

## The impact of cyclical fluctuations on the distribution of welfare and happiness

Business cycle fluctuations may affect different groups of people to a different extent. Younger individuals, for instance, may be more affected by labor market fluctuations (of unemployment or income) than elderly individuals, relying on fixed incomes from pensions. The distinction can be also made between wealthier and poorer individuals. The latter are characterized with lower financial resilience as they are less likely to hold assets (e.g. real estate), they usually work in less stable jobs, highly sensitive to economic downturns, and they are less likely to be re-employed post-downturn.

The goal of the project is to analyze how business cycle fluctuations affect welfare (happiness) of various groups of people. We plan to study who gains or loses after particular business cycle shocks hit the economy. Our aim is also to understand via which channels redistribution occurs and to check how business cycles redistributed historically. Finally, we plan to investigate the potential role of monetary and fiscal policy in affecting this redistribution process.

This will be done using two distinct approaches. First, we plan to use and estimate a structural macroeconomic business cycle model with agent heterogeneity. In such models welfare is derived from consuming goods (or services) and engaging in leisure activities. It is a central concept in macroeconomic modeling and its maximization serves as the basis for agents decision-making process.

Second, we plan to investigate data from surveys of subjective well-being (happiness) to document how self-reported happiness changes over the business cycle, paying attention to differences between agents of different characteristics (age, labor market status or asset holdings). We plan to investigate how such self-reported happiness of different types of agents responds to different macroeconomic shocks.

Finally, we plan to link the two sets of findings – on model-consistent welfare and empirically measured subjective well-being in order to verify how strong is the link between welfare in macroeconomic models and individual happiness.