

## THE NEXUS OF INCOME AND HAPPINESS: A PRISMA SYSTEMATIC REVIEW

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### ABSTRACT

**Purpose:** This study explores the intricate relationship between income and emotional well-being, with a focus on happiness, mental health, and life satisfaction.

**Need for the Study:** In a world increasingly driven by material success, it is vital to understand whether income genuinely contributes to well-being or if its role is overstated. Clarifying this link can inform efforts to reduce financial stress and promote healthier, more fulfilling lives.

**Methodology:** This research adopts a Systematic Literature Review (SLR) guided by the PRISMA framework, analyzing 125 peer-reviewed studies published between 2009 and 2023 across Scopus and Web of Science databases. The review incorporates economic and psychological perspectives, including the Easterlin Paradox and the concept of diminishing marginal utility.

**Findings:** The analysis reveals that income positively correlates with emotional well-being, particularly in terms of reduced stress and improved life satisfaction, but only up to an income threshold of approximately \$75,000. Beyond this point, additional earnings contribute minimally to happiness. Relative income, income stability, and social comparisons significantly influence well-being, often more than absolute income levels.

**Practical Implications:** These insights have direct implications for policy making, taxation structures, and financial planning. Policymakers and institutions can use this evidence to craft initiatives that prioritize emotional health, equitable income distribution, and holistic measures of success, rather than solely economic indicators.

**Keywords:** Income, Emotional Well-being, Happiness, PRISMA, Systematic Literature Review, Diminishing Returns, Life Satisfaction

### 1. INTRODUCTION

Emotional well-being is a vital aspect of mental health and overall quality of life. It involves experiencing positive emotions, psychological resilience, and a sense of meaning and purpose. Unlike merely the absence of distress, emotional well-being includes life satisfaction and the regular presence of positive moods. It is often considered a core component of subjective well-being (SWB), which also encompasses evaluative judgments about life and broader social and psychological factors.

Although emotional well-being and subjective well-being are conceptually distinct, with the former focusing more on daily emotional experiences and the latter including cognitive evaluations and life satisfaction, this study treats them interchangeably along with happiness

to explore their shared relationship with income. Income has long been viewed as a key determinant of human welfare, yet its connection with well-being remains complex. While some studies suggest a direct, linear relationship, others argue that happiness increases only up to a certain income threshold, after which the impact levels off.

Despite growing public and academic interest, there is a lack of consensus on how income truly influences emotional well-being, particularly across income brackets and cultural settings. This inconsistency highlights a need for further synthesis. Moreover, understanding this relationship is essential not just for individual financial planning but also for shaping effective social and economic policies. This study seeks to address these gaps by systematically reviewing existing literature to answer the question: How does income influence emotional well-being, and to what extent?

## 2. RESEARCH QUESTIONS

**RQ 1.** How does income level influence the quality of life and emotional well being?

**RQ 2.** How does household income influence overall happiness, and are financial losses more impactful than equivalent gains?

**RQ 3.** What is the role of relative income in shaping emotional well-being?

## 3. SYSTEMATIC LITERATURE REVIEW

A comprehensive and rigorous method used in research to methodically locate, evaluate, and incorporate the body of existing scientific literature on a given topic is the systematic literature review (SLR). Its goal is to provide an unbiased and objective summary of the relevant data so that researchers can draw trustworthy conclusions and make defensible decisions. Following Snyder (2019), this study uses a systematic literature review (SLR) as a research method. SLR aids in identifying, analysing and discussing the connections established in prior studies, while also providing theoretical and practical implications, introducing new conceptual frameworks and outlining future directions for research advancement in the accounting domain (Burritet al., 2023; Damschroderet al., 2022; Elbardan et al., 2023; Guthrie and Parker, 2011).

### 3.1 Income and Happiness (Diminishing Returns and Maslow's Hierarchy)

"Can money buy happiness?" continues to spark debate. This study delves into the intricate relationship between income and emotional well-being.

Research paints a complex picture. While some studies suggest a clear link between income and happiness (well being), with financial security reducing stress and anxiety, others propose a plateau effect. This means happiness might increase with income up to a certain point, but then level off regardless of further earnings. Measures of well-being have often been found to rise with log (income). Kahneman and Deaton (Proc. Natl. Acad. Sci. U.S.A. 107, 16489–93, 2010) reported an exception; a measure of emotional well being (happiness) increased but then flattened somewhere between \$60,000 and \$90,000. The average of happiness scores rises up to a threshold income and then levels off. flattening is characterized by a threshold income, beyond which further increases are not associated with improved happiness (Kahneman and Deaton , Proc. Natl. Acad. Sci. U.S.A. 107, 16489–93, 2010). It has been found that emotional well being rises with income but there is no further progress beyond an annual income of \$75,000; The curve flattens. Research has consistently found a positive correlation between income and well-being, though with diminishing returns (Kahneman & Deaton, 2010).

**The diminishing marginal returns** of theory roughly applies, this theory says that diminishing returns are the decrease in marginal (incremental) output of a production process as the amount of a single factor of production is incrementally increased. If the income is increased beyond a level, it doesn't add to further levels of satisfaction or emotional well being. The ceiling effect operates..

**Maslow's hierarchy Theory of needs** is one of the very important theories that can be used to further understand that income helps to meet basic needs like food, shelter, and clothing. As These are satisfied, happiness increases initially. Once basic needs are met, income contributes to security and stability, such as health insurance and savings. Higher income can improve social interactions and relationships, which enhance happiness. Financial success can also boost self-esteem and recognition, contributing to happiness and emotional well-being. But beyond a certain income level, people seek fulfillment, creativity, and personal growth, which are less dependent on financial status. Its implication on the income and emotional well-being status can be with 'Income Plateaus' as happiness increases with income up to a point, after which additional income has diminishing returns on happiness. Beyond meeting basic and security needs, people may find greater happiness in personal development and meaningful relationships rather than money.

Theories such as Maslow's Hierarchy suggest that income primarily enhances happiness by meeting basic and security needs. However, beyond a certain income level, individuals shift toward self-actualization, where financial gains have minimal additional impact (Frey & Stutzer, 2002).

### **3.2 Income Loss, Financial Stress, Household Income and Well-Being (Loss Aversion, Hedonic Adaptation, Prospect Theory)**

**Household income** is defined as the total gross income before taxes, received within a 12-month period by all members of a household above a specified age. The Census Bureau notes this threshold as 15 and older (Wikipedia). It was found that higher levels of household income were associated with somewhat greater happiness, as reflected by the moderate correlation between actual household income and happiness. (Diener, 1984; Diener, Horwitz, & Emmons, 1985), A positive relationship between households has been seen between actual household income and emotional well being. It is believed that people are more negatively affected when their income decreases. It is seen that increases in income are associated with increases in happiness, while another is that decreases in income are associated with decreases in happiness and emotional well being. It is believed that rising incomes give more satisfaction and well being, similarly falling in income is linked to decline in happiness and dissatisfaction. This explanation stems from the large body of evidence demonstrating that losses are more impactful than equivalent gains (Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001; Kahneman & Tversky, 1979). This implies that people might put in a lot of effort to keep their income from falling rather than to raise it.

