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Spending and credit use in the private household

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Abstract

Economic decisions in private households involve two aspects: what to buy and how to finance it. Models of spending and financing are presented, and determinants of credit decisions in the private household are discussed. It is proposed that both situational characteristics (e.g., gender roles, children, and relationship quality) and process characteristics (e.g., mental accounting and utility prediction) need to be taken into account. Moving from an individual perspective to a household perspective has implications for theoretical conceptions of credit decisions, and for consulting policy of banks and consumer organizations.
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When people dream of a new car or a larger house, they can realize those dreams even when they do not have the money ready at hand: they can decide to take up a loan. In the private household, such consumption dreams usually are pursued together, involving joint decisions both on spending and financing. Partners in the private household are confronted with a variety of decisions. These decisions range from small-scale to large-scale, from immediate to long-term, and from more individual to more collective ones. Regarding the content of decisions, non-financial and financial issues can be distinguished. Financial issues concern money management (budgeting of available money, method of payments, etc., Burgoyne and Morison, 1997), savings (proportion of money to be saved versus spent), capital and investment management, and expenditure (Ferber, 1973). So far, there is much research on expenditure decisions (in particular purchase decisions, e.g., Kirchler et al., 2001) in private households, but much less research on decisions about financing those expenditures, for example, by using credit.

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Spending and credit decisions in the private household are relevant for several reasons. First, conflicts between partners often arise over economic matters. Although empirical studies on households indicate that conflicts in general are rare and occur perhaps two or three times a month (McGonagle et al., 1992; Straus and Sweet, 1992), more severe conflicts seem to occur with purchase decisions. In one study, around 88% of partners recorded considerable disagreements over the purchase of a durable good (Spiro, 1983). In a study on couples' decisions over 1 year, Kirchler et al. (2001) found that everyday life usually leaves partners hardly any time for shared activities and, thus, not much time for disagreements: in only 2.5% of the recorded cases, the conversations involved disagreements. Economic topics, however, were found to lead to conflicts more often than other topics (3.6%).

Second, over the last decades the propensity to use loans for the immediate fulfillment of purchase desires is on the rise. In a US survey, more than 75% of respondents thought it acceptable to use credit to buy a car, to settle medical bills, or to finance education and training. Still about 20% were prepared to use credit to finance a hobby, and 5% even to purchase jewelry or furs. Young people in particular seem to have positive attitudes towards the use of loans: across nine different areas of expenditure (buying a car, spending on hobbies, medical expenses, training, furniture, holidays, living expenses, paying bills of gas, electricity or telephone, and jewelry or furs), 57% of respondents under 25 thought it acceptable to take up a loan. As age increased from 25 to over 65 years, this percentage fell constantly from 53 to 35% (Engel et al., 1993, p. 249).

Third, although taking out a loan may be reasonable from an economic perspective, it also signifies accepting debts, which can cause serious problems to individuals and households. Indebtedness in private households is rapidly increasing in Western societies (see Kamleitner and Kirchler, in press, for a review). The connections between credit use and debt are rarely discussed; among the few studies examining their perception are those by Roland-Lévy and co-workers (Roland-Lévy, 2001; Viaud and Roland-Lévy, 2000).

While there is a large literature on purchase decisions in the private household, little is known about decisions regarding financing those purchases. There is little research on decisions whether to save up for a purchase or to take up a loan, and virtually all existing research focuses on individuals. In the current paper, we try to combine these areas by discussing what is known about purchase decisions in the private household and applying it to the question of credit decisions in the private household. In Section 1, we introduce two models on purchase decisions and financing decisions. In Sections 2 and 3, we discuss selected determinants of credit decisions in private households, building on findings on purchase decisions.

1. Models of financial decision processes

1.1. Purchase decisions

When studying purchase decisions, for analytical reasons it is sometimes useful to portrait the process as a series of steps towards the final decision. Although it is certainly not assumed that such models reliably describe reality, they proved useful in the study of decisions within the family. Starting from existing purchase decision models, what follows is a comprehensive model for economic and non-economic decisions between two people (see also Kirchler et al., 2001). This model is based on a purchase decision model developed by Kirchler (1989), building on earlier models (Corfman, 1985; Pollay, 1968; Scanzoni and Polonko, 1980; Sheth, 1974). Fig. 1 shows the complete model.

