

THE EROSION OF FINANCIAL WELL-BEING: ANALYSING THE IMPACT OF INFLATION ON LIFE SATISFACTION

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ABSTRACT

This paper finds the association between inflation, financial satisfaction and life satisfaction. The erosion of real income due to high inflation has substantial implications for people's economic stability and, in turn, their satisfaction with life. By examining various psychological, sociological, and economic perspectives, this research aims to highlight how inflationary pressures influence people's financial stability and subjective well-being. Using the happiness survey data, a robust body of literature has supported that people's subjective well-being is linked with economic growth, employment, and inflation. Inspired by "Happiness Economics," this paper emphasises financial satisfaction, a proxy of subjective well-being. It observes the association between people's financial satisfaction and countries' macroeconomic performances. We take financial satisfaction as the dependent variable and demographic variables like sex, education, income level, marital status, age and employment status as control variables. We collect cross-sectional data for all countries in the years 2018 and 2019 from the World Values Survey (wave 7). We use macroeconomic variable like inflation as independent variable, collecting data from the World Bank and some from the International Monetary Fund. We use the generalised structural equation model for the analysis. The results show that financial satisfaction is inversely related to inflation. The overall results suggest policymakers should strive to mitigate the economic vulnerability of men, young adults, low-income earners, those with low education, married/cohabiting individuals, and the fully employed to maximise financial satisfaction and promote subjective well-being.

Keywords: Inflation, financial satisfaction, life satisfaction, subjective well being, generalized structural equation model, ordered logit, happiness

INTRODUCTION

Inflation, the overall rise in prices of goods and services over time, has long been considered a significant factor in economic stability and prosperity. It has become a primary concern for governments, households and firms after a rapid increase in inflation in recent years, which is a natural part of the economic cycle. When inflation

outpaces wage growth, it leads to a reduction in individuals' real incomes, thus eroding their purchasing power and financial well-being. In the context of contemporary global economies, this economic phenomenon not only affects material wealth but also plays a crucial role in shaping life satisfaction and overall well-being. Life

satisfaction, generally cited as subjective well-being (SWB), is a measure of how people evaluate their lives as a whole. Many factors can have an impact on life satisfaction, including health, employment status, associations, and personal finances. Among these, financial satisfaction is considered a key determinant of a person's sense of safety, steadiness, and overall life satisfaction. As inflation reduces real income or the purchasing power of money, and in turn increases living costs, the potential inverse impact on financial well-being becomes noticeable. However, it remains uncertain how these economic pressures translate into changes in life satisfaction.

Economic development is a vital goal of nations as it has a close link with human well-being (Hayo & Seifert, 2003). Many nations attempt to attain their development goals via economic, societal, cultural, political, and technical progress (Coccia, 2019). Since Richard Easterlin (1974), one of the early economists who examined the association between subjective well-being and economic progress, the field of happiness economics has been significantly expanded. Over several years, the societal welfare function demarcated based on inflation and unemployment has been widened to examine their association with subjective well-being (Blanchard & Fischer, 1989; Burda & Wyplosz, 1993; DiTella et al, 2001; Hall & Taylor, 1997; and Persson and Tabellini, 1990).

A vast body of literature has recommended that subjective well-being has a direct impact on economic growth (Deaton, 2008; Diener et al, 2013; Easterlin et al., 2021; Hagerty, 2000; Hagerty & Veenhoven, 2003). Many researchers have found that age, income level, education level, and employment status are manifest forecasters of wealth and linked with subjective well-being (Ackerman and Paolucci (1983), Garrett and James (2013), Gholipour et al 2022, Hong and Swanson (1995) Marital status and sex have also been debated as potential forecasters of financial satisfaction (Calasanti et al., 2020; Fan & Babiartz, 2019)

The strength and significance of the links appear heterogeneous based on subjective well-being measures, macroeconomic performance results, nations, and eras. Poor economic circumstances could lead to monetary constraints and agony.

Monetary problems can create larger fiscal, societal, and political issues (French & Vigne, 2019). Several researchers have used financial satisfaction as a proxy for subjective well-being (Diener & Diener, 2009; Diener & Suh, 2000; Diener et al., 2002; Easterlin et al., 2010; Ng & Diener, 2014; Ngamaba, 2017). Many researchers have reported a substantial influence of monetary stress on psychological, physical, and self-rated health (de Miquel et al, 2022; Karanikolos et al, 2013; Ryu & Fan, 2023; Sweet et al, 2013), food security (Balistreri, 2016), (Funke et al, 2016), (Brown & Gray, 2016; Easterlin et al, 2010; Peiro, 2006).

