

Economic recovery is stronger in states where people are more optimistic: study

May 25 2011

Economic recessions are weaker, expansions are stronger, and economic recovery is faster in U.S. states where people are more optimistic says a new study from the University of Miami School of Business Administration. Further, the effects are stronger in states where people are older, less educated and less socially connected.

"Previous studies have shown that [economic conditions](#) affect [mood](#) – people would expect this, it's more obvious," said Alok Kumar, the Gabelli Asset Management Professor of Finance at the University of Miami School of Business and one of the study's researchers. "Our study is unique in that it shows, for the first time, that mood and optimism can directly affect overall [economic activity](#)."

In order to determine the link between mood and economic conditions, Kumar, along with Vidhi Chhaochharia and George Korniotis, assistant professors of finance, used several factors to measure mood, optimism and pessimism not influenced by the economic environment. The factors are:

- Weather: Average temperature and cloud cover. Sunny weather triggers the release of serotonin in the brain that causes people to be more alert and cheerful. The opposite is true for bad weather because it releases melatonin that makes people feel tired and down.

- **Political Affiliation and Climate:**
The level of optimism is greater in a region where the local population favors the political parties in power.
- **Sports-Related Optimism:**
People are likely to be more optimistic if their local sports teams have performed well (e.g., wins the Super Bowl or World Series.)

With these factors in mind, the researchers then studied how mood in a U.S. state affects local economic activity. To measure local economic performance, they created a novel index based on state housing conditions, the difference between state unemployment and national unemployment, and income growth. Here are the key findings:

- Peoples' overall good mood and positive outlook can make the impact of a recession weaker, shorter in length and easier to get over.
- Moderate optimism induced by the weather is good for the local economy. A state that is 10 degrees warmer experiences increased economic activity that, on average, is 26 percent stronger. It also experiences recessions that are, on average, 33 percent weaker.
- Mood affects local economic activity in part because it leads to higher retail sales.

These results are surprising because they imply that the economy is affected by non-economic, psychological factors. In an ideal world, mood, would not affect economic activity and retail sales because consumers would only spend more when their income was on the rise versus because the weather is pleasant.

- The impact of mood on economic activity is greater in states where people are older, less educated, less socially connected and therefore more prone to the psychological effects of mood.

"One policy implication of our study is that the development of sports-related infrastructures, like new sports stadiums or other factors that could effect the performance of local sports teams, is certainly something to consider as a way to make a real impact on a local economy for a relatively low cost," said Kumar.

Provided by University of Miami

Citation: Economic recovery is stronger in states where people are more optimistic: study (2011, May 25) retrieved 25 April 2024 from <https://phys.org/news/2011-05-economic-recovery-stronger-states-people.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.