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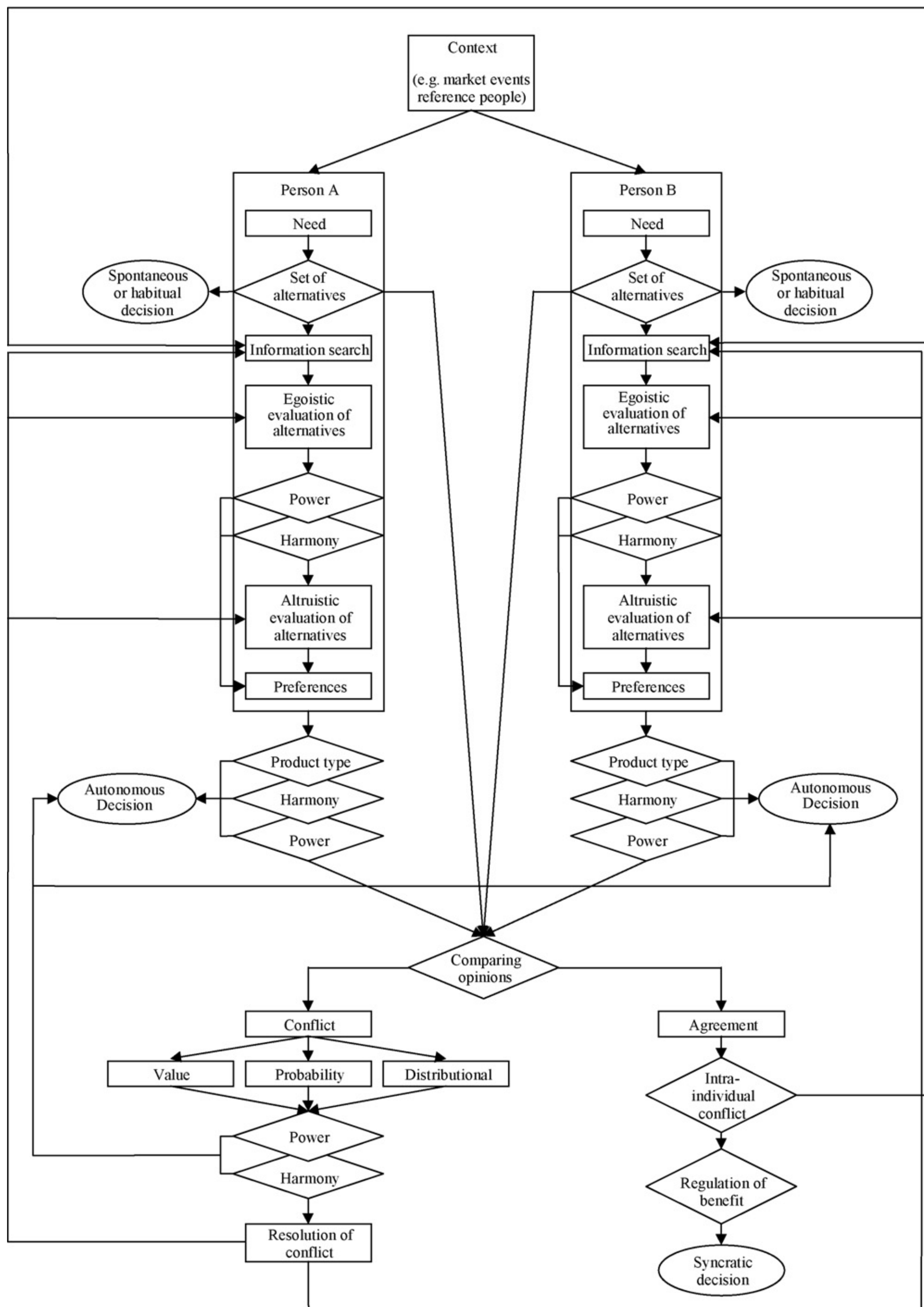

Fig. 1. Descriptive model of joint decision-making (Kirchler, 1989; Kirchler et al., 2001).

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Starting-points for decisions are seen in the wishes or needs of one or both partners. These desires are prompted by stimuli from the personal sphere or by offers in the market. To proceed, some information is needed about the set of alternatives. In some cases, a desire can either be satisfied immediately, without information being collected and without a lengthy decision-making process (a spontaneous purchase decision), or can take place routinely (a habitual decision). In other cases, a genuine decision process is evoked. Factors leading to genuine decisions are the level of costs involved, the number of people affected, the degree of social visibility, the time horizon of the consequences, and whether the decision concerns a rarely activated desire for which no cognitive script exists. The active partner – the person who has the desire for a particular product – can immediately communicate his or her interests to the other partner, e.g., to seek their help in searching for information. The active partner can also wait until information about the various alternatives has been collected and then either share this information with the other partner or autonomously decide without prior discussion. Autonomous decisions, unlike habitual or spontaneous decisions, are not completely independent: the active partners will take into account the benefit of the decision for their partner and their level of agreement with the decision.

