The Effect of an Economic Crisis on the Consumption Behavior of Young People

Bachelor Thesis Marketing

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Chapter 1 Introduction

The recent economic crisis in USA has significantly affected people all over the world in many ways. One of great implications of the crisis is on consumption behaviour. People have historically forced to cut down on their consumption in times of crisis. Accordingly, there is little doubt that economic crises and the behaviour of consumers in times of crisis is a very important subject of study. More particularly, studies on the effect of the economic crisis on young people would be interesting, since although young consumers do not have steady income sources yet, they represent a large group of active consumer (Furnham, 1999). Despite the undeniable importance of young people as consumers group, little has researched on the effect of the economic crisis on their consumption behaviour.

Some previous studies examine the effect of economic crisis on people’s consumption behaviour in general. Studies like the one by McKiernan (1996) have shown how economic crises, as explained by the credit market, affect consumption. The study looked at how disposable income changes in times of economic crisis, which in turn lead to liquidity constraints that force people to cut down their consumption. The study gives a general understanding of the relationship between income and consumption in times of economic crisis.

Another general view of the relationship between consumption and economic crisis is demonstrated by the work of Blanchard (1993). His study explains how the crisis affects consumption in a longer term compared to income. The study focuses on the period of 1990-1991 in the USA where there are negative growth in the US economy. The study explains how the longer effect on consumption is a result of anticipation of future incomes by consumers (foresight) or a realization of past financial mistakes such as over borrowing etc (animal spirit) (Blanchards, 1993 p 274).

The studies of Bachetta and Gerlach (1997) regarding the effect of economic crisis on consumption reach the same conclusion with Blanchard’s work (1993). This study focuses on the credit constrains and its effect on the aggregate consumption. The study uses data from different countries, but nonetheless reaches the same conclusion that when the economic crisis has passed, even though the income of consumers are restored to the level before the crisis, the consumption level tends to lag behind.
Attanassio et al., (2001) and also Fiszbein et al., (2003) study on how the household (i.e. family) as consumers copes during the economic crisis in the context of Mexico and Argentina respectively. More specifically, these papers looked at the effect of changes in wage and employment on consumption behaviour during crisis.

Although studies about how household as a family cope with economic crisis have been conducted, whether individual household members react similarly remains unclear. In particular, very little has been studied on young people (teenagers) who do not have major periodic income source. This thesis will follow a specific young age of teenagers (older adolescence) specifically, following the work previously done by Manis et.al (1980). This group is chosen in this thesis because of their unique position of being in the edge of entering adulthood, with need of the decision making skills and preparation of entering adulthood (Grant, 2004).

Hence this thesis will try to further develop the knowledge on consumption behaviour during economic crisis by focusing more on how young people cope with the economic crisis.

1.1 The Problem Statement

Previous studies (Attanasio and Szekely, 2001; Fishbein et al., 2003) suggested that economic crisis have negative impact on employment, and hence, on income. Consequently, level of consumption would also be decreased during the crisis. However, generally young people do not have steady income source yet. Therefore the effect of the crisis on their income is unclear, so as the effect on their consumption behavior. Accordingly, the problem statement proposed in this thesis is: ‘how do economic crises influence the consumption behavior of young people?’

1.2 Research Questions

To seek the answer to the problem statement above, the following research questions are provided.

1.2.1 What are the relevant characteristics of economic crisis from marketing perspective?

Firstly this thesis will investigate the characteristic or indication of economic crisis. Since the thesis focuses on consumption behavior during economic crisis, therefore, adequate understanding on the concept of economic crisis from marketing perspective is important. The thesis will look at how economic crises affect consumer behavior. This section of the thesis will
look at the changes in income, employment, and other economic indicators to look at what happens in economic crisis in general, and what consumer face in times of economic crisis. By looking at how the economy had changed in times of crisis, this thesis hopes to investigate the environment that consumers are in, in times of economic crisis.

1.2.2. **What are the most important factors that influence consumption behaviour of young people in the period of economic crisis?**

After identifying the economic crisis and its characteristic relevant from the marketing perspective, the next step is to find out the most important factor(s) that influence young people’s consumption behavior during the crisis. By identifying determinant factors of consumption behavior, we will be able to investigate: (i) the relationship between economic crisis and the determinant factor(s) and (ii) how these factors influence consumption behavior of young people.

1.2.3. **How is the financial perception of young people during the crisis moderating the effects of economic crises on consumption behaviour of young people?**

The thesis will then investigate the moderating effects of perception of young people’s perception on economic crises and how that perception moderates the impact of economic crises on consumption behavior of young people. Taking into account the differences that adults and young people have in terms of their whole financial outlook, this thesis will investigate whether this difference in perception will have a moderating effect on young people’s consumption. This thesis will also investigate whether the financial perception of young people will lead to more consumption in times of crisis, or less consumption in times of crisis.

