

The Impact of Payment Plans on Feelings of Financial Constraint

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Background

- Consumers with limited liquidity have many options available for financing purchases.
- While there has been a recent proliferation of monthly installment plans, there is sparse research on how selection of these plans impacts psychology.
- We explore how paying in monthly installment affects perceptions of financial constraint compared to paying in a lump sum either upfront or at a later time. Three possibilities:
 - Paying upfront could feel least constraining because it gets the payment over with³.
 - Deferring the payment could feel least constraining by maximizing available resources.
 - Paying monthly could feel least constraining by allowing consumers to align their income with their expenses¹.

Importance of Perceived Financial Constraint

- Perceived financial constraint taxes cognitive capacity^{2,4} and shifts attention to focal financial issues⁵.
- This can lead to negative financial outcomes, such as overborrowing⁵.
- Limited research identifying antecedents of financial constraint.

Design of Studies 1 - 3

- We investigated three interest-free payment options using samples from Mechanical Turk: 1) Pay all upfront, 2) Pay in six equal monthly installments, and 3) Pay all in six months.
- Study 1:** To test for financing preferences, participants read a scenario about the purchase of a couch and loveseat set, along with the three financing options above. They stated which plan they would prefer and which would cause them to feel the least financially constrained.
- Study 2:** Using the same scenario, we randomly assigned participants to a payment option. We elicited perceived financial constraint and intended retirement contributions over six hypothetical months.
- Study 3:** Same design as Study 2 with intended beverage purchases replacing retirement contributions.

