

EXPERIENCED UTILITY IN A NICARAGUAN VILLAGE

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ABSTRACT

The concept of utility employed in theory of standard economics, decision utility, involves an ordinal ranking of individuals' preferences inferred from their behavior. Some economists argue that this concept is an incomplete method of evaluating the value people place on commodities and their subsequent behavior. An alternate concept of utility, named experienced utility by D. Kahneman, has been developed utilizing the early ideas of Jeremy Bentham, in which utility is a cardinally measurable and interpersonally comparable entity equated with an individual's level of reported subjective well-being. My research investigates the concept of experienced utility in the context of development by measuring subjective well-being of residents in a Nicaraguan village. A micro-econometric well-being function is estimated to test the relationship with well-being of three classes of human characteristics: social/demographic/economic, problem intensities, and leisure activities. The research finds a large influence of non-monetary variables on well-being, namely good health, feeling love and acceptance from family and community, daily participation in a sports activity, playing a musical instrument on a daily basis, and composing original music. These findings coincide with the Capability Approach to development which advocates that development is best evaluated on broad terms by considering all factors which affect human well-being, rather than only on narrow terms of income growth. This research concludes that by focusing development on human well-being and by nurturing those human qualities which are shown to influence well-being, Nicaragua can avoid many of the problems faced by a modern society as it approaches material saturation. The standard idea of increasing per capita

income appears to be only a part of the larger set of factors upon which development rests, such as the freedom to express oneself emotionally and participate in constructive leisure. This research finds that the two variables most highly related with well-being are participation in a musical or sports activity. One example of how the Capability Approach to development can be practiced is by facilitating such leisure activities in society alongside growth in personal incomes.