

# Financial Behavior of American Consumers: Implications for China

**Jing Jian Xiao, Ph.D.**

Professor of Consumer Economics, University of Rhode Island, USA  
Editor-in-Chief, Journal of Family and Economic Issues

*China Consumer Finance Forum 2009  
September 27, 2009, Tsinghua University, Beijing*

# Overview

- Financial issues faced by American consumers
- Consumer finance research in the U.S.
- Financial behavior theories
- Financial education and financial behavior
- Financial behavior and well-being
- Compare Chinese and American consumers
- Implications for China

# Financial Issues Faced by Americans

- Saving for retirement: 401k participation and contributions
- Saving for college education: 529 plan
- Credit card and mortgage borrowing: new laws on credit and bankruptcy
- Financial services for low income consumers: Individual Development Account, Earned Income Tax Credit

# Consumer Finance Research in U.S.:

## Data

- All ages: Current Population Survey, Survey of Consumer Finance, Consumer Expenditure Survey
- Older consumers: Health and Retirement Study
- Younger consumers: National Longitudinal Survey of Youth
- Low income consumers: Survey of Income and Program Participation

# Survey of Consumer Finance

- The earliest version started in 1962.
- Triennial survey sponsored by Federal Reserve Board since 1983.
- Comprehensive information about family finance
- 3000-4000 observations in each survey
- Dataset is available for public use:
- <http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html>

# Consumer Finance Research in U.S.: Researchers

- New interests in Economics: Federal Bank of Boston, National Bureau for Economic Research
- New interests in Business: Association for Consumer Research
- Lasting interests in Consumer Science: American Council on Consumer Interests

# Financial Behavior Theories

- To describe financial behavior
- To understand financial behaviors
- To predict financial behavior
- To change financial behavior
- To develop new financial behavior

Xiao (2008). Applying behavior science theories to financial behaviors. In Xiao (ed.). *Handbook of consumer finance research* (pp. 69-81). New York: Springer.

# To Describe Financial Behavior

- Behavior finance
- To identify actual saving and investing behavior patterns of consumers
- Many behavioral patterns cannot be explained by standard economic theory
- Examples in investing behavior:
  - Company stock bias
  - Home bias
  - 1/n rule in portfolio selection
  - Inertia

Lai & Xiao (2009). Consumer bias and competence in company stock holding. Working paper.



# To Understand Financial Behaviors

- To understand relationships between financial behaviors
- Maslow's theory:
  - human needs are hierarchical
  - higher level of needs emerge when lower level of needs are met.
- Behavioral hierarchies are found in financial behaviors, such as saving motives, financial product possessions, and financial asset shares

Xiao & Anderson (1997). Hierarchical financial needs reflected by household financial asset shares. *Journal of Family and Economic Issues*, 18(4), 333-356.

# To Predict Financial Behavior

- Theory of Planned Behavior
- Behavior is determined by intention and perceived control
- Behavioral intention is affected by: attitude toward the behavior, subjective norm, and perceived control.
- Define behavior accurately
- All variables related to behavior instead of product

Guo, Xiao, & Tang (2009). Understanding the psychological process underlying customer satisfaction and retention in a relational service. *Journal of Business Research*, 62, 1152-1159.

Xiao & Wu (2008). Completing debt management program in credit counseling: An application of the theory of planned behavior. *Financial Counseling and Planning*, 19(2), 29-45.

# To Change Financial Behavior

- Transtheoretical Model of Behavior Change
- To facilitate behavior change to desirable directions
- Unique features:
  - 5 refined stages of change;
  - 10 processes of change;
  - Stage matched interventions
- Change saving, credit behaviors

Xiao, et al. (2004). Applying the transtheoretical model of change to debt reducing behavior. *Financial Counseling and Planning*, 15(2), 89-100.

# To Develop New Financial Behavior

- Financial socialization
- Consumer socialization theory
- Socialization agents: parents, peers, teachers, mass media
- Example:
  - Young adults age 18-25 are in a critical stage to learn how to use credit
  - Parents are most important agents in financial socialization
  - Peer impacts are minimal or negative

Xiao et al (2008). Financial behavior of college students. Paper presented at the NCFR conference.

# Financial Education and Behavior

- Formal and informal financial education in U.S.
- Assumption: financial education increases financial knowledge, then fosters desirable financial behavior
- Research suggests complicated situations
- Mandated education is more effective
- Financial education may have long term impacts

Xiao, et al. (2009). Risky credit behaviors of college students. Paper presented at the NCFR conference.

