

Background

- Monthly installment plans are becoming an increasingly popular financing option, yet there is sparse research on how selection of these plans impacts psychology.
- Some research suggests installment plans could reduce perceived constraint by better aligning income with expenses¹. It is also the dominant option when there is no interest.
- Other work suggests installment plans could increase constraint due to debt aversion² and/or dread of upcoming payments³.

Importance of Perceived Financial Constraint

- Perceived constraint shifts attention to focal issues that cause the constraint, often leading to neglect of non-focal issues⁴.
- There is plenty of research on how perceived financial constraint affects consumer behavior⁴. However, there is limited research on antecedents of financial constraint.

Design of Studies 1 - 3

- **Payment Options:** 1) Pay all upfront 2) Pay in six equal monthly installments (no interest)
- **Study 1:** Participants read a scenario about a furniture purchase, along with the two payment options above. They stated which plan they would prefer and which would cause them to feel more financially constrained.
- **Study 2:** Using the same furniture 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 but with intended beverage purchases replacing retirement contributions

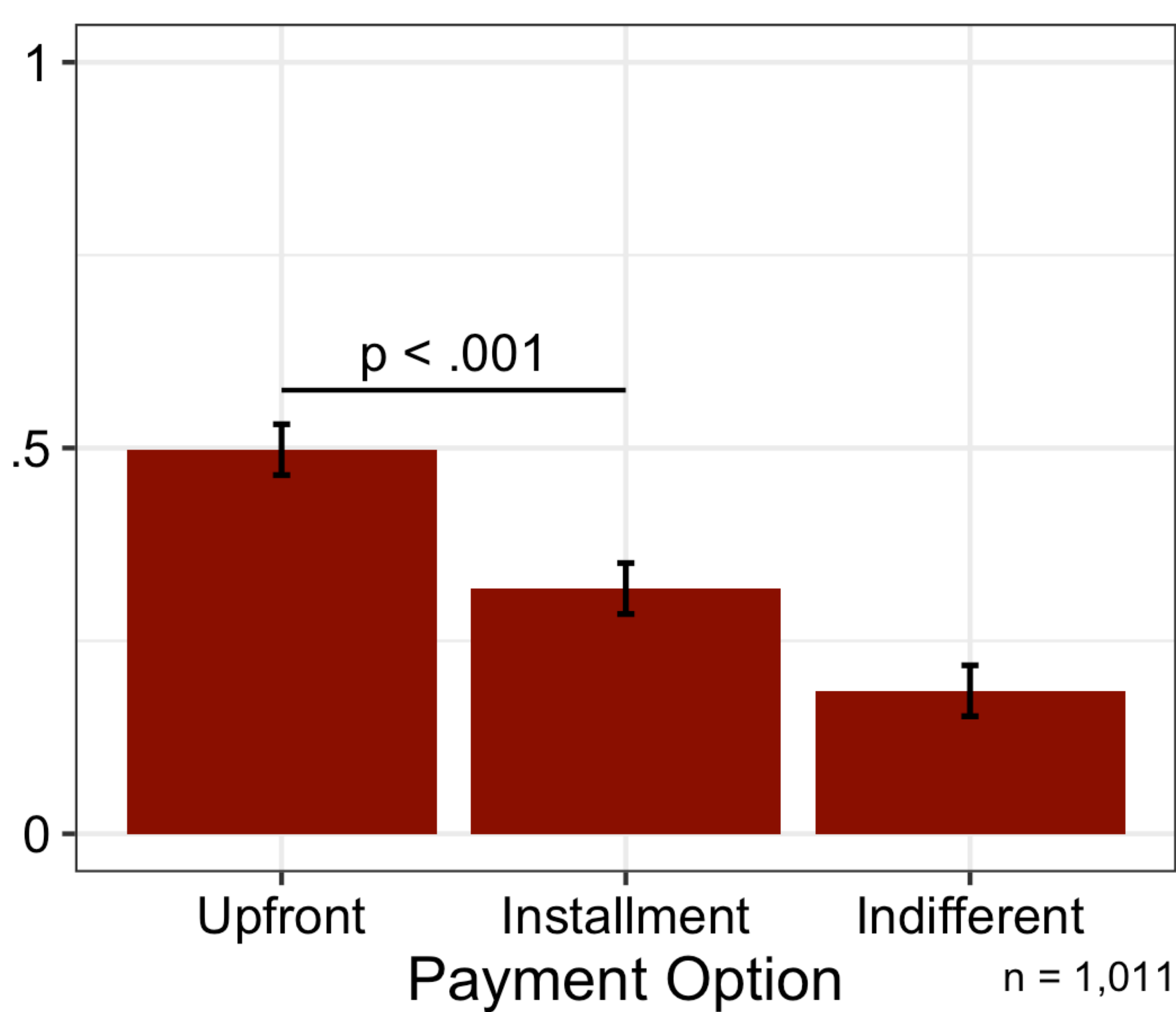
Design of Study 4

- Participants went through a lab study where they earned credits that could be used to purchase M&Ms. Unused credits were converted into lottery tickets for a \$50 Amazon gift card.
- Some credits were used to pay a participation fee. Participants were randomly assigned to pay this fee upfront or pay in equal installments for six rounds.
- In each round we elicited perceived constraint and M&M purchases.