It is mostly supported by **Prospect theory**, it says that people tend to prefer avoiding losses over acquiring equivalent gains. Losing feels worse, financial stress in comparison to gaining feels good. People feel the pain of income lost or decrease more acutely than the pleasure of equivalent gains, affecting overall happiness and emotional well being.

**Hedonic adaptation** is the phenomenon of human return to a balanced level of satisfaction in spite of significant positive or negative life experiences (Brickman & Campbell, 1971). Individuals may respond dramatically to gains in income or loss of income but their emotional states will eventually decelerate. But income loss is more likely to have a long-

term damaging effect on well-being than income gains because of loss aversion (Kahneman & Tversky, 1979). Individuals suffer more psychological distress over losing financial security than they feel happiness in gaining the same thing, something Prospect Theory also confirms.

**Financial Stress**, particularly if resulting from sudden loss of income, has been found to cause anxiety, depression, and lower life satisfaction (Butterworth et al., 2009). In contrast to positive financial change, which is typically subject to hedonic adaptation, negative financial occurrences—such as unemployment or indebtedness—may have lasting psychological consequences (Clark, 2011), particularly for individuals with low resilience or high neuroticism.

**Loss aversion** further complicates this relationship, as individuals feel the pain of income loss more acutely than the pleasure of equivalent gains (Kahneman & Tversky, 1979).

### **3.3 Absolute Income, Relative Income and Social Comparison (Easterlin Paradox, Bandwagon effect)**

It is a common belief that money makes people happier, but the relationship between income and subjective well-being is one of the most controversial issues in the research field of subjective well being (e.g., Frey and Stutzer, 2002; Ferrer-i-Carbonell, 2005; Boyce et al., 2010; Easterlin et al., 2010; Easterlin, 2012). Numerous studies concentrated on the mechanism that underlies the connection between emotional well-being and income. Some argued that both absolute income and relative income could affect subjective well-being, but others suggested that only relative income or rank of income played a role (e.g., Boyce et al., 2010).

#### **a. Easterlin Paradox**

The “Easterlin Paradox” is one of the most famous theories about the relationship between income and happiness. The **Easterlin Paradox** is an economic concept that states that **happiness increases with wealth up to a point**, but beyond a certain income level, this correlation ceases to exist. There are other factors that determine the parameters of happiness and emotional well being in an individual's life other than income. In this theory, two factors, hedonic adaptation and social comparison, were regarded as the underlying psychological mechanisms for the relationship between individuals' income and subjective well-being (Easterlin et al., 2010; Kahneman and Deaton, 2010; Easterlin, 2012). Consistent with what is predicted by the “Easterlin Paradox,” Deaton and Stone (2013) found relative income, but not absolute income, was significantly associated with happiness. Relative income refers to how a person's income compares to others in their social group or society.

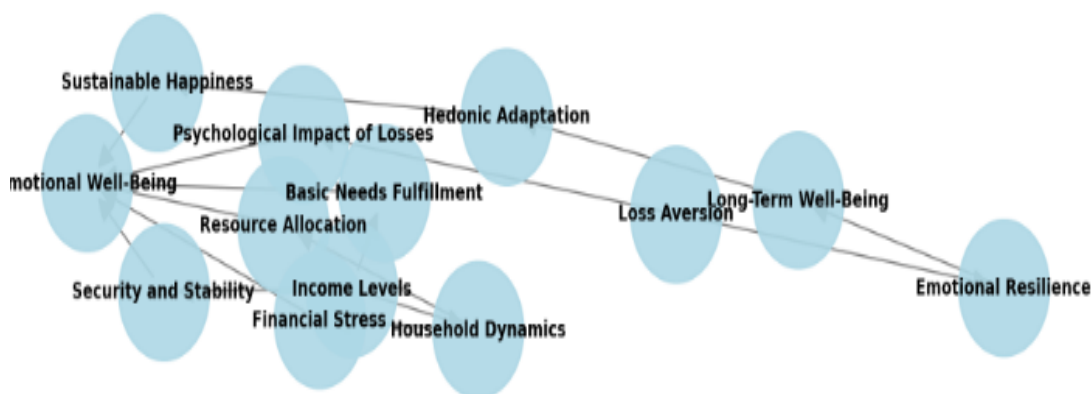
People often assess their financial status relative to their peers rather than absolute income levels. Even if someone's income increases, if others' incomes rise more significantly, their relative standing might feel lower, affecting their happiness and emotional well being. Studies have shown that only relative income was significantly associated with happiness and life satisfaction (Boyce et al., 2010), but that both absolute income and relative income were significantly associated with negative emotion.

Based on the hedonic adaptation theory, although it was argued that money cannot buy happiness unless social comparison works (Kahneman and Deaton, 2010), money could help people avoid hunger, coldness and so on, and the pain due to hunger or coldness is free from social comparison. The pains may be more potent than the pleasure (Tversky and Kahneman, 1992) and can't be adapted. Therefore, the negative emotion was not only associated with relative income but also with absolute income. While Easterlin (2012) found relative income

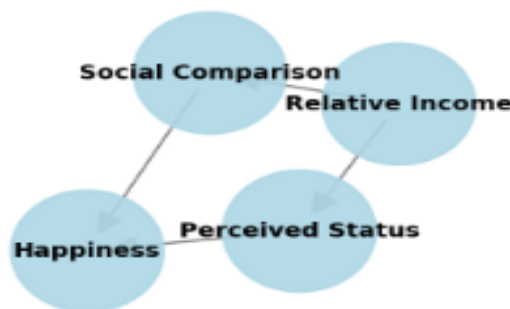
matters more, Deaton & Stone (2013) emphasized absolute income’s role in avoiding financial distress”. Relative income plays a crucial role in emotional well-being (Easterlin, 2012). Individuals assess their financial success relative to peers rather than in absolute terms. This explains why rapid economic growth in a country does not necessarily translate to increased happiness (Boyce et al., 2010).

**b. Bandwagon effect** also plays an essential role in social impacts, when individuals consume a good because a large proportion of the society does so. In this case, the good serves the purpose of social comparison. Individual happiness and emotional well being will depend on what one achieves in comparison with others. Everyone driving a Rolls Royce would make others unhappy with a less expensive car. Individual welfare and satisfaction are therefore dependent on more than just one's absolute financial success and level of income but also on one's relative income status. According to this school of thinking, it is generally accepted that a person's level of well-being is influenced by both their own income and the income of a reference group. Anyone can be a part of the reference group. People who belong to a society or just a segment, such those who share a neighbourhood or level of education. There is a contradiction with Dusenberry’s (1949) assumption that comparisons are only up-wards. Figure presents the conceptual framework of this study.

