Life Satisfaction, Behavioral Economics, and Public Policy: Four Essays on the Identification of Utility Misprediction and the Evaluation of Tobacco Control Policies

Reto Odermatt*
University of Basel

My thesis contains four empirical analyses in economics that integrate life satisfaction data, insights from psychology, and a public policy perspective. Building on recent advances in the field of economics and psychology, the thesis contributes to the literature in two ways: first, by identifying systematic deviations from standard economic assumptions in people's lives, and second, by extending traditional policy evaluation in order to take welfare effects into account, which are difficult to study based on observed behavior alone. I show in my thesis that data on subjective well-being can provide a valuable tool to enhance our understanding of systematic biases in people's behavior. Such knowledge is a necessary condition for making better predictions of field phenomena as well as for suggesting better policy. The findings of my thesis suggest that subjective well-being measures, as a complement to data on observed behavior, remain promising tools on our way towards a richer conception of human behavior and a better understanding of major obstacles hindering people to follow their conception of a good life.

In Part I of my dissertation, I test the assumption that people correctly predict how alternative states of the world affect their lives – a cornerstone of economics. While several studies have shown that people adapt to major life changes to a certain degree, it remains unanswered to what extent people foresee their pattern of adjustment. Using large-scale long-run panel data on predicted satisfaction with life, I develop an innovative identification strategy that allows me to test the accuracy of people's expectations regarding their long-term satisfaction changes by examining five major events in people's lives: widowhood, marriage, unemployment, disability, and becoming homeowner. Our results show that people commit sizable prediction errors and that these errors are partly driven by unforeseen adaptation.

In Part II, I conduct a comprehensive evaluation of the effects of tobacco control policies. The regulation of smoking is a public health issue, particularly because smoking might involve suboptimal consumption choices. Tobacco control policies have a multitude of consequences that affect people's welfare in various ways. This makes an assessment of the welfare consequences difficult. Evaluation is even more difficult if tobacco consumption involves time-inconsistent behavior, potentially due to limited self-control. In this part of my thesis, I show how traditional policy analysis, in this case based on the policies' impact on individual smoking behavior, can be complemented with subjective well-being measures to gain a better understanding of differential policy effects. My findings question whether tobacco control policies are successful in terms of a reduction of smoking and in generating positive welfare effects, overall. However, the results indicate that for likely smokers who failed an attempt to quit smoking, smoking bans are beneficial in terms of life satisfaction, while higher cigarette prices are not. This is consistent with the interpretation that smoking bans act as a self-control device.

---

*University of Basel, Faculty of Business and Economics, Peter Merian-Weg 6, 4002 Basel, Switzerland, phone: +41 (0)61 207 33 70, reto.odermatt@unibas.ch.