

Response:

Thank you for your comments on our paper, they are much appreciated. We believe that our critique and this subsequent interchange may be of interest to researchers considering how best to analyse the determinants of subjective wellbeing using panel data; in particular, in considering their approach to dynamic estimation. Hence, our rejoinder to the three major comments above.

1. Our concern is not to replicate the study of Frijters et al. (2014) but, rather, to share concerns about their approach to dynamic estimation. Our critique is to do with methodology, not datasets.
2. This comment begins: “The use of OLS with lagged explanatory variables is criticized since it biases the results, and the use of system GMM is suggested. Since Frijters et al. additionally estimate adult life satisfaction with system GMM, the first concern seems to be resolved already.” We have two responses, which together constitute the core of our critique.
 - a. If OLS estimation is not valid then these results do not contribute much (except, perhaps, as a baseline comparison). Worse, OLS estimates may be misleading. If system GMM is the appropriate method of estimation, then it should be the preferred and not merely a supplementary approach.
 - b. We are in agreement that “the second concern stays valid since there is no explanation in Frijters et al. (2014), either qualitative or quantitative, on the instruments used in system GMM.” The use by Frijters et al. (2014) of system GMM is not an alternative to their use of OLS: firstly, because the model they estimate by GMM is quite different from the model they estimate by OLS (it is, instead, a simple autoregressive model with individual fixed-effects); and, secondly, because in the absence of diagnostic testing and information on choice of lags, readers have no assurance as to the statistical validity of the model estimated.

In short, OLS estimation is not appropriate for the authors’ model, while their GMM estimates may not be valid and in any case do not address their main interests.

3. In response to the request for examples on “how the econometric issues raised about Frijters et al. apply to other contexts”, we note that the “uptake” of dynamic panel modelling has been uneven both within economics and across other (quantitative) social science disciplines. In areas with a tradition of dynamic panel models, the points we make are routine. For example, in education policy research recently published by *School Effectiveness and School Improvement* and the *British Educational Research Journal*, papers using difference and/or system GMM estimation have fully and intuitively explained the implementation of these methods together with full reporting of the standard diagnostics and issues surrounding the choice of instruments and so forth (Mangan, et al. 2005; Pugh et al., 2011; and Pugh et al., 2014). In contrast, the “economics of happiness” literature may be somewhat lagging in this respect.

Thanks for minor comment 1. A revised version will make this change. As for minor comment 2, as mentioned above, the point is not to replicate the work of Frijters et al. (2014) but instead to comment on the methodology.

For readers considering dynamic estimation to analyse the determinants of subjective wellbeing using panel data, we recommend the following papers to become acquainted with the current state-of-the-art: Roodman (2009a); and Roodman (2009b). David Roodman is the author of *xtabond2* (a user-written programme for Stata), which – to the authors’ knowledge – is the best available programme for estimating dynamic models using “wide-N, short-T” panels.

References

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Roodman, D. (2009b) A Note on the Theme of Too Many Instruments. *Oxford Bulletin of Economics and Statistics*, 71: 135–158. DOI: 10.1111/j.1468-0084.2008.00542.x