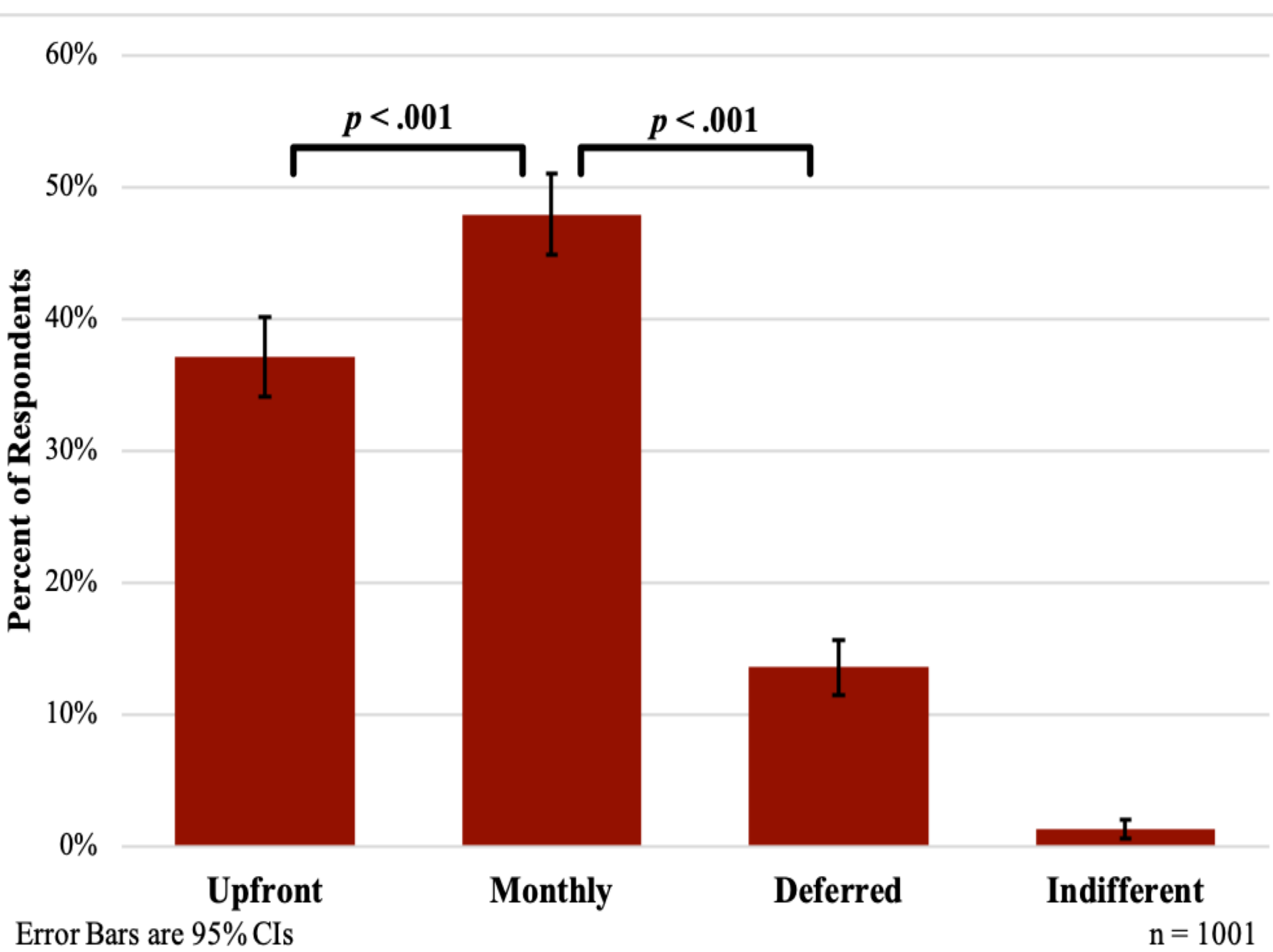
Design of Study 4

- Texas A&M undergraduates participated in an eight-round lab study where they earned credits that could be used to purchase M&Ms or lottery tickets for an Amazon gift card.
- Some credits were used to pay a participation fee. Participants were randomly assigned to pay this fee upfront, pay in equal installments for six rounds, or defer the payment for six rounds.
- In each round we elicited perceived constraint and M&M purchases.

