February 2020

Is It All in Your Head? How Your Beliefs About Money Influence Your Financial Behavior

Patricia T. Gouveia
Florida International University, ptorr067@fiu.edu

Is It All in Your Head? How Your Beliefs About Money Influence Your Financial Behavior

Patricia T. Gouveia
Florida International University

ABSTRACT

Research suggests that many consumers struggle with financial decision making. According to the Federal Reserve (2018), Americans accumulated a staggering $1.027 trillion in revolving credit in 2017 and one-quarter of the non-retired population reported having no retirement savings or pensions. This data underscores the importance of academic research that sheds light on the factors that might impact consumer financial behavior, such as savings, investing and budgeting. To fulfill this goal, the present research examines how expectations of social mobility affect consumers' financial-related behavior. We explore the mediating role of financial self-efficacy and the moderating role of financial literacy within the expectancy to behavior relationship.

The current literature in financial decision-making relies mainly on cues that are related to the self (e.g. if one is already in debt (Wilcox, Block, & Eisenstein, 2011), one's depletion state (Vohs & Faber, 2007), and self-consciousness about one's body image (Romero & Craig, 2017) to explain financial behavior. Furthermore, past research examines financial behavior mainly from a goal pursuit perspective including strategies to increase savings (Ülkümen & Cheema, 2011) and debt repayment (Kettle, Trudel, Blanchard, & Häubl, 2016). This perspective does not address the antecedents of financial behavior independent of a particular goal. More importantly, how factors unrelated to the self (such as social economic status) impact financial decision making remains unexplored. Within the context of consumption, the theory of cultural capital (Bourdieu, 1984) is employed to demonstrate how social class and consumption patterns are connected (Holt, 1997, 1998). Building upon this connection, Henry (2005) identifies that social class impacts self-perceptions and guides financial choices, influencing behaviors such as budgeting and investing. Expectancy theory proposes a link between expectancy and behavior in several contexts (e.g.: education, gender and race stereotypes). As such, it stands to reason that one's expectations regarding the possibility to change (ascend or descend) social class, namely social mobility, could also impact the self and consumer financial behavior as a trickle-down effect.

Lay beliefs about social mobility consist of the assumption that hard work leads to success and social affirmation (Alesina & La Ferrara, 2005; Bjornskov *et al.*, 2013; Corneo & Grüner, 2002) and it is the main principle of the American Dream (Adams, 1931).

We report three studies to test the hypothesis about the influence of social mobility expectations on financial behavior intentions, the suggested underlying mechanisms (financial self-efficacy) and suggested moderating variable (financial literacy). Experiment 1A (n=104) and 1B (n=130) examined whether participants assigned to the high social mobility vs. low condition (manipulated on study 1A and measured on study 1B) would present higher intentions to save money. Findings revealed that those in the high social mobility condition presented higher intentions to save (1A, M=72.20; 1B, M=64.37) than those in the low social mobility condition (1A, M=53.64; 1B, M=32.14), and the differences were significant (1A, F=5.89 $P<.05$; 1B, F=8.74 $P<.05$); these results support H1.

Experiment 2 investigated whether social mobility expectations impacted savings intentions and spending preferences. This study sought to validate the suggested underlying mechanism for the effect detected on experiments 1A and 1B, as well as the moderating role of financial literacy. Results demonstrated that participants assigned to the high social mobility condition presented more conservative spending preferences (M=2.68) than those in the low social mobility condition (M=-.33); these results support H1. Moderation analysis was conducted using PROCESS Macro 1 (Hayes, 2018). Results revealed a main effect of social mobility expectation ($t= 6.21$, $p<.05$). Moreover, the interaction of social mobility expectation x financial literacy was significant ($t= -8.15$, $p<.05$). Flood analysis reveals that a p-value of .05 for financial literacy occurs at a value of 6.75. Above this level, the effect of social mobility expectations on savings intention is non-significant. Within the range of statistically significant effects, when consumers' expectancy of social mobility is low, financial literacy mitigates these negative effects on behavior intentions; these results support H2. Mediation analysis (PROCESS Macro 4. Hayes, 2018) revealed financial self-efficacy as a mediator, as the 95% confidence interval excludes zero (-25.69, -10.1). Controlling for financial self-efficacy, the direct effect of social mobility expectations (IV) on savings intentions (DV) is non-significant ($p>.05$) and is confirmed by the 95% confidence interval (-17.98, 5.1) which includes zero. Further, we sought to test whether social mobility expectations impact savings intentions through financial self-efficacy and if this relationship is moderated by financial literacy. Moderated-mediation analysis (PROCESS Macro 8. Hayes 2018) depicted a significant moderated-mediation model ($F=12.22$, $p<.05$, $R2=.46$). Additionally, the index of moderated-mediation is significant (index = -1.63, SE = .88), which is confirmed by the 95% confidence interval (-3.66, -.21); these results support H3.

An implication of this research is that it bridges expectancy and self-efficacy theories within the context of financial behavior. According to Hung, Parker and Young (2009) research on the antecedents of financial behavior is lacking. This research also silos in expectancy theory, as follows: Self-Expectancy has been linked to behavior in a myriad of contexts (e.g.: education Croizet and Claire 1998; Rosenthal and Jacobson 1968) the military (Eden & Ravid, 1982) job interviews (Word, Zanna, & Cooper, 1968) race stereotypes (Steele and Aronson, 1995; Stone *et al.*, 1999) workplace relationships (Eden & Ravid, 1982) and gender stereotype (Kray, Galinsky and Thompson, 2002). We build on this work by illuminating the underlying motivation for why those with positive (negative) expectations engage in behavior convergently with the expectation's valence. Specifically, we suggest that a change in financial self-efficacy is the underlying mechanism within the social mobility expectancy to financial behavior relationship.

The current literature is conflicting about the role of financial literacy within financial behavior; whereas some authors found evidence of its significant influence (Bayer, Bernheim and Scholz, 2009), others have deemed it of secondary concern (Duflo & Saez, 2003). According to Hung *et al.* (2009), these conflicting findings derive from the lack of research linking financial literacy and behavior. This research addresses this gap by investigating the role of financial literacy within the context of behavioral and financial decision-making.

ABOUT THE AUTHORS

Patricia Torres Gouveia is a PhD candidate at Florida International University. Her research interests include consumer financial behavior and decision making, goal pursuit and motivation, culture and branding. Patricia has presented her work at the Association for Marketing Theory and Practice.