1.2.4. **How is the financial perception of young people affected by their parent’s financial beliefs and the duration of exposure to pocket money and money management in times of economic crisis?**

This thesis will look at how their parents perception regarding the crisis, influence young people’s perception of the economic crisis which in turn affect their level of consumption.
1.3 Conceptual framework

This paper aims to look at how economic crisis affects the consumption behavior of young people. The proposed model below represents the associations between consumption behavior of young people and the economic crisis. Accordingly, ‘economic crisis’ is represented as an independent variable affecting the dependent variable ‘consumption behavior of young people’. The thesis also shows, using the proposed model, how perceived financial situation is moderating the effect of economic crisis on consumption behavior of young people. The perceived financial situation is defined as how a person views their financial situation or well being given a specific economic condition that they are in, and that the effects of inflation, translates differently on consumption depending on the perception of the consumer (Katona, 1974).

The model also shows how the perceived financial situation of young people is influenced by two things; (i) their parent’s financial beliefs, and (ii) the duration of exposure to pocket money and money management.

Diagram 1.1
Conceptual Framework of the Study
1.4 Relevance

1.4.1. Academic Relevance

Most studies on economic crisis have tried to investigate the effects of economic crisis on consumption behavior through the spending power and liquidity condition of the people (Mckiernan 1996). Other studies done by Mckiernan (1996) and also Bachetta and Gerlach (1997) have tried to explain the effects of economic crisis on consumption by providing the fact that consumption level are lagging behind income. This means that when the periods of the economic crisis are over, and income is recovered back to the normal level similar to the period before the crisis, the consumption level takes longer to recover. The study mentioned above suggested that fear of liquidity constraints explains why consumption takes longer time to recover to the level of that previous to the economic crisis. The studies suggested that because economic crisis usually bring liquidity constraints in the form of lower income as well as credit constraints, households are more cautious in the period just after the economic crisis had passed because of the fear liquidity difficulties.

Other studies have tried another approach in trying to explain the effects economic crisis has on consumption. Studies done by Szekely (2001) and Fiszbein et al. (2003) have taken a household approach investigating how household cope in times of economic crisis with their decreased income and employment level had decreased. These studies examine how households cope with the period of economic crisis by looking at whether households are able to share the increased risk present in times of economic crisis (Szekely, 2001) and how households cope with the crisis by adopting different strategies; adaptive social households strategies, active households strategies, social network strategies (Fizbein et al, 2003, p.4)

This study will further investigate on how economic crisis influence individual consumption of young people in particular. To do so, this thesis will take more specific perspective into how the young people within these household cope with the crisis.

Accordingly this study will try to fill the gap on a subject that has very little researched regarding the effect of economic crisis on young people. Previous studies only investigate on how young people spend their income (Furnham, 1999) hence this study will provide specific information and a magnified scope on how young people in particular react to economic crisis.
1.4.2. Managerial Relevance

In addition this study will also be relevant from the managerial or market perspective by improving knowledge about how the economic crisis affect young people and which factors have the most influence on their consumption behavior.

This thesis will also be useful to marketers since it will give an insight into how young people react in terms of consumption in a period of economic crisis. Producers specifically targeted at young people especially teenagers in the western culture could use this thesis as a reference to better market their products in times of economic crisis. Most studies focuses on the behavior of households during the crisis (Katona, 1974) other studies focuses on the consumption behavior under normal conditions (Newall and Steele, 2002).

1.5 Overview of the Rest of the Chapters

Chapter 2 of the thesis will look at the examples of economic crisis from different times and various places. The aim is to seek an understanding about the economic environment that households as well as young people face in times of economic crisis. This chapter will try to find similarities between different cases to indicate common characteristics of economic crisis to help the reader understand the economic environment households face in the period of economic crisis.

Chapter 3 will investigate the effect that an economic crisis has on consumption behavior. The thesis will look at the condition of how economic crisis in general affects consumers. Furthermore, the thesis will then investigate how economic crisis affects young people, by looking at their general consumption behavior. more specifically, this chapter will look at the relationship between the dependent variable ‘consumption behavior of young people’ and independent variable ‘economic crises’.

Chapter 4 will look at how young people perceive economic crises, or in other worlds, how they see economic crises. Furthermore, the thesis will investigate in what way young people see economic crises differently if compared to people from different age groups in similar situation. In this chapter, the thesis will also investigate how the perceived financial situation of young people moderates the effects of the economic crisis on young people’s consumption
behavior. Furthermore, this chapter will look at how the beliefs of young people’s parents and their exposure to pocket money influence their perception in times of economic crisis.