The type of decision – spontaneous, habitual, autonomous, or genuinely joint decision – depends on problem characteristics (e.g., product type) and on relationship characteristics like power and harmony. A joint decision is less likely, the less expensive, the less socially noticeable, the more mundane, and the simpler the set of alternatives is. A joint decision is also less likely if the active partner wields the greater power in the relationship and if the quality of the relationship is poor, or in traditionally orientated relationships with a strict role division when the decision relates to an area controlled by the active partner.

In joint decisions, the decision process between the partners starts with the desire phase, the information gathering, or the choice phase. Conflicts may result when the level of information or the goals of the partners differ during this process. In conflicts in close relationships, two major goals often are pursued simultaneously: on the one hand, people would want to satisfy their egoistic needs, but on the other hand, the quality of the relationship should not suffer. Accordingly, preferences are not simply the result of individual desires. In harmonious relationships in particular, partners take into account the consequences for the other partner and seek to maximize the joint benefit. Preferences of one partner therefore depend to a greater or lesser degree on the assumed preferences of the other partner. Power and harmony in the relationship influence the predominant interaction principle. The higher the satisfaction with the relationship, the more likely it will be that interaction will be guided by the *love principle* and that partners will give equal, if not greater weight to the anticipated satisfaction of their partner with the product than to their own satisfaction. In relationships following the *credit principle* or *exchange principle*, weight is given either to one's own needs or to those of the partner, depending on whether the partner is owed or owes something. In relationships following the *egoism principle* only one's own needs are considered. The resolution of conflict is pursued by influencing the viewpoint of the other partner. The influence tactics for swaying the other's preferences vary according to whether the conflict involves an assessment of probabilities (objective judgments), value issues or the distribution of benefits. They can entail normative or objective techniques, attempting to persuade the partner to give way through promises, or intimidating the partner through threats. The influence tactics employed vary according to the type of conflict, the quality of the relationship, and the imbalance of power between the two partners (Kirchler, 1993a,b).

After the partners managed to resolve the conflict and reached agreement, the decision-making process continues one step further to check whether asymmetries of benefits exist.

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If one partner benefited more from the current decision, then future decisions should benefit the other more (Pollay, 1968). A decision is not complete until the partners have agreed on whether it results in an asymmetrical distribution of benefits, and how this should be dealt with.

This model takes into account a number of factors that set decisions in private households apart from individual decisions, but is mainly focused on purchase decisions. It does not consider decisions about financing of purchases—for example, it is easy to imagine a situation where partners are in agreement on purchasing a new car, but in disagreement whether using credit for it is a sensible thing to do.

1.2. Financing decisions

Kamleitner and Kirchler (in press) developed a model for studying processes of financing decisions with a particular focus on credit use. The model was developed to integrate the rather fragmented studies on saving, credit use, and debts that reveal insights into isolated aspects, but provide no systematic analysis. The model starts from Kirchler's (1989) model of purchase decisions within the private household and incorporates insights from interviews with experts on credits, debts, and private bankruptcy. Although the model builds on a model at the household level, it is conceived at the individual level. However, it is also possible to apply it to household decisions. As shown in Fig. 2, the model starts with the desire for a good – originating in personal