Numerous studies have discussed that poor economic development and high inflation can raise unemployment, which in turn leads to poor subjective well-being (Hongo et al, 2020; Lim et al, 2019; Tang & Bethencourt, 2017). Suppose there are fewer employment opportunities and the inflation rate is high. In that case, a recession may generally hurt people's mental and emotional levels, particularly affecting their financial satisfaction. After the pandemic, many nations faced radical fiscal vicissitudes, particularly in economic policy. If there are unexpected changes in the economy, understanding how financial satisfaction is influenced by macroeconomic performance is crucial. Nevertheless, the significance and strength of this influence depend on the proxy of financial satisfaction used in the estimation. (Hayo and Seifert 2003).

Literature review:

Financial well-being means the state in which an individual can fully meet present and continuing financial duties, feel safe in their financial future, and make preferences that allow them to enjoy life (CFPB, 2015). It comprises both objective factors (income, savings, properties) and subjective insights (financial stress, control over money). The notion has gained attention as inflation, economic instability, and stagnating wages challenge traditional markers of financial health.

Preceding studies present that financial well-being and life situation are strongly linked with financial satisfaction, while the general quality of life is linked with life satisfaction (Vlaev & Elliott, 2014). Delhey and Dragolov (2013) found a direct

and significant effect of income satisfaction on both happiness and life satisfaction. Whereas, the impact of the debt-to-income ratio and attitude towards spending on non-essentials was statistically significant on financial happiness, but this effect was not strong. Moreover, exterior pressure of borrowing is insignificantly and adversely linked to financial happiness (Vlaev & Elliott, 2014). Delafrooz and Paim (2011) examined the factors of financial wellness among Malaysian workers by utilising the path analysis. Female, married, highly educated workers, and those with more income and homeownership were more liberal in their financial behaviour, which in turn increased financial wellness.

Furthermore, home possession and the cumulative income level significantly increase financial wellness. Coskuner (2016) also explored the direct and robust effect of financial behaviour on financial satisfaction. This research also showed the positive and substantial influence of education and household income on financial satisfaction. Plagnol (2011) used national survey data to analyse factors of financial well-being by incorporating assets and liabilities. The data comprised families and households in the US. The outcomes of the study favoured home assets and also showed the adverse effect of accountabilities on financial satisfaction.

Inflation is the rate at which the general level of prices for goods and services increases, eroding purchasing power. According to classical economic theory (Friedman, 1963), inflation is "permanent and everywhere a financial phenomenon," primarily influenced by the money supply. In recent times, inflation can also stem from supply chain interruptions, geopolitical stress, and worldwide market volatility (Blanchard, 2022). Current global events, such as the COVID-19 pandemic and the war in Ukraine, have increased inflation rates internationally, disrupting household financial stability (IMF, 2022). Many studies have shown that inflation disproportionately influences low- and middle-income homes, as necessities consume a greater portion of their income (Coibion et al, 2020). When prices increase faster than incomes, real income decreases, which in turn leads to a deterioration in financial well-being.

Inflation-induced ambiguity rises monetary anxiety, stress, and feelings of vulnerability (Norvilitis et al, 2006). Research by the American Psychological Association (2022) showed that inflation is nowadays one of the significant sources of stress among adults, leading to mental health issues and lower life satisfaction. Studies showed that inflation aggravates inequality.

Females, minority populations, and individuals with low education are more likely to face the adverse effects of inflation because of systemic wage gaps and restricted access to monetary funds (UN Women, 2022; Pew Research Centre, 2021). Additionally, inflation has become a cause of intergenerational fiscal stress. Younger generations experiencing increasing costs of living and student loans find it challenging to attain milestones like home possession or saving for superannuation (Friedline et al, 2020). Consumers respond to inflation by budgeting, increasing borrowing, or cutting discretionary expenditure (Deaton, 1992). However, this frequently results in a reduced quality of life and can deteriorate longstanding outcomes if financial resilience is already feeble. Research in behavioural economics highlights how people tend to undervalue upcoming inflation, leading to poor financial planning (Tversky & Kahneman, 1974).

Problem Statement:

The crucial question addressed by this paper is how inflation influences financial satisfaction, and, in turn, how these economic stresses affect life satisfaction. With inflation rising in several parts of the world, understanding the mechanisms through which it influences financial satisfaction is critical for policymakers, economists, and individuals themselves. The goal of this research is to bridge the gap between economic theory and psychological studies by scrutinising the broader influences of inflation on human happiness and life satisfaction.