Finally in chapter 5, the thesis will look at the conclusion of the study results, followed by recommendation for future research and limitations of the research. This chapter investigates how the perception of young people moderates the effect of economic crisis on their consumption.
CHAPTER 2
ECONOMIC CRISIS

This chapter will review literature regarding: economic crisis by looking at examples from many cases around the world. Firstly, the thesis will need to investigate what happens in economic crisis by looking at different cases and indicate the commonality of various cases to understand what generally happens in times of economic crisis. Identification of the economic crisis characteristics will enable investigation of the relationship between the economic crisis and the consumption behavior.

Looking at the case of the East Asian financial crisis on 1998, there are several characteristic of the crisis that has been identified on the study of Barro (2001). Firstly, the first indicator of the crisis is the devaluation of the currency of countries in the East Asian financial crisis. Countries like Indonesia, Thailand, Philippines and Malaysia experience a depreciation of their national currency against those outside the East Asian financial crisis such as the USD. Further decrease in the investment, the stock prices and economic growth is also another characteristic of economic crisis in the same study. The study concludes that a mixture of devaluation of currency and financial distress of the banking system leads to the decrease in economic growth and investment ratio.

Another thing that should be noted about the East Asian Financial crisis is how the financial panic can lead to worse national economic condition. Financial panic is a situation where there are multiple equilibriums in the market, which resulted in a bank run where banks are withdrawing the loans that had been given prior to the crisis (Dyburg and Diamond 1983). This financial panic creates a big decrease in foreign investment and foreign funds in developing countries in East Asia (Radelet, et al 1998). In addition, financial panic could create a situation where there is excessive and untimely withdrawal of funds from financial institution which results in the collapse of banks and other financial institutions (Radelet, et al 1998).

The same characteristics can also be found in the case of the great depression in the 1930’s in America. The people in America also lost trust in the financial situations and they also fail to pay their debt (Bernanke, 1983).

Looking at the evidence of the effect of financial crisis on the economic crisis on the economy, it is evident how similar characteristic are also found on the crisis of Argentina. In the
study of Mckenzie (2004) declining of macroeconomic indicators such as economic growth, price inflation and devaluation of the national currency is occurring in Argentina’s economic crisis. Other indicators such as decreasing wages and employment rate also indicate the negative effect of economic crisis has on the economy.

In the context of South America, Mexico also shows the same characteristics of economic crisis by the decrease of its macroeconomics indicators similar of those found in Argentina and in East Asia. Mexico also shows crisis on its financial institutions in the form of liquidity as well as solvency crisis (Fernandez-Arias, Hausman 1998).

According to Bacchetta and Gerlach (1997) economic crisis also have impacts on the household and the firms through changes on the financial situation, most particularly on the level of income, and credit market. However, it is unclear whether the changes in credit market are resulting from the banks unwillingness to lend money to the households or on the contrary due to the cautious behavior of borrowers during the economic crisis period (Bacchetta & Gerlach 1997).

After looking at what happens in economic crises, it is seen that economic crisis has a negative impact on the economy. It is evident how in the period of economic crisis, the macroeconomic indicators of a country shows a decrease in many aspect of the economy such as wages, employment rate, and economic growth. This is seen throughout the different crises of various countries around the world at different times. Therefore it is possible to identify the characteristic of economic crisis to understand the condition of economic environment faced by households during the crises. To further understand how economic crisis affect the consumption behavior, the next chapter will look at what impact economic crisis has on consumption behavior.
CHAPTER 3
ECONOMIC CRISIS AND THE CONSUMPTION BEHAVIOR OF YOUNG PEOPLE

This chapter will look at how economic crisis affects general consumption behavior. Having done so, the thesis will then look at the consumption behavior of young people. Finally, after identifying and investigating the aspect of economic crisis and young people’s consumption behavior, the thesis will try to see the relationship between the economic crisis, and how it affects the consumption of young people. To understand how the economic crisis affects the consumption behavior of young people and the moderating effects of young people’s financial perception on their consumption, an understanding about conspicuous consumption and frugal consumption must first be investigated. This chapter will look at the definition and understanding of conspicuous and frugal consumption in the final section of the chapter, so that the outcome of the effect of economic crisis moderated by young people’s perception influencing young people’s consumption behavior can be measured in terms of whether they tend to consume more conspicuously or frugally in times of economic crisis.

3.1 Economic Crisis and its Effect on Consumption

The economic crises mostly have a negative effect on the economy in general. The shortages of credit, in the market can have a negative impact on businesses and families in the economy. Business actors in the economy, has to cope with reduced income and employment in times of economic crisis. Some households begin to consume less and rely on other people in the family in times of crisis to survive the economic crisis (Fiszbein., et al, 2003). Another coping strategy is through risk sharing or aggregated risk, which means that the household member bears the effect of the decrease income, by adjusting their consumption level to a much lower level prior to the economic crisis (Attanasio & Szekely 2001).

