To Spend or Not to Spend: Exploring Predictors of Children's Financial Behavior

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Over 35% of adults in the United States are in debt (Urban Institute, 2014). Many people who go into debt do not realize they are poor at handling money. Further research is needed to determine what leads to poor financial habits, starting in childhood. One goal of the current line of research is to examine the development of financial attitudes and behaviors in children.

The purpose of this research project is to determine if children's affective responses to questions about spending and saving predict their behavior in an actual spending and saving scenario. Participants in our preliminary sample included 36 children (20 male) from ages 5 to 10 (M=8.11, SD=1.47). Our procedure involved assessing participants' views on spending and saving using an adapted Tightwad-Spendthrift (TWST) scale (Rick, Cryder, & Loewenstein, 2007). We also assessed children's future thinking abilities and their understanding of equations and currency value. Finally, children participated in a store task where we observed their actual spending behavior.

Although not significant, preliminary results reveal a positive relationship between TWST score and spending behavior, indicating that children's self-reports were fairly accurate in predicting spending behavior. This association will likely reach significance as the sample size grows, should this trend continue as predicted. Gender and age were not significantly correlated with spending behavior. Moving forward, we will also be assessing associations between children's financial behavior and executive function, understanding of price/value, and interactions with parents. The results will inform interventions designed to help children handle money more responsibly in adulthood.

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Introduction

How do children think and feel about spending and saving money? Do these thoughts and emotions predict their actual spending behavior?

The purpose of this research is to determine if children's emotional responses to questions about spending and saving predict their behavior in an actual spending and saving scenario.

Hypotheses:

H1: There will be a positive correlation between participants' Tightwad-Spendthrift (TWST) scores and money spent (see below).

H2: There will be a positive correlation between how much children like items and money spent.

H3: Age will not be correlated with money spent.

H4: Gender will not be related to money spent.

Methods

Participants:

Preliminary sample of 36 children (20 male, 16 female) from ages 5 to 10 years ($M = 8.11$, $SD = 1.47$).

Procedure:

• **TWST Scale:** Adapted from a previous study[1] to assess participants' emotional responses to spending and saving. Children were shown 11 pairs of creatures. Each creature in a pair would say something about its financial tendencies or beliefs that contrasted it from the other creature. Children then pointed to the creature that was most like them.

• **Store Task:** Children were first asked to rate how much they liked the store. They were then given 8 quarters and offered the opportunity to spend or save any number of their quarters on toys of varying price.

Measures:

• **TWST Score:** On a scale from 0 - 11.

• **Store Rating:** A 1 - 5 scale to rate how much children liked the toys in the store.

• **Number of Quarters Spent:** Out of 8 quarters.

1. Rick, S. I., Cryder, C. E., & Loewenstein, G. (2007). Tightwads and spendthrifts. *Journal of Consumer Research, 34,* 767-782.

Tightwad-Spendthrift Scale

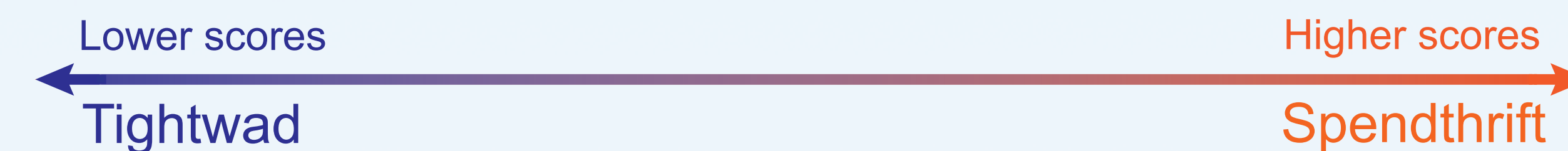### WHICH ONE IS MOST LIKE YOU?

I WAIT TO SPEND MY MONEY

I SPEND MY MONEY AS SOON AS I GET IT

Figure 1: Sample item from the adapted TWST scale. Children were shown 11 pairs of creatures and instructed to point to the creature that was most like them.

Lower scores → Tightwad

Higher scores → Spendthrift

Store Task

Figure 2: Rating scale.

Figure 3: Examples of purchased items shown alongside saved quarters.

Figure 4: The store where children had the chance to spend their quarters.

Results

H1: "Supported"
Though not significant, there was a positive correlation between TWST score and money spent (Figure 5).

$r(35) = 0.22$, $p = .207$

H2: Not Supported
There was no correlation between store rating and money spent.

$r(35) = -0.01$, $p = .962$

H3: Supported
Age was not correlated with money spent.