Research questions and Research hypothesis:

To gain an improved understanding of how macroeconomic events influence people's financial satisfaction and inform policymakers on strategies to improve the financial well-being of

their countries, this research investigates the following research questions:

- To what extent does inflation impact overall life satisfaction and financial satisfaction?
- Are there differential effects of inflation on various demographic groups, and if so, what factors account for these differences?
- How do individuals adapt to inflationary environments, and what coping strategies do they employ to maintain financial well-being?
- What role do expectations and perceptions of future inflation play in shaping current life satisfaction?

Conceptual Model

Inflation → Financial Satisfaction → Life Satisfaction

Inflation (and gender, education, and employment) also have direct effects on Life Satisfaction.

So, the paths are:

Inflation → Financial Satisfaction (a path)

Financial Satisfaction → Life Satisfaction (b path)

Inflation → Life Satisfaction (c' path, direct effect)

Total effect = $(a \times b) + c'$

Controls (gender, education, and employment) are entered into both equations.

Organisation of the study

The structure of this study is as follows: Section 2 presents a literature review on the association between financial satisfaction, inflation, and life satisfaction. Section 3 outlines the data, variable measurements, and empirical methodologies employed. The results are presented in Section 4. Section 5 offers an interpretation and discussion of the findings, and Section 6 concludes the study.

Data, Measures of variables and Empirical methods:

This paper finds the links between inflation, financial satisfaction, and life satisfaction. It is vital to examine their relations as economic strategies aim to alleviate the adverse effects of financial dissatisfaction and foster individuals' subjective well-being. We utilise data from the time period 2018 and 2019 WVS. Specifically, this study draws on the seventh wave of the WVS,

which comprises surveys from 64 countries conducted between 2017 and 2022 (Haerpfer et al, 2020). Each country took part in the survey once, providing insights into social values, well-being, social capital, economic values, and demographic characteristics.

Notably, the WVS includes a question that directly addresses individual financial satisfaction: "How satisfied are you with the financial situation of your household?" We utilise this information as a measure of subjective well-being to investigate the association with macroeconomic performance.

Measures of variables:

Previous research has explored the connection between financial satisfaction and macroeconomic indicators such as inflation, unemployment, and long-term interest rates (Blanchflower et al, 2014; DiTella et al, 2001; Perovic, 2008; Sanfey & Teksoz, 2007; Welsch, 2007; Wolfers, 2003). The World Values Survey (WVS) data used in this study were collected from 26 countries in 2018 and 7 countries in 2019. We select one macroeconomic measure of inflation that is most available across countries. We collect data from the World Bank, and some is taken from the International Monetary Fund as a secondary source. Financial satisfaction serves as the dependent variable in our study. Six demographic and socioeconomic factors as control variables: age, sex, educational level, marital status, employment status, and household income level. The data is collected from the World Value Survey. Marital status is categorised into three groups, with Group 1 comprising married individuals and those who are unmarried but cohabiting. Group 2 includes divorced, separated and widowed, and Group 3 includes single. Educational level is recorded into three groups: lower, middle and higher. Employment status is recorded into three groups: Group 1 includes unemployed or underemployed, Group 2 includes part-time or temporarily employed, and Group 3 includes full-time or stable employed. Income level is categorised into three groups: low, medium and high.

Model and empirical method

High inflation is harmful to the economy. The cost of reducing inflation is high, and it can lead to additional unemployment (DiTella et al, 2001). On the other hand, steady and foreseeable mild inflation is not a substantial economic issue. However, there is a difference between the opinions of the general public and economists regarding inflation. According to Shiller's (1996) study, people believe their standard of living will be low due to inflation, which leads to exploitation and political fierceness, generates moral issues, and damages the state's reputation. To consider the differing perspectives of economists and the general public, we take inflation as a factor of subjective well-being.

In modern macroeconomics, it is assumed that social welfare is influenced by inflation and unemployment (DiTella et al, 2001). However, the presence of a social welfare function remains unverified; it has been widely employed in theoretical macroeconomic literature. Unemployment, inflation, and GDP are commonly regarded as key factors influencing satisfaction and happiness (Frey & Stutzer, 2002; Perovic, 2008).

We make two models. In the first model, we will take the financial satisfaction dependent variable and other variables as control variables to test the effect of inflation on financial satisfaction. In the second model, we use life satisfaction as the dependent variable to test the effect of financial satisfaction and other explanatory and control variables on it.