Other research has mentioned how decreased disposable income can lead to lower consumption (Mckierman, 1995) and how consumption takes longer to recover after the recession (Bachetta and Gerlach 1997). Moreover, the study of Mckierman (1995) also tries to explain the liquidity and consumption relationship with a regression model.
Many studies had made the connection between the credit constraint and reduced aggregate level consumption during the period of economic crisis. This means that during the period of economic crisis, aggregate level of consumption will be lower through lower disposable income and employment.

Another study (Ang, 2001) suggested that there are three moderating effects that can influence the overall effect of economic crisis on a certain economy and its consumers. He suggested that the factors: *nature of the crisis; country specific; and culture specific*; (Ang, 2001, p.264) could play a big part in moderating the effects of economic crisis on consumers. Keeping this in mind, this thesis will only look at the consumption behavior of households and young people that are in the west (western culture).

After looking at the financial side of how economic crisis affects households and consumption, the thesis will now look at how households cope with economic crisis in terms of their consumption.

The study of Shama (1978) found that in terms of consumption most people are negatively affected by the economic crisis. The study also found that due to increasing prices (inflation) associated by the crisis, households are more difficult to keep their standard of living, while increasing financial uncertainty cause difficulties in making appropriate financial plan.

In another study, Shama (1981) shows how household cope with economic crisis by changing their brand preferences into products which are less expensive. A later study by Ang (2001) also mentions how household become more calculative in their spending and become more careful in spending their income. Another effect indicate during the period of economic crisis, consumers change their perception of the products in terms of the priority of product attributes to be considered in buying decision, with aim to prolong the useful time of the product (Shuv-Ami 1979). In addition, during the period of crisis households are concerned more on certain product attributes such as value and lower price compared to faster availability and convenience of products (Anon, 1975). Studies about coping strategies above suggest that in the period of economic crisis, households change their consumption behavior.

Households change the way they perceived product as well as the priority of products attributes assumed to be the most important considerations in buying decisions (Shama 1982). Due to higher prices in the period of stagflation, households tend to choose product that are less expensive (Ang, 2001).
After looking at how economic crisis affects household’s consumption behavior, the next section will look at how young people are affected by the economic crisis. This thesis will investigate what affects young people’s consumption behavior.

3.1 Young People’s Consumption Behavior

This section will look at what affects young people’s consumption and furthermore see how economic crisis affects young people’s consumption behavior. In general, consumption behavior is influenced by cultural differences (Ang, 2001) as well as age range (Furnham, 1999). Hence, to be more focused, this thesis will define the scope of the research by identifying specific age range of young people as well as the specific cultural background to be investigated. This thesis will investigate young people that can be classified as teenagers in western cultures, the similar demographic as the study of Manis et al (1980). The reason for the scope limitations is that teenagers are early adults who are not yet independent, but are preparing to enter adulthood. Therefore they are more active in their decision making to anticipate independence (Grant, 2004).

In the modern economy, there is no doubt that young people are a very active consumer age group despite the fact that they do not have their own steady income (Zollo, 1995). Most of these young people’s income source is their parent’s money, and some even have their own bank accounts with active banking activities (Furnham, 1999). In the context of today’s teenagers, young consumers are more individually oriented with great emphasis on personal satisfaction (Newall and Steele, 2002). This creates a generation of individualistic consumers that are personally involved in consumption (Day, 2002).

It is evident that by getting older young people gain more understanding on where they are in society; the more they understand where they are and who they are in the society. This means that the spending habits of young people also follows the same path as people that belong to the same age group in society (Furnham, 1999). Another research has also noted that the behavior of young people is greatly influenced by the beliefs of the adults that has frequent contact with them such as; parents. Accordingly, it seems that young people’s spending habits is greatly influenced by whether their parents are big spenders or whether they are big savers (Furnham & Thomas, 1984a; Furnham, 1999).
Young adolescence or teenagers nowadays are active consumers with individualistic motive of consumption (Newall and Steele, 2002). Their purchasing power, however, is greatly affected by adults in their lives. Accordingly, economic crisis can have a big impact on their consumption behavior. This is because their income is primarily from their parents (Furnham, 1999); therefore if the economic crisis had reduced the income of their parents, they will also receive less pocket money. Furthermore, less pocket money will mean less money for young people to spend and to satisfy themselves through consumption.