**Figure1: Impact of Income on Emotional Wellbeing and Happiness**



Source: Author’s own compilation



**Nodes that are Included in the study are as follows:-**

Income Levels, Basic Needs Fulfillment, Security and Stability, Emotional Well-Being, Relative Income, Social Comparison, Perceived Status, Happiness, Household Dynamics, Resource Allocation, Financial Stress, Loss Aversion, Psychological Impact of Losses, Emotional Resilience, Long-Term Well-Being, Hedonic Adaptation, Sustainable Happiness

**Connections between nodes are as follows:**

- Income Levels → Basic Needs Fulfilment
- Income Levels → Security and Stability
- Basic Needs Fulfilment → Emotional Well-Being
- Security and Stability → Emotional Well-Being
- Relative Income → Social Comparison
- Relative Income → Perceived Status
- Social Comparison → Happiness
- Perceived Status → Happiness
- Household Dynamics → Resource Allocation
- Household Dynamics → Financial Stress
- Resource Allocation → Emotional Well-Being
- Financial Stress → Emotional Well-Being
- Income Levels → Household Dynamics
- Loss Aversion → Psychological Impact of Losses
- Psychological Impact of Losses → Emotional Well-Being
- Loss Aversion → Emotional Resilience
- Emotional Resilience → Long-Term Well-Being
- Long-Term Well-Being → Hedonic Adaptation
- Hedonic Adaptation → Sustainable Happiness
- Sustainable Happiness → Emotional Well-Being

**3. RESEARCH METHODOLOGY**

**Research Design :** This study employs a Systematic Literature Review (SLR), originally outlined by Tranfield et al. (2003), to ensure methodological rigor, transparency, and replicability. The objective is to synthesize theoretical and empirical findings on income, emotional well-being, and happiness to construct an integrated understanding of their interrelationship. An SLR was chosen over a meta-analysis because this study aims for a theoretical synthesis across disciplines rather than calculating effect sizes. While meta-analysis emphasizes statistical aggregation, the conceptual scope of this paper requires the flexibility of an SLR to capture diverse frameworks, models, and qualitative interpretations. The methodology combines both qualitative categorization and basic quantitative insights, in line with the study's exploratory goals.

**Justification for SLR:** The SLR approach provides a structured and unbiased method to review and interpret a wide range of academic sources. This is particularly valuable in fields such as accounting, economics, and social sciences, where definitions and interpretations of well-being vary. As Larrinaga and Stolowy (2019) suggest, systematic reviews are essential in bridging theoretical gaps, especially in emerging or interdisciplinary areas. The SLR method allows for the integration of fragmented findings to build a cohesive narrative, thereby contributing to both academic discourse and practical decision-making. It also

accommodates studies with varying methodologies, which would be excluded from a purely statistical meta-analysis.

### Data Collection Process:

**3.1 Data Sources:** The literature was sourced from Scopus and Web of Science, two well-established databases known for their breadth and academic credibility. To ensure thorough coverage, the snowballing technique was also applied to track down relevant works cited within key studies.

**3.2 Scope of the Search:** The review considered peer-reviewed journal articles published between 1984 and 2023, covering diverse disciplines such as:

- Business, Management, and Accounting
- Social Sciences
- Economics, Econometrics, and Finance
- Environmental Science

### Screening and PRISMA Compliance

The study adheres to the PRISMA 2020 framework, following a four-step process:

1. **Identification** – Keyword-based search using Boolean operators
2. **Screening** – Elimination of duplicate and non-academic sources
3. **Eligibility** – Assessment of titles and abstracts for relevance
4. **Inclusion** – Final selection of 125 studies after full-text analysis

### Exclusion Criteria

Articles were excluded for several specific reasons:

- Lack of empirical grounding (e.g., opinion pieces or purely theoretical commentaries)
- Irrelevance to the conceptual scope (e.g., studies on GDP or macroeconomic growth without linking to well-being)
- Poor methodological rigor (e.g., unclear sampling, anecdotal evidence, or missing variables)
- Limited sample sizes or non-generalizable findings
- Non-peer-reviewed sources such as working papers, blogs, or dissertations

A total of 45 articles were excluded: 10 during abstract screening due to scope mismatch, and 35 more after full-text review for not meeting quality or relevance standards.

### Quality Assessment and Thematic Analysis

The final selection underwent a two-stage evaluation. In the first stage, titles and abstracts were scanned for direct relevance to the research question. In the second stage, a manual qualitative content analysis was performed. A coding framework was developed to extract themes based on:

- Conceptual relevance to income and well-being
- Frequency of topic appearance across the dataset
- Citation influence and theoretical contribution

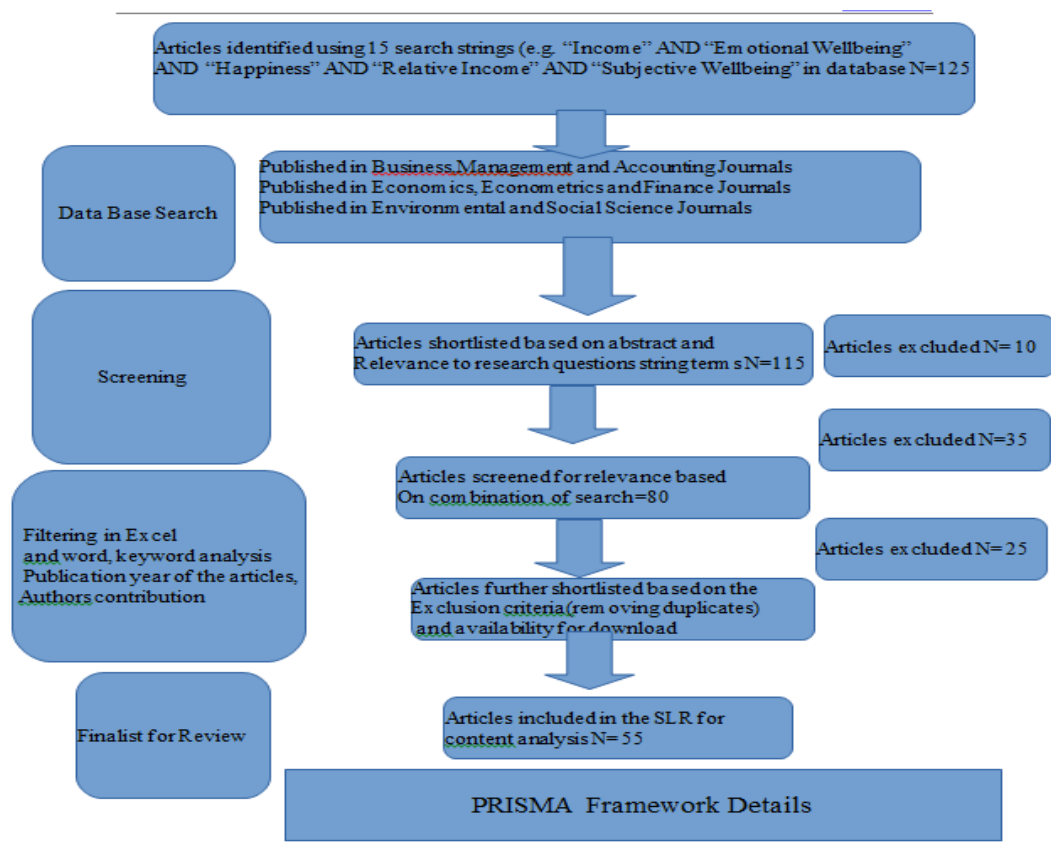
The coding process allowed identification of dominant themes, including income thresholds, relative comparisons, hedonic adaptation, and cultural variations. This thematic synthesis provided both depth and structure to the analysis. A **PRISMA flow diagram** (Figure 2) visually presents the inclusion-exclusion process.