To evaluate the mediation effect of financial satisfaction between inflation and life satisfaction, we utilise the Generalised Structural Equation Model (GSEM). We will create two models using two equations.

1. **Financial satisfaction** (mediator) as a function of inflation (main predictor) and control variables (Age, Sex, income level, marital status, education and Employment status)
2. **Life satisfaction**(outcome) as a function of inflation (main predictor), financial satisfaction(mediator) and control variables (Age, Sex, income level, marital status, education and Employment status)

$$FS_i = \beta_0 + \beta_1 * Inflation_i + \beta_2 * Age_i + \beta_3 * Sex_i + \beta_4 * Employment_i + \beta_5 * Income_i + \beta_6 * Marital_i + \beta_7 * Education_i + \epsilon_{1i}$$

$$LS_i = \gamma_0 + \gamma_1 * Inflation_i + \gamma_2 * FS_i + \gamma_3 * Age_i + \gamma_4 * Sex_i + \gamma_5 * Employment_i + \gamma_6 * Income_i + \gamma_7 * Marital_i + \gamma_8 * Education_i + \epsilon_{2i}$$

Financial satisfaction measured on a scale of 1 to 10 is an ordinal variable. We use a generalised structural equation model with an ordered logit model to estimate the results. Numerous scholars have debated that utilising an ordinal variable as a subjective well-being measure in an ordered logit model does not provide substantial outcomes (Ferrer-I-Carbonell & Frijters, 2004; Welsch, 2007). STATA is used for statistical estimation. As the mediating variable (FS) and outcome variable (SWB) in our research are ordinal in nature, so GSEM with order logit model is appropriate technique to deal with these types of outcome variables (Muthén, 1984) and Yip et al (2007) deployed the methodology of simple SEM, while investigating the mediating role of health amid social capital and happiness.

Results:

Descriptive statistics

Table 1 shows descriptive statistics of people in wave 7 for the years 2018 and 2019. The mean value of employment status is 1.47, indicating that a large share of respondents is near the lower levels of employment categories, such as unemployed or underemployed. The standard deviation value is 0.63, indicating comparatively low variation and suggesting that most people are clustered around the mean value. The mean value of marital status is 1.39, indicating that a large share of respondents is close to the lower end, such as married or cohabiting. The value of standard deviation is 0.64, indicating comparatively low variation and suggesting that most people are bunched around the mean value. The mean income level is 1.65, which is above the mean value, indicating a comparatively even distribution across income levels. The standard deviation is 0.60, indicating comparatively low variation and suggesting that most people are clustered around the mean value. The mean age is 42.89, indicating a middle-aged group of people. The standard deviation value is 16.11, indicating substantial variation in age, with

some people being much younger or older than the midpoint. The mean value of inflation is 3.98, presenting a neutral value and offering potential insights into average inflation. The value of standard deviation is 4.03, which shows high variation. It suggests that there is a substantial difference in inflation insights. The mean value of education is 1.46, which shows a low level of education. The value of standard deviation is 0.75, which shows moderate variation. It suggests that some individuals have a high level of education.

The mean value of sex is 0.55, which shows there are slightly more females. The value of the standard deviation is 0.55. The mean values of financial satisfaction and life satisfaction are 2.33 and 2.55, respectively, indicating that individuals are somewhat satisfied. The value of the standard deviation of financial satisfaction is 0.71, indicating a moderate level of satisfaction, and the value of the standard deviation for life satisfaction is 0.64, indicating moderate variations.

Table 1

Variables	Mean	Std. Dev
Fin_sat	2.33	0.71
Life_sat	2.55	0.64
Inflation	3.98	4.03
Sex	0.55	0.55
Age	42.89	1611
Marital status	1.39	0.64
Income group	1.65	0.60
Employment status	1.47	0.63
Education	1.46	0.75

Table 2

Variables	Coefficient	z	Prob.	Std.Error
Fin_sat				
Inflation	-0.061	-26.51	0.000	0.00231
Age	0.00063	0.95	0.34	0.00067
Sex				
Male	-0.003	-0.18	0.85	0.01907
Female	-0.025	-0.32	0.74	0.07871
Marital_status				
Previously married	0.228	10.04	0.000	0.02274
Never married	0.2629	7.42	0.000	0.03543
Employment_category				
Part-time/temporarily	0.0404	1.94	0.053	0.02087
Full-time/stable	-0.3820	-10.80	0.000	0.03537
Income_group				
Middle income	0.5875	30.79	0.000	0.01908
High income	1.8137	39.20	0.000	0.04627
Education group				

