consistent with the two estimates of annual income), leaving a final sample of 65 participants.

Replicating our main finding, the median estimate that Sam would be happier than Jake was also 55 and the modal estimate was 50 – both values close to the true value of 56.4%. More important, a majority of participants (70.8%) imagined a ‘substantial difference’ between Sam and Jake’s incomes, not a ‘relatively small difference.’ Furthermore, only 25% of the sample reported an imagined difference of less than $10,000, and over half the sample imagined an income difference in excess of $35,000 (mean income difference = $45,734, SD = $44,888). Finally, there was a wide range in the estimates of the actual incomes of Sam and Jake ($M_{\text{Sam}} = 92,807, \ SD = 51,519; M_{\text{Jake}} = 61,161, \ SD = 44,754$), with many participants imagining incomes at the low end of the income distribution and many participants imagining incomes at the high end. Thus, participants’ estimates appear to reflect a genuine belief that income and happiness are only weakly correlated, not an artifact of a narrow range of imagined incomes of the two target individuals.

**Study 3**

One limitation of Studies 1 and 2 is that we sampled mainly Cornell undergraduates. We did so for convenience but, of course, there are many potentially important differences between Cornell undergraduates and the population at large. In particular, many Cornell undergraduates come from high SES backgrounds and have yet to establish their financial independence, two factors that might influence their beliefs about the relationship between income and happiness. To determine if the results presented thus far are limited to the subject populations we examined, we conducted a direct replication of Study 2 using a nationally representative sample of respondents.

**Method**

**Participants**

We commissioned Knowledge Networks to poll a sample of respondents from their nationally representative panel. Subjects who agree to be in this pool receive a WebTV and free internet access in exchange for completing an occasional online survey. The characteristics of the households in the panel closely match the US Census on a variety of demographic variables including age, race, employment status, geographic location, educational history, and annual income. Our sample consisted of 1026 individuals (50% female; $M_{\text{age}} = 48.1, \ SD = 16.5$) from the panel (for more details about the panel, see http://www.knowledgenetworks.com/ganp/knquickview.html).

**Procedure**

The procedure was identical to Study 2 except that the questionnaire was administered online. Subjects responded by first indicating which of the two individuals they thought would be happier by selecting a corresponding radio button on the webpage. They then specified a probability estimate that the person they selected would be the happier of the two, again by selecting an appropriate radio button (50–100% in 5% increments). Respondents also answered a standard battery of demographic questions.

**Results**

As in Study 2, we first re-coded participants’ responses so that they represented the probability that the wealthier Sam was happier than Jake. The median estimate provided by the participants was 55, a value that, once again, was extremely close to the actual concordance rate. If we exclude those participants who thought the wealthier Sam would be less happy than the poorer Jake, the median estimate is 60 – just what it was in Study 2 and also very close to the
actual probability. The modal response in this study (50) was also the same as it was in Study 2. Note, furthermore, that participants' own household income was a very weak predictor of their probability estimates, \( r(1024) = 0.06, p = 0.055 \), indicating that participants' own income level did not much influence their general beliefs about the relationship between income and happiness. It is clear, then, that our findings are not idiosyncratic to Cornell undergraduates, but instead reflect a robust (and accurate) belief in a relatively weak relationship between income and happiness.

**General discussion**

Using two very different methods to assess people's intuitions about the relationship between income and happiness, we found that people have a very keen understanding of how strongly they are linked. Participants in Study 1 were able to place the relationship between income and happiness rather accurately among a set of correlations that ranged from very near zero to very near 1.0. Participants in Study 2 provided remarkably accurate assessments of the probability that a randomly chosen person who is wealthier than another would also be happier. This latter finding was replicated with a nationally representative sample, indicating that our results are not an artifact of the rather narrow subject samples used in Studies 1 and 2. Complementing these findings, we have found in another study that people anticipate that money has a bigger effect on happiness at the low end of the income distribution than at the high end (Cone & Gilovich, 2010).

These results differ in intriguing ways from those reported by Aknin et al. (2009), a divergence that reinforces the lesson of a great deal of research in judgment and decision-making that people's beliefs and judgments are constructed in light of the prevailing context. Ask about the link between income and happiness one way, and people largely overestimate money's impact on well-being (Aknin et al., 2009); ask about it another way, and people tend to estimate money's impact with impressive accuracy (the present results). Is one method more telling than the other? We think not. People often ponder how happy they would be if they had more or less money, and when they do, they are likely, just as Aknin et al.'s participants were, to overestimate money's impact for all but the very wealthy. But people also often ponder the relationship between money and happiness in more general terms and when they do, they are likely, just like our participants, to size it up just right across a broad range of the income distribution. People are particularly likely to consider the relationship in more abstract terms when considering issues of policy (what would be gained by increasing GDP at 10%), when contemplating the broader social and political world (are the rich happier than the poor?), or when contemplating future career paths (is it worth sacrificing Ithaca's peace of mind and short commutes for the riches available in a big city?). The kinds of questions we asked our participants and the kinds Aknin et al. asked theirs are both ecologically valid questions that capture what people truly think about the relationship between income and happiness. Just as choice and pricing are equally valid measures of people's preferences (Thaler & Tversky, 1990), there is no reason to believe that our elicitation procedures are more valid and telling than those of Aknin et al., or vice versa.

By documenting that people can estimate the strength of the link between income and happiness with great accuracy, we may have made life more difficult for those (ourselves included) who wish to summarize the relationship. Stating that there is a connection between income and happiness but that it is smaller than one would think is easy; but however tidy and easy to state, it is not an accurate summary. Simply reporting the average documented correlation of 0.2 is also easy, but it is only useful for statistically sophisticated audiences for whom such a statistic has any meaning. For a lay audience, perhaps the concordance rate we reported in Study 2 would be more helpful.

By 'taking away' a facile summary of the relationship between income and happiness, our research might be seen as advancing a negative agenda. But that was hardly our intent. Nor is it what we believe to be the proper lesson of this research. Like many authors who have done research on happiness, we consider our efforts to be a part of positive psychology, and to serve a positive agenda. Surely it is encouraging that people can understand, when they consider the relationship in certain ways, the extent to which money can advance human happiness. Such an understanding can have important implications because it is likely, our research suggests, to be most reliably accessed when people ask themselves the kind of abstract questions about income and happiness that arise when giving advice to others or considering the impact of various social or economic policies. Although people might misspend in some ways by valuing material possessions over experiences (Carter & Gilovich, 2010; Kasser & Ryan, 1996; Van Boven & Gilovich, 2003) and engaging in futile materialistic ‘arms races’ (Frank, 1999), it is cheering to know that people can access a genuine understanding of the relationship between income and happiness.

**Acknowledgments**

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Notes

1. We use ‘we’ here as loosely as it can be used. These simulations were performed for us by our emeritus colleague Richard Darlington and we are extremely grateful for his assistance.

2. A more recent review by Lucas and Dyrenforth (2006) cites a range of 0.17–0.21, which yields a midpoint that is very similar to the value we used here (0.19 vs. 0.202).

References