### Formulation of Search String

**Table 1. Keywords and Associated Terms**

S. No.	Key Words	Associated Words
1	Materialistic	Hedonism, consumer culture, material wealth, consumerism
2	Household Income	Family Income
3	Emotional Well being	Subjective well being, happiness, psychological well being, resilience, stress management, mental health, life satisfaction, emotional stability, positive emotions
4	Equivalent Gains	Economic profit
5	Relative	Social comparison, economic status, income Inequality, peer benchmarking, social standing, reference group
6	Income	Earnings, salary, disposable income, financial Resources

**Figure 2: Literature Search Strategy and Review Process: Flow Diagram (PRISMA Model)**



Source: <https://www.bmj.com/content/372/bmj.n71>

**Table 2:** Details of the selected papers

S.NO	Authors/ Year	Title/ Journal	Objective of the Research	Research Methodology	Key Findings
1	Matthew A.Killings wortha, Daniel Kahneman, and Barbara Mellers May 20, 2022	Income and emotional well- being: A conflict resolved	The study aims to find the association between income and well being and to find the answer to the question- Do larger incomes make people happier?	Information was derived from Gallup Survey and Well Being Index.  Participants were 33,391 employed adults living in the United States. The median age was 33, the median household income was \$85,000/year	Results show that a measure of emotional well-being (happiness) increased but then flattened somewhere between \$60,000 and \$90,000,  The main finding of the KD study is the flattening pattern: the average of happiness scores rises up to a threshold income and then levels off. flattening is characterized by a threshold income, beyond which further increases are not associated with improved happiness.

2	Filip Fors Connolly and Tommy Gärling August 2023	The relationships between income, life satisfaction and emotional well-being in European countries differing in wealth	The aim of this study is to investigate whether income has different relationships to subjective well-being in richer countries compared to poorer ones.	The report analysis is based on interview data collected in the European Social Survey (n=72,574) to examine how income relates to life satisfaction (LS) and emotional well-being (EWB) in 28 European countries, varying in gross domestic product (GDP) per capita. GDP per capita was assessed by using data taken from the World Bank with estimates from 2013 adjusted for purchasing power in each country. In investigating the hypotheses, the study uses two waves of interview data from the European Social Survey (ESS), waves 6 (2012) and 7 (2014) which include questions assessing income, LS and EWB. ESS is based on random samples representative for all individuals aged 15 years old and over in the included countries.	The results indicate that the within-country correlations of income with LS and EWB decrease as GDP per capita increases. Findings are that in richer countries income would only have minor effects on EWB unless free time increases. Time scarcity, resulting from long working hours and increased responsibilities, could limit the opportunities to use increases in income to pursue leisure activities that enhance well-being. In the poorer countries income would enable positive experiences in upper-income segments and buffer negative experiences in lower-segments of the population. Income therefore would have a stronger relation to EWB in the poorer than in the richer countries.
3	Aiste Dirzytė, Ona Gražina, Rakauskienė, Vaida Servetkienė 20 July, 2016	Household Income and Satisfaction With Life: Cognitive – Emotional Impact Paradox	This study aimed at evaluating the cognitive - emotional processes underlying “happiness - income relation”: association between emotions, cognitions, satisfaction with life,	This study used a multi-scaled probabilistic design utilizing a heterogeneous random sample of 1001 people representing the Lithuanian population. All the participants were personally interviewed at their home, which took approximately 1,5 hours. K- means analysis was applied to cluster the respondents	Findings demonstrated that when people get low household income per month, they report more intense negative emotions and less positive emotions. Secondly, study suggest that people with low household income per month express more negative cognitions and less positive cognitions. Thirdly, the results demonstrated a strong relationship between cognitions, emotions, and

			and household net income.	into low, medium and high household net income groups.	satisfaction with life.
4	Lara B. Aknina, Michael I. Nortonb and Elizabeth W. Dunna, Harvard Business School, Boston, MA, USA	From Wealth to Well-Being? Money Matters, But Less Than People Think (The Journal of Positive Psychology Vol. 4, No. 6, November 2009, 523–527)	To examine the accuracy of laypeople’s intuitions about the relationship between household income and happiness. This study aims to understand how happy someone would be on various rungs of the income ladder; thereby directly assessing their predictions about the impact of money on their own lives.	A nationally representative sample of 429 Americans (56% female; Male $\frac{1}{4}$ 40.2, SD $\frac{1}{4}$ 16.4) were selected from an online survey company’s panel of 2.5 million respondents with gender, age, and income parameters, approximating the most recent United States Census.	It is found that higher levels of household income were associated with somewhat greater happiness, as reflected by the moderate correlation ( $r \frac{1}{4}$ 0.25, $p \frac{1}{4}$ 0.001) between actual household income and happiness. Study offers evidence that people overestimate the magnitude of the relationship between money and happiness, particularly at the lower end of the income spectrum. Study also observed a modest positive relationship between actual household income and happiness ( $r \frac{1}{4}$ 0.11, $p \frac{1}{4}$ 0.05).
5	Daniel Kahneman and Angus Deaton August 4, 2010	High Income Improves Evaluation of Life But Not Emotional Well Being	The aim of the study is to examine possible differences between the correlates of emotional well-being and of life evaluation, focusing in particular on the relationship between these measures	An analysis of more than 450,000 responses to the Gallup-Healthways was done. Emotional well-being is measured by questions about emotional experiences) and life evaluation measured by Cantril’s SelfAnchoring Scale.	It was found that emotional well-being and life evaluation have different correlates. Income and education are more closely related to life evaluation, but health, caregiving, loneliness, and smoking are relatively stronger predictors of daily emotions. It was concluded that high income buys life satisfaction but not happiness, and that low income is associated both with low life evaluation and low emotional well-

			and household income.		being. More money does not necessarily buy more happiness, but less money is associated with emotional pain .
6	Zonghuo Yu and Li Chen 19 May 2016	Income and Well-Being: Relative Income and Absolute Income Weaken Negative Emotion, but Only Relative Income Improves Positive Emotion	The objective of this paper is to test whether the relationship between income and positive emotional well-being is different from that between income and negative emotional well-being.	The data used in this study was collected in 2010 by the Institute of Social Science Survey of Peking University, which has high quality and seemed as a survey to reveal the true face of Chinese Society (Hvistendahl, 2010; Xie, 2012; Xie and Zhou, 2014). Participants were 32,905 individuals (16,952 females, 15,930 males; age ranging from 16 to 110 years old, M = 45.55, SD = 16.39) from 162 counties in China.	The first major finding is that the income at individual-level was significantly associated with life satisfaction, happiness and negative emotion of individuals; however, income at county level was only significantly associated with negative emotion, but not happiness or life satisfaction.  The second major finding is that the relation between money and subjective well-being can't be totally explained by the theory "Easterlin Paradox." Furthermore, different from the predictions made by the "Easterlin Paradox," the result of this research shows that income and happiness aren't significantly positively associated among counties. The study also stresses the implications of income distribution for subjective well-being, because relative income was associated with both happiness and negative emotion.