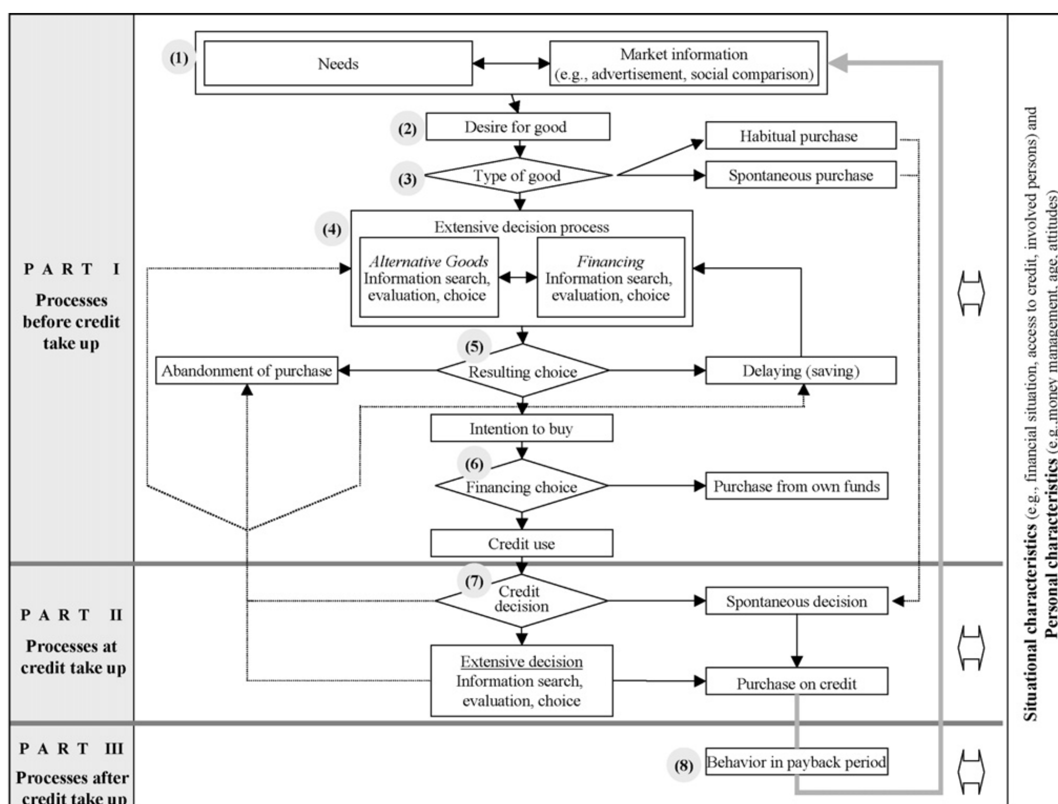

Fig. 2. Concept of spending, credit use, and saving decisions (Kamleitner and Kirchler, in press).

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needs or stimulated by market information – and results in either (a) purchase with existing funds, (b) waiving of purchase, (c) saving for later purchase, or (d) credit use for immediate purchase. At all stages of the process, personal characteristics of decision makers (e.g., credit attitudes, impulsiveness, age) and situational characteristics (e.g., financial situation, people involved, social influences) can play a significant role. It should be emphasized that decisions do not necessarily develop strictly in the linear sequence of the model; a person may sometimes jump back and forward between the presented stages.

Two horizontal lines split the model into three parts: Part I contains all processes starting from the desire for a good until deciding about how to finance the purchase. Part II contains all processes involved in the credit decision, and part III comprises all processes in the payback period. The model encompasses eight stages. (1) It is assumed that individuals or groups (e.g., spouses, families) have needs for various goods, ranging from everyday consumption goods to expensive products such as cars, and services such as education and vacation. (2) Needs and market information may lead to the desire for a certain good. (3) Depending on the type of good (amount of expenses, social visibility, frequency of purchase, etc.), decision processes may range from spontaneous to extensive. (4) Extensive decision processes are often taken jointly by the spouses or family members. It is also mostly with these purchase decisions that the affordability of the good in question matters. The decision process therefore may involve two interacting sub-decisions: the choice of a preferred good and the choice of a preferred method of financing. (5) The overall choice may take three basic forms: (a) persons may conclude that the product is not affordable and forgo the purchase; (b) persons may decide to postpone the purchase until enough money is saved, or (c) persons may want the product immediately and proceed to the purchase. (6) If persons decide to buy, payment can be made (a) out of current savings or (b) through a credit. (7) The decision to borrow money does not necessarily mean the immediate signing of a credit contract. Persons may instead reconsider alternatives, delay or forgo the planned purchase. How to borrow money can be decided spontaneously or after extensive reflection. In case of spontaneous credit use (e.g., paying for a product in rates), purchase and credit use happen almost simultaneously. In case of extensive decisions (e.g., by using a bank credit), information is searched, credit alternatives are evaluated, and a choice is made. Extensive decisions are not always following rational decision models with people collecting all the information available and necessary: many people might never compare different credit offers, but simply rely on their house bank. As people gather information and engage in more extensive decision processes, they might also conclude that instead of indebting they prefer to save, to restart search, or to abandon the planned purchase completely. (8) After the credit-financed purchase, a specific dynamic evolves in the payback period with the paying of installments. This dynamic may lead to payback problems, to renewal of credit contracts, or to orderly repayment, and it may influence future purchase and financing decisions.

After introducing their model and reviewing the literature on consumer credit use, Kamleitner and Kirchler (in press) conclude that knowledge on the process and the dynamics of credit use is scarce compared to knowledge on influential personal and situational characteristics. However, there is an additional aspect that has not yet received much attention in the literature: research on credit use nearly exclusively focuses on the individual. A household perspective and the possibility of joint decision making are even neglected when it comes to situational characteristics of credit use. In the following section, we will first discuss selected situational determinants of credit decisions in the private household, building on the findings concerning purchase decisions. Furthermore, we will highlight two important process characteristics of credit use: mental accounting and predicted versus experienced utility.

