Knowledge and Practice in Cash and Credit Behaviors

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Abstract

This presentation explored the relationship between financial knowledge, both subjective and objective, and cash and credit behaviors that can be viewed as positive. Using a large, nationally representative data set (FINRA 2012, N = 25,509) respondents were divided into four groups based on their score in relation to the median on measures of both objective and subjective financial knowledge. The cash behaviors in question were having an emergency savings fund and not overdrawing one's checking account. The two credit behaviors examined were having accessed a credit report in the previous 12 months and paying off credit card balances monthly. Data were analyzed based on four quadrants: High Objective-High Subjective (HO-HS), High Objective-Low Subjective (HO-LS), Low Objective-High Subjective (LO-HS), and Low Objective-Low Subjective (LO-LS).

Results indicated that those who were above the median score in at least one component of financial knowledge corresponded with more positive behaviors than the LO-LS group. Not surprisingly, the HO-HS group corresponded with the most positive of behaviors. In an interesting discovery, those who showed higher objective knowledge and lower subjective knowledge (HO-LS) demonstrated more positive cash behaviors than the LO-HS group, but the opposite was shown with regard to positive credit behaviors. A conclusion drawn was that those with high objective and low subjective knowledge may be under-confident with respect to financial capability and participate in conservative cash behaviors while shying away from credit behavior. Their counterweighted group, the LO-HS group, may be overconfident of their financial capability and more comfortable when dealing with credit behaviors that indicate a high level of risk. For example, the overconfident consumer may have accessed a credit report in the past 12 months in order to establish more credit and purchase a large item rather than checking a report for correct information and monitoring purposes. The resounding conclusion from this work is that having financial knowledge is better than not having financial knowledge with regard to positive cash and credit behaviors.

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