7	Maiké Luhmann, Ulrich Schimmack, Michael Eid,	Stability and variability in the relationship between subjective well-being and income	<p>The aim of the present study is to integrate stable and transient effects on income and SWB in one model and to evaluate the relative contribution of each of these effects.</p> <p>To examine the extent to which positive relationship reflects stable individual differences or transient fluctuations in income and SWB.</p>	It is examined stable and transient determinants of the relation between affective well-being and income in the British Household Panel Survey (BHPS; N = 37,041) and the relation between cognitive well-being and income in the BHPS (N = 31,871) and the Socio-Economic Panel (SOEP; N = 43,565) with bivariate latent state–trait models.	The paper finds that (a) The association between income and SWB on the level of stable differences is moderately positive. (b) The association between income and SWB on the level of transient differences is positive as well, but much weaker than the correlation on the stable level. (c) Stable determinants account for most of the covariance between income and SWB. Together, these findings suggest that richer people are generally happier than poorer people. Money can buy happiness, but only some.
8	Alejandro López-Rousseau, Timothy Ketelaar	Time Value of Money and Happiness	The purpose of this study is to explore the relationship between money and happiness.	The current study replicated López-Rousseau & Cortés' (2014) methodology using a new sample of 84 students from New Mexico State University at Las Cruces, USA.	Findings suggest that earning and spending money makes people happier in different ways depending on their financial expertise. Also financial experts are happier by earning money in decreasing payments based on a principled time value of money model, whereas financial novices are happier by earning money in constant payments based on a practical even distribution of money model.

9	Ada Ferrer-i-Carbonell, Plantage Muidergracht	Income and well-being: an empirical analysis of the comparison in income effect	This paper studies an empirical analysis of the importance of Comparison Income for individual well-being or happiness. To understand the importance of their own income, the relevance of the income of the reference group and of the distance between their own income and the income of the reference group, and most importantly the asymmetry of comparisons, i.e. the comparison income effect differing between rich and poor individuals.	The sample includes about 16,000 individuals of which about 28% are Easterners. In the total sample, about 60% are workers and 48% are males. The average SWB over the 6-year period considered is 6.883. The family income concept used throughout the paper is that of net family income, i.e. income after tax. The data used is a sub-sample of a large German micro-panel data set (GSOEP).	The main findings can be summarized as follows: (1) even if income has a small effect on individual well-being, the effect is not insignificant when compared with other objective variables; (2) the impact of income on individual well-being is larger for East than for West Germans, which makes sense, given that Easterners are poorer than Westerners; (3) increases in family income accompanied by identical increases in the income of the reference group do not lead to significant changes in well-being; (4) the larger an individual's own income is in comparison with the income of the reference group, the happier the individual is; and (5) for Westerners and for the total German sample, the comparison effects are asymmetric; this means that poorer individuals' well-being is negatively influenced by the fact that their income is lower than that of their reference group, while richer individuals do not get happier from having an income above the average. In other words, comparisons are mostly up-wards.
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10	Betsey Stevenson, Justin Wolfers April 2013	Subjective Well Being and Income: Is there any evidence of Satiation?	The objective of this paper is a sustained examination of whether there is a critical income level beyond which the well-being–income relationship is qualitatively different, a claim referred to as the Modified-Easterlin Hypothesis.	The data are drawn from the five waves of the Gallup World Poll run between 2008 and 2012 and GDP per capita, plotted on a log scale. Data on 155 countries, which account for over 95% of the world’s population, across the spectrum of levels of economic development.	Findings did not support the claim that once “basic needs” have been met, higher income is no longer associated with higher subjective well-being. . The relationship between well-being and income is roughly linear-log and does not diminish as incomes rise. If there is a satiation point, we are yet to reach it.
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**Source: Secondary sources (from the database of Scopus, Web of Science, and ProQuest)**

### 5. QUALITY ASSESSMENT AND DATA EXTRACTION STRATEGY

The data extraction process aimed to systematically capture and organize findings from selected studies to ensure alignment with the research objectives. This stage was essential for maintaining methodological rigor and relevance, focusing on studies that explored the relationship between income and emotional or subjective well-being.

The process began with the identification of 125 articles through a database and snowballing search strategy. Predefined inclusion criteria were applied, limiting the pool to peer-reviewed articles written in English that offered either empirical or theoretical insights directly related to individual-level well-being. During the initial screening, 10 articles were excluded due to the absence of empirical data, weak conceptual framing, or publication in non-peer-reviewed outlets.

The remaining 115 articles were then evaluated through abstract and full-text review. An additional 35 studies were excluded for several reasons, including small or non-representative sample sizes, lack of methodological robustness, or a primary focus on macroeconomic indicators such as GDP without meaningful connection to subjective well-being. A more detailed review of the remaining articles led to the exclusion of another 25 studies due to theoretical vagueness, redundancy, or marginal relevance to the study's research framework. In total, 55 high-quality studies were retained for final analysis.

To identify patterns and research gaps, a thematic evaluation was conducted using a content-based coding framework. Key themes were derived based on frequency of occurrence, conceptual alignment with the research objectives, and citation impact within the literature. Prominent themes included income thresholds for well-being, relative income comparisons,

hedonic adaptation, and cultural variability in perceptions of happiness. Each selected study was manually coded and reviewed collaboratively by the research team to ensure consistency, minimize bias, and validate interpretations.

This structured and rigorous approach to data extraction and analysis ensured that the final selection of studies provided a solid foundation for the synthesis of findings and the generation of practical, policy-relevant recommendations.

## 6. DATA SYNTHESIS AND PRESENTATION

To provide a critical synthesis of existing literature, Table 3 presents a comparative overview of twenty leading scholars whose work has shaped the discourse on income and subjective or emotional well-being. Rather than simply listing contributions, this synthesis outlines each author's theoretical framework, summarizes their key findings, and highlights contradictions or counterpoints to prevailing theories. The comparative analysis reveals tension between absolute and relative income models, identifies differing interpretations of income thresholds, and underscores the growing importance of non-monetary and institutional factors in the study of well-being.