Medium education	-.0300	-1.14	0.253	0.026323
High education	-.13580	-4.85	0.000	0.028007
Life_sat				
Inflation	-0.0328	-12.61	0.000	0.0026
Age	0.0017	2.16	0.031	0.00078
Sex				
Male	0.0498	2.22	0.027	0.02250
Female	0.0206	0.22	0.825	0.09354
Marital_status				
Previously married	0.0670	2.48	0.013	0.0270
Never married	-0.025	-0.61	0.540	0.0498
Employment_category				
Part-time/temporarily	-0.0428	-1.74	0.082	0.02463
Full-time/stable	-0.1920	-4.77	0.000	0.0402
Income_group				
Middle income	0.543	1.49	0.137	0.02273
High income	0.033	9.64	0.000	0.0564
Education_group				
Medium education	-0.059	-1.92	0.055	0.0311
High education	-0.249	-7.73	0.000	0.0323
Fin_sat				
Neutral/somewhat satisfied	1.3838	45.57	0.000	0.03048
	3.286	94.49	0.000	0.03477
satisfied	3.2811	93.37	0.000	0.03514
Log likelihood	-76672.175			

Table 2 presents the outcomes of the generalised structural equation model for all the countries in the periods of 2018 and 2019. Thus, the model is used to analyse the association between different predictors and an ordinal outcome variable (in this case, Fin_sat, which likely indicates financial satisfaction on a scale from 0 to 10). Inflation has an inverse and significant impact on Financial satisfaction. In the first model, we see that a one-unit increase in inflation decreases financial satisfaction by 0.06. This means a high inflation rate is linked with lower satisfaction due to a fall in purchasing power or real income, and it will increase economic ambiguity. Our finding is consistent with the Lee et al (2023) and C.Oner (2023)

Sex:

The Coefficients for male and female are (-0.003, $p=0.85$) and (-0.25, $p=0.74$), respectively, indicating an inverse but insignificant impact on satisfaction. This means that there is no significant difference in satisfaction levels among males and females.

Age:

Financial satisfaction and age are positively related. A 1-year increase in age is linked with a 0.0006 increase in financial satisfaction, but this relationship is not significant. In this model, age has no meaningful effect on financial satisfaction and does not predict it. This means that older persons tend to be more financially satisfied due to various reasons like augmented life experience, financial stability, or a greater sense of

achievement. Other studies found a complex relationship between age and financial satisfaction.

Marital Status Group:

For previously married individuals, the coefficient is 0.22 ($p = 0.001$), representing a direct and significant impact on financial satisfaction. For those who have never married, the coefficient is 0.26 ($p = 0.001$), representing a direct and significant impact on financial satisfaction. This means that these groups are more financially satisfied compared to the reference group (currently married).

Employment Category:

For Part-time/Temporary, the coefficient is 0.04 ($p = 0.05$), representing a direct and significant impact on financial satisfaction. For full-time or stable, the coefficient is -0.38 ($p=0.001$), indicating an inverse and significant impact on financial satisfaction. This means that full-time workers tend to have lower satisfaction levels compared to the other group, potentially due to factors such as work-related strain, long hours, or restricted work-life balance. We can say that age, sex, part-time jobs and medium education are not significant predictors of financial satisfaction.

Income Group:

For middle income, the coefficient is 0.58 ($p = 0.001$), indicating a positive and significant impact on financial satisfaction. For high income, the coefficient is 1.81 ($p = 0.001$), indicating that people with a high level of income are more satisfied, potentially due to increased financial safety, improved living standards, or reduced stress. So, high-income and middle-income individuals are more financially satisfied than the reference group (low income)

Education:

For higher education, the coefficient is -0.13 ($p = 0.001$), representing a marginally substantial indirect effect on satisfaction compared to the reference group. For medium education, the coefficient is -0.03 ($p = 0.2$), demonstrating an insignificant and indirect impact on satisfaction. This means that people who have Higher

education levels are linked with lower financial satisfaction as compared to individuals who have low education, potentially because of their peer comparison who have better employment possibilities, higher incomes, or better-quality life and their higher expectation regarding their financial condition, which in turn leads to disappointment and stress. While higher education can lead to better employment opportunities, it does not mean students are satisfied with their jobs. They may not be financially satisfied if the job is unable to fulfil their high demand.