Because households in times of economic crisis are more cautious and calculative (Ang, 2001, Shama, 1981), family’s coping strategies could be to cut down on unessential consumption such as pocket money for their children. Moreover, the increased prices as well as uncertainty of the household’s financial situation, creates an environment where financial planning is difficult (Shama, 1978). This can also result in increased uncertainty of the amount of pocket money for young people to spend.

In addition, income is not the only thing that affects young people’s consumption. Households in a period of economic crisis often restrain their consumption and prioritize the most important goods and products (Ang, 2001, Shama 1981). Taking into account the parent’s big influence in young people’s consumption behavior (Furnham, 1999), young people could also restrain their consumption of unnecessary products because they are affected by changes in their parent’s consumption.

### 3.3 Conspicuous vs. Frugal Consumption

Conspicuous consumption according to Veblen (1899) is the consumption of goods and services that has: similar functional value of normal goods and services, but also a premium price higher than normal prices due to attached ‘status’ and ‘prestige’ of those goods. Veblen (1899) also said that men consume conspicuously in order to show off their wealth to other men (p.24). Furthermore, Veblen also said that conspicuous consumption is a way to differentiate social classes in society, and that higher class consumes conspicuously in order to establish a higher class than those who are less wealthy. These conspicuous consumption patterns, where consumers are willing to pay above the ‘normal price’ or ‘utility price’ are called the Veblen effect. The Veblen effect has been proven at least in the luxury goods market, where the higher
the price, the higher the sales, at least up to a certain reasonably high price. If the prices are too high, the sales would then drop to zero (the economist 1993).

The Veblen effect had since been interpreted and incarnated in different studies. In the study of; Leibenstein (1950); Braun and Wicklund; (1989) Creedy and Slottje (1991), the Veblen effect had been translated into how the increase in price leads to the increase of the utility of the goods to the consumer of those goods.

Another study that interpreted the Veblen effect, Bagwell and Bernheim (1996) mentioned how household’s consumption can be divided into two kinds of consumptions; conspicuous and inconspicuous. The types of consumption are assumed that conspicuous consumptions are those of high quality and can be seen to other people, and on the contrary inconspicuous consumption is those who are not visible to other people. The study also mentions how social contact is important in conspicuous consumption because in order to provide proof of conspicuous consumption to gain status or prestige, the consumer must have a social interaction with other people. Similar studies like Ireland (1994); Glazer and Konrad (1996) mention how the conspicuous consumer gets utility from status derived from visible spending of luxury goods. It should be noted however, that consumer that seek social status or prestige depends on how other people view their income, this is translated into their need for conspicuous consumption visible to other people (Ireland, 1994; Konrad, 1996; Bagwell and Benrheim, 1996).

On the other side of the consumption habit, is the frugal consumption. Frugal consumption has been associated with hard times and times of war. As in the examples of the World War II in the USA, the governments are promoting frugal consumptions (Witkowski, 2003). Frugality or frugal consumption is often viewed as living a ‘simple life’ (Shi, 1985).

The two sides of the consumption habits, conspicuous and frugal is what this thesis will use in measuring the effects of economic crisis to consumption behavior of young people, moderated by young people’s financial perception.

The thesis will look at whether economic crisis had lead young people to consume frugally, or whether the economic crisis had no effect and will lead young people to consume conspicuously.
CHAPTER 4
PERCEIVED FINANCIAL SITUATION OF YOUNG PEOPLE AND CONSUMPTION BEHAVIOR OF YOUNG PEOPLE

The next step of the research is to investigate the relationship between the perceived financial situation of young people and its moderating effect on their consumption behavior. To do this, the thesis will first look at what is the perceived financial situation and see how it changes in the times of economic crisis. The thesis will then further investigate how young people perceive their financial situation during the economic crisis and how the way young people see economic crisis, moderates the effect of whether they change their consumption (conspicuous Vs. frugal).

4.1 Perceived Financial Situation

It has been widely known nowadays that consumption and savings cannot be purely calculated by the income or solely and financial situations. Other factors such as personality among other things play an important part in people’s consumption behavior. Perceived financial situation regarding the crisis is very important in a person’s willingness to spend or save (Katona, 1974). The traditional view of saving and spending is explained by J.M. Keynes “saving consist…. of refraining from spending the whole current income on consumption” (Keynes, 1930, p.172).

It is evident from the statement, how saving and consumption traditionally does not pay attention to psychological factors of economic actors. Many researchers argue that saving and consumption even in times of economic crisis or recession is still largely influenced by psychological factors and how they perceive financial situations (Katona, 1974).