Results

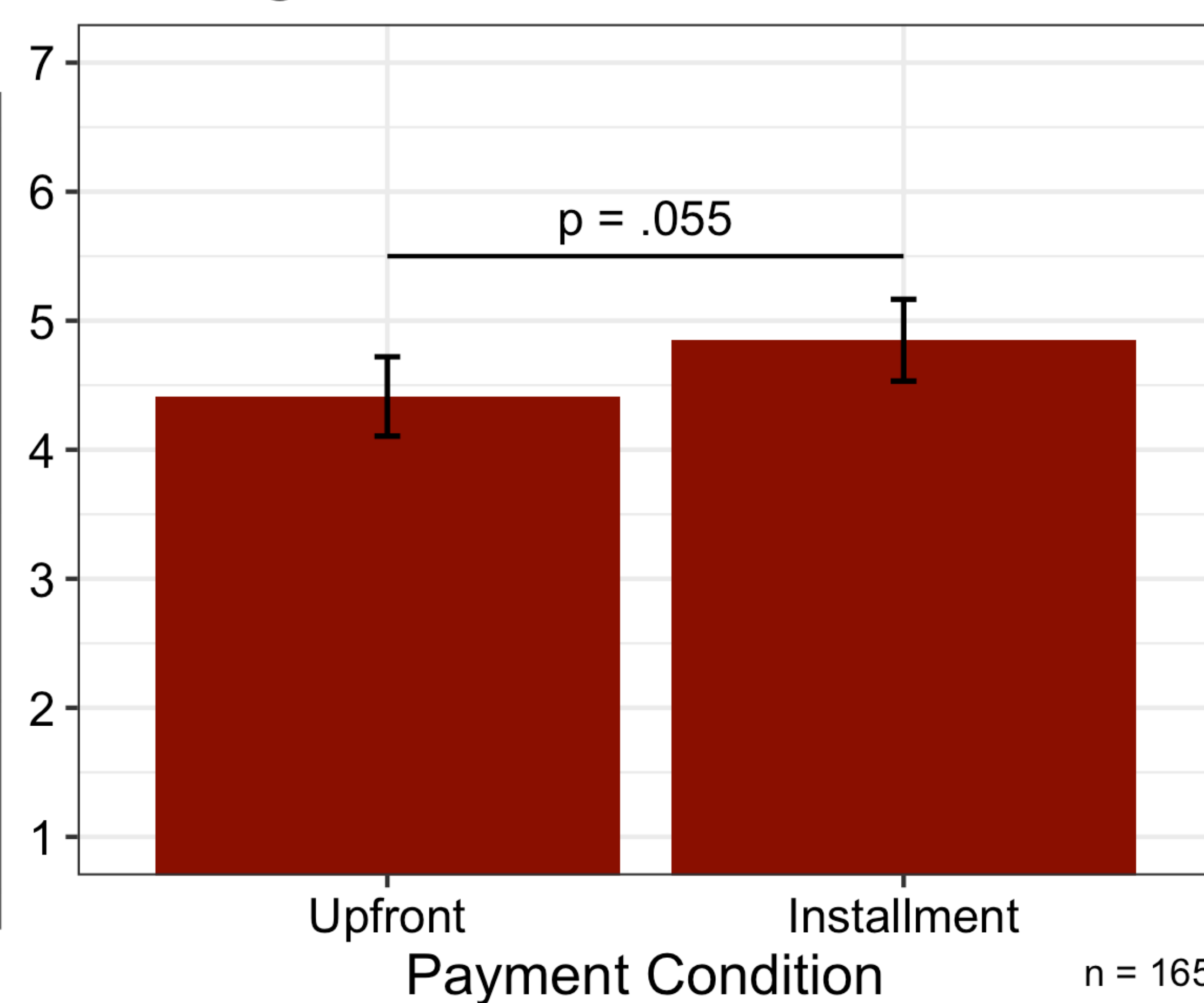
Study 1

Payment Option Participants Expect to Feel More Constraining