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2. Situation variables in credit decisions in the household

2.1. Gender roles

A large literature exists on the impact of gender roles on *purchase decisions*. Overall, the influence of men and women in purchase decisions seems rather balanced: a summary of studies undertaken between 1956 and 1988 on the relative influence of men and women in decision-making (Kirchler, 1989) shows that about 53% of decisions are reached jointly, and that the remaining 47% of decisions are slightly more often taken by men alone (52%) than by women alone (48%). In a recent study (Kirchler et al., 2001), participants reported that on average the woman had about 49% of the influence and the man 51%. However, relative influence of men and women differs with the content of the decision: the product types in which the husband or wife have more influence often corresponded to the traditional division of roles: responsibility for technical items with men, for kitchen items with women. In recent years, such gender role divisions seem to decrease only slowly: Muehlbacher et al. (in press) examined differences between younger and older couples and found only slightly less role segmentation in younger couples. Belch and Willis (2002) compared the influence of men and women in several product types in 1985 and 1999. Results indicate that men still have more influence in purchase decisions of cars, TV sets, and insurance, whereas women still have influence for household appliances, furniture and food. Changes between 1985 und 1999 were found primarily for the purchase of cars, where the influence of women increased.

For *credit decisions*, of particular interest are findings about influence distribution in financial issues: it is more often men than women who decide about the accepted price level and the method of payment (Kirchler, 1989). Also, in decisions about insurance and bank loans, a majority of respondents sees more autonomous influence of the man (Kirchler, 1989; Meier et al., 1999). In the Vienna Diary Study (Kirchler et al., 2001), when discussions were about economic matters, the average influence exerted by women fell to 46%, whilst the influence of men rose to 54%. Also the study by Belch and Willis (2002) indicates still higher influence for men in decisions about insurance. These findings suggest that in private households more influence about whether to take up a loan or not will be with the husband. Support for that assumption comes from the fact that slightly more men than women take up credit (e.g., Davies and Lea, 1995; Webley and Nyhus, 2001). However, there may be multiple reasons for why men have more influence in the credit decision or take up credit more often. First, women usually have lower incomes and are thus the spouse with lower creditworthiness (van Staveren, 2002). Second, men are often more impatient and may thus be more in favor of credit use compared to saving (Lawrance, 1991). Third, some work suggests that women are more risk-averse in financial decisions than men (Meier et al., 1999; Weber et al., 2002), while men generally feel more competent in and proud of their money handling abilities, which encourages them to take financial risks (Prince, 1993). This difference in risk aversion may also lead to conflicts in discussions about loans. Of relevance also is the finding that over the course of a relationship, women often assume the role of a “finance minister”, being responsible for the paying of bills (Ferber and Lee, 1974). For credit decisions, it can therefore be assumed that conflicts between husbands and wives occur and that roles are divided in a certain way: while the husband might be more concerned with the actual loan decision, the wife might be more concerned with handling the installments.

2.2. Children

Children are important agents in *purchase decisions*. Lackman and Lanasa (1993), for example, reported findings in the United States that children between the ages of 4 and 11 personally spend

