

**Credit Card Debt and Compulsive Buying**

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**Abstract**

Financial stability is very important especially for college students who are just starting out on their own. Credit card use and compulsive buying could have a very strong effect on college students' financial stability. In order to further understand credit card use and compulsive buying, this study correlates them with money attitudes and financial knowledge. Previous research has found correlations between financial knowledge and credit card use as well as compulsive buying. Previous research has also showed correlations between money attitudes and both credit card use and compulsive buying. 96 participants were given four surveys which looked at money attitudes, financial knowledge, credit card use, and compulsive buying. Results showed that those with power-prestige money attitudes were more likely to have higher credit card use and compulsive spending. Results also showed that those with a higher financial knowledge were more likely to have lower credit card use and compulsive spending.

### **Credit Card Debt and Compulsive Buying**

Debt is a major problem for many people. The financial choices a person makes when they begin adulthood will affect whether they become one of the many. Spending habits as well as the use of credit cards can affect a person's financial stability throughout their lifetime; therefore, it is important for individuals to learn good spending choices before they become adults and enter into the realm of credit. Leclerc concluded in her 2012 article that college-aged students are especially susceptible to acquiring large amounts of credit card debt due to "easy access" (Leclerc, 2012). Credit card debt has also been linked to compulsive buying (Joireman, Kees, & Sprott, 2010). The use of credit cards when compulsively buying is a recipe for high levels of debt. Another downside to compulsive buying is that a large enough portion of society who are compulsive buying tendencies would be detrimental to the economy (Roberts, 1998).

There are many factors that may influence credit card debt and a significant amount of research that has looked for and examined these factors. Financial knowledge is "one of the strongest predictors of debt," according to Norvilitis et al. (2006). There is a great amount of research that states that financial knowledge has a strong relationship with credit card use. Financial planning practices correlated with positive credit usage (Moore & Carpenter, 2009). Lai (2010) found that taking a course in financial planning decreased the likelihood of impulse buying. Robb (2011) also found that students who engaged in more responsible credit card use were more likely to have higher scores on a measure of personal financial knowledge.

Financial knowledge does not have to be learned through a course in personal finance. Those who were mentored by parents using a "hands-on" technique of financial

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skills were related to low credit card debt as compared to those who were not (Norvilitis & MacLean, 2010).

Not all research regarding financial knowledge found a link to credit card use or spending. Hancock, Jorgenson, and Swanson (2013) found a significant correlation with the possession of more than one credit card, but it was not significant in the final regression analysis. Financial knowledge was not found to be associated with lower levels of compulsive buying in a study conducted by Brougham, Jacobs-Lawson, Hershey, and Trujillo (2011).

Norvilitis and Santa Maria (2002) suggested that the important piece of financial education was skills, such as balancing a checkbook and creating and following a budget, not just knowledge. And they made very clear that financial education is crucial in improving the number of students with credit card debt.

Money attitudes are another factor that has been found to be related to credit card use and compulsive buying. Attitudes toward possession and spending such as compulsive spending and materialism, were found to be important indicators of debt (Norvilitis et al., 2006). Norvilitis, Szablicki, and Wilson (2003) found contradictory information from Norvilitis et al. (2006) which showed no relationship between attitudes towards money and behavior.

Those who were more likely to use money for power or status, such as buying a certain car because it is “higher class” would be likely to buy on impulse than those who were not (Lai, 2010). Those who use money for power or status are likely to have a power-prestige money attitude (Yamauchi and Templar, 1982). Roberts and Jones

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(2001) found that power-prestige money attitude significantly correlated with compulsive buying, and those individuals were more likely to be high credit card users.

This study examined two of the money attitudes developed by Yamauchi and Templar (1982) power-prestige and retention-time, in comparison with credit card use and compulsive buying. Power-prestige is, as was stated previously the use of money for power and status. Retention-time is careful planning and saving of money. It was hypothesized from the examination of previous research that power-prestige will be positively correlated with high credit card use as well as compulsive buying (H1 & H2). Those who buy for status will be more likely to spend without planning when they see something that they think will make them look better, compulsive buying. They may also use credit cards for these compulsive purchases because they may live above their means. It was also hypothesized that retention-time will be negatively correlated with high credit card use in comparison with credit card use and compulsive buying (H3 & H4). The thought behind hypothesis 3 is that those who have retention-time money attitude will be less likely to use credit cards, because they are careful with their money. Rationale for hypothesis 4 is that those with retention-time money attitudes plan their money and budget; therefore, they are less likely to spend compulsively. Even though there was some contradictory research, it was predicted that financial knowledge will have a negative correlation with credit card use as well as compulsive buying (H5 & H6).

## **Method**

### **Participants**

The current study used 96 participants who were current students at Indiana University Southeast (IUS). Participants were recruited through the IUS Psychology Participant Pool on IUS's Canvas site, and some upper level psychology classes at IUS. Participants were required to be at least 18 years old to participate. Participation was on a voluntary basis and in some of the classes students were offered extra credit or an alternative assignment for extra credit. Participants who were recruited through the Participant Pool received course credit for participating.