Other studies that have looked into the effect of perceived financial situation is the work of Yamanchi and Templer, (1982). They developed a scale to measure the perception of people towards Money (MAS scale). The study finds that the beliefs of people influenced how they perceived money and also the motive in their consumption. The study highlights the importance of perception in the form of belief in a consumer’s purchasing motives as well as perception about money, as stated in the work of Katona (1974).
Furthermore, studies like Furnham (1984) aims to look at the differences in people’s background and how it affects the way people perceived money. The result of the study is that different people with different background and attributes (i.e; age, education, gender), the differences in beliefs (i.e; alienation, protestant work ethics, conservative beliefs), and also attitude (i.e; security, power, retention, obsession, inadequacy effort/ability) play an important part into how people view money. The study also concludes that differences in background, attitude and beliefs affect how important people value money as well as their motives for consumption. For example, people that are older, better educated and have more wealth are more concerned with the future, and therefore this is reflected in their consumption and money management in a way that their consumption seek to minimize risk by investment as well as saving.

From the literature review above, it is clear that financial perception is very important in people’s consumption motives. People’s financial perception is influenced by their beliefs (Yamanchi et al 1982) and also their background (Furnham 1984). By taking into account the effect of people’s perception in times of crisis, a more accurate picture into how economic crisis affects consumption behavior can be seen. In the next section, the thesis will look at this connection to see how the perception of consumers, based on their beliefs and background, can influence their consumption in times of crisis.

4.2 Perceived Financial Situation during Economic Crisis

Contrary to the traditional view of spending and consumption, perceived financial situation in a period of economic crisis puts an emphasis not only on the quantitative data, but also the quantitative data. In the study of Katona (1974) of the US financial crisis, he mentions how income had also increased with price in times of inflation, but on the other hand, people perceive that prices are increasing much more than income. Though this is not true entirely, they are compensated on the rising prices through raised income. He also mentions, looking at crisis from a qualitative point of view could give us a better understanding of consumer behavior during economic crisis, compared to if compared to only looking at the macroeconomic or quantitative side of the data.
Another interesting example of how perceived financial situation play a big part is in the period of economic crisis in 1970 and 1971, where saving rates increased if compared to previous period (Katona, 1974). Arguably, because of the people’s financial perception in times of crisis, people spend less and save more to anticipate bad times due to the uncertainty occur in the crisis (Katona, 1960, Katona 1964). This is evident in the case of post world war II American consumers, where they cut down on consumption and increase their savings (Juster and Wachtel, 1972).

Although most households consume less and save more in times of inflation, it seem that some households react to the inflation still consume secondary and luxury products because they expect prices to rise in the near future. The percentage of this kind of expenditure is relatively small (Katona, 1971 a). Another coping strategy present in the American consumer in the period of the 1950’s and 1973 is that households reacted to the inflation by buying goods in advance (Katona, 1974). This can be explained by their perception of the increased prices expected to come during times of economic crisis. Both quantitative (income) and qualitative (perception) information are needed to investigate the true effect of economic crisis on consumption behavior. Hypothetically, the combination of quantitative factors, together with qualitative factors determines how people react to the crisis (Katona, 1974).

From the literature review above, it is clear how perception plays an important part in consumption behavior in times of economic crisis. Households in general tend to cut down on consumption and rise their saving to anticipate the increased uncertainty associated with economic crisis. Inflation that causes prices to rise, also contributes to people’s perception that they must lower their consumption, despite the compensation of raised income. People’s perception also cause consumption to lag behind income, and tend to take longer time to return to the consumption level before the crisis. Due to the perceived economic uncertainty, households in general are more cautious in the period after the crisis, therefore although the income level has been restored to the original level, they delay to raise their consumption level accordingly. Nonetheless, eventually households will restore their level of consumption as they have before the period of crisis.
4.3 The Effect of Perceived Financial Situation on Consumption Behavior of Young People during an Economic Crisis.

There are many books that provide guides into how parents can introduce young people to understand money and finance in general (Bodnar, 1997; Davis and Taylor, 1979; Estes and Barocas, 1954; Godfrey, 1994). There are also studies that looked at how much young people and children understand the concept of money and other financial issues (Lau, 1998; Lewis and Scott, 2000). This section of the thesis will look at how young people perceive finance and what are the specific motives of their consumption.

The work of Furnham (1984), used a scale developed previously by Yamanchi and Templer, (1982) to look at how different background and beliefs affect the perception of money and motivation of consumption (Furnham 1984). The result of his study suggests some perceptions of young people about money as follows: “younger people used money as a means of power”, “were less careful and retentive with money” and are “less security minded” (Furnham, 1984, p 505).

Other studies like Abramovitch et al (1991) mention how young people that have more experience with pocket money are much more knowledgeable and skillful in their consumption as well as money management. The study suggests that experience in managing money can have an impact on how young people perceive money. Lewis and Scott (2000) had also confirmed the findings of Abramovitch et al (1991) that the higher the exposure to pocket money, the more knowledgeable young people is their perception about money.