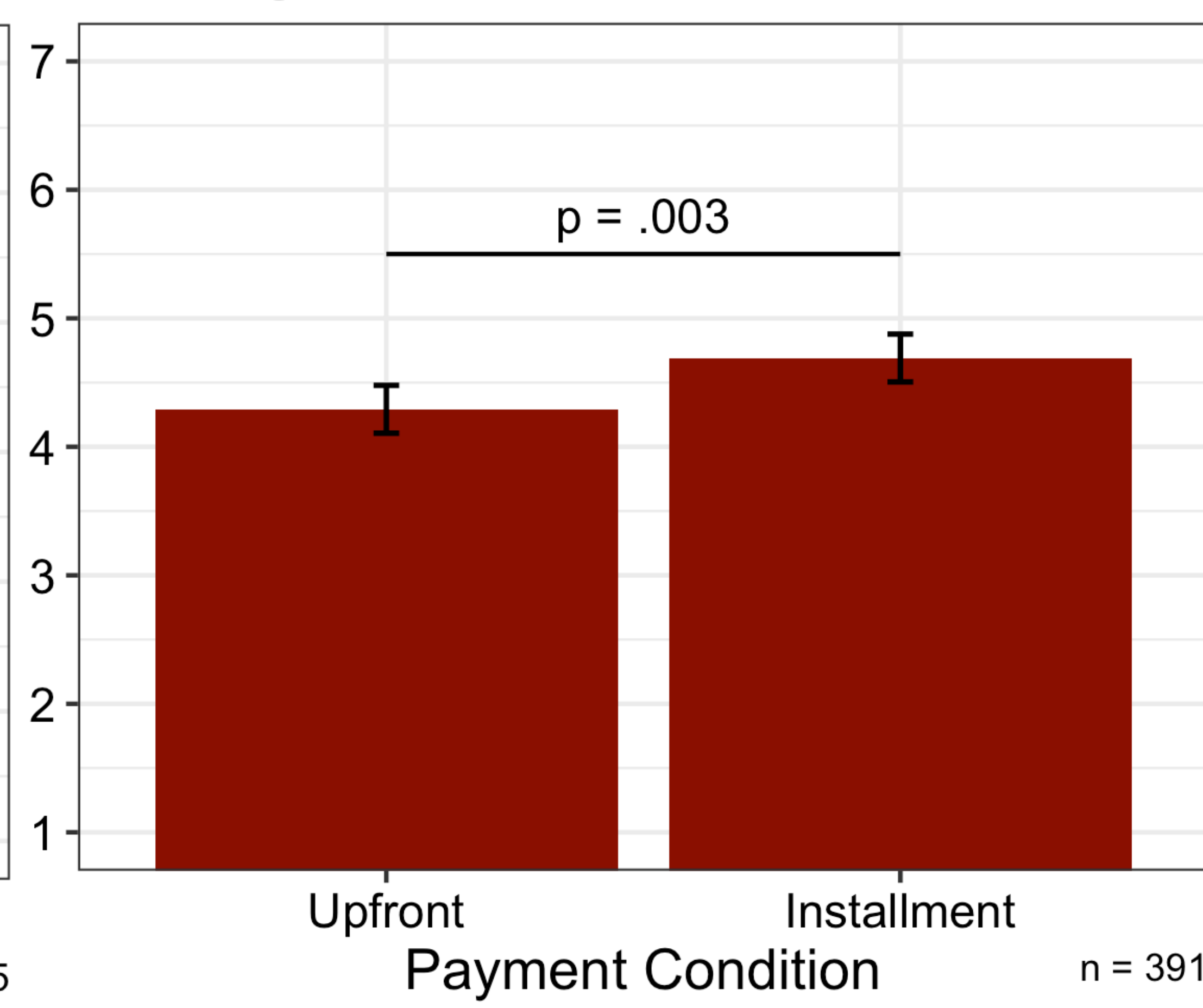
Study 2

Average Perceived Financial Constraint



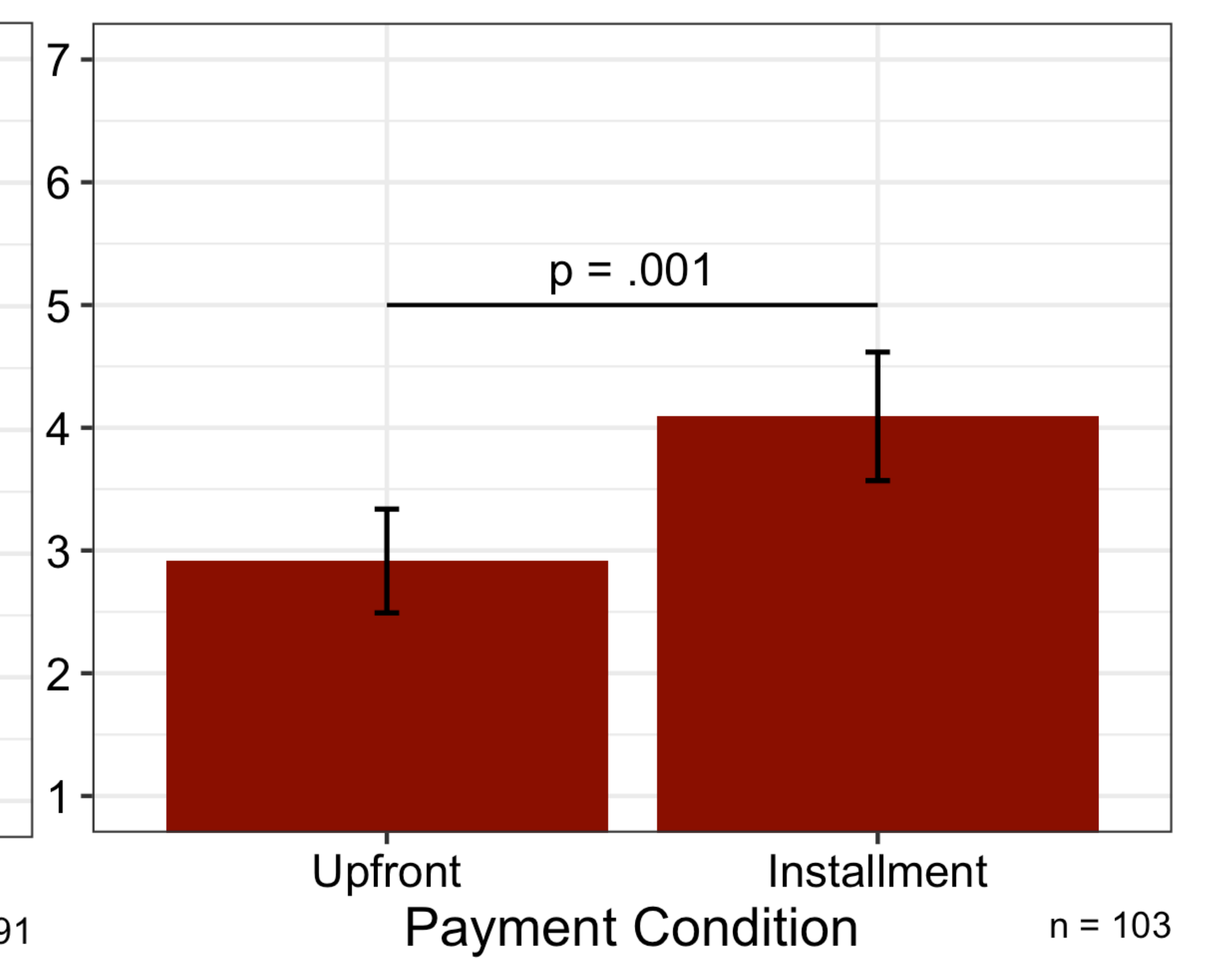
Study 3