# Financial Behavior and Well-being

- Assumption: Desirable financial behaviors contribute to financial and general well-being
- Empirical research evidence:
  - Risky financial behaviors are associated with risky health behaviors
  - Desirable financial behavior contributes to financial satisfaction, satisfaction of other life domains, and life satisfaction

Xiao, Tang, & Shim (2009). Acting for happiness: Financial behavior and life satisfaction of college students. *Social Indicator Research*, 92, 53-68.

# Comparing Chinese and American Consumers

- Collective vs. individualistic cultures
- Differences in economic resources
- Saving motives: Chinese value children more than themselves
- Risk tolerance: Chinese are more likely to take financial risk than Americans

Fan & Xiao (2006). Cross-cultural differences in risk tolerance: A comparison between Americans and Chinese. *Journal of Personal Finance*, 5(3), 54-75.

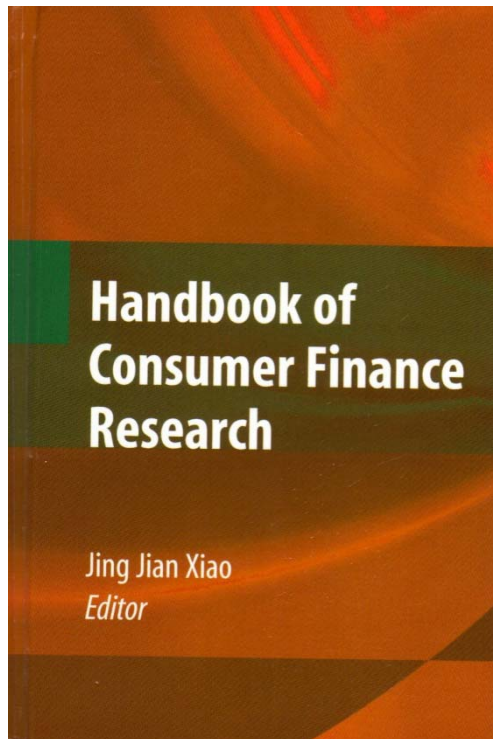
Xiao & Fan (2002). A comparison of saving motives of urban Chinese and American workers. *Family and Consumer Science Research Journal*, 30(4), 463-495.

# Implications for China

- To develop theory-based studies to better describe, understand, predict, and modify consumer financial behavior
- To develop win-win-win and sustainable financial products
- To form government-business-consumer partnerships to promote financial literacy
- To promote action-oriented financial education

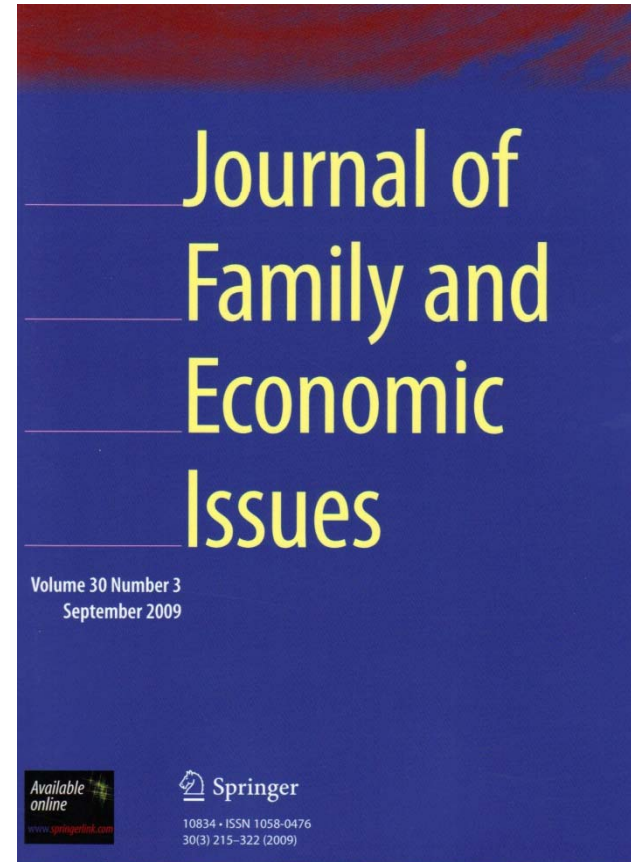


# More Information



**Handbook of  
Consumer Finance  
Research**

Jing Jian Xiao  
*Editor*



**Journal of  
Family and  
Economic  
Issues**

Volume 30 Number 3  
September 2009

Available  
online  
[www.springerlink.com](http://www.springerlink.com)

 Springer

10834 • ISSN 1058-0476  
30(3) 215-322 (2009)