**Table-3: Top 20 authors who worked or researched on income and subjective or emotional well being or happiness**

Author	Theory / Focus	Key Finding	Contradictions / Counterpoints
<b>Richard Easterlin</b>	Easterlin Paradox	Economic growth doesn't guarantee increased long-term happiness.	Challenges absolute income theories; shows happiness plateaus beyond a point.
<b>Daniel Kahneman &amp; Angus Deaton</b>	Income & Emotional Well-being	Income improves life evaluation but not emotional well-being beyond ~\$75,000.	Introduces an income threshold, questioning linear models of well-being.
<b>Ed Diener</b>	Subjective Well-being	Income affects life satisfaction, but personal values matter more.	Suggests well-being depends on meaning, goals, and social context.
<b>Andrew Clark</b>	Income Comparison	Relative income strongly affects happiness.	Counters absolute income models; shows social comparisons have emotional costs.
<b>Bruno Frey &amp; Alois Stutzer</b>	Happiness Economics	Institutional quality and political freedom enhance well-being.	Emphasize policy and governance over income as drivers of happiness.
<b>Robert Frank</b>	Inequality & Relative Income	Relative deprivation reduces happiness, even when income rises.	Argues rising inequality negates gains from higher income.
<b>Carol Graham</b>	Development Economics & Well-being	Income matters, but hope and perceived mobility are stronger happiness drivers.	Highlights cultural and psychological dimensions over monetary ones.
<b>Ruut Veenhoven</b>	Cross-National SWB Analysis	Happiness varies more by social norms and context than by income.	Critiques GDP-focused well-being models.

<b>David Blanchflower</b>	Unemployment & Well-being	Unemployment causes a significant decline in well-being.	Suggests job security may outweigh income in determining happiness.
<b>Andrew Oswald</b>	Economics of Happiness	Economic conditions affect psychological health and life satisfaction.	Reinforces links between employment and subjective well-being.
<b>Sonja Lyubomirsky</b>	Sustainable Happiness	Lasting happiness depends more on intentional activity than income.	De-emphasizes monetary gains in favor of long-term personal strategies.
<b>John Helliwell</b>	Social Capital & Well-being	Social relationships are stronger predictors of happiness than income.	Supports relational over financial determinants.
<b>Stefano Bartolini</b>	Relational Goods & Well-being	Non-market goods (e.g., community, trust) are vital for happiness.	Argues economic growth erodes social capital, harming well-being.
<b>Christopher Boyce</b>	Personality & Income Adaptation	Personality traits mediate income's impact on happiness.	Shows income effects are not uniform across individuals.
<b>Nattavudh Powdthavee</b>	Economics of Happiness	Valued social relationships contribute more to well-being than income.	Suggests diminishing emotional returns to money.
<b>Richard Layard</b>	Policy & Happiness	Advocates for public policy that targets well-being, not just income.	Challenges GDP-centric governance models.
<b>Timothy Wilson</b>	Affective Forecasting	People mispredict the emotional impact of income changes.	Suggests limitations in rational economic choice models.
<b>Elizabeth Dunn</b>	Spending & Happiness	How people spend money affects happiness more than how much they earn.	Emphasizes prosocial spending and intentionality over accumulation.
<b>Robert Biswas-Diener</b>	Positive Psychology & Money	Wealth may offer opportunities, but does not ensure life satisfaction.	Shows autonomy and purpose moderate the impact of income.
<b>Arthur Stone</b>	Daily Affect vs. Evaluation	Income affects life satisfaction but not moment-to-moment emotions.	Reinforces distinction between evaluative and experiential well-being.

Source – Authors own Compilation

## 7. KEY FINDINGS

This systematic review reveals that income plays an important but nuanced role in shaping emotional and subjective well-being. The findings converge around four interrelated themes: the conditional impact of income on happiness, the psychological processes that mediate this relationship, the role of social comparison, and individual personality differences that moderate these effects.

### 1. Income Enhances Well-Being—But Only to a Point

Multiple studies confirm that income positively influences well-being, particularly in reducing stress and improving life satisfaction. However, this relationship is not linear.

Research by Kahneman and Deaton (2010) shows that while higher income improves life evaluation, its impact on daily emotional experiences plateaus beyond a threshold of approximately \$75,000. This supports the notion that income satisfies basic needs and improves living standards, but other non-monetary factors become more important beyond this point. As the OECD (2013) highlights, well-being is inherently multidimensional, encompassing health, relationships, autonomy, and life meaning.

## **2. Behavioral Economics: Prospect Theory, Loss Aversion, and Hedonic Adaptation**

The connection between income and well-being is shaped by psychological mechanisms, particularly those grounded in Prospect Theory (Kahneman & Tversky, 1979). According to this theory, individuals evaluate outcomes relative to a reference point—often their prior income—and perceive losses more intensely than equivalent gains. This phenomenon, known as loss aversion, has significant implications for financial behavior and emotional well-being. People tend to avoid realizing losses, delay switching to cost-saving options, and treat unexpected income differently than regular earnings, leading to suboptimal financial decisions and increased stress.

Moreover, hedonic adaptation further reduces the long-term impact of income gains. Individuals initially respond positively to increased income, but over time, their emotional baseline resets, diminishing the happiness derived from additional earnings. This "hedonic treadmill" explains why the pursuit of higher income alone rarely results in sustained well-being.

These effects are also moderated by personality traits. For example, extraverts, with their higher reward sensitivity and social orientation, are more likely to derive satisfaction from financial gains, especially those associated with status. In contrast, neurotic individuals, prone to anxiety and threat sensitivity, may experience heightened emotional distress from income volatility or perceived insecurity—even when financially stable. Such individuals may also fail to fully enjoy income gains, as their focus remains fixed on potential future losses. These personality-based differences help explain why income affects well-being unevenly across populations.

## **4. The Impact of Relative Income and Social Comparisons**

Empirical research consistently finds that well-being is strongly influenced by relative income—that is, how individuals perceive their earnings in comparison to others. Studies by Kapteyn et al. (1978), Clark and Oswald (1996), and McBride (2001) illustrate that people evaluate their financial status not in absolute terms, but relative to peers, past financial circumstances, or social norms. This reference drift effect explains why income increases may fail to yield satisfaction if peers' incomes rise more rapidly. The emotional cost of "falling behind" socially or professionally can undermine the psychological benefits of real income growth.

## **5. Personality Traits as Moderators of Income-Happiness Link**

Building on the above, personality traits serve as important moderators in the income-happiness equation. Extraverts are more likely to pursue and emotionally benefit from increases in income, while neurotics may require greater financial security to feel stable and content. These traits also influence how individuals adapt to income changes: extraverts may quickly shift goals and pursue higher financial benchmarks, while neurotics may remain fixated on risk, scarcity, or the possibility of loss—even in the face of objectively positive income changes.