Average Perceived Financial Constraint



Study 4

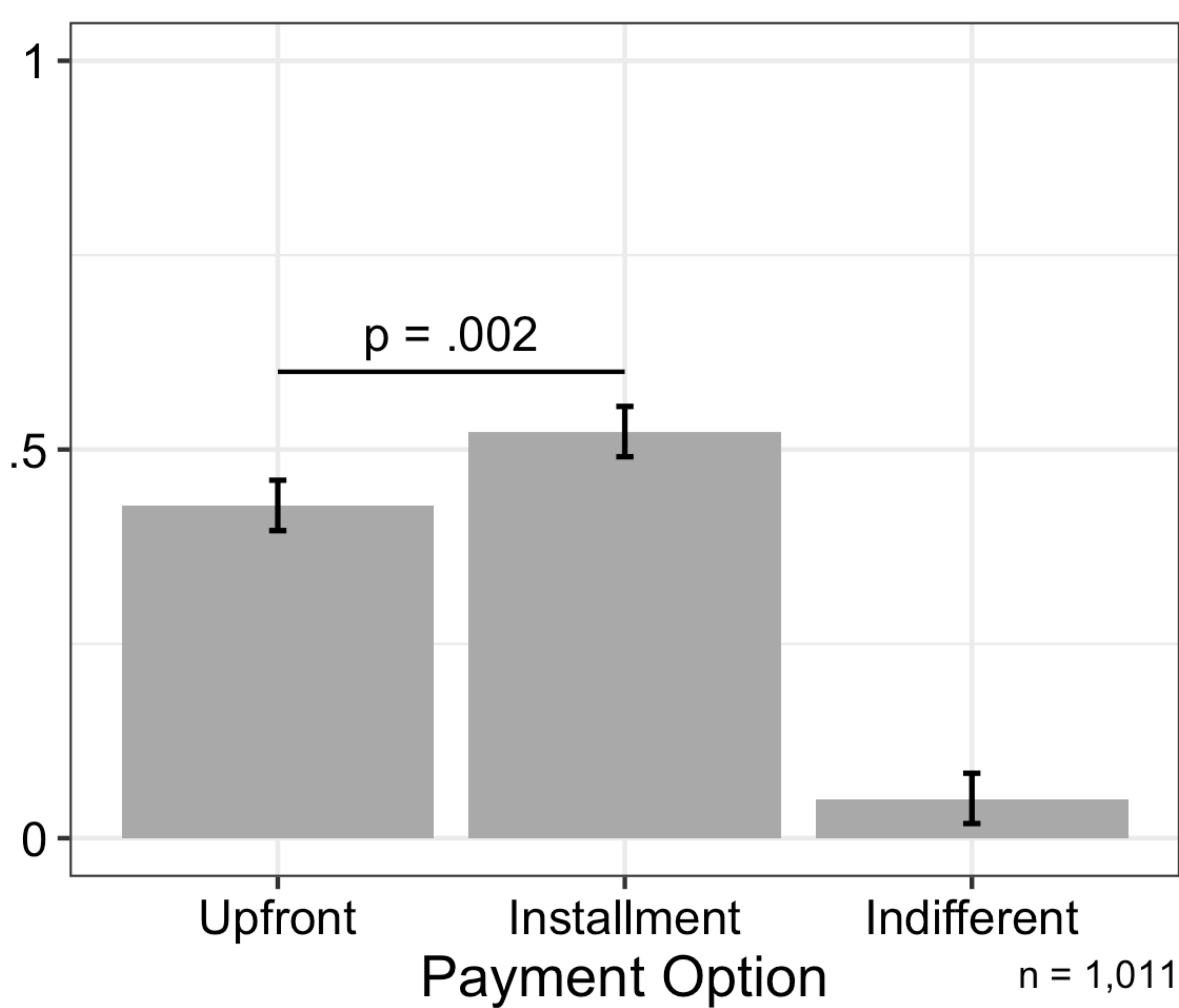
Perceived Constraint at Mean Credit Balance



