

Credit card use depends on what you know -- and what you think you know

December 2 2011, By Steve Smith

To manage credit cards efficiently, it goes without saying that it's important to have a firm understanding of finance. But equally important to good credit-card practices is what you think you know about finance, a national study shows.

University of Nebraska-Lincoln economists Sam Allgood and William Walstad used a data set that measures Americans' financial knowledge on two fronts -- how much they actually know and also how much they perceive themselves to know -- to examine how that affected their use and management of credit cards.

Predictably, they found that those who had high knowledge of finance and were aware of that fact managed their credit cards most competently. But they also discovered that a person's perception of having financial knowledge mattered as much or more in some instances in how they treated their cards.

The nationally representative study, which surveyed roughly 27,500 people nationwide, measured five [credit-card](#) behaviors: Paying credit card bills in full; carrying a credit card balance; paying just the minimum payment; paying late fees; and exceeding the card's limit. In all cases, respondents who perceived their financial knowledge as high had better credit-card behavior than those who saw their knowledge as low.

For example, the study found, Americans who are actually smart about finance and know it are 15.5 percent more likely to pay their credit card

bills in full compared with people with the same level of financial knowledge, but who perceive themselves as not having a high financial expertise.

The low self-perceivers also are 15 percent more likely to carry a monthly balance, 12 percent more likely to merely pay the minimum payment each month, 11 percent more likely to be charged a late fee and 6 percent more likely to exceed their card's spending limits.

"Before beginning, we hypothesized two possibilities: people would be over-confident and this would lead them to make bad decisions, or that people need confidence to act on the knowledge they possess," Allgood said. "Our study suggests that it is the latter."

"You must have actual knowledge to make good personal financial decisions, but people are not willing to act on that knowledge unless they also perceive themselves to be knowledgeable."

Also in the study:

- 41 percent had both low actual and self-perceived financial knowledge. Twenty-five percent had low actual financial knowledge but thought their knowledge was high; 16 percent had high actual knowledge but perceived their understanding as low; and 18 percent had high actual knowledge and perceived themselves the same way.
- 42 percent of respondents said they paid their credit card balances in full each month, while 58 percent carried a balance forward.
- Those who thought of themselves as highly knowledgeable yet were actually low-knowledge about [finance](#) behaved similarly in all five credit-card behaviors as those who had high actual knowledge but saw themselves as low-knowledge.

The authors recognized that credit-card behavior is only one area of a person's financial decision-making, and have begun to explore whether someone's perceived financial knowledge is a predictor of other behaviors, such as investments, retirement planning and decisions regarding mortgages. Preliminary results suggest that the predictive value of perceived financial knowledge carries over into these other areas, as well, they note.

"We still need to find out why two people with the same level of knowledge differ in how they perceive their level of knowledge, because financial literacy education can incorporate elements to help boost actual and perceived knowledge," Allgood said.

Provided by University of Nebraska-Lincoln

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