Family Economic Pressure and Confidence in Financial Capability

Isha Chawla, Iowa State University[1]
Jonathan Fox, Iowa State University[2]
Suzanne Bartholomae, Iowa State University[3]

Objective

Barber and Odean (2001) established overconfident investor behavior (excessive stock trading) as evidence of irrational financial decision making, exposing families to unnecessary financial risks. The purpose of this study is to add to the work in financial confidence or financial self-efficacy through examination of both over and under estimation of personal financial capability and its link to family economic pressure.

Significance

Family economic pressure reduces family well-being (Conger & et al., 1992; Neppl, Jeon, Schofield, & Donnellan, 2015). Based on results from the 2015 National Financial Capability Study (NFCS), an increasing number of families in the United States are experiencing acute economic pressure which has been linked to negative family outcomes. Previous research has identified that overconfident household financial decision makers were more likely to engage in imprudent financial decisions, however, the connection between financial self-efficacy and family economic pressure has been underexplored.

Method

This study is an analysis of financial self-efficacy and family economic pressure conducted within the framework of the Family Stress Model (FSM) outlined in Figure 1 (Conger & et al., 1992). Household financial decision makers with self-assessed financial capability that is higher than actual financial capability are classified as overconfident. Conversely, respondents with self-assessed capability below actual financial capability are classified as under confident (Verma, 2017). A two-by-two classification is balanced by household respondents where self-assessment and actual financial capability are the same (both high and both low). This study employs the 2015 National Financial Capability Study (NFCS) funded by the Financial Industry Regulatory Authority (FINRA) to classify household confidence levels and link it to measured family economic pressure. The state-by-state survey was conducted online from June through October 2015 among a nationally-representative sample of 27,564 Americans, reaching approximately 500 individuals per state. The survey documents demographic factors such as age, gender, employment and education along with financial capability and

[1] Isha Chawla, (isha@iastate.edu), Graduate Research Assistant, Human Development and Family Studies
[2] Jonathan Fox, (jjfox@iastate.edu), Ruth Whipp Sherwin Professor, Human Development and Family Studies
[3] Suzanne Bartholomae, (suzanneb@iastate.edu), Assistant Professor, Human Development and Family Studies

economic behavior measures. Self-assessed financial condition (or family economic pressure) is measured by ten scaled questions including items like "*in the past 12 months, has your household experienced a large drop in income which you did not expect?*"

Results

U.S. households are well represented in each of the four combinations of self-assessed and actual capability. Both overconfident and under confident financial decision makers live in households with higher levels of family economic pressure. Households with high self-assessed financial capability and high actual financial capability seem ideal in terms of lower levels of family economic pressure. Our results are assessed across demographic factors such as gender, income, age, and ethnicity.

Relevance

The findings highlight the role of confidence in financial decisions and correlation with family economic pressure. By observing differences in levels of family economic pressure these findings have wider implications than those previously linked only to investor behavior. The two-by-two classification of consumers can help simplify the process of targeting financial education interventions. Some consumers need empowerment programming to help bring self-assessed financial capability to the level of actual capability. Likewise, others need programming more focused on the knowledge and skills identified in the NFCS measure of actual financial capability. Finally, the need for balance between financial self-efficacy and actual financial capability has important implications for researchers in the wider field of financial literacy and family financial outcomes.

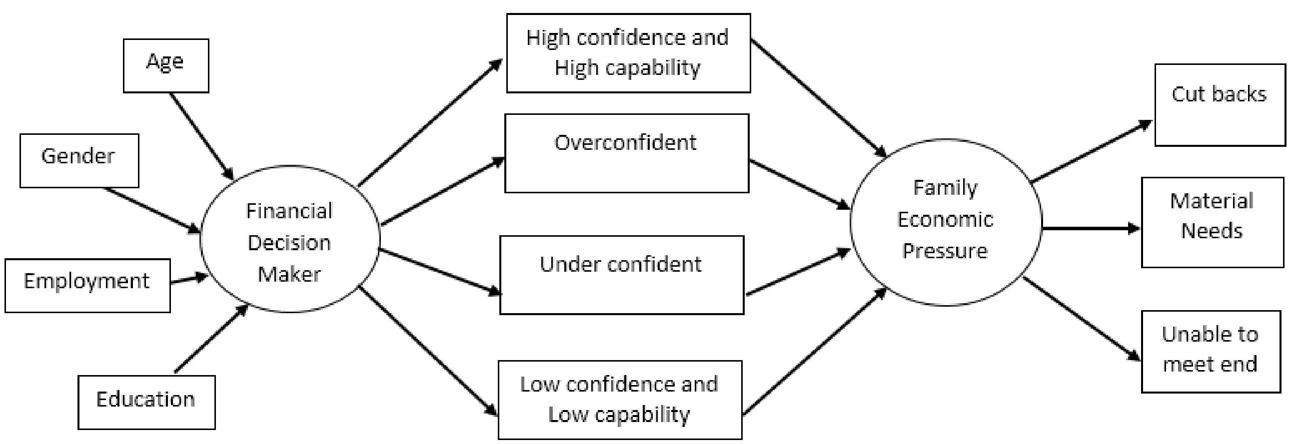

Figure 1. Conceptual model of family economic pressure and confidence in financial capability

References

Barber, B. M., & Odean, T. (2001). Boys Will be Boys: Gender, Overconfidence, and Common Stock Investment. *The Quarterly Journal of Economics, 116*(1), 261-292.

Conger, R. D., & et al. (1992). A Family Process Model of Economic Hardship and Adjustment of Early Adolescent Boys. *Child Development, 63*(3), 526-541. doi:10.2307/1131344

Neppl, T. K., Jeon, S., Schofield, T. J., & Donnellan, M. B. (2015). The Impact of Economic Pressure on Parent Positivity, Parenting, and Adolescent Positivity into Emerging Adulthood.(Report). *64*(1), 80. doi:10.1111/fare.12098

Verma, R. (2017). Role of Self Deception, Overconfidence and Financial Aliteracy in Household Financial Decision Making. *The Journal of Applied Business and Economics, 19*(8), 94-109.