

Growing unhappy? An Empirical Approach

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Abstract

Behavioral economics introduces a more psychological based point of view to traditional economic analysis. However, few studies have applied this approach to emerging countries. Using this new approach, this paper studies the relationship between optimism and GDP growth. For Argentina, we find evidence supporting the hypothesis of a “structural bad mood”: even when GDP grows, and contrary to what is expected, optimism decreases in Argentina (and the effect is asymmetric, so when GDP declines no significant effect is found on optimism). In contrast, the reaction of optimism to growth is positive for Brazil, the European Union and the United States. Additionally, in all regions except for Argentina, expectations are similar to future GDP performance. We discuss the implications of these findings on economic policy.

Key words: Behavioral Economics, Psychology, Cycles, Optimism, GDP Growth.
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* Central Bank of Argentina, Economic Research Department. The ideas and errors in this paper must be attributed only to the authors and not to the Central Bank.

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