

Section 7: Personality and Economics

One consequence of stable personality differences between people is the potential for differences in behaviour to be predictable within individuals across wide sets of environments and also for different people to function differently in different environments. The so-called 'Big Five' personality traits are the most widely studied - Conscientiousness, Neuroticism, Agreeableness, Openness and Extraversion.

The effect of personality traits

Personality measures can [predict](#) a variety of economic outcomes. Conscientiousness and openness are strongly related to years of schooling attained. Conscientiousness alone is a strong predictor of grades attained in school, the associated mediated by positive study habits and attitudes and effort in the classroom. Openness is also important for attendance and course difficulty during education. Of the Big Five, conscientiousness and traits associated with neuroticism ([locus of control](#) and self-esteem) play an important role in predicting job performance and wages. However, it is important to note that personality traits are more important for people with lower job complexity or education, whereas cognitive ability (intelligence) is more important at higher levels of complexity.

Personality may also have strong implication for how people adapt to economic shocks and different environmental circumstances. [Boyce et al show](#) that conscientiousness moderates the impact of unemployment on life satisfaction and have shown a number of other interactions of personality with well-being. Individuals high in neuroticism and conscientiousness have stronger preferences for maintaining the status quo while those high in openness have weaker.

A key potential link between economics and psychology is the use of personality scales to understand how different types of people react to different types of policy. Many policies described as Nudges may not be effective for people who are high in different personality traits.

Development of personality and public policy

The extent to which childhood conditions shape personality has become a central concern driven in large measure by the pioneering interdisciplinary of Economics Nobel Laureate [James Heckman](#). In a prodigious body of work, Heckman has argued that aspects of the early environment shape the development of cognitive and non-cognitive traits in ways that fundamentally shape life-time outcomes. Through large-scale statistical analysis of cohort studies and reanalysis of famous experimental child development study, Heckman and colleagues have showed that non-cognitive traits can be influenced positively by enriching early environments. [Here](#) is a video of Heckman explaining his work.

As well as non-cognitive a recent body of literature has also examined the extent to which the development of mental health in childhood and adolescence influences economic outcomes throughout life. [Richard Layard](#) has described this as a *frontier of labour economics* arguing that mental health should be viewed as an important factor of production. The extent to which mental health might be a direct source of intervention for the promotion of important economic outcomes is obviously an area replete with philosophical difficulties but the empirical evidence has proliferated making this an increasingly important debate.

Personality and behavioural economics

In summary, personality may be key for behavioural economics. It provides a conceptual toolkit for understanding the interaction between individual differences and the economic environment that is currently lacking in much behavioural work. Individual differences in decision-making capabilities may allow us to understand to a greater degree why some people conform to traditional economic assumptions more so than others.

Readings

Almlund, Duckworth, Heckman, & Kautz (2011), [Personality Psychology and Economics](#), IZA Discussion Papers

Becker, Deckers, Dohmen, Falk & Kosse (2012), [The Relationship Between Economic Preferences and Psychological Personality Measures](#), IZA Discussion Paper

Borghans, Duckworth, Heckman & ter Weel (2008), [The Economics and Psychology of Personality Traits](#), Journal of Human Resources

Borghans, Golsteyn, Heckman & Humphries (2011), [Identification Problems in Personality Psychology](#), IZA Discussion Papers

Boyce, C., Czajkowski, M., & Hanley, N. (2019). Personality and economic choices. Journal of Environmental Economics and Management, 94, 82–100. <https://doi.org/10.1016/j.jeem.2018.12.004>

Daly, Delaney & Harmon (2009), [Psychological and Biological Foundations of Time Preference](#), Journal of the European Economic Association

Heckman (2011), [Integrating Personality Psychology into Economics](#), NBER Working Papers

Anderson, Burks, DeYoung & Rustichini (2011), [Toward the Integration of Personality Theory and Decision Theory in the Explanation of Economic Behavior](#), Working Paper