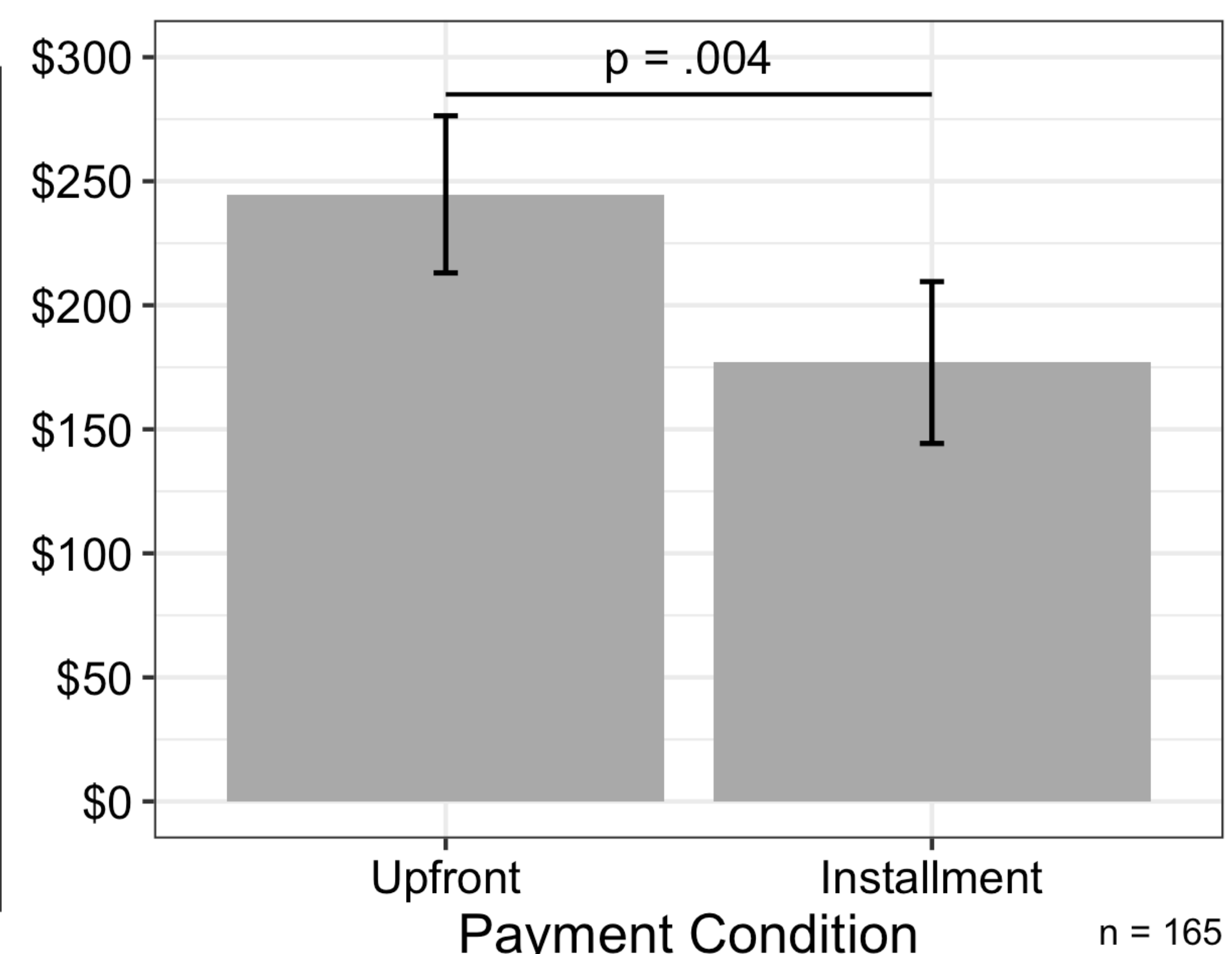
Conclusions

- Consumers fail to predict the effect of installment payment plans on perceived financial constraint.
- Paying in installments leads to greater perceived financial constraint and fewer non-focal monetary outlays, relative to paying upfront.
- 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, as well as marketers for firms that offer these plans.

