

Heterogeneous inflation and subjective well-being: the consumer's perspective

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Abstract

Does money buy happiness? To answer this question, the role of income has been extensively studied, while the price level has received scant attention in microeconomic applications. In this paper we focus on individually perceived inflation and relax the assumptions that 1) heterogeneous consumers face homogeneous inflation rates and 2) consumers' judgments are based on observed rather than perceived inflation. We exploit the internationally harmonized Opinion Price Index and newly available longitudinal data on material satisfaction in France. Variations in perceived inflation strongly predict well-being, even when controlling for relevant socio-demographic factors, personality traits and spurious declarative correlations. We estimate their impact to be higher than equivalent counterfactual variations in nominal income. Following a shock in the price of gasoline in 2018, we document a drop in the material satisfaction of people who usually commute by car with respect to those who commute by other means. These findings solicit a transition to non-aggregate measures of inflation, to better take into account welfare inequalities.

Keywords:

heterogeneous inflation, subjective well-being, perceived inflation, material satisfaction, opinion price index

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