Understanding Why Temporally Myopic People Have More Credit Card Debt: Two Complementary Explanations

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Past research has shown that consideration of future consequences (CFC) may influence financial decision making. The present research examines whether individual differences in CFC predict actual credit card debt and attraction to credit card offers. Study 1 revealed that individuals high in concern with immediate consequences were more likely have higher credit card debt and that compulsive buying fully mediated this effect. Study 2 revealed that individuals concerned with immediate consequences were more attracted to a credit card offer that promised an immediate reward but a high interest rate.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/14179/volumes/v36/NA-36

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with the different types of relationships employed in transactions with the focal firm. Although our findings emerge from a particular context, the theoretical implications of this study have broad applicability for consumer research.

References


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Given the growing trend toward large credit card balances and confusion as to what types of information influence consumers’ perceptions of credit card offers, it is important to examine predictors of credit card debt and how consumers process and utilize financial information on credit card offers. In the present paper, we focus on the role of one theoretically-relevant individual difference variable, the consideration of future consequences (CFC; Strathman et al. 1994). Individuals high in CFC are more likely to engage in a variety of personally-beneficial behaviors (for a review, see Joireman, Strathman, and Balliet 2006), and recent research has demonstrated that CFC can influence certain types of financial decisions (Joireman, Sprott, and Spangenberg 2005). While theory suggests a link between CFC and credit cards, no studies to date have not directly examined the relationship between CFC and actual credit card debt. We address this issue in the current research and also explore why CFC predicts credit card debt. In short, we focus on two possible explanations: first, CFC may predict compulsive buying which in turn predicts credit card debt; second, CFC may predict attraction to credit card offers, especially those promising immediate rewards (e.g., a $50 gift card after one first purchase). In what follows, we briefly review work on CFC and fiscal responsibility, develop our hypotheses, and report two studies testing these hypotheses. We discuss the implications of our findings for both theory and practice.

Study 1
In Study 2, 84 participants completed the diagnostic screener for compulsive buying (DSCB; Faber and O’Guinn 1992), the CFC scale (Strathman et al. 1994), and reported their credit card debt. Originally, the CFC scale was reported to have a single underlying factor (Strathman et al. 1994). Recent research, however, suggests that the scale may contain two subscales, one comprised of the future-oriented items, which we will call CFC-Future, the other comprised of the immediate-oriented items, which we will call CFC-Immediate (Petrocelli, Brown, Jacqueline Johnson and Peter H. Reingan 1987). Most Often Use Networks, for What Kinds of Purchases Do People Most Often Use Networks? American Sociological Review, 63, 619-637.
Advances in Consumer Research (Volume 36) / 881

Consistent with a full mediation model, the relationship between CFC-I and credit card debt became non-significant (r=-.04, p=.74) when compulsive buying was entered into the model (Baron & Kenny 1986). A Sobel (1982) test further confirmed that the reduction in the relationship between CFC-I and credit card debt was significant (z=3.63, p<.001). In summary, findings offer support for H2-H3 and partial support for H1.

Study 2

The goal of Study 2 was to evaluate whether those concerned with the immediate consequences of their actions would be more attracted to credit card offers that promised immediate rewards but implied long-term losses (i.e., through an extremely high interest rate). In Study 2, 145 participants participated in a 2 (temporal frame) X 2 (CFC) between-subjects experiment. The temporal frame of the offer was manipulated by altering the terms of the credit card offer; future orientation was a measured variable. For the temporal frame manipulation, participants were randomly assigned to one of two conditions. Participants assigned to the “short term gain / long term loss” framing condition or a “short term loss / long term gain” condition. We held constant the monetary benefits of the two credit card offers. After reading the credit card offer, participants indicated how likely they would be to apply for the credit card.