Results

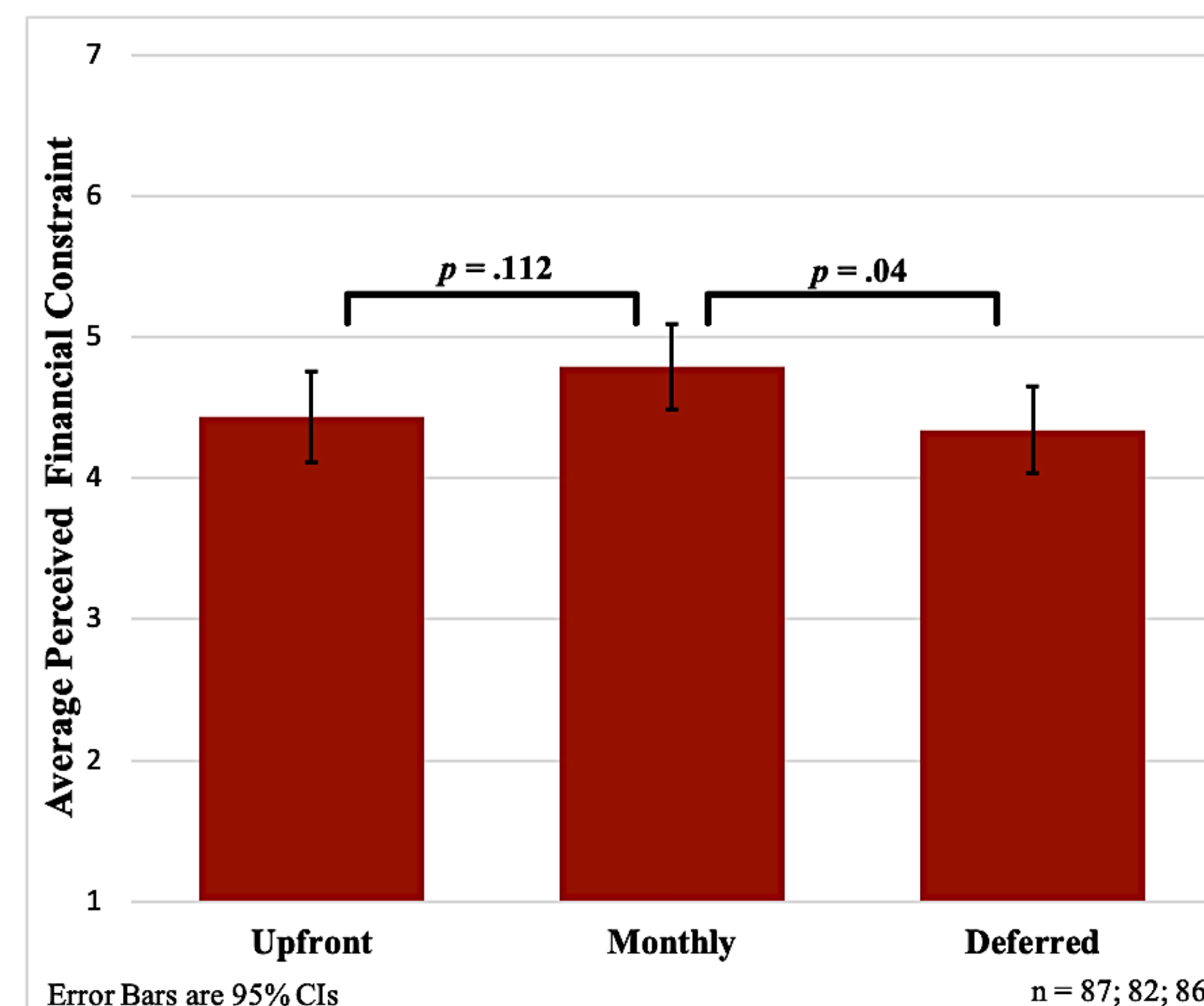
Study 1

Preferred Plan



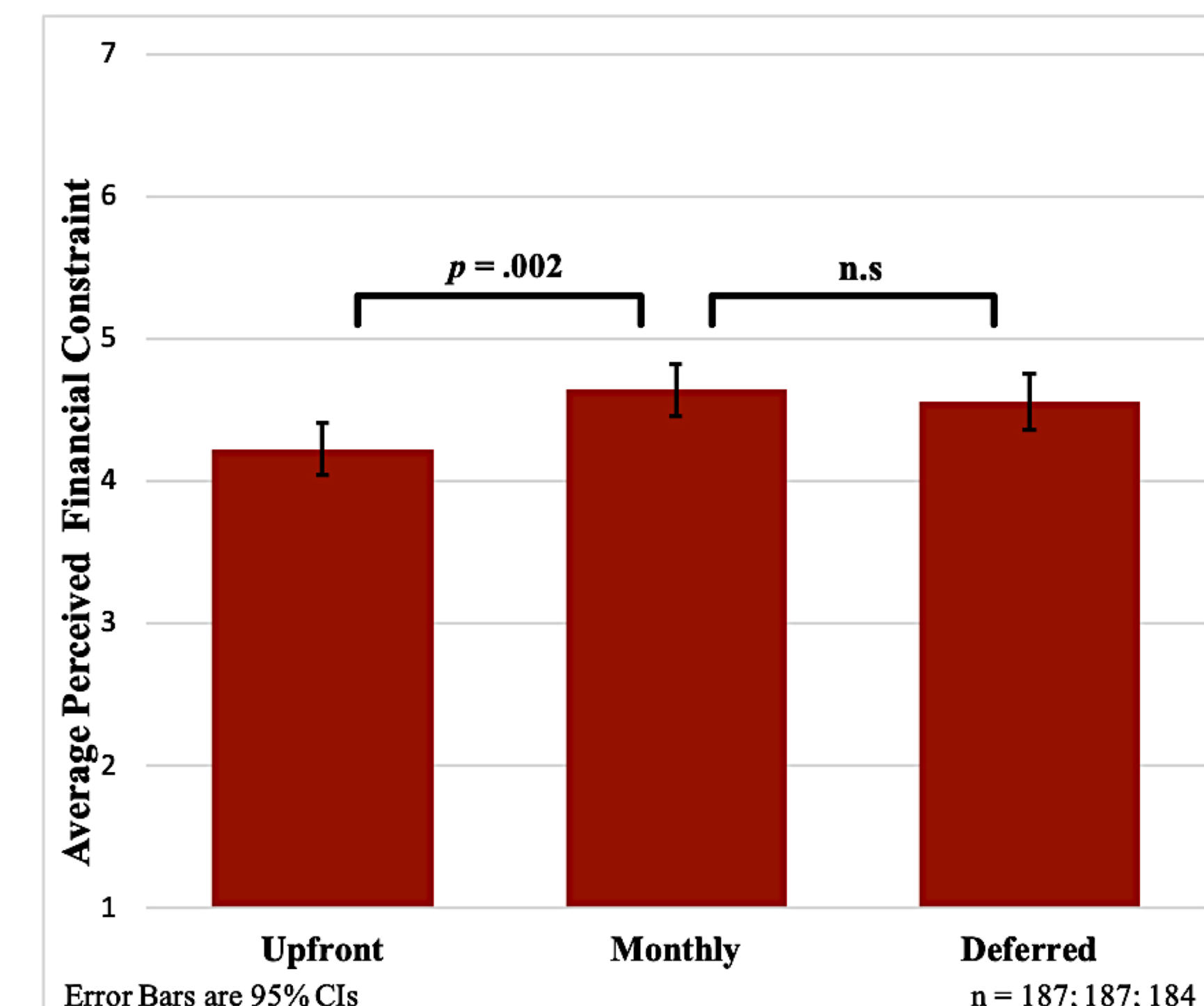
Study 2

Perceived Financial Constraint



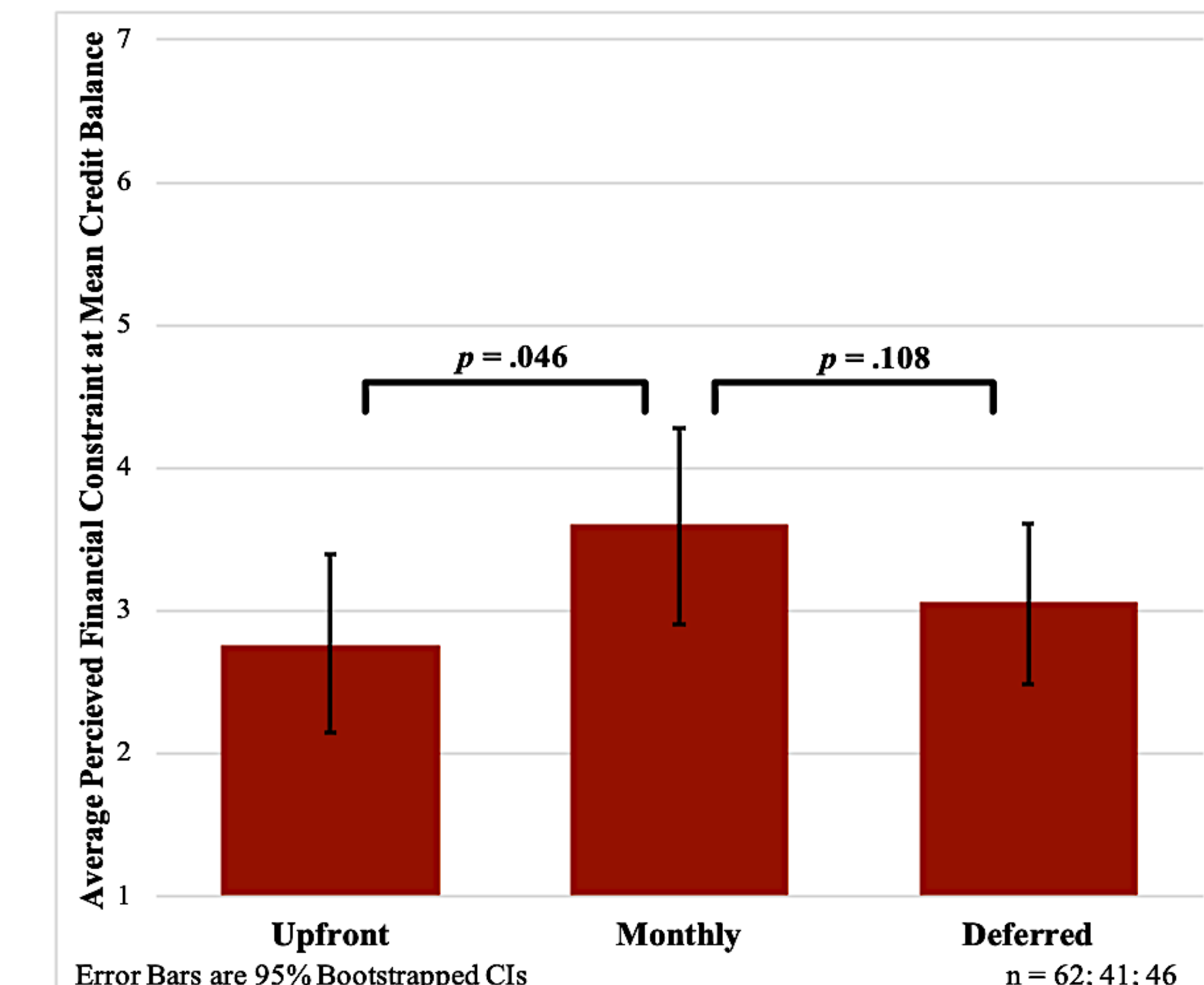
Study 3

Perceived Financial Constraint

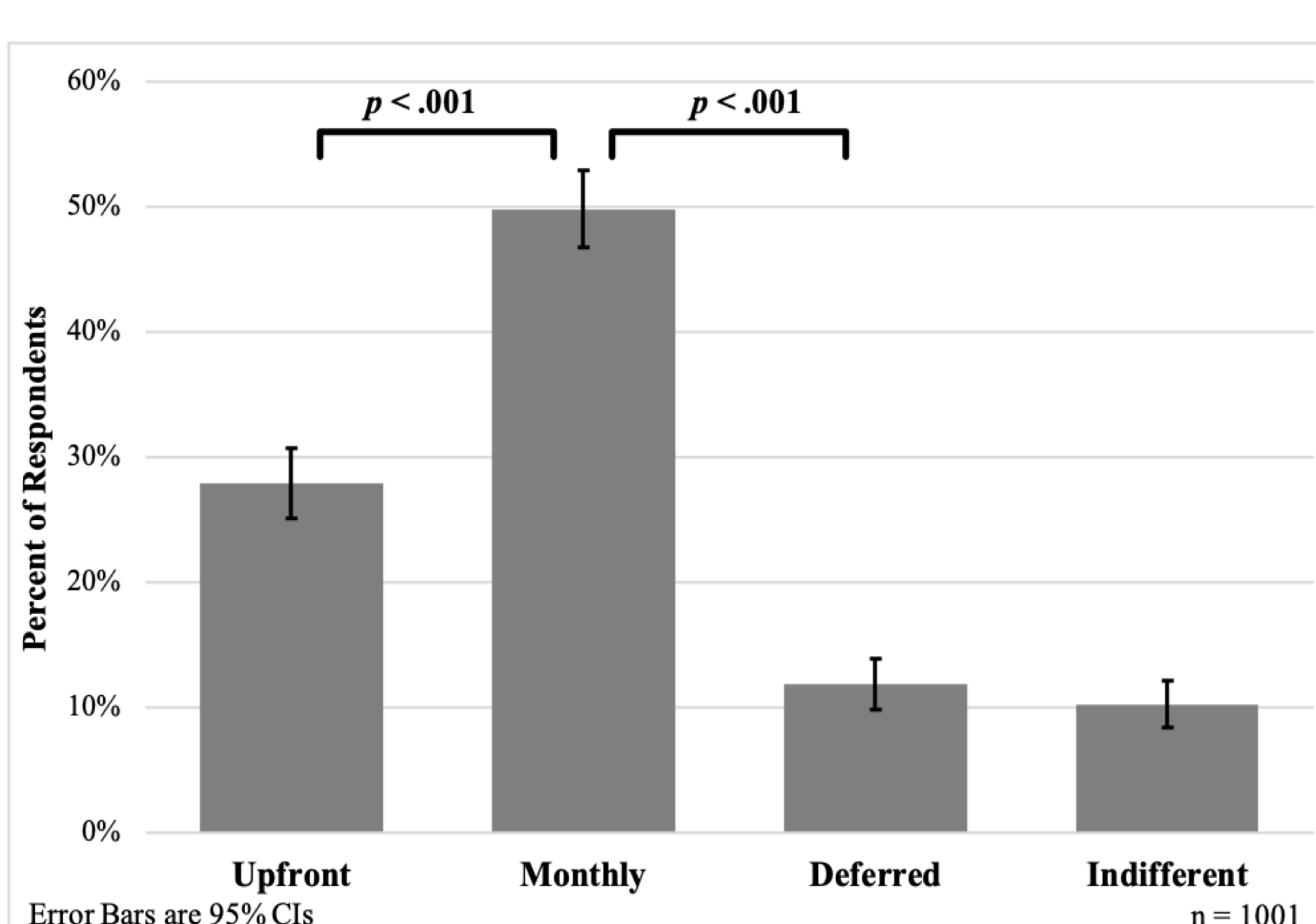


