

Reference Income Effects in the Determination of Equivalence Scales Using Income Satisfaction Data

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Paper Abstract: We estimate household equivalence scales using income satisfaction data from the German SocioEconomic Panel. We extend previous studies applying this approach by taking reference income into account. This allows separating needs-based from reference effects in the determination of income satisfaction. We show that this adjustment helps to overcome a bias causing an overestimation of adults' and an underestimation of children's needs-based equivalence weights. Our results indicate that controlling for income comparisons eliminates the gap between equivalence scale parameters for adults and children found in other studies.