

Financial Profiles and Well-Being

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We consider the link between financial profiles and individual well-being, in terms of income satisfaction, life satisfaction and mental health, and focus in particular on the role of time. We use panel data on 26,000 individuals living in Australia from 2002 to 2015 to establish three empirical relationships. First, all well-being measures fall with a contemporaneous major worsening of the financial situation and rise with a contemporaneous major improvement, with the former having a much larger effect than the latter. Second, the past experience of these events continues to have an effect on current well-being. Last, the order of the spells matters only for life satisfaction in the case of financial improvement: for a given number of yearly financial improvements, life satisfaction is higher when these years are linked together. We also find that positive financial shocks lead to increased alcohol drinking, while negative financial events result in greater cigarette smoking and poorer sleep quality.