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5 billion dollars a year, and help decide on expenditure of 130 billion dollars. Children between the ages of 12 and 19 spend an annual 55 billion dollars, controlling jointly with their parents another 249 billion dollars. Not only do children spend money themselves, they also influence their parents' decisions. The influence of children on the decisions of their parents can be either direct or indirect. (a) The direct influence of children seems limited. In an Austrian replication of the classic study by Davis and Rigaux (1974), children had hardly any influence, both according to their own and their parents' reports. Children and young people decided autonomously about a commodity in 2.6% of cases; in 0.1% they decided in conjunction with their father, in 6.2% in conjunction with their mother, and in 9.7% with both parents (Kirchler and Kirchler, 1990). More recent studies indicate a significantly higher impact of children on purchase decisions. For example, Shoham and Dalakas (2005) report that children are particularly influential in the first stage of a purchase decision—the stage of problem recognition. For example, in 79.7% of decisions on outside entertainment, U.S. children were influential in problem recognition. However, children's influence seems to be limited to certain domains: they had a say in decisions about toys or clothes, leisure and holidays, or the type of school they should attend (Kirchler and Kirchler, 1990). Other studies also showed that product category is an important delimiter of children's influence—for cereals, snacks, sweets and juice, young children's wishes are considered, but much less so for other food as bread and coffee (Mauri, 1996; Ward and Wackman, 1973). In discussions about buying a car, furniture, household equipment, life insurance, etc., children's influence is slight (Filiatrault and Ritchie, 1980; Kirchler et al., 2001). Older children have more influence than younger, and also in more product domains (Beatty and Talpade, 1994; Moschis, 1987; Shim et al., 1995). More generally, the more relevant a product is for the child, the more influence on the purchase decision tends to occur (e.g., Shoham and Dalakas, 2005; Wilson and Wood, 2004). Although there seem to be cultural differences in the degree of influence exerted by children (e.g., U.S. children are involved in more decisions than Israeli children, while Israeli children make more autonomous decisions), the general pattern of children's influence seems to be similar across cultures (Shoham and Dalakas, 2005). Findings of Flurry and Burns (2005) on social power in the context of children's influence qualify previous results. They find that children themselves are well aware of influencing their parents' purchase decisions via expert, referent, reward, and coercive bases of power. Parents, on the other side, are not aware of this use of power by their children—even though they felt that their children had the right to influence purchase decisions. Underestimation of the children's influence thus seems likely to occur. (b) Besides the direct influence that appears to be limited both in magnitude and scope, children can exert considerable indirect influence. When the parents disagree, children win influence by actively joining sides and forming coalitions. Children can also have indirect influence when one parent uses their interests as an argument to support his or her own views. In the Vienna Diary Study (Kirchler et al., 2001), men and women mainly reported using coalition tactics to persuade their partner when children were present: children were present in 80% of the cases in which women reported using coalition tactics, and in 90% of those reported by men.

In the context of *credit decisions*, the (a) direct influence of children is very likely to be negligible. The few studies that included financial issues (Filiatrault and Ritchie, 1980; Kirchler et al., 2001) report low influence in such matters. In some cases, adolescents could be involved directly in the decision process about large-scale credit. However, it has to be noted that children and adolescents could use some kinds of non-formal credit on their own; e.g., when they have their own bank account and overdraw, or when they borrow money from friends. (b) For credit decisions in the household, the influence of children is more likely to be indirect. First, parents can point to the needs of the children for the product or service in question; if it is deemed as

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important, using a loan for financing would be more defensible. In particular, children's education would be an issue; but also a larger car or a house with a garden could be deemed to benefit the children. Support for this supposition comes from an interview study with actual credit users, which showed that justification is an important matter in credit use (Kamleitner and Kirchler, 2006). Second, and with the opposite effect, parents could consider that taking up a loan also poses a risk because it reduces the dispensable income and forms a liability for their children. Support for this supposition comes from the finding that credit users have fewer children than non-users (Livingstone and Lunt, 1992), supposedly because children induce parents to act more cautious and conservative. Therefore, we conjecture that couples with children – in comparison with childless couples – would (a) go through a longer decision period when discussing credit use, and (b) use credit mainly for products or services that have a defensible benefit for the children.

2.3. Relationship quality

Little account has been taken of the quality of the relationship and the emotions existing between the partners in *purchase decisions*, although it seems plausible that the partner with greater love for the other is usually in a weaker negotiating position and more likely to yield in conflict situations. In studies on close relationships, Park et al. (1995) point to the need to consider emotions, given that decision-making between intimate partners takes place in a context where feelings are particularly crucial. Close relationships are centered on deep affection that members have for one another. According to Park et al. (1995), shared love and empathy lead above all to a consonance between the partners' preferences, and reduced intensity of conflict. An empirical study by Qualls and Jaffe (1992) confirmed that there is a negative correlation between conflict intensity and similarity between the partners in the matters of sex roles, influence structures, and the importance of a decision. Positive emotions suppress conflict resolution tactics such as punishment, threats, autonomous decisions, forcing, egocentric, and avoidance tactics. In harmonious relationships, where the partners are amicably disposed to each other in decision-making, cooperation and a willingness to make sacrifices in the interests of deepening the relationship can be expected (Van Lange et al., 1997). Further studies confirmed that happy partners use more emotionally positive and constructive tactics of influence than unhappy ones (Kirchler et al., 2001). Among the few studies focusing explicitly on purchase decisions are Schaninger and Buss (1986) who demonstrate that in happy relationships more money is invested in shared objects than in objects that can easily be apportioned if the couple separates.

