Heterogeneous inflation and subjective well-being

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Abstract

To what extent is inflation detrimental to citizens? To answer this question, only the role of aggregate inflation has been studied, thus leaving within-country asymmetric effects veiled. In this paper we focus on individual-specific inflation and relax the assumptions that heterogeneous consumers face homogeneous inflation rates. We exploit newly available longitudinal data on life satisfaction in France and the Opinion Price Index. Under weak identifying assumptions, which allow for idiosyncratic accuracy of price perception and flexibility in the distribution of latent well-being, we are able to study the welfare effect of perceived inflation at the individual level. Differences in inflation rates are shown to strongly affect well-being, even when controlling for relevant socio-demographic factors. These results suggest the heterogeneous effect of price changes to be an important source of welfare inequality, which is worth measuring and should be taken into account by consumption taxation policies.

Keywords: heterogeneous inflation, perceived inflation, opinion price index, life satisfaction, subjective well-being

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