

Credit Card Spending Behavior: Attitudes are Needs or Wants?

Jae Min Lee, Minnesota State University, Mankato¹
Yoon G. Lee, Utah State University²

Based on the Theory of Planned Behavior (Ajzen, 1991), this study contributes to the credit card debt literature in two important ways: First, this study tested the role of credit attitude on credit card debt behavior. To revisit the credit attitude, this study constructed a credit attitude proxy, created from variables available in the 2013 Survey of Consumer Finances (SCF). Second, this study provides the empirical evidence on the important relationship between credit attitude and credit card debt behavior. This relationship was analyzed by employing a Heckman two stage model (1979) which accounts for possible selection bias of the analyses when providing estimates of parameters. A total of 4,039 households who reported that they had at least one credit card that they could pay off over time were analyzed. Repeated Imputation Inference (RII) was also conducted. The first stage dependent variable was whether or not a household had outstanding credit card balances, and the second stage dependent variable was the amount of outstanding balances on credit cards. Two credit attitudes variables (Wants and Needs) which were constructed using a factor analysis were used as independent variables and household characteristics (demographic and financial variables) were also used as control variables. Results of the multivariate analyses indicated that households with more favorable attitudes about credit use on non-necessity goods had higher outstanding credit card balances. The findings support the Theory of Planned Behavior, indicating the importance of attitude on the behavior. How a person thinks about other's credit use, which reflects their own attitudes or perception on credit use, affected their credit card debt decisions. There are two major instruments of credit card debt behavior: likelihood of being a credit card revolver and total amount of outstanding credit card debt. The findings show that households with similar demographic characteristics behave differently with respect to credit card debt decisions depending on their perception on credit use and this difference plays an important role in having credit card debt and an outstanding balance.

References

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¹ Assistant professor, Department of Family Consumer Sciences, 120 Wiecking Center, Minnesota State University, Mankato. Mankato, MN 56001. Phone: 507-389-3926. Email: jae-min.lee@mnsu.edu.

² Associate professor, Department of Family, Consumer, and Human Development, Utah State University, 2905 Old Main Hill, Logan, UT 84322. Phone: 435-797-1555. Email: yoon.lee@usu.edu.