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Editorial: Psychology of financial management

Gerrit Antonides[1]* and Thomas Post[2]

[1]Urban Economics Chairgroup, Wageningen University, Wageningen, Netherlands, [2]School of Business and Economics, Department of Finance, Maastricht University, Maastricht, Netherlands

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Editorial on the Research Topic
Psychology of financial management

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EDITED AND REVIEWED BY
Subhasish M. Chowdhury,
The University of Sheffield, United Kingdom

*CORRESPONDENCE
Gerrit Antonides
✉ gerrit.antonides@wur.nl

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The Research Topic of the "*Psychology of financial management*" aims to combine insights from both psychology and economics into the field of financial management. The concept of financial management includes how consumers, children, households, and entrepreneurs make economic decisions about saving, spending, borrowing, investments, paying taxes, health insurance, and helping behavior, among other issues.

This Research Topic issue includes 10 contributions from authors from different countries in the fields of economic psychology and behavioral economics who use different research methods, including survey research, experiments, and qualitative interviews. Six contributions deal with the core financial issues of saving, borrowing, spending, and investments, while the other four deal with other types of financial behavior.

The first four contributions study how saving goals, information, mental budgeting, and financial management are associated with spending, saving, borrowing, and paying taxes.

Barrafrem et al. study how consumers' saving goals, stated in an app, contributed to both making a savings deposit and the amount of savings at a Swedish Fintech Company. Saving goals could be classified as either group goals (e.g., a vacation trip together) or individual goals. In addition, goals were classified as either hedonic or utilitarian. Using survey data, they find positive relationships for both group and hedonic goals regarding making a savings deposit and the amount of savings.

McNair et al. study how the meaning of Christmas, in addition to financial management and material values, for consumers in the United Kingdom and Norway is associated with spending and borrowing for this annual event. The meaning of Christmas includes financial concerns, indulgence, and social aspects. Using survey data from both countries, they find that economic hardship was positively associated with borrowing and material values were negatively related, whereas for spending, these effects were roughly the reverse. Feelings of indulgence had a positive effect on spending. Financial management was negatively associated with borrowing.

Using survey data, Antonides and de Groot study how the financial management of Dutch self-employed people without personnel mediates the relation of their mental budgeting scale with self-reported tax compliance. Mental budgeting captures psychologically categorizing different expenses into different budgets and keeping track of these budgets. In general, mental budgeting serves to facilitate financial management. In this study, mental budgeting was positively related to several indicators of financial management, which, in turn, was positively related to several indicators of tax compliance and pension and disability arrangements.

Strikwerda et al. study saving for retirement. Unlike many other studies, they study a very early step in the decision-making funnel—activating people to seek information about the consequences of a particular retirement decision (e.g., retiring earlier). In two studies, they compare three interventions: a traditional pros-and-cons text, a value clarification method (VCM), and testimonials. Activating pension plan members has already been demonstrated to be challenging. Not completely unsurprising, this study's results also reflect this challenge: While in Study 1 VCM and testimonials showed an activating effect, Study 2 could not replicate those results. Overall, the results are a call for more research on this topic.

Saving goals might be considered a kind of mental budget, or categorizing one's saving behaviors, with similar effects on sound financial management, that is, savings, in these studies. Financial management was also related to fulfilling financial obligations (paying taxes and pension arrangements) and restricting borrowing behavior. The first three studies highlight the relationship between categorizing expenses, savings, and financial management, thus supporting the theory of mental accounting in financial behaviors (e.g., Thaler, 2015, 1999). The fourth highlights the role of information in making a retirement decision.

Two contributions study investment decisions. Huang and Guenther test if the disposition effect (the tendency to hold on too long to losing stocks and sell winning stocks too quickly) can be avoided by giving informational feedback. The results of the between-subjects experiment show that explaining to participants literally what the disposition effect is and that they might be subject to it helps immediately avoid this investment mistake. This effect, however, does not seem to last long: While 2 weeks later follow-up measurements still detect an effect, 3 months later, this is no longer the case.

Robba et al. study what makes investors choose socially responsible investment (SRI) products. Using latent profile analysis, they cluster a representative sample of 1,002 Italian consumers into five segments. The segment that leaned most toward SRI products is characterized by, for example, investors with high SRI knowledge, a high risk appetite, and norms that consider personal impact on the environment and those who perceived that their behavior could make a difference when it comes to addressing climate change. Overall, their findings underscore that non-financial motivations and factors are important in explaining why (some) investors chose SRI products.

Born et al. test two different interventions aimed at making people more interested in long-term care (LTC) insurance. Using a sample of Americans, they find that, through an "emotional pathway," two framing interventions indirectly impact attitudes and intentions toward LTC insurance: loss framing (through inducing anxiety) and narrative framing (through inducing feelings of calmness).

Two studies deal with the psychological aspects associated with using available resources. Kappes's first study analyzes children's responses in the United Kingdom to scenarios in which a girl could buy a gift. In the first scenario, the girl bought a gift; in the second scenario, she did not buy a gift but could still give a gift enabled by her mother; and, in the third scenario, she did not buy a gift. In the first (second) scenario, the children judged the girl in the scenario to be richer and happier than in the second (third) scenario. In the second study, conducted in the United Kingdom and the United States, children were presented with a scenario in which they either bought or did not buy something in a store, with the first case resulting in them feeling richer and happier. In the third study, in the United Kingdom, children were presented with a hypothetical decision to buy something from the store. Here, too, buying makes the children feel richer and happier than not buying something. The study seems important for teaching children to refrain from buying by counteracting the effect of the children feeling poor or unhappy.

Kempson and Poppe deal with vulnerable people's self-efficacy in taking responsibility for making payments. Although self-efficacy and taking responsibility appear to be significant factors in overcoming problems of defaults and debts, their qualitative interviews in Norway show that the interaction with creditors, debt enforcement agencies, and money advisors often reduces people's self-efficacy, consequently leading to anxiety, depression, and worsening finances.

The two studies show two sides of the same coin regarding wealth experience: The first shows associations of both richness and happiness with spending, while the second shows that lacking resources may lead to lower self-efficacy and depression.

Arnestad et al. study whether prosocial behaviors (i.e., providing help) are less pronounced if the recipient benefits financially from the help, for example, by earning a sales profit. In three experiments, they find that the motivation to help others is decreased when the recipient makes such financial gains. Salient financial gains seem to change the giver's evaluation of a helping transaction from (pro)social logic to a market logic.

This Research Topic shows how financial management and financial behavior are studied from different behavioral economic perspectives, with results often deviating from standard economic insights. The challenge of incorporating psychological insights into economic models still remains to be taken up in future research.

Author contributions

GA: Writing – original draft, Writing – review & editing. TP: Writing – original draft, Writing – review & editing.

Conflict of interest

The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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