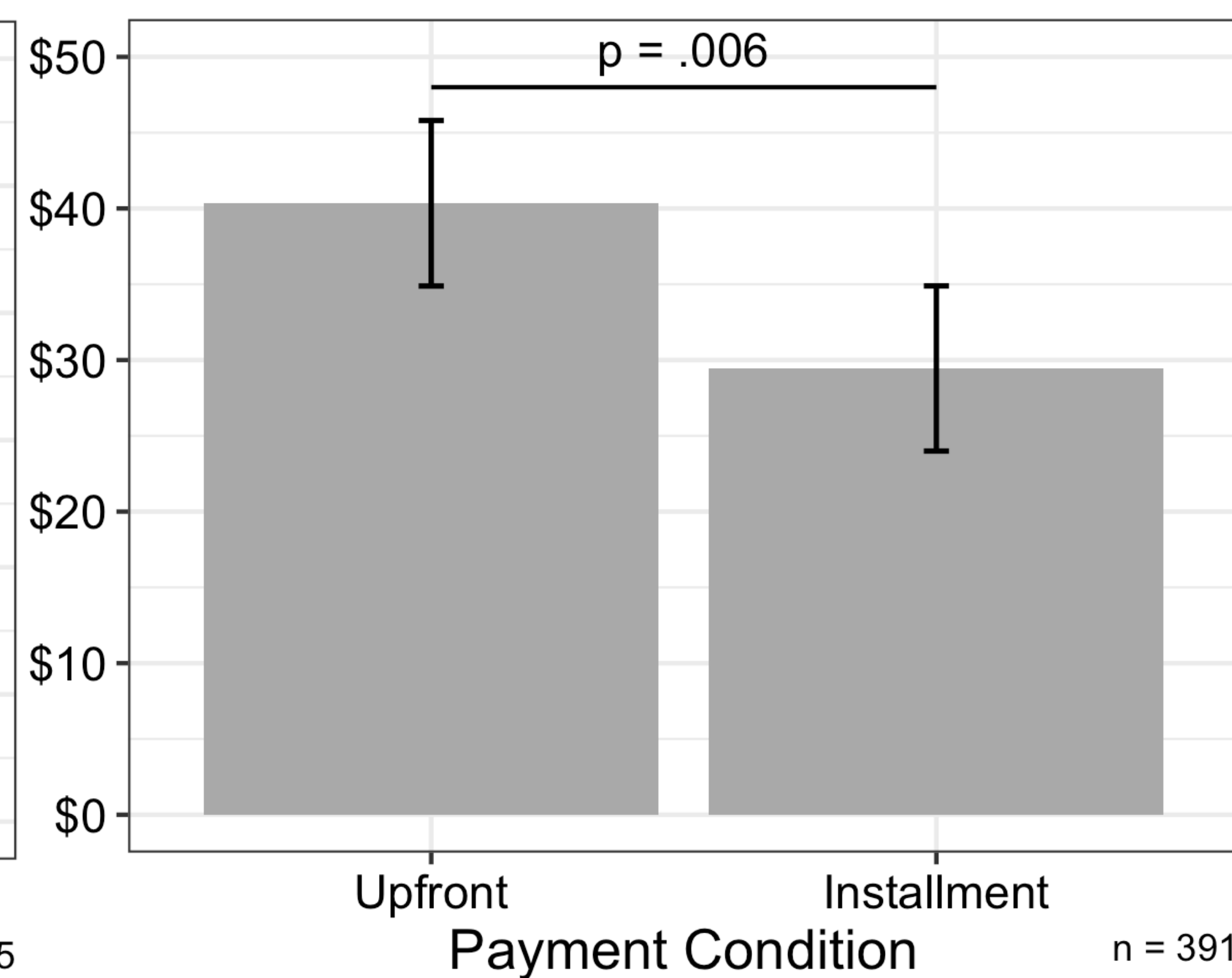
Preferred Payment Option