The analysis using the CFC-Immediate scale revealed a marginally significant main effect of condition F(1, 142)=2.88, p=.09, as well as a marginally significant interaction between CFC-Immediate and condition, F(1, 142)=2.77, p=.10. Follow-up analyses were run within each level of CFC-Immediate and within each temporal framing condition. Among those low in CFC-I, there was a significant preference for the credit card with the lower interest rate (STLoss-LTGain), t(72)=2.26, p=.03; in other words, they avoided the card with the short-term gain but a higher interest rate. However, among those high in CFC-I, there was no significant preference based on condition, t(72)<1; they liked each card equally. Within the STGain-LTLoss condition, those high in CFC-I were significantly more likely to apply for the card than those low in CFC-I, t(72)=2.26, p=.03. However, within the STLose-LTGain condition, there was not a significant difference based on CFC-I, t(72)<1.

Brief Discussion

Findings from two studies provide insight into how consumer differences (i.e., CFC, compulsive buying) and types of information provided within credit card advertisements (e.g., fees, interest rates, and rewards) can influence consumers’ financial decisions. Results across two studies were largely supportive that CFC can predict credit card debt (Study 1) and can impact evaluations of credit card offers (Study 2). Results are consistent with conceptualization of the CFC construct and prior CFC research in that some consumers tend to do a better job recognizing actions or behaviors that might jeopardize their long-term well-being. In addition to extending work on CFC, the present work also contributes to a better understanding of compulsive buying behavior.

The Effects of Implicit Color Preference and Implicit Racial Preference on Implicit Attitude towards the Ad

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Choosing an appropriate spokesperson is a critical decision for advertisers, given the mounting evidence in the persuasion literature which suggests different sources delivering the same message produce varied outcomes among recipients (Whittler and Spira 2002). Spokespersons who are perceived to be more credible, attractive, and similar to recipients are typically more persuasive (for a review, see Eagly and Chaiken 1993). In the context of ethnicity, extant research (using explicit measures) suggests that consumers respond more favorably (generate more positive advertisement and brand evaluations) to persuasive messages delivered by spokespersons of similar race (for a review, see Whittler 1991).

An important caveat regarding earlier work in this domain is that the bulk of this research has employed explicit (i.e., self-report) measures, which may suffer from response biases because the topic of race is socially sensitive, and explicit measures allow participants to consciously control their responses (Ashburn-Nardo, Knowles, and Monteith 2003; Brunel, Tietje, and Greenwald 2004). More recent work has employed implicit measures such as the Implicit Association Test (IAT; Greenwald, McGhee, and Schwartz 1998) to circumvent such response biases. Findings suggest that both Black and White participants exhibit an automatic “pro-White” preference when asked to sort Black versus White racial stimuli (Banaji, Greenwald, and Rosier 1997; Nosek, Banaji, and Greenwald 2002).

Additionally, research on the neural basis of social group processing has found that indirect measures of race evaluation correlate with functional magnetic resonance imaging (fMRI)-assessed activation of the amygdala (Phelps et al. 2000). Given that the amygdala is known to be involved in responding to threatening and to novel stimuli, and since research has shown that both Black and White participants demonstrate greater amygdala activity to unknown Black faces than to unknown White faces, Lieberman et al. (2005) posit that amygdala activity associated with race-related processing may be a manifestation of “culturally learned negative associations regarding African-American individuals.” This explanation is consistent with System Justification Theory (SJT; Jost and Banaji 1994), which has previously been used to explain why Black participants exhibit a lack of ingroup preference in implicit racial evaluations (e.g., Brunel et al. 2004).

SJT posits that people are motivated to believe in a just world, and that a history of discrimination can lead even minorities to internalize negative attitudes toward their own groups as a means of justifying the status quo (Rudman, Feinberg, and Fairchild 2002). Jost and Banaji (1994) emphasize that such attitudes and the motive to sustain them are likely to be nonconscious, which explains why this phenomenon may not be picked up by self-report measures, but can be unearthed by implicit measures (Rudman, Feinberg, and Fairchild 2002).