Lewis and Scott (2000) also added that the exposure to pocket money in children and young adult also depends on the social class and income level of their parents as well as the financial beliefs and practices of their parents. The study also mentions how young people are ‘aware’ of financial issues and practices through their parents. Evidence consistent with this findings in the study of Lau (1998) in which he concludes that children aged 1-5 has only a functional view of money, but does not have any personal values or emotions regarding money. This suggests that children aged 1-5 that has not been taught values about money; and therefore take a simple and functional perception of money. Many studies suggest that our emotions and feelings about money and other financial issues are a result of our experience with managing
money or having pocket money (Evans, 1967; Marshall and Magruder, 1960; Prevey, 1945 Stacey 1982).

From these studies, it can be seen how young people’s perception and their motives of consumption are focused on themselves. Their perception about money is individualistic, with little regard for security and retention of money. Their perception creates a consumer that is active and consumptive. On the other hand, given that their outlook on finance and consumption motives is also shaped by their parent’s influence. Young people will also be concerned with how they manage their money, although this depends on how their parent’s view money. Exposure to pocket money and money management also determine how young people perceive money. Therefore we can conclude that the more experience a young person in managing money, the more they tend to have a similar perception about money and consumption to the perception of their parents or adult’s. From the literature review above, it is assumed that young people are influenced by their parents and by their exposure to managing money; therefore further assumption can be made that how they see economic crisis and how they see consumption in an economic crisis is greatly influenced by their parent’s attitude towards money and pocket money policies. Despite the influences of their parents and other adults in their lives, young people tend to take a more reckless approach into the way they see consumption and saving compared to their parents.

From studies into how young people see money (Furnham, 1984) and how they develop their perception of money (Furnham, 1999) we can see how their perception of money and consumption is different from adults. Even though they are influenced by adults, because of their age, their perception in consumption is differed in which they are less concerned with security and less careful.

How seriously they see the economic crisis also depends on how seriously their parents are affected by the crisis. So in a sense, moderating variable ‘perception of young people’s financial situation’ is negatively affecting the influence of the economic crisis on young people’s consumption. In other words, the effect of economic crisis’s effect on consumption of young people is lowered by their perception of financial situation.

Furthermore, young people are also individualistic consumers who put great emphasis on personal satisfaction. Young people also use money as a means of power. Their perception dictates them to use consumption to show power to their peers. Perception also plays a part in
their consumption in a way that they are less careful with money and are not concerned with security. These three perceptions of young people could have a positive effect on the overall consumption of young people even in times of economic crisis. Young people could ignore the economic crisis as long as they have money.

To conclude, the effects of the perception of financial situation to the consumption behavior of young people during the times of economic crisis can be both positive and negative. The perception of young people are individualistic and reckless by nature, but their parent’s influence in the form of financial belief and their exposure to managing pocket money could decrease these individualistic and reckless perception about money and consumption motivation. Therefore, whether the perception of young people is positively or negatively moderated the effect of the economic crisis on young people’s consumption behavior depends on their parent’s attitude and also, their exposure to pocket money practices. From the literature review about the moderating effect of young people’s financial perception has on the influence of economic crisis on young people’s consumption behavior; it assumed that two things affect the outcome of the consumption. It is evident that from the framework obtained by the literature review, how parents reflect their financial beliefs in times of crisis by means of consumption will influence how young people develop their own financial beliefs and perception. If parents still consume conspicuously, buying products of high quality and can be seen visually in times of crisis, it is likely that their children (young people) will do the same. Another thing that affects the outcome of young people’s consumption is whether the duration of exposure to pocket money is high or low. The framework developed by the literature review states that the more exposure to pocket money, the higher the emotions young people have about money and the higher the money management young people have. This means that the more they are exposed to pocket money management, the more they will tend to consume frugally in times of crisis.
CHAPTER 5
CONCLUSION, DISCUSSION AND RECOMMENDATION

5.1 Conclusion

This study aims to look at how the economic crisis affects the consumption behavior of young people. In addition, this thesis also looks at the moderating young people’s perceptions on the influence of economic crisis on young people’s consumption behavior. Accordingly, after reviewing previous studies about economic crisis, young people’s consumption behavior, and perceived financial situation, the study has identified the following findings.

Looking at the effects of the relationship between economic crisis and consumption behavior, arguably the effect of the economic crisis depends on how their parents and (other adults) in their lives deal with the situation. Previous studies suggested that at a young age, parents and other adults in young people’s life play a very important part on how young people feel the effect of the economic crisis. This means that if their parents and teacher (other adults) show that they are greatly affected and have cut back on consumption, young people will also follow this behavior, and the contrary also applies. Another important thing that should be noted is that most young people do not have a steady income. This means that most young people rely on their parents for pocket money (Furnham, 1999). The economic crisis can impact their parent’s financial situation and, in turn, it can impact their allowances or pocket money. Furthermore, decreased allowances will more likely force young people to reduce consumption.