Regarding *credit decisions*, one might expect that happy couples are more willing to take up a loan than unhappy ones. Particularly for long-term loans, mutual trust and a sense of security in the relationship are likely a prerequisite. On the one hand, both partners are sometimes needed in order to become credit-worthy (e.g., one partner acting as a guarantor); on the other hand, credit is often used for expensive indivisible objects which become a matter of dispute in case of separation or divorce. Because happy couples rarely think about the possibility of breaking up, because they are more likely to see themselves as a unit rather than two separate beings, and because they are more trusting, they might be more willing to engage in the risky business of taking up a loan. Even if one of the partners might harbor doubts about the wisdom of getting into debt together, he or she could be reluctant to voice these doubts because it would induce distrust. To our knowledge, so far no empirical data exist to the question whether happy couples are indeed more likely to take up a loan. In pursuing this question, it might however be particularly important to conduct prospective studies—in the long run, the constant hassle of credit rates and the pressure of debt might undermine even the happiest relationship.

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3. Process variables in credit decisions in the household

3.1. Mental accounting

An important phenomenon that influences the process of *purchase decisions* is mental accounting (Thaler, 1985, 1999), which proposes that people keep track of their financial activities by building psychological accounts. Mental accounting is often viewed as a mechanism for self-control by constraining the budgets for each account (Thaler, 1999). However, it may also yield inefficient and irrational behavior, e.g., over-consumption if budgets were set too high (Heath and Soll, 1996), or self-deception through a decoupling mechanism, i.e., the mental disassociation of payment and consumption. Two aspects of mental accounting seem particularly relevant. First, mental accounting suggests that people tend to match certain sources of money with certain purposes of money. For example, people tend to match the seriousness of a source of income with the seriousness of its use (Thaler, 1999). Second, mental accounting has been investigated as a way of mentally separating or integrating consumption pleasure and the pain of paying through coupling (Prelec and Loewenstein, 1998).

Both aspects can be applied to *credit decisions*. First, people were found to match certain consumption motives with money from installment credits. In a scenario study participants had to indicate their propensity to pay for a certain product either in cash or by installment plan (Karlsson et al., 1997). Results showed that the propensity to use credit was highest if people had to use savings instead of income for paying in cash. The preference for installment credit was especially pronounced if the money was saved for a motive that was incompatible with the consumption motive (i.e., saving for a buffer but spending on a long-desired goal).

Second, Prelec and Loewenstein's (1998) idea of "double-entry mental accounting" has relevance for credit use. It assumes a reciprocal interaction between the pleasure derived from consumption and the pain associated with paying. It predicts strong debt aversion because as long as a good is not fully paid off, pleasure of consumption would be attenuated by painful thoughts about the remaining payments. This prediction is supposed to hold as long as payment and consumption are mentally coupled. Coupling is described to consist of two components: the coupling coefficients α (pain of paying attenuating consumption utility) and β (consumption pleasure buffering payment disutility). Empirical evidence for coupling related to the use of consumer credit is scarce. However, there is some evidence for a certain asymmetry: credit users seem to buffer pain of paying with consumption pleasure stronger than they attenuate consumption pleasure by pain of paying. Kamleitner and Kirchler (2006) termed this finding a mental one-way street from the loan to the good. Furthermore, there are some indications that the degree of coupling may be related to the perceived (dis-)utility of consumption and payment, and that coupling may decrease over time as people get used to having a loan. In addition, coupling was assumed to be stronger for goods that can easily be justified (Kamleitner and Kirchler, 2006), therefore it may be stronger for family decisions on goods involving children. Overall, coupling seems to be driven by external as well as internal or motivational factors (Prelec and Loewenstein, 1998) and it seems to be able to influence the credit decision, related decisions, and well-being during the repayment period (Kamleitner and Kirchler, 2006).

So far, there are no studies on mental accounting between partners. One interesting avenue would be to look at the correspondence of mental accounts between partners. Decisions about purchases and about credit are more likely to result in conflict when the accounts are dissimilar between the partners. In particular when partners differ in account structure (e.g., accounts labeled with different consumption purposes) or in the degree of coupling and decoupling between the

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product and the payment, conflicts are very likely: a continuous source of disagreement would be when one of the partners is reminded of the installments every time seeing a loan-financed car whereas the other partner simply wants to enjoy driving it. Another interesting avenue would be to look at the degree of coupling for joint decisions versus the degree of coupling for autonomous decisions. It seems reasonable to assume that joint decisions per se lead to higher coupling because of the usually extensive and explicit decision process, which might make the connection of consumption and payment more salient.