In the second model, we take life satisfaction as the dependent variable to see the impact of inflation, financial satisfaction and other control variables on life satisfaction. When the inflation rate rises by one unit, life satisfaction decreases by 0.03. This means a high inflation rate is linked with lower financial satisfaction due to a fall in purchasing power or real income, and it will increase economic ambiguity. Inflation will erode purchasing power, decrease the value of savings, and increase financial stress, which will lead to lower life satisfaction. Our finding is consistent with that of Lee et al. (2023) and C. Oner (2023). Inflation directly and negatively affects life satisfaction. This impact is minor compared to its impact on financial satisfaction.

Sex:

The coefficients for male and female are (0.04, $p=0.02$) and (0.02, $p=0.8$), respectively, indicating a positive impact on life satisfaction. This means that females are more satisfied with life compared to males because they have a strong network of social connections that enhances their satisfaction. They may be more likely to cultivate and prioritise relationships, enabling them to find joy and fulfilment in their lives.

Age:

Life satisfaction and age are positively related. A 1-year increase in age is linked with a 0.001 increase in life satisfaction. In this model, age has a meaningful effect on life satisfaction and predicts it. This means that older persons tend to be more satisfied due to various reasons like augmented life experience, financial stability, or a greater sense of

achievement. Other studies found a complex relationship between age and life satisfaction.

Marital Status Group:

For previously married individuals, the coefficient is 0.06 ($p = 0.01$), representing a direct and significant impact on life satisfaction compared to the reference group (currently married). This suggests that previously married groups have developed coping tactics, and they have leverage to control their finances so they feel financially stable and delighted with their life. For those who have never married, the coefficient is -0.02 ($p = 0.54$), representing an indirect and insignificant impact on life satisfaction. This means that the reference group is experiencing relationship stress, challenges and conflicts.

Employment Category:

For Part-time/Temporary, the coefficient is -0.04 ($p = 0.08$), representing an indirect and insignificant impact on life satisfaction. For full-time or stable, the coefficient is -0.19 ($p = 0.001$), indicating an inverse and significant impact on life satisfaction. This means that full-time workers tend to have lower satisfaction levels compared to the other group, potentially due to reasons like work-related strain, long hours, restricted work-life balance and limited flexibility and autonomy.

Income Group:

For middle income, the coefficient is 0.03 ($p = 0.13$), indicating a positive and insignificant impact on life satisfaction. For high income, the coefficient is 0.54 ($p = 0.001$), indicating that people with a high level of income are more satisfied, potentially due to increased financial safety, improved living standards, or reduced stress. The high-income group is more financially satisfied than the reference group (low income).

Education:

For higher education, the coefficient is -0.25 ($p = 0.001$), representing a marginally substantial indirect effect on life satisfaction compared to the reference group. For medium education, the coefficient is -0.05 ($p = 0.05$), demonstrating a significant and indirect impact on life satisfaction. This means that people who have Higher

education levels are linked with lower financial satisfaction as compared to individuals who have low education, potentially because of their peer comparison who have better employment possibilities, higher incomes, or better-quality life and their higher expectation regarding their financial condition, which in turn leads to disappointment and stress.

Financial satisfaction:

For neutral/somewhat satisfied, the coefficient is 1.38 ($p = 0.000$), indicating that financial satisfaction has a powerful and significant impact on life satisfaction and confirming its mediation path. For satisfaction, the coefficient is 3.2 ($p = 0.000$), showing that financial satisfaction is positively and significantly linked with life satisfaction. This outcome suggests that individuals who are more financially stable tend to have more life satisfaction. This association is expected, as financially stable people are free from stress and uncertainty, which in turn leads to improved well-being. The substantial impact of financial satisfaction on life satisfaction highlights the significance of subjective well-being.

Discussion:

Everyone desires to be happy and satisfied with their financial situation. Policymakers are concerned with recognising the factors of subjective well-being and tracking strategies that maximise people's happiness and life satisfaction. Every country tries to attain a higher standard of living and economic progress while keeping prices constant and providing sustainable employment opportunities. Financial satisfaction is used as a strong proxy of subjective well-being. The association between macroeconomic measures and people's financial satisfaction has not been widely explored. However, many fiscal, radical, and social issues have increased after COVID-19, which restrict our consideration of the macroeconomic influence on people's financial and life satisfaction. To gain a deeper understanding, this paper has examined the association between financial satisfaction and macroeconomic performance for all countries in 2018 and 2019. Overall, the outcomes suggest that many factors, such as inflation, education, age,

marital status, income, and employment category, influence satisfaction. The findings can help inform policies or interventions aimed at improving satisfaction. Our findings are consistent with the hypothesis claim on the relationship between financial satisfaction and inflation.

