

Scarcity and borrowing behavior: from opening a new line of credit to repayment strategy

Wednesday, September 25, 2024 11:40 AM (10 minutes)

Literature suggests that people facing financial scarcity - the perception of insufficient economic resources to meet their needs - often show disadvantageous behaviors, such as increased willingness to borrow money (WTB). Two observational studies based on representative Italian samples investigated the role of psychological ownership of borrowed money (POBM), perceived risk of indebtedness in borrowing decisions (Study1, N=1,997) and repayment strategies during economic hardship (Study2, N=938). An Hurdle model (Study1) and a beta regression (Study2) were performed due to the non-normal distribution of the dependent variables. Study1 confirmed our hypothesis that participants in the scarcity (vs. control) condition were more likely to incur debt (OR: 1.43, $p=.003$) and had greater WTB (IRR: 1.10, $p=.039$). Further, a higher (vs. lower) POBM predicted both the loan (OR: 1.51, $p<.001$) and the WTB (IRR: 1.21, $p<.001$). Conversely, higher (vs. lower) perceived risk was associated with a reduced probability to incur debt (OR: 0.80, $p=.003$) and a lower WTB (IRR: 0.80, $p<.001$).

Study2 showed that participants in scarcity (vs. control) condition were slightly more willing to refinance (namely to open a new line of credit) instead of renegotiating (OR: .69, $p=0.06$), although those experiencing less economic hardship were more willing to renegotiate (OR: 1.93, $p=.04$). High (vs. low) POBM was associated with a greater willingness to refinance ($ps<0.05$) while high (vs. low) debt risk perception was associated with a greater willingness to renegotiate (OR:1.55, $p=.002$).

Results expand the literature on the role of financial scarcity on indebtedness, deepening the role of psychological aspects involved.

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