**Table 4. Psychological Concepts and Their Interaction with Income and Well-Being**

Concept	Influence on Well-Being	Psychological Interaction
Prospect Theory	Income is evaluated relative to a baseline. Gains feel smaller than losses.	Reference points and framing shape how income changes are perceived.
Loss Aversion	Losing income causes more distress than equivalent income gains bring joy.	Triggers avoidance, risk-averse behaviors, and emotional defensiveness.
Hedonic Adaptation	Happiness from income increases fades over time.	Individuals return to a baseline level of happiness.
Personality Traits	Modify emotional response to income changes.	Extraverts seek rewards; neurotics fixate on threats and insecurity.

## 8. DISCUSSION

This study explores the intricate relationship between income and individual well-being, uncovering layered insights into how financial resources influence emotional health and life satisfaction. While income plays a foundational role in securing basic needs, its emotional and psychological effects are shaped by multiple contextual and cognitive factors.

One of the primary findings reveals that the impact of income on happiness is neither uniform nor permanent. As research shows, individuals experience hedonic adaptation—a psychological process in which people return to a baseline level of happiness after positive or negative life events. While an increase in income can temporarily elevate well-being, this effect diminishes over time, leading to a cyclical pursuit of more income with limited long-term satisfaction. The concept of loss aversion, grounded in Prospect Theory (Kahneman & Tversky, 1979), further complicates the narrative. People are psychologically more affected by income losses than they are pleased by equivalent gains. This tendency influences risk aversion, financial decision-making, and perceived life satisfaction, especially during economic instability or job loss.

A compelling illustration of income versus time value comes from a study among University of British Columbia graduates. It found that students who prioritized time over money reported greater contentment one year post-graduation, even when controlling for socioeconomic status. This underscores the broader psychological insight: how individuals value and utilize income may be more influential than the absolute amount they earn.

The COVID-19 pandemic highlighted a shift in well-being priorities. During times of crisis, individuals increasingly valued personal health, family, and emotional balance over financial accumulation. This aligns with Maslow's hierarchy of needs, which posits that once physiological and safety needs are met, emotional satisfaction and self-actualization are pursued through relationships, personal growth, and meaning—not necessarily through more money.

Another key aspect of the income–well-being relationship is relative income. Individuals often gauge their happiness based on how their income compares to that of their peers, neighbors, or colleagues. This concept, extensively explored by Clark and Oswald (1996) and McBride (2001), suggests that even a rising income may fail to boost well-being if

others' incomes are rising faster. Known as the "reference drift effect," this phenomenon leads to chronic dissatisfaction despite objective financial improvement.

Furthermore, personality traits play a moderating role. For instance, extraverts may derive joy from financial growth due to their social reward orientation, whereas neurotic individuals may experience greater anxiety from income fluctuations, valuing security over opportunity. These differences explain why income-based policies may not produce uniform effects across diverse populations.

To translate these findings into real-world impact, stronger policy interventions are essential. While general calls for reducing financial instability are valid, they must be operationalized through concrete, evidence-based measures:

**1. Universal Basic Income (UBI):**

Programs like Finland's UBI pilot have shown promising results in reducing financial anxiety and improving mental health outcomes. Participants reported greater autonomy, reduced stress, and improved life satisfaction, even when the income supplement was modest. Expanding such initiatives could offer a safety net without disincentivizing work.

**2. Progressive Taxation and Redistribution:**

Redistributive tax policies can reduce income inequality and fund essential public services that improve collective well-being, such as healthcare, education, and affordable housing. Scandinavian countries, particularly Sweden and Norway, offer strong examples of how social equity and high well-being levels can be maintained through tax-supported welfare models.

**3. Employer-Based Financial Wellness Programs:**

Organizations can improve employee well-being by implementing programs that offer financial planning, debt management, and retirement savings education. These initiatives reduce money-related stress and enhance workplace satisfaction and productivity.

**4. Financial Literacy and Education Campaigns:**

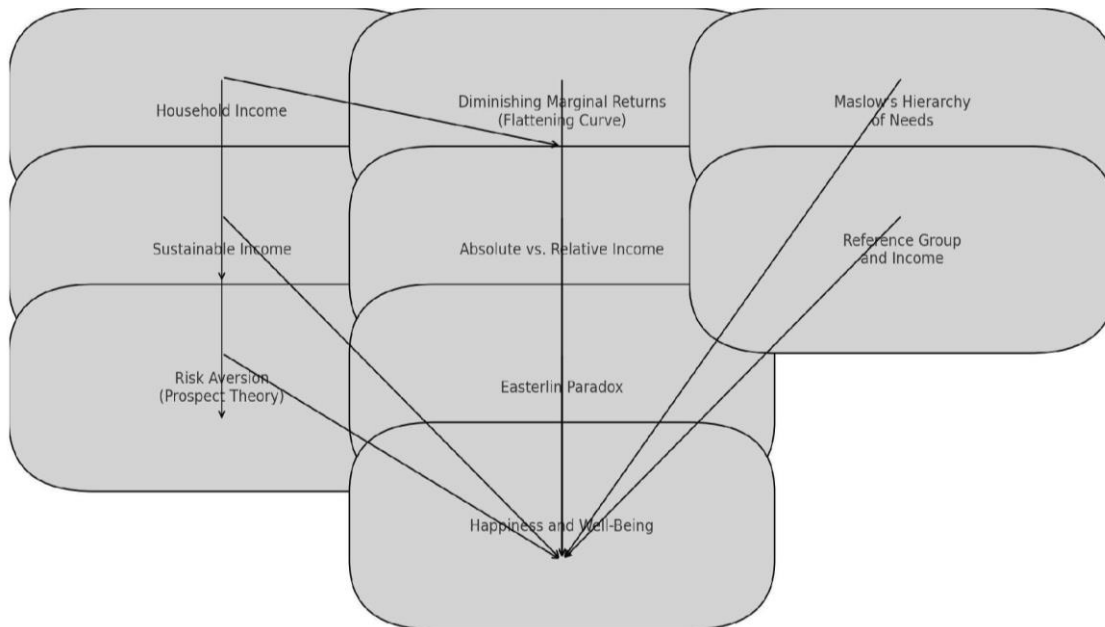
Integrating financial education into school curriculums and adult learning platforms helps individuals make informed financial decisions, manage risks, and develop healthier relationships with money. Countries like Australia and the UK have national strategies for financial capability aimed at boosting resilience against economic volatility.

**5. Stabilizing Household Income:**

Beyond increasing income, income stability—through secure employment, social insurance, and emergency savings support—is crucial for sustained well-being. Policies that promote job protection, unemployment benefits, and access to emergency credit reduce the negative emotional effects of income shocks.

Finally, these policy interventions must account for cultural and social differences. While UBI may suit some high-income nations, in developing economies, conditional cash transfers (e.g., Brazil's Bolsa Família) have proven effective in improving well-being while promoting social development goals like education and healthcare.