The results of our paper are consistent with previous studies. However, subjective well-being is a multifaceted notion and cannot be interpreted solely based on people's financial satisfaction. Financial success cannot directly satisfy people's needs, but it indirectly enhances satisfaction by enabling the purchase of calculated goods (Ryan & Deci, 2000). The adverse relationship with inflation suggests that economic development, price stability, and strong labour markets can fulfil the financial needs of the people. However, well-being is not attained solely through financial means but also through other enduring desires like self-acceptance and connection (Coccia, 2019). Society should reassure people by promoting their inherent interests to completely attain their well-being and economic performance, which provides financial recompense.

Our study reveals that certain socioeconomic and demographic groups are more susceptible to the impact of macroeconomic performance on financial satisfaction. These groups include young adults, low-income individuals, married/cohabiting couples, highly educated individuals, and full-time employees. Notably, the financial satisfaction of these groups is more likely to be influenced by changes in macroeconomic measures. Interestingly, while previous research suggests that females tend to be happier than males (Blanchflower & Oswald, 2000; DiTella et al, 2003), our study finds that males' life satisfaction is more closely tied to macroeconomic performance than females'.

Adapting to inflation is a challenge that affects people across income levels, but particularly those with restricted financial flexibility. People employ a mixture of behavioural, psychological, and structural coping policies to maintain their financial well-being when experiencing an inflationary environment.

People will adjust their spending by switching to inexpensive brands or goods. They delay their

expenditures on luxury items or buy products at discount stores. They also tighten their budget to maintain control by adopting weak budgeting strategies during inflation. This provides evidence that low-income groups have fewer substitution options, so inflation has a direct impact on their well-being.

By employing income strategies, they increase their income by taking on side jobs or seeking better opportunities. They also increase their incomes by selling homemade items or used products. Their spouse also joins the workforce to increase their budget. This implies an increase in labour supply during inflation, but also a decrease in leisure time and an increase in stress. They also utilise strategies to preserve financial value by shifting their savings, which can lead to potential exposure to riskier assets. They seek government help for immediate relief by participating in an income support program. They engage in religious activities, which can buffer mental stress.

Expectations and insights of future inflation play a critical mental and behavioural role in shaping present life satisfaction. This aligns with ideas from economic psychology, behavioural economics and expectation theory. If people expect prices to rise, they may experience stress, anxiety, or desperation even if they are coping financially at this time. This leads to poor life satisfaction due to ambiguity and a deficiency of control. Inflation expectations make people less likely to save or invest for the future. This deteriorates life purpose and goal-oriented conduct, which are key predictors of life satisfaction. Forestalling future price treks, they can over-consume now or postpone significant decisions (housing, family planning). If people believe inflation will continue to rise or fall, they will lose trust in the government, financial systems, and the future. This cynicism may reduce social capital and civic engagement, which are related to well-being. OECD and Eurobarometer research showed that perceived inflation has a stronger association with life satisfaction than actual inflation. In their study, Clark et al. (2008) found that perceptions of personal monetary prospects were more prognostic of well-being than income or employment alone. Deaton (2012) showed that during international inflation spikes,

expectations of protracted inflation forecasted piercing drops in subjective well-being. Low-income groups are more concerned and scared of future price hikes. Older adults with fixed incomes are susceptible to sustained inflation. Young adults are more concerned about future affordability (housing, education). Parents worry about their children's future costs (education, food). Continuous headlines about inflation amplify fear and shape insights. Even slight inflation can feel severe if people trust that it is out of control. Social media and radical narratives can misrepresent expectations, affecting mood and satisfaction. It may enhance the psychological burden. According to the expectation-disconfirmation theory, people are not satisfied when results fall short of expectations, even if those results are objectively okay. In accordance with Adaptive Expectations, people adjust expectations gradually based on past inflation, so continuing pessimism can dampen satisfaction even after inflation subsides.