$r(35) = -0.15$, $p = .371$

H4: Supported
Gender was not related to money spent (Figure 6).
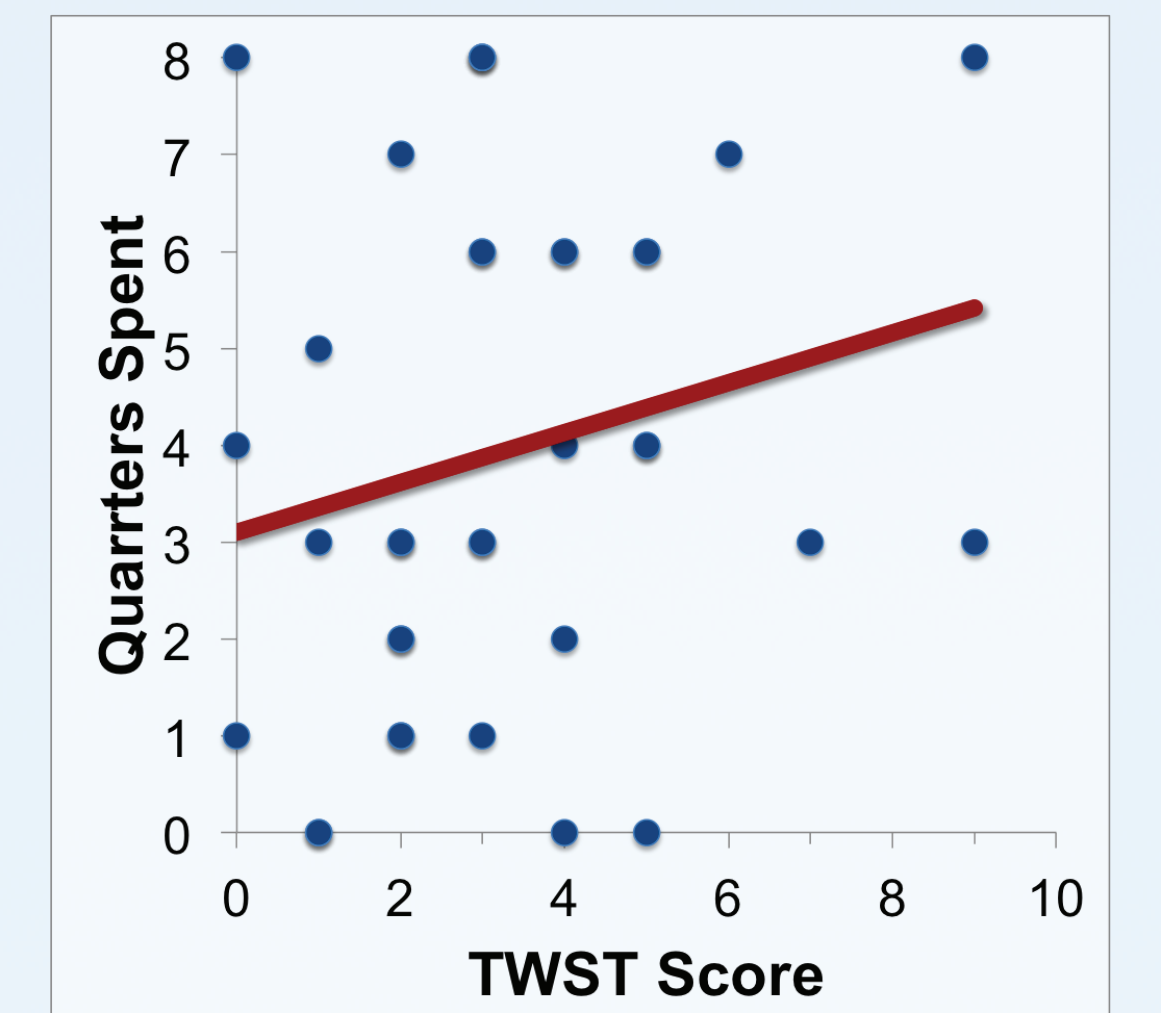
$t(34) = -0.11$, $p = .912$

