

# THE HALF-LIFE OF HAPPINESS: HEDONIC ADAPTATION IN THE SUBJECTIVE WELL-BEING OF POOR SLUM DWELLERS TO THE SATISFACTION OF BASIC HOUSING NEEDS

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## **Abstract**

Subjective well-being may not improve in step with increases in material well-being due to hedonic adaptation, a psychological process that attenuates the long-term emotional impact of a favorable or unfavorable change in circumstances. As a result, people's degree of happiness eventually returns to a stable reference level. We use a multi-country field experiment to examine the impact on subjective measures of well-being of the provision of improved housing to extremely poor populations in order to test whether they exhibit hedonic adaptation when their basic housing needs are met. After sixteen months, we find that subjective perceptions of well-being improve substantially for recipients of improved housing but that, after, on average, eight additional months, 60% of that gain has dissipated. Extrapolation achieved through estimation of a structural model of hedonic adaptation suggests that the decay rate of the treatment effect is 20% per month. As a result, after 28 months of treatment exposure, we forecast that the entire treatment effect will have disappeared. (JEL: D0, I31)

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