Answers to referee No. 2

I'd like to thank the referee for the useful comments. See below the answers to the referee's comments about the paper main weaknesses.

1) I followed the referee suggestion to better detail the contribution of the paper (see p. 2 at the bottom). Note that the main contribution of the paper is the positive relationship between well-being and inequality. In facts, the opposite finding is generically suggested by the literature.

2) I followed the referee suggestions to improve the description of the methodology (in particular, why we use a random effects ordered probit model). See Section 3, pp. 6. Explanations about the "Mundlak correction" and the linear fixed model are also given in Section 3, last paragraph.

3) The referee argues that the paper fails at explaining how wage inequality is actually introduced in the estimation. In Section 3 (p. 5), the paper explains that in a large population with wage distribution F(.), Eq. 1 can be written as Eq. 2.

Eq. 1: $U_{ik}^* = U^*(w_{ik}, w_{-ik}) = w_{ik} + (\alpha/n-1) \sum_{wjk>wik} (w_{jk} - w_{ik}) + (\beta/n-1) \sum_{wjk<wik} (w_{ik} - w_{jk})$

Eq. 2: $U_{ik}^* = U^*(w_{ik}, w_{-ik}) = w_{ik} + \beta (w_{ik} - \mu_{wk}) + (\alpha+\beta) R(w_{ik})$

where $R(w_{ik})$ is the measure of relative deprivation introduced by Yitzahaki (1979). $R(w_{ik})$ gives information on wage equality/inequality. If $(\alpha+\beta)<0$, then an individual will have higher utility in more equal establishments (even keeping their own wage constant). If $(\alpha+\beta)>0$, then great intra-establishment wage inequality leads, on average, to high utility. Therefore, it is possible to estimate Eq. 1 (i.e. to estimate α and β) and draw conclusions about the relationship between well-being and wage inequality. It is not necessary to estimate Eq. 2. This last step can be better explained in the paper and, therefore, the referee is right. A detailed explanation has been added (see p. 6, second paragraph). In table 2, the word "envy" ("pride") has been substitute with the words " upward comparisons" ("downward comparisons").

4) The referee argues that "the paper makes very little discussion on the evidence for Britain and elsewhere in other developed countries on its main results". In the paper, we compare our finding with the literature. New references have been added. See below:

(i) "Evidence of upward and downward comparisons is consistent with results in the literature (e.g. Ferrer-i-Carbonell, 2005; Wunder and Schwarze, 2006; Card et al., 2001). But, our results are different from the findings of previous literature because we find that...." (Section 5); we decide to support this sentence with three relevant references (the last one has been added during the revision), however other references could be added if necessary.

(ii) [about the positive relation between satisfaction and wage inequality] "the opposite finding is generically suggested by the literature"(Section 6); this is the novel result of the paper, section 6 discusses it. A reference (Pfeffer and Langton, 1993) has been added.

(iii) [about Mundlak term] "This result is consistent with the findings of Clark et al. (2009)" (section 5).