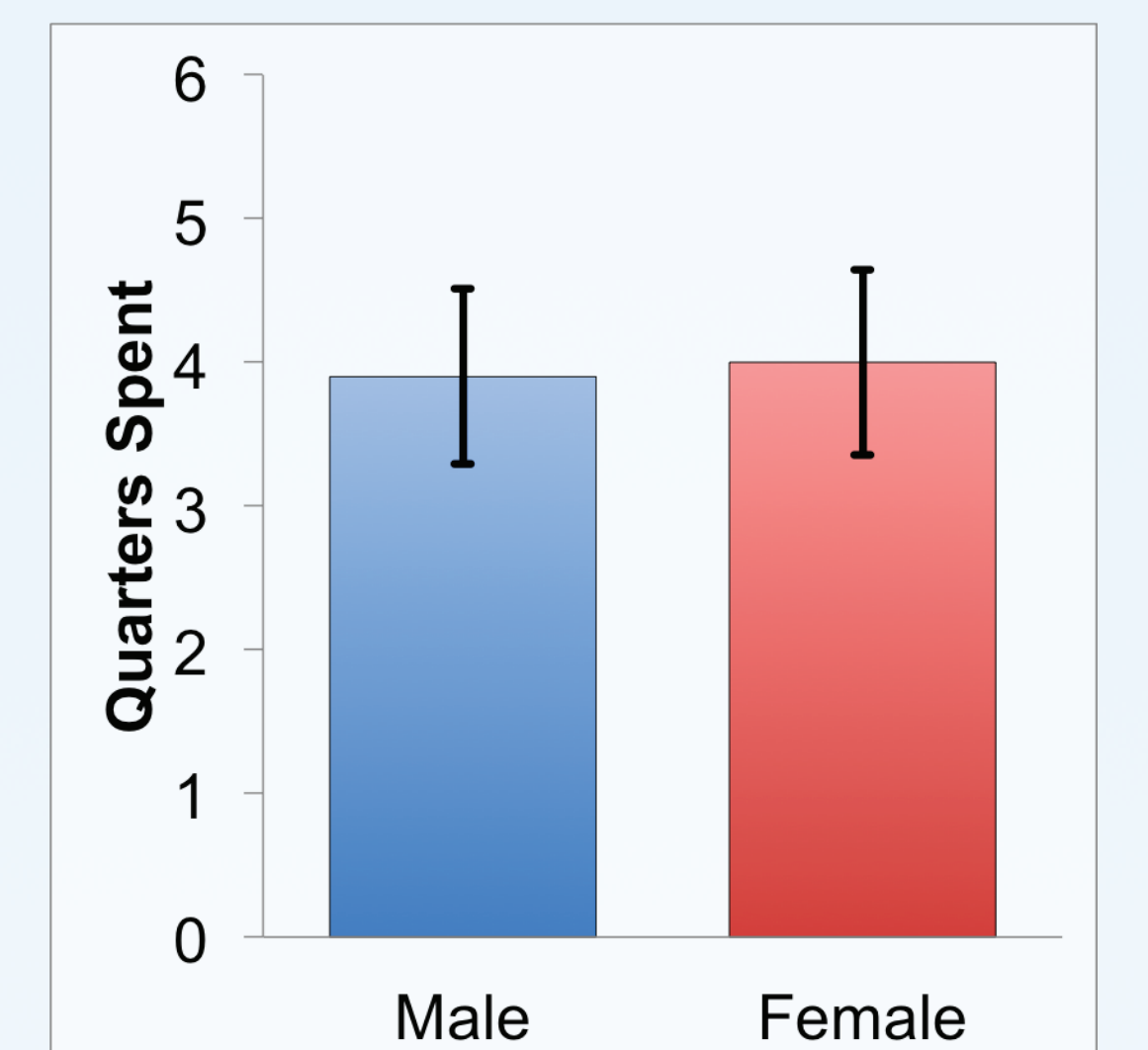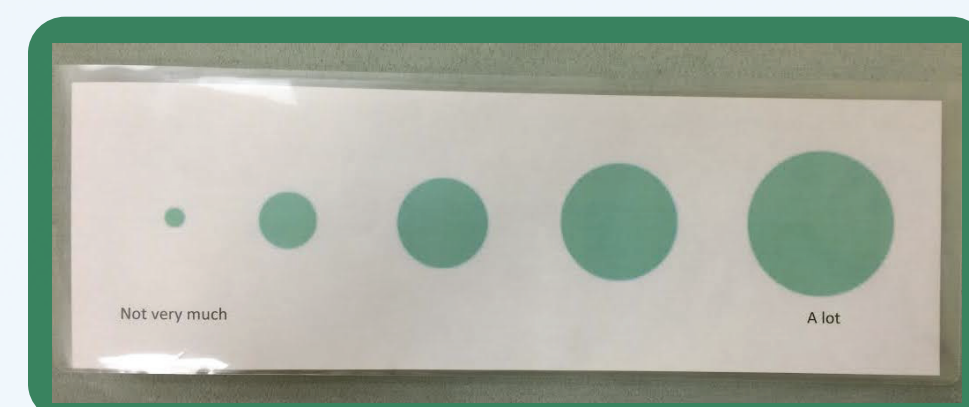*Figure 5: Correlation between TWST score and money spent (H1).*

Figure 6: Relationship between gender and money spent (H4).

Discussion

Although not significant, preliminary results reveal a positive relationship between TWST score and spending behavior. This correlation will likely reach significance as the sample size grows, should this trend continue as predicted.

A particularly interesting finding is that, in contrast to the study by Rick et al. (2007), there seems to be no relationship between how much children liked items and how much money they spent. This finding suggests other factors may be at work in influencing spending behavior.

Gender and age were not significantly associated with spending behavior.

Future Directions:
In addition to factors covered here, we will also be assessing associations between children's financial behavior and executive function, understanding of price and value, money-related conversations with parents, and other variables.