In sum, this study affirms that income contributes significantly to emotional well-being, but only within a broader psychosocial context. True happiness depends not just on how much one earns, but on how income is perceived, compared, used, and protected over time. Future economic and social policies must reflect this complexity—moving beyond GDP growth and salary increases toward holistic strategies that promote mental, emotional, and financial resilience across all segments of society.



**Figure -3 : Theoretical framework of Income and its impact on emotional well being**

Source: Authors own Compilation

## 9. CONCLUSION

This research presents a nuanced understanding of the complex relationship between income and happiness. While financial security undeniably alleviates stress and enhances life satisfaction, the correlation between income and emotional well-being often follows a plateau effect. Happiness tends to increase with income up to a certain point—beyond which additional earnings provide diminishing emotional returns. This plateau is shaped not only by financial metrics but also by deeper, non-material influences such as social connections, health, personality traits, and overall life purpose.

In recent years, particularly during the post-pandemic period, society has come to recognize the value of simple pleasures and meaningful time spent with loved ones. Yet, the modern pursuit of financial success continues to dominate societal norms. The resulting stress, especially among younger generations navigating career pressures and economic uncertainty, highlights the need for a broader, more holistic approach to well-being. Psychological health must be viewed through a multidimensional lens—one that includes financial independence alongside relational, emotional, and physical well-being.

Importantly, research consistently shows that while financial stability provides comfort and expands individual choice, it cannot replace the emotional fulfillment derived from love, purpose, and meaningful experiences. True financial happiness is not merely about wealth accumulation but about developing a healthy relationship with money and aligning it with personal values and long-term life goals.

To further develop the field, future research should prioritize longitudinal studies that track income changes and well-being across different life stages and economic conditions. Such studies could offer insights into how income stability, rather than mere increases, affects emotional resilience over time. Additionally, cross-cultural research is essential to understanding how societal values influence perceptions of income and happiness. Comparative studies between Western individualistic cultures and Eastern collectivist societies could reveal important variations in how income impacts well-being. Finally, experimental research in behavioral psychology could explore how individuals make financial decisions—such as spending, saving, or sharing—and how these choices influence both short-term mood and long-term happiness.

By integrating these future directions, researchers can move beyond correlational insights and deepen their understanding of the psychological and cultural mechanisms that connect income to well-being. In doing so, it can help guide policies and personal choices that support not only financial health but also emotional and social flourishing.

## 10. PRACTICAL IMPLICATIONS

The findings of this study hold meaningful implications for individuals, organizations, and policymakers seeking to enhance well-being through more balanced and sustainable approaches to income and happiness. While income undeniably plays a role in improving life satisfaction—particularly by alleviating stress and securing basic needs—it is not a universal or lasting source of happiness. The research emphasizes the need to move beyond simplistic assumptions that financial success equates to emotional fulfillment.

**For individuals**, the study encourages a shift in perspective: rather than pursuing income as an end goal, people may benefit more from aligning their financial decisions with intrinsic values, meaningful relationships, and long-term goals. This insight is especially relevant in consumer-driven societies, where material accumulation is often mistaken for life satisfaction. Promoting financial literacy and intentional money management can help individuals derive more emotional value from their earnings, while reducing reliance on material status as a metric of success.

**For employers and organizations**, the findings support the development of workplace wellness strategies that prioritize not only compensation but also psychological well-being. Initiatives such as flexible work schedules, mental health support, and financial counseling services can contribute to a more balanced, engaged, and productive workforce. Encouraging work-life balance and reducing the cultural emphasis on overworking for monetary rewards may also help mitigate burnout and improve employee morale.

**At the policy level**, the study advocates for an integrated approach to public well-being. Governments can use these insights to design social programs that recognize the emotional impact of income insecurity. Policies that ensure income stability—such as progressive taxation, basic income experiments, or expanded unemployment protection—can enhance well-being across socioeconomic groups. Additionally, shifting policy focus from pure economic growth to quality of life metrics (such as those used in Bhutan's Gross National Happiness or the OECD Better Life Index) can better reflect what truly contributes to a flourishing society.

Moreover, the findings have implications for mental health professionals and educators working with individuals who struggle with compulsive spending, financial anxiety, or self-worth tied to material success. Integrating financial psychology into therapeutic or educational settings could support a more holistic understanding of well-being—rooted not

only in what individuals earn, but in how they perceive and use their resources in the pursuit of purpose and personal meaning.

By reframing the role of income as a supportive—not central—element of happiness, these implications point toward healthier lifestyles, more empathetic workplaces, and policies that foster a more resilient and emotionally balanced society.

## 11. LIMITATIONS AND SCOPE FOR FURTHER RESEARCH

While this study offers valuable insights into the relationship between income and emotional well-being, several limitations must be acknowledged. One major constraint is the limited availability of literature that directly addresses individual-level emotional well-being in relation to income. Much of the existing research continues to emphasize macroeconomic indicators, such as national GDP or average life satisfaction across populations, rather than the nuanced experiences of individuals.

For example, the Cantril Ladder, widely used in the Gallup World Poll, assesses well-being by asking individuals to rate their lives on a scale, often in the context of national development. Although useful for cross-country comparisons, such measures may obscure the diversity of individual emotional responses within countries or income brackets. Similarly, indices like Gross National Happiness (GNH) emphasize collective well-being, often at the expense of understanding how income affects moment-to-moment emotional states or personal life satisfaction.

Another key challenge lies in the subjective nature of well-being measurement. Tools such as life satisfaction surveys, affect balance scales, and experiential sampling offer varying insights, but their methodological inconsistencies make cross-study comparisons difficult. Additionally, cultural differences in how happiness and satisfaction are defined and expressed may further complicate the interpretation of findings.

Given these limitations, future research should pursue several directions:

- **Longitudinal studies** tracking individuals over time can help establish causal relationships between income changes and shifts in emotional well-being, particularly in response to economic shocks or life transitions.
- **Cross-cultural comparative studies** are essential to understanding how different cultural contexts influence perceptions of income, success, and happiness. For example, future work could contrast Western societies with individualistic values against collectivist cultures in Asia or Africa to examine how income impacts well-being differently.
- **Experimental studies** could explore how financial decision-making—such as spending, saving, or giving—affects emotional states in real time. These studies could incorporate psychological measures and neuroeconomic tools to better understand underlying mechanisms.
- **Research on digital economies and gig work** is also needed, as traditional income models are evolving. Studies could examine how non-traditional income streams (e.g., influencer earnings, freelance work) influence emotional stability, financial insecurity, and well-being outcomes.
- **Intersectional factors** such as gender, age, education, and personality traits, should be given attention; which may moderate the income-happiness relationship in diverse ways.

By addressing these gaps, future research can provide a more holistic and inclusive understanding of how income contributes to human well-being, helping policymakers, organizations, and individuals tailor strategies for a happier, more resilient society.

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