Study 4

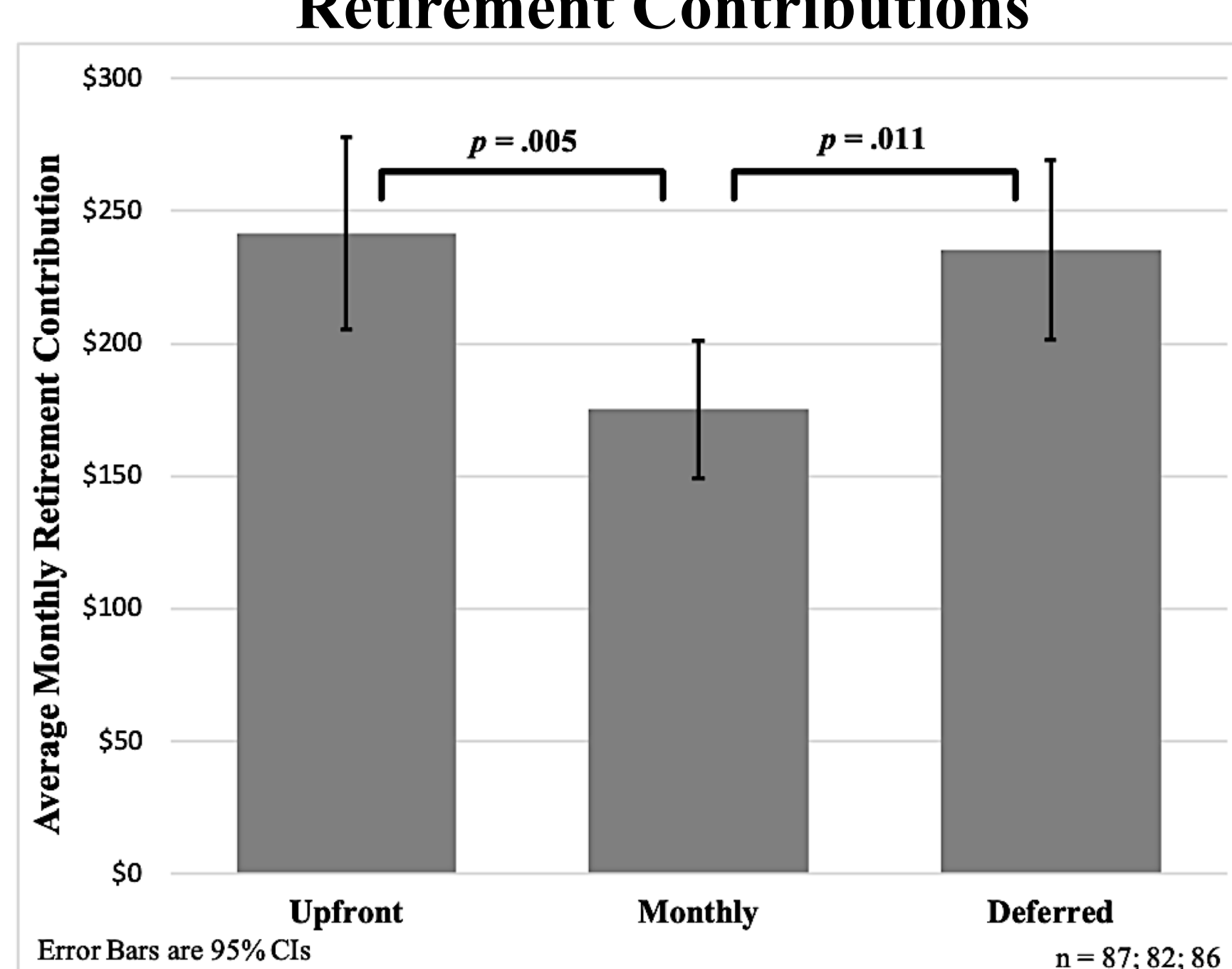
Perceived Constraint



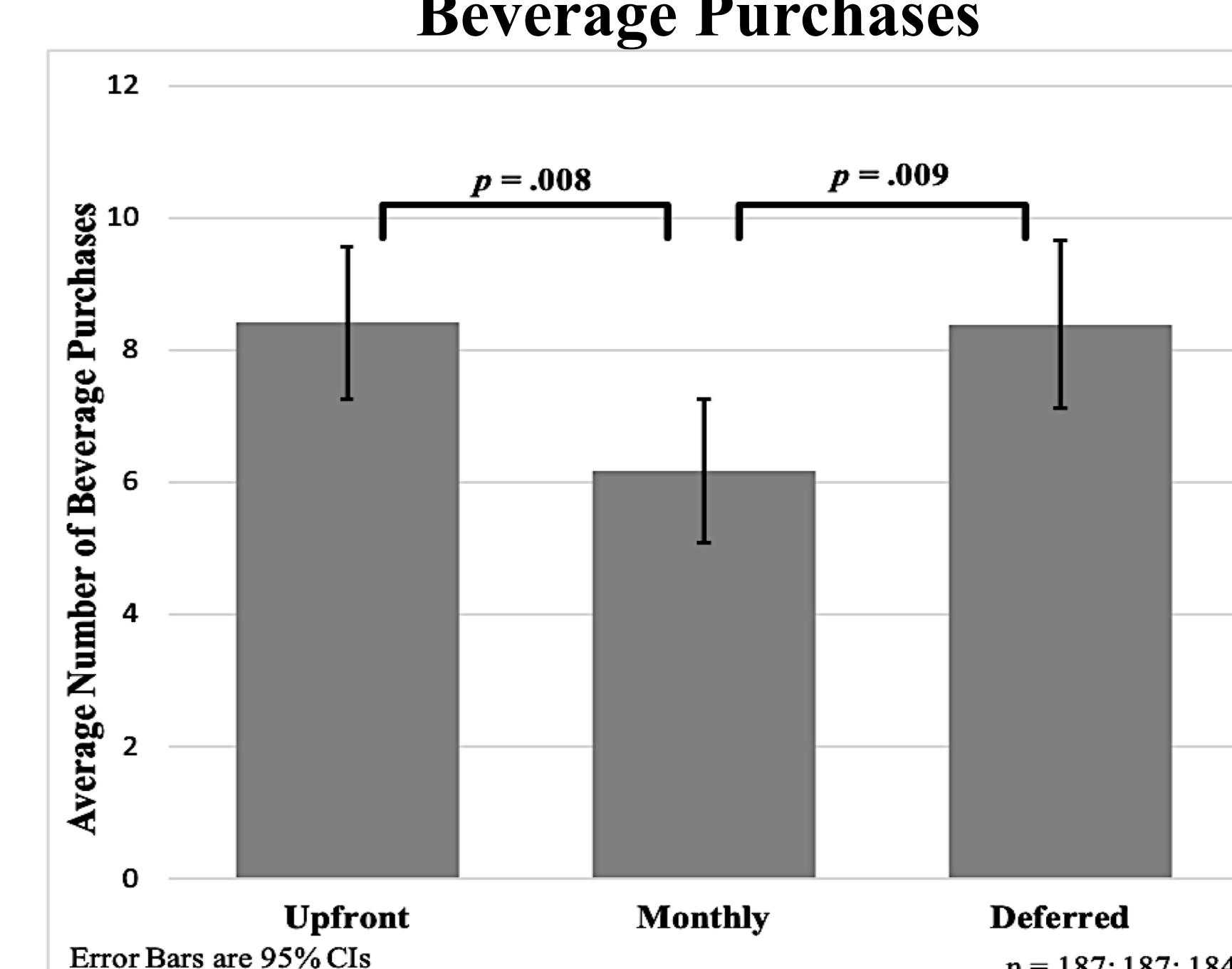
Least Financially Constraining Plan



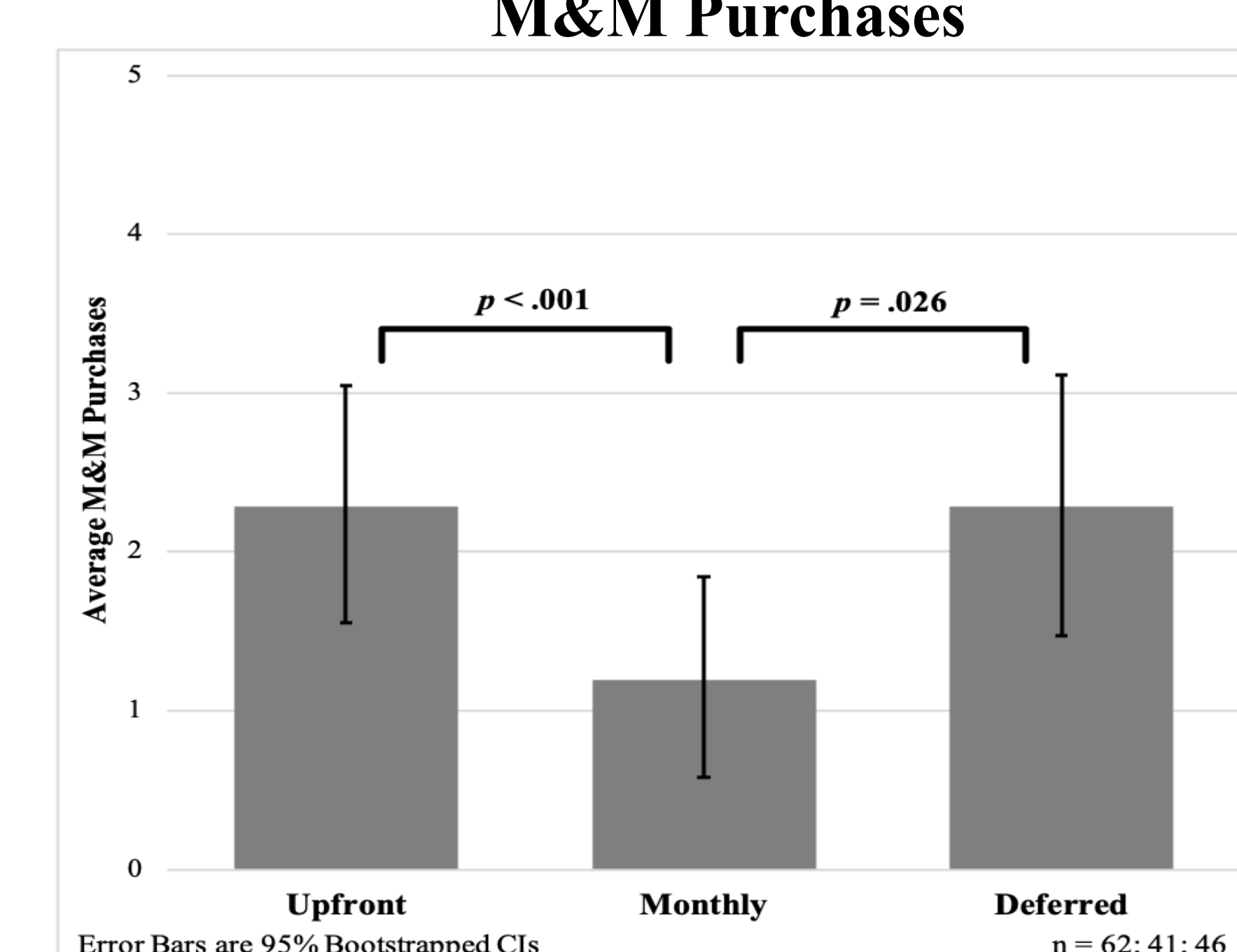
Retirement Contributions



Beverage Purchases