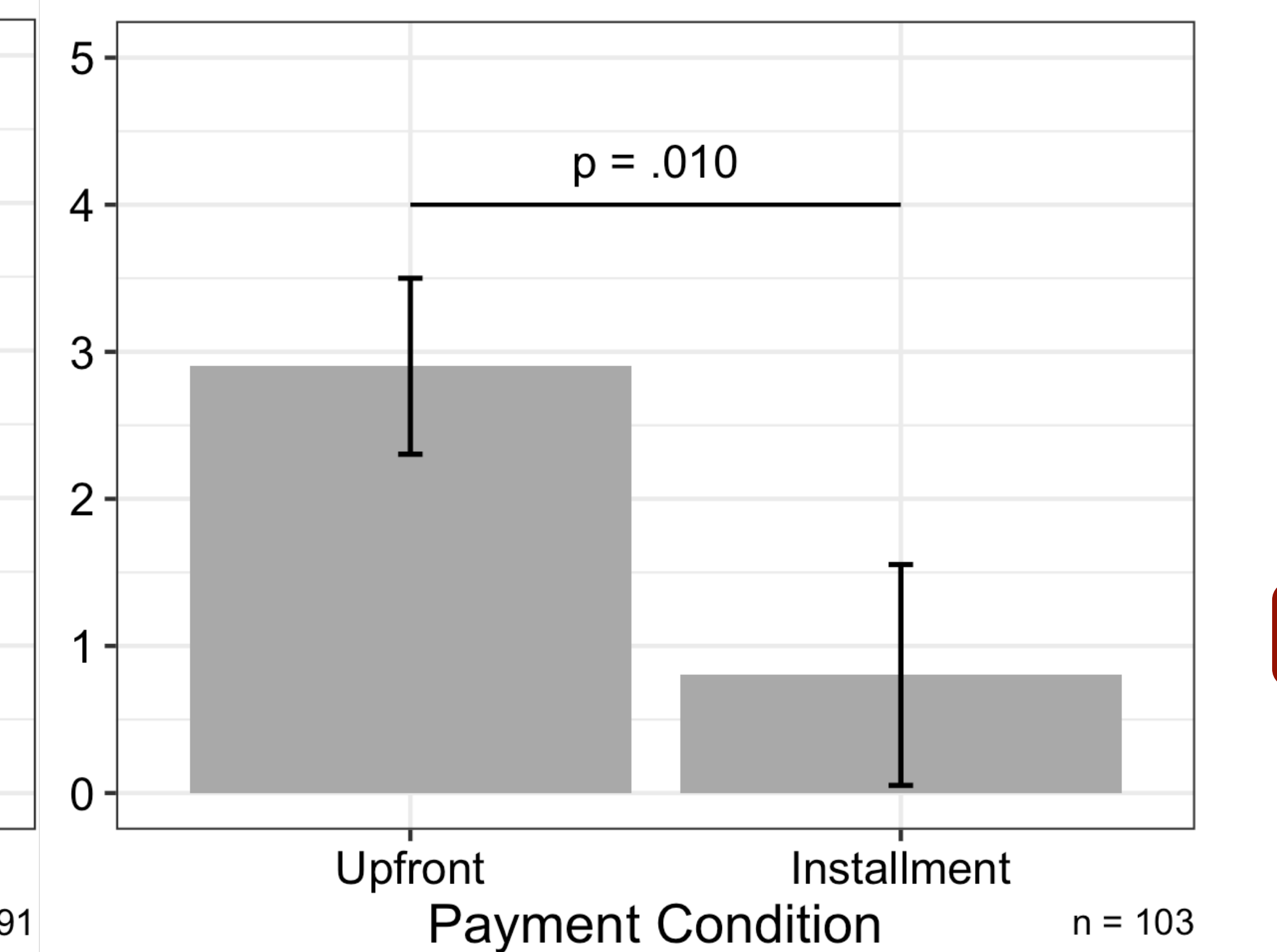
Average Monthly Retirement Contributions