Looking at the moderating effect of perceived financial situation on the effect of economic crisis on young people’s consumption behavior, it is evident from the start that young people’s perception about the crisis will differ from those of adults. Previous studies (Furnham, 1984) have come to the conclusion that young people take a more relaxed and reckless view of money and consumption. This means that the moderating variable will have a negative effect on the association between economic crisis and consumption behavior of young people. Even though their parents and other adults are greatly affected by the crisis and show this to the young people, according to previous studies, the young people will be influenced by reducing their spending, but on the other hand, they will not ‘hold back’ as much as their parents in terms
of consumption. Their years of experience with pocket money will also come into play in determining their consumption level in times of crisis. The literature reviews done on the subject of perception of young people suggests that young people who had more experience with pocket money have more developed perception about money and consumption. This means that the earlier they start having and managing pocket money, the less they will consume recklessly without any consideration or calculation. Young people who have more experience are more ‘aware’ of financial issues and therefore will be able to manage their money more carefully.

To conclude, young people are early adults who are undeveloped financial actors as suggested by their consumption behavior. They are more reckless with their money and do not think in long term plans. They also like to use money and consumption as a means of power. Despite of all these characteristics, young people are also similar to adults, in the sense that their personal experiences with money will make them into financial planners. Studies had suggested that the more they spent time with money, the better they are in terms of being less reckless and less immature about money. Because young people are an empty vessel, it is up to their parents to teach them beliefs and attitudes about money and consumption. The evidence in many studies like Furnham (1999) also Lewiss and Scott (2000) shows young people’s knowledge about the financial world is practically what their parents teach them. To sum up, young people’s perception can significantly moderate the effect of economic crisis on their consumption positively (more consumption) or negatively (less consumption). The moderating effect that perception has depends on what attitudes and beliefs are passed down from their parents, and also how long, if at all, they had experience managing money. The more they see or been taught that the crisis affects their parents, the more they will be less ‘childish’ about money and reduce consumption. The more experience they had with money, the more they will be able to control their consumption in times of crisis. Evidently, whether young people’s consumption in times of crisis will be more conspicuous, depends on whether their parents still consume conspicuously in times of crisis (tend to be more conspicuous) and whether they have low duration of exposure to pocket money (tend to be more conspicuous). The contrary of this effect is also assumed using the framework developed by the literature review, if the parents of young people consume frugally in times of crisis, and young people have high duration of exposure to pocket money, the more they tend to consume frugally in times of crisis.
5.2 Discussion

Though there are many studies about the relationship between parents and young people in terms of income and financial perception (Lau, 1998; Lewis and Scott, 2000; Furnham 1999; Abramovich, 1991) as well as young people’s consumption (Newall and Steele, 2002). There is very little research on how young people consume under the condition of economic crisis. To obtain the right framework of how young people consume when there is an economic crisis present, this thesis had to make indirect connection and making assumptions based on how households in general perform consumption under the condition of economic crisis. There is a large gap on the empirical evidence of how young people consume in times of economic crisis.

This is also true about the perception of young people during times of economic crisis. Most studies (Katona, 1974; Juster and Wachtel, 1972) focus on the effect that perception has on the consumption behavior of households and only on how young people perceive finance (Furnham, 1984; Abramovich, 1991; Lewis and Scott, 2000) and how they develop their perception (Lau, 1998; Evans, 1967; Marshall and Magruder, 1960; Prevey 1945; Stacey, 1982). There is no empirical evidence on how young people’s perception during the economic crisis affects their consumption behavior. There is a large gap in this area of research about how the perception of young people can influence their consumption behavior in times of crisis.

5.3 Recommendation

The reviews of previous studies have shown that the perception of young people do play a moderating part in determining the effect of economic crisis on the consumption behavior of young people. However, there are a lot of things that has not been touched in this thesis regarding the relationship between all the different variables mentioned above. There are a lot of relevant aspect of this researched that has not been touched due to limitations. A number of these relevant aspects include; how the differences in gender in young people will affect their financial perception, how young people in non western culture perceive their financial situation. Investigating these relevant aspects could give a better understanding about financial perception and how it affects consumption behavior.
Another area that has not been touched in this thesis and would be substantially relevant to investigate is the empirical evidence of the relationship between income of parents during the crisis, and young people’s consumption behavior during the crisis. Although studies like Furnham (1999) have provided some empirical evidence on the effect of income of parents and the saving and spending habits of young people, there are no studies that take this model into a situation where there are economic crisis present.
References