### **Measures**

This study collected demographic data which consisted of participants' age, gender, class, major, highest education level expected, current income, estimated income after graduation and current credit card balance. This study used four scales in addition to the demographic data which were Jump\$tart Coalition Survey of Personal Financial Literacy Among College Students (Norvilitis et al., 2006), Money Attitude Scale (Yamauchi & Templar, 1982), Compulsive Buying Scale (Valence et al., 1988), and the Credit Card Usage Scale (Roberts & Jones, 2001).

A portion of the Jump\$tart Coalition Survey of Personal Financial Literacy Among College Students (Norvilitis et al., 2006) was used to measure financial knowledge of participants. Twenty-three questions from this survey were used. Questions were multiple choice that asked about saving, spending, and credit cards. Those with more correct answers were considered to have a high financial knowledge

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whereas those with less correct answers were considered to have low financial knowledge.

This study used 17 questions from the Money Attitude Scale (Yamauchi & Templar, 1982) that pertained to Power-Prestige money attitude and Retention-Time money attitude. The scale was measured with a 7-point Likert scale from Never to Always. Power-Prestige money attitude is the use of money for power or status. An example of a statement for Power-Prestige was “Although I should judge the success of people by their deeds, I am more influenced by the amount of money they have.” Someone who has a Retention-Time money attitude thinks that it is important to save money to be financially stable and create a stable future. One statement involving Retention-Time money attitudes was “I follow a careful financial budget.”

13 questions from the Compulsive Buying Scale (Valence et al., 1988) were used in this study. This scale used a 5-point Likert scale rating statements from Strongly Disagree to Strongly Agree. One of the statements of the scale was “When I have money, I cannot help but spend part or all of it.” High scores indicated compulsive buying.

This study used the 12 questions of the Credit Card Usage Scale (Roberts & Jones, 2001). This scale was also a 5-point Likert scale rating statements from Strongly Disagree to Strongly Agree. A statement from the scale was “I frequently use available credit on one credit card to make a payment on another credit card.” High scores indicated high credit card use.

## Procedure

Researchers created their survey using Qualtrics and placed it in the IUS Psychology Participant Pool, and asked upper level psychology instructors at Indiana University Southeast to distribute the link to the survey to their students with a protocol script. Students were then able to follow the link to the survey which included the information sheet. There was no place on the survey for participants' names or other identifying information. Participants must answer Yes to the question "Do you wish to participate in this survey?" in order to continue to the rest of the survey. The survey took approximately 15-20 minutes to complete. The results were then viewed in Qualtrics and transferred to SPSS for studying the data.

## Results

Descriptive statistics are shown in table 1. Correlations tests were ran using SPSS to determine if there were relationships between money attitudes, financial knowledge, credit card use, and impulse spending.

The data collected showed that there was a significant, weak, positive correlation between power-prestige and credit card use which supported Hypothesis 1,  $r(94) = -.290$ ,  $p \leq .05$ , two-tailed. Hypothesis 2 was also supported when it was found that there was a significant moderate positive correlation between power-prestige and compulsive spending,  $r(94) = .411$ ,  $p \leq .05$ , two-tailed.

It was hypothesized (H3) that there would be a negative correlation between retention-time and credit card use, but no significant correlation was found,  $r(94) = -$



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.133,  $p \geq .05$ , two-tailed. Hypothesis 4 suggested that there would be a negative correlation between retention-time and compulsive spending, but this was also not significant,  $r(94) = -.133$ ,  $p \geq .05$ , two-tailed.

It was hypothesized (H5) that there would be a negative correlation between financial knowledge and credit card use and a significant, weak, negative correlation was found,  $r(94) = -.245$ ,  $p \leq .05$ , two-tailed. There was also a significant weak negative correlation between financial knowledge and compulsive spending, which supported Hypothesis 6,  $r(94) = -.291$ ,  $p \leq .05$ , two-tailed.

### **Discussion**

It was concluded from the results of this study that those with high financial literacy tend to have lower credit card use and lower compulsive buying tendency. It was also concluded that those who exhibit Power-Prestige money attitude tend to have higher credit card use and higher compulsive spending. This study did not find that those with Retention-Time money attitude had lower credit card use and lower compulsive spending. One factor that could affect Retention-Time money attitude and credit card use could be that people can use credit cards responsibly in order to build their credit; therefore, the use of credit cards isn't always bad.

The results of this study confirms previous research of Lai (2010), Norvilitis et. al (2006), Roberts and Jones (2001), and many others. This study contributes to previous research regarding credit cards, compulsive spending, money attitudes, and financial literacy.

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Giving students more opportunities to gain financial literacy could help them to stay financially stable and avoid debt. Requiring a personal finance class in high school and college could also help to increase students' financial literacy.

Limitations of this study were the small number of students who participated and to collect data from participants from multiple universities instead of only one. This study only collected data from 96 participants. A larger number of participants could help this study tremendously. If multiple universities were included in gathering data there may have been a difference in results as well.

There was a limited amount of research regarding Retention-Time money attitudes with credit card use and compulsive buying. Further research in this area is highly recommended.

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Table 1

Descriptive Statistics: Financial Knowledge, Money Attitudes, Credit Card Usage, Compulsive Spending

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Variable	Mean	Standard Deviation	Range
Financial Knowledge	8.85	2.43	0-13
Power Prestige	22.20	10.16	9-63
Retention Time	33.01	7.69	7-49
Credit Card Usage	26.98	7.17	12-60
Compulsive Spending	32.19	9.62	13-65

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Note: N = 96