

#### The Impact of Family Financial Situation on Life Satisfaction

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#### Introduction

With the increasing attention on the life quality and the development of economics on subjective well-being, the research on individuals' life satisfaction has gradually extended from the field of psychology to economics. This paper aims to study the important relationship between life satisfaction and family financial status. The concept of life satisfaction is first defined, and three basic elements of household net income, net assets and expenditure are applied to measure family financial situation. Then, this research explores the impact of these three financial indicators on individual life satisfaction respectively. We select data from China Family Panel Studies (CFPS) 2020 national survey, which is derived from two parts, the individual self-answer questionnaire and the household economic questionnaire. Descriptive statistical analysis and correlation analysis are carried out, following by multiple covariance test. Ordinary least square (OLS) with robust standard error is applied to test the influence of household income, assets, and expenditure on individual life satisfaction. Robustness checks of replacing econometric models are also implemented. Finally, this paper analyzes various impacts from different individual characters based on gender and age groups.

This paper draws the following conclusions. 1) The increase of household net income, net assets and expenditure promote individual life satisfaction significantly. 2) There is no significant difference among males and females. 3) There are age differences in the influences, showing the younger age group enjoys a significantly positive influence from these three financial aspects.

### **Methodologies**

Ordinary least square (OLS) with robust standard error is applied to study the impact of household income, assets, and expenditure on individual life satisfaction as the baseline model. Probit regression is implemented as robustness checks. Influences from different individual characters based on gender and age groups are also analyzed using the same method as the baseline model.

## **Mathematical Formulas**

Life satisfaction<sub>*i*</sub> =  $\alpha_0 + \alpha_1$ income<sub>*i*</sub> +  $\alpha_2$ CV<sub>*i*</sub> +  $\varepsilon_i$  (1) Life satisfaction<sub>*i*</sub> =  $\alpha_0 + \alpha_1$ asset<sub>*i*</sub> +  $\alpha_2$ CV<sub>*i*</sub> +  $\varepsilon_i$  (2) Life satisfaction<sub>*i*</sub> =  $\alpha_0 + \alpha_1$ expenditure<sub>*i*</sub> +  $\alpha_2$ CV<sub>*i*</sub> +  $\varepsilon_i$  (3) Note: CV represents controlled variables, including age, gender, education, marital status, employment, popularity, happiness and health.

### **Research Questions**

- 1) Does household income have a significantly positive influence on life satisfaction?
- 2) Does household asset pose a significantly positive effect on life satisfaction?
- 3) Does household expenditure show a significantly positive impact on life satisfaction?

### **Variables**

Dependent Variable: Satisfaction with current life with 1 being very dissatisfied and 5 being very satisfied Independent Variables: Family overall net income Family overall net assets Family overall expenditure

### Conclusion

This paper tests the relationship between life satisfaction and family financial situation. The results show that household net income, assets and expenditure pose significantly positive effects on individual life satisfaction even if the influences are different among younger and older age groups. The findings are not only of great significance in statistics but also provide meaningful suggestions for government to make policy adjustments among different age groups. This research indicates the improvement of household income significantly promotes individual life satisfaction, which shows material living standards, to a certain extent, are key to ensure life quality and stability. Reliable income sources are important to improve individual life satisfaction especially for those individuals 55 years or younger. However, for those individuals older than 55 years, lighter weight is required on financial situation as the results are not statistically significant illustrating the causes of older individuals' subjective life satisfaction are not limited to financial satisfaction and more aspects should be explored.

# **Tables**

Baseline results of family financial situation on life satisfaction						
	(1)	(2)	(3)	(4)	(5)	(6)
	Life Satisfaction	Life Satisfaction	Life Satisfaction	Life Satisfaction	Life Satisfaction	Life Satisfaction
Income	0.006***	0.005***				
	(7.129)	(6.954)				
Asset			0.005	0.004		
			(8.609)	(8.432)		
Expenditure					0.008***	0.009
					(3.807)	(4.714)
Age		0.009***		0.009***		0.009***
		(6.969)		(6.575)		(6.930)
Gender		-0.033*		-0.031 <sup>*</sup>		-0.032*
		(-1.942)		(-1.867)		(-1.917)
Education		-0.038		-0.037***		-0.034***
		(-6.338)		(-6.191)		(-5.727)
Marriage		0.071 ***		0.072***		0.070***
		(3.936)		(4.016)		(3.847)
Employment		0.030**		0.026**		0.026**
		(2.354)		(2.109)		(2.088)
Popularity		0.015**		0.015**		0.016**
		(2.391)		(2.373)		(2.419)
Happiness		0.233		0.234		0.234
		(38.165)		(38.197)		(38.358)
Health		-0.086***		-0.087***		-0.087***
		(-9.746)		(-9.813)		(-9.802)
_cons	3.816	1.928	3.847***	1.966	3.843	1.924
	(255.636)	(23.824)	(335.227)	(24.087)	(248.007)	(23.768)
Ν	8455.000	8455.000	8455.000	8455.000	8455.000	8455.000
R <sup>2</sup>	0.004	0.324	0.005	0.324	0.001	0.323

*t* statistics in parentheses p < 0.1, p < 0.05, r p < 0.01