3.2. *Predicted utility and experienced utility*

Some work has pointed to the inherent problem of *purchase decisions* that they often have to base on *predicted* utility; however, the consequence of the decision might have a different *experienced* utility (Kahneman and Snell, 1992). A variety of studies show that predicted utility differs from subsequent actual experienced utility (e.g., Loewenstein and Schkade, 2003). In an experiment by Kahneman and Snell (1992), participants correctly predicted satiation of utility drawn from daily consumption of a portion of ice cream, but failed to predict that over time they would like more the yoghurt they initially disliked. Thus, it is unlikely that consumers accurately offset future costs with benefits in purchase decisions.

For *credit decisions*, the difference between predicted and experienced utility is particularly relevant. Propensity to purchase on credit what actually is not affordable could increase through wrong predictions of utility of a good and disutility of future installments. It can be assumed that there is a gap between consumers' anticipation of (dis-)utility's stability over time, and the actual experience of pleasure of consumption and pain of payments. On the one hand, subjective experiences of credit use may develop similarly to a pattern of "good things satiate and bad things escalate" (Coombs and Avrunin, 1977, p. 224). While over time consumers get used to a new product financed by the credit and thus the utility diminishes, the disutility from the credit payments escalates and the monthly bills start to become increasingly annoying. These dynamics become critical when the pleasure with the purchased good disappears (cf. the notion of benefit depreciation, Gourville and Soman, 1998), while there are still installments to pay. At this point, pain of payments cannot be buffered anymore by the pleasure that was derived from the good in the past. It can be assumed that at this point in time consumers are likely to consider additional goods, and in case they lack the required money to buy them, they may further engage in credit use, and run the risk of serious indebtedness. On the other hand, it is also possible that the partners first experience difficulties with the new financial situation but accommodate to it quickly resulting in less perceived disutility as time goes by (cf. Kamleitner and Kirchler, 2006). Prelec and Loewenstein (1998) hold a similar view. They predict that loan payments become progressively less burdensome because the outstanding debt balance and the associated pain are frequently shrinking more quickly than the consumption utility. In retrospect, the subjective pain of paying might be less pronounced than the objective costs, and might induce people to take up further loans. In sum, the misprediction of utility might mislead consumers in the decision whether to raise a credit in order to fulfill their wishes.

So far, however, there are no studies on utility prediction between partners. An interesting avenue of research would be the question whether a jointly discussed predicted utility matches the experienced utility more closely than just individual prediction. Since experienced utility might also be strongly influenced by the interaction between the partners, mutual reinforcement might occur at least within happy couples. Consider the example that a couple decides to buy a car, and agrees that it would be highly pleasurable to drive it. After the purchase, even when

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one of the partners doubts the current utility of the car, the other partner might still find good reasons why it was a good decision in the first place, resulting in higher correspondence between predicted and experienced utility. For unhappy couples, the process might develop in exactly the opposite direction.

4. Conclusion

In the present article, we presented models for financial decision making in the household and discussed selected determinants for credit decisions, based on purchase decision research. The review highlights two main issues: first, it is necessary to conceive of credit decisions in the private household as a process in which both partners are involved; second, research on the specific dynamics of credit decisions in private households is lacking. The review highlights the importance of situational and process variables that should be integrated into socio-economic models of credit use. In particular, the social perspective of considering the interaction within a household seems promising to the understanding of loan and credit decisions. Household decision making seems to be more than the aggregation of two or more individual decisions. Economic models in the neoclassical tradition of methodological individualism might, thus, have difficulties to incorporate households in a model of financial decision making. In our view, the combination of relationship dynamics with the long-term financial burden of loans presents a promising approach, both on the applied and the theoretical level.

On the applied level, the review suggests that banks and loan agencies on the one side and consumer organizations on the other side should take into account the dynamics of close relationships when consulting on loans for couples. This might result in including considerations on relationship quality in the consulting process, or in offering specific contracts that minimize liability between partners.

On the theoretical level, a close relationship perspective allows moving the focus from the individual to the social interaction between partners, and allows a more detailed analysis of credit decisions of households. First, the decision whether to take up a credit or to use the existing savings for the financing of a desired good will be influenced by the quality of the relationship between the partners and by the marital roles. These factors are neglected when looking only at individual credit decisions. Second, during the payback phase of a loan, the mental representations of the good and the credit rates will be influenced by the communication between the partners. Mutual social influence may change the individual mental accounts, it may alter the experienced utility of the good and the experienced disutility of the credit rates, and it may influence the degree of coupling between the good and the credit. Couples may jointly construct a specific predicted utility which is different from an individual prediction, and, depending on their subsequent interaction, may be more similar or dissimilar to the actual experience. A joint dream is probably different from two individual ones, and the realization of that joint dream might again be experienced differently by the partners—especially when it comes to paying the dues.

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