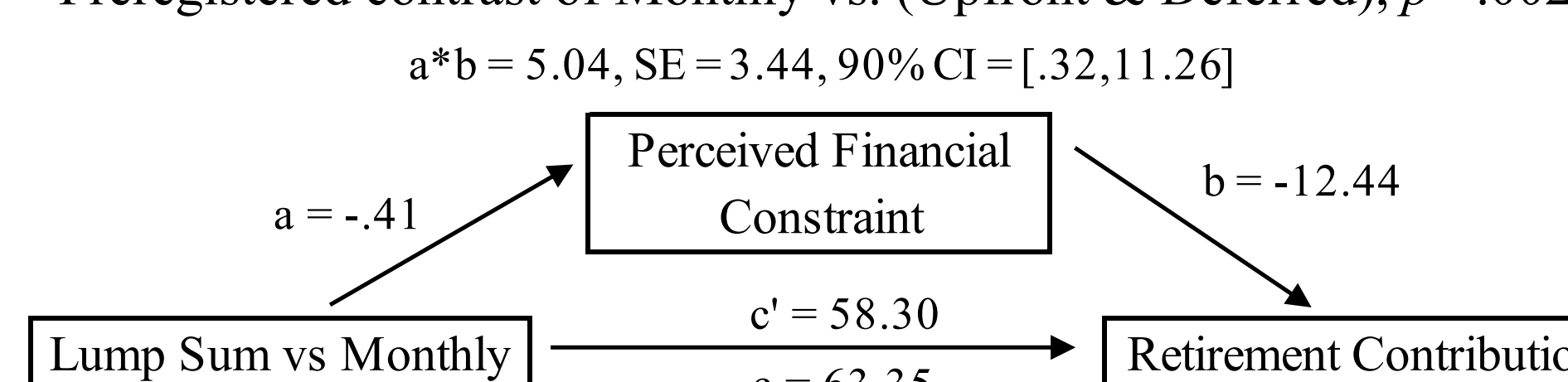
M&M Purchases



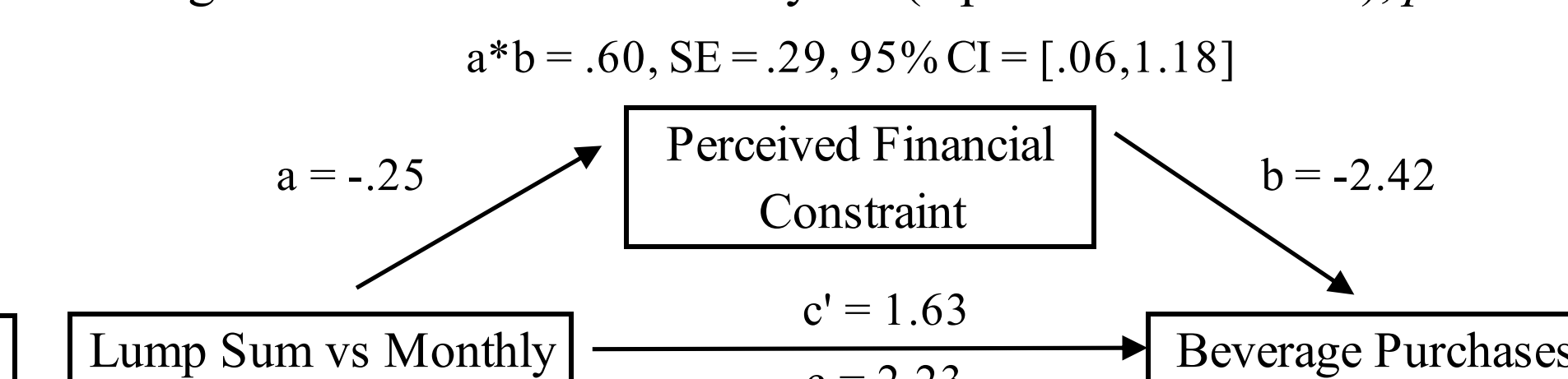
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Preregistered contrast of Monthly vs. (Upfront & Deferred), $p = .002$



Preregistered contrast of Monthly vs. (Upfront & Deferred), $p = .002$



Preregistered contrast of Monthly vs. (Upfront & Deferred), $p < .001$

Conclusions

- Consumers fail to predict the effect of monthly payment plans on perceived financial constraint.
- Paying in monthly installments leads to greater perceived financial constraint and fewer non-focal monetary outlays, relative to paying in a lump sum.
- Expectations may make consumers more likely to accept these plans, which could exacerbate problems of existing financial constraint.
- This research offers insights for banks or credit card companies that offer installment plans and are affected by the consumers' subsequent financial decisions.

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Additional Notes

- All studies were preregistered.
- All reported p-values are adjusted for multiple testing (single-step method).