

## **Loss Aversion and Subjective Well-Being: Income Losses have a Greater Impact on Life Satisfaction than do Income Gains**

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Experimental evidence has shown that individual preferences can sometimes completely reverse themselves. It has been suggested that loss aversion, whereby preferences are more sensitive to losses than to gains, may be behind this phenomenon. There is however only scant non-experimental evidence of loss aversion. We here propose a direct test for loss aversion based on subjective well-being data in two longitudinal data sets, and show that falls in household income are associated with a greater effect on life satisfaction than are gains. The empirical analysis provides an estimate of the classic s-shaped value function associated with loss aversion. We further calculate the ratio of the effect of losses and gains on well-being: this yields a high figure, which we argue has important implications across economics.