

The Estimation of Job Satisfaction with Endogenous Income

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This paper investigates the estimation of job satisfaction in the presence of income endogeneity. The paper starts with an explanation of how endogeneity may lead to inconsistent estimates in this context. An endogeneity test is presented and applied to show highly significant consistency problems. The paper uses Instrumental Variables in order to tackle the problem of income endogeneity. Several functional forms are tried out for income, the quadratic one found to be satisfactory. A new definition of Comparison Income is proposed and tried out. The paper shows that both absolute and relative levels of income play a crucial role in the determination of how satisfied employees state they are with their jobs. The paper uses data from the 6th wave of the European Community Household.