

Spending Habits: Tightwads vs. Spendthrifts



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Introduction

Simple economic models of consumer spending behavior assume a strictly rational consumer. The rational consumer judiciously weighs the benefits of spending money on something today vs. forgoing the spending opportunity and saving the money for future opportunities. These simple models fail to account for behavior such as "impulse buying."

Understanding consumer spending patterns and what motivates individuals to spend or save is important for understanding how the economy functions as a whole. This is because, at least in developed economies, consumer spending makes up the largest part of total demand at the macroeconomic level.

Recently there has been an increasing interest in trying to account for emotional components of consumer behavior. This project uses a survey developed by researchers at Carnegie Mellon University in Pittsburgh, PA (Rick, Cryder, and Loewenstein, 2007). Their working hypothesis divides consumers into three categories: tightwad, not conflicted, and spendthrift. They hypothesize that tightwads experience some type of emotional 'pain' when spending money, which may prevent them from spending even on things that they need. Spendthrifts, on the other hand, derive so much pleasure from spending that they have difficulty refraining from spending even when they don't need to. The third (and largest) group experiences a good match between actual spending and their desire to spend.

Where do you think you will fall on this scale? How about the general population: do you think there will be more tightwads or spendthrifts where you live?

Key Objectives

- To determine how people manage their money using analysis of survey data that you collect.

Materials

- Surveys
- For analyzing the survey results:
 - Paper, pencil, and calculator or
 - Computer with spreadsheet program

Intermediate

Resource Type

Project

Topics

Economics

Spending Habits

Statistics

Subjects

Social Studies

Home Economics

Keywords

Sample Size

Population

Confidence Level

Margin Of Error (Confidence Interval)

Consumer Spending

Time For Activity

3 – 4 weeks

Guiding Questions

1

Do you have a hard time hanging on to your money or do you have a harder time letting it go?

2

How about the general population: do you think there will be more tightwads or spendthrifts where you live?

Safety Instructions

Make sure the children conduct the survey in a supportive and safe environment at home, at school independently or perhaps in their neighbourhood together with their parents.



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Tasks/Steps

Preparing and Conducting the Survey

- 1 The survey (Rick, Cryder, and Loewenstein, 2007) is quite short, consisting of four questions (numbered 1, 2a, 2b, and 3). Use the separate sheet for the survey.
- 2 The steps below show how to calculate a respondent's score on the survey.

a Reverse-score the answers to the last two questions (2b and 3):

- Let the variable x be the respondent's answer to question 2b or 3, and
- Let the variable r be the reverse score, $r = -x + 6$
- For example, if the respondent's answer to question 2b was 2, the reverse-scored answer would be $-2 + 6 = 4$.

b The total score on the survey is simply the sum of the respondent's answers for questions 1 and 2a plus the reverse-scored answers for questions 2b and 3. The table below illustrates an example for a hypothetical survey response.

Question #	Respondent's Answer	Reverse Score (only 2b and 3)	Final Survey Score (sum of light blue boxes)
1	10		
2a	4		
2b	2	4	
3	2	4	22

c Final survey scores can range from 4 to 26 (verify for yourself that this is true). The survey designers (Rick, Cryder, and Loewenstein, 2007) assign respondents to three categories, based on the final survey score (see the table below):

Survey Score Range	Category
4-11	'tightwad'
12-18	'not conflicted'
19-26	'spendthrift'

d For the sample group that the survey designers studied, the 'tightwad' category is essentially all scores that were more than one standard deviation below the mean. The 'spendthrift' category is essentially all scores that were more than one standard deviation above the mean. The 'not conflicted' category is essentially all scores that were within one standard deviation from the mean.

e Our hypothetical respondent with a score of 22 would be classified as a 'spendthrift.'

- 3 Determine how many participants you need.

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4 Tips for administering the survey:

- a The survey results should be anonymous, so do not ask for any identifying information on the response sheets.
- b To conduct the study, you can look for volunteers at a busy shopping center or other public gathering place (adult supervision highly recommended).
- c Alternatively, you could seek permission to conduct the survey at school.

Tabulating and Analyzing Results

- 5 Calculate the score for each survey, using the method described above (Preparing and Conducting the Survey, step 2).
- 6 Count how many respondents fall into each of the three categories: 'tightwad', 'not conflicted', and 'spendthrift' (Preparing and Conducting the Survey, step 2c).
- 7 More advanced students should also calculate the mean and standard deviation of the survey scores. How closely do the three different categories correspond to dividing the responses into groups according to the mean \pm one standard deviation?

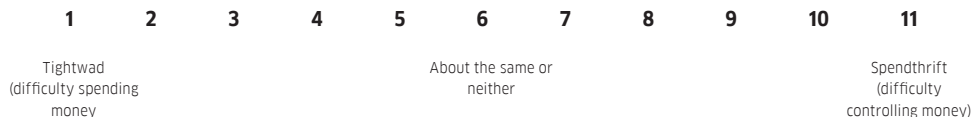
Authors/Source

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→ https://www.sciencebuddies.org/science-fair-projects/project-ideas/Soc_p014/sociology/spending-habits

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1. Which of the following descriptions fits you better?



2. Some people have trouble limiting their spending: they often spend money—for example on clothes, meals, vacations, phone calls—when they would do better not to.

Other people have trouble spending money. Perhaps because spending money makes them anxious, they often don't spend money on things they should spend it on.

a. How well does the first description fit you? That is, do you have trouble limiting your spending?



b. How well does the second description fit you? That is, do you have trouble spending money?



3. Following are two scenarios describing the behavior of two shoppers. After reading about each shopper, please answer the question that follows.

A is accompanying a good friend who is on a shopping spree at a local mall. When they enter a large department store, A sees that the store has a “one-day-only-sale” where everything is priced 10-60% off. He realizes he doesn't need anything, yet can't resist and ends up spending almost \$100 on stuff.

B is accompanying a good friend who is on a shopping spree at a local mall. When they enter a large department store, B sees that the store has a “one-day-only-sale” where everything is priced 10-60% off. He figures he can get great deals on many items that he needs, yet the thought of spending the money keeps him from buying the stuff.

In terms of your own behavior, who are you more similar to, A or B?