We summarise our results by showing that inflation indirectly and significantly influences both financial and life satisfaction, but the impact on life satisfaction is less than on financial satisfaction. This suggests that the indirect impact of inflation on life satisfaction, via financial satisfaction, is likely more substantial than the direct impact. So, inflation has a significant and adverse impact on both life satisfaction and financial satisfaction. However, the strongest pathway is indirect impact via financial satisfaction, which is a major driver of life satisfaction. Age has a small and insignificant impact on financial satisfaction, but it has a direct, small and significant impact on life satisfaction. Older individuals are more satisfied with their lives, but age does not significantly affect financial satisfaction. Gender has a small impact, but males tend to be more satisfied with their lives. Previously married individuals report higher financial and life satisfaction, whereas never-married individuals are financially satisfied but not life-satisfied. We found an unexpected result: full-time employees are linked with lower satisfaction in each domain. Higher income is the most substantial and direct predictor of financial and life satisfaction. While middle income does

not significantly affect life satisfaction, this group is more financially satisfied than the low-income group. Full-time employees showed lower financial and life satisfaction. Financial satisfaction has a substantial impact on life satisfaction.

Conclusions:

A generalised structural equation model (GSEM) was estimated to examine the determinants of financial satisfaction and life satisfaction. The model included two ordered logistic regression equations: one predicting financial satisfaction and the other predicting life satisfaction. Both equations included individual-level covariates such as perceived inflation, age, gender, marital status, employment status, income level, and education level. The second equation additionally included financial satisfaction as a forecaster of life satisfaction. The analysis was based on a sample of 45,073 individuals. This study highlights the central role of financial satisfaction in shaping overall life satisfaction. Traditional economic policies that focus solely on employment or income may overlook critical subjective outcomes that influence public well-being. Policymakers should adopt a broader, people-centred approach that includes subjective financial well-being as a core objective.

The first part of the model assessed the impact of socio-economic and demographic factors on individuals' financial satisfaction. Perceived inflation was negatively associated with financial satisfaction, indicating that individuals who reported higher inflation also reported lower financial satisfaction. Income level was the strongest predictor, with middle-income individuals reporting higher satisfaction than the low-income group, and high-income individuals reporting even higher satisfaction. Marital status was also significant, as both previously married and never married individuals reported higher financial satisfaction compared to currently married individuals. Employment status had mixed effects. Being in full-time/stable employment was significantly associated with lower financial satisfaction, while part-time/temporary employment showed a marginally significant positive effect. Education was negatively associated with financial satisfaction.

Individuals with medium and high education levels reported lower financial satisfaction than those with low education. Neither age nor sex showed a significant effect in this equation.

In the second part of the model, life satisfaction was predicted by the same covariates as the first model, along with financial satisfaction as an additional predictor. Financial satisfaction emerged as the strongest determinant of life satisfaction. Compared to individuals who were dissatisfied, those who reported being somewhat satisfied or neutral showed significantly higher life satisfaction, while those who were satisfied had an even more substantial effect. Inflation continued to have an adverse effect, but its impact was less significant than that of the financial satisfaction variable. Higher income was also positively associated with life satisfaction. Middle-income and high-income individuals reported greater satisfaction. Age and being female were modest but statistically significant positive predictors. Similar to the financial satisfaction equation, education was negatively associated with life satisfaction. Individuals with medium and high education levels reported lower life satisfaction than those with low education. Employment in full-time/stable positions was negatively associated with life satisfaction, while part-time/temporary employment also showed a small but significant adverse effect. Marital status was not significantly associated with life satisfaction at the conventional levels.

These results indicate that financial satisfaction plays a central role in shaping overall life satisfaction, even after accounting for key socio-demographic and economic variables. Income level is a strong predictor of both financial and life satisfaction, while inflation has a consistent adverse effect on both outcomes. Interestingly, individuals with higher education levels reported lower satisfaction, which may reflect higher expectations or job-related stress. Moreover, full-time employment, typically considered a marker of economic stability, was negatively associated with both financial and life satisfaction, potentially due to work-life imbalance or job-related pressures.

Policy recommendations:

Rising prices make people feel less satisfied with their finances and life. Governments should make sure benefits and wages go up when prices do. It should help low- and middle-income families afford basics like food, fuel, and rent and support people with low or middle incomes. People with higher incomes feel more satisfied with their finances and life. The government should offer tax breaks or direct payments to help low- and middle-income families. People with more education often feel less satisfied with their finances and life, possibly because of high expectations or job stress. It should help college graduates in finding good jobs that match their skills. Offer support for career changes and mental health after graduation. Having a full-time job does not always mean people feel better about money or life. In fact, full-time workers reported lower satisfaction. Encourage work-life balance (like flexible hours or working from home). Make sure jobs are not just stable but also healthy and fair. Whether someone is married or not does not have a significant effect on life satisfaction. Policies should support everyone—single people, couples, or other family types. People's feelings about their finances strongly affect their overall happiness. Track how people feel about their money, not just their income. Teach financial skills and provide tools to help people manage money better.

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