Average Monthly Beverage Expenses



M&M Purchases at Mean Credit Balance

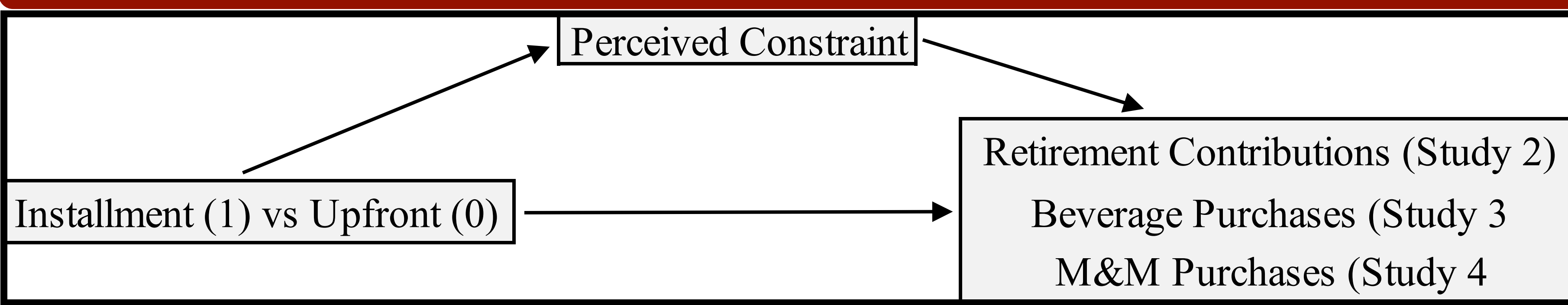


Indirect Effect 95% CI = [-34.55, -3.28]

Indirect Effect 95% CI = [-4.76, -1.39]

Indirect Effect 95% CI = [-1.14, -0.26]

Mediation Model for Studies 2 - 4



References

1. Auh, S., Shih, E., & Yoon, Y. (2008). Aligning benefits with payments: A test of the pattern alignment hypothesis. *Journal of Consumer Psychology, 18*(4), 292-303.
2. Greenberg, A. E., & Hershfield, H. E. (2019). Financial decision making. *Consumer Psychology Review, 2*(1), 17-29.
3. Loewenstein, G. (1987). Anticipation and the valuation of delayed consumption. *The Economic Journal, 97*(387), 666-684.
4. Hamilton, R. W., Mittal, C., Shah, A., Thompson, D. V., & Griskevicius, V. (2019). How financial constraints influence consumer behavior: An integrative framework. *Journal of Consumer Psychology, 29*(2), 285-305.

Additional Notes

- p-values in Study 1 are from multinomial logistic regression.
- p-values in Studies 2 - 4 are from linear mixed models of the form:
Dependent Variable_{ij} = α₀ + η_i + α₁*Installment_i + ε_{ij}
- In Study 4, we control for credit balance.

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