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Household consumption: Influences of aspiration level, social comparison, and money management

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Abstract

The present research posits and tests a model of household consumption of less necessary or luxury goods and services. It is hypothesized that a household's economic situation has a direct effect on this consumption as well as indirect effects mediated by aspiration level, social comparison and money management. Structural equation modeling of questionnaire data from a sample of households in a metropolitan area of Sweden ($n = 411$) was used to test the model. The results reveal that as expected the household's economic situation has a significant direct effect on consumption and indirect effects through aspiration level and social comparison. The results also show that satisfaction with consumption increases with increased consumption and decreases with higher aspiration levels.

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1. Introduction

Households are facing a number of consequential economic decisions concerning how to earn an income, what and how to purchase, what and how to save, and how to insure against possible losses. Many such decisions are made on a frequent and regular basis and are probably not perceived as particularly important or difficult to make. However, occasionally households struggle with tough decisions, for instance, about how to increase their income in bad times, buying or not buying a house, or how to cut down on expenses in order to increase savings for old age. Moreover, with the growing amount of products and services that are offered, and with the establishment of new ways of payment, daily managing the household economy has become an increasingly difficult task, a fact perhaps reflected in the growth of services for economic counseling (Bayne, 1998; Dellgran, 2000). The households' economic decisions are important and affect the well-being of the households themselves. They are also important for and affect the development of the national economy (Kirchler, 1995).

Our focus in the present study is households' consumption of less necessary or luxury products and services. In a recent study, Dellgran and Karlsson (2001) analyzed Swedish household expenditure data from 1988 to 1996. The results indicated that the household economic situation in terms of income and household type (i.e., single or couple, with or without children) accounted for a substantial proportion of variance in the total household consumption (R^2 adj = 0.48). In addition, we distinguished between necessary and less necessary or luxury consumption. Based on a Swedish survey (Halleröd, Marklund, Nordlund, & Stattin, 1993) of what goods and services households perceive as necessary consumption, expenditures were categorized as necessary if at least 50% of the sample perceived it as such, otherwise as luxury consumption. Furthermore, in line with categorizations made by Statistics Sweden, goods and services that are purchased regularly and/or are paid for on a running basis were categorized as non-durables, otherwise as durables. In four separate analyses, income and type of household explained a larger proportion of the variance in expenditures on necessary non-durables (R^2 adj = 0.56) than of the variance in expenditures on necessary durables or luxury durables and non-durables (R^2 adj = 0.15 or less). The aim of the present study is to shed light on the question of what determines less necessary or luxury consumption if not income and household type. Moreover, we want to study how satisfied households are with their level of consumption and what determines this satisfaction. In the following we derive a number of hypotheses about how aspiration level, social comparison, and money management influence consumption and satisfaction with consumption.

How much a household consumes depends on the income or economic situation of households. According to the well-cited life-cycle hypothesis of saving and consumption (Modigliani & Brumberg, 1954), the level of consumption is determined by the average expected lifetime income and not the current income. Empirical data demonstrates, however, that consumption matches income to a much greater extent than suggested by the life-cycle hypothesis (Deaton, 1997). From this and in line with Shefrin and Thaler's (1988) behavioral life-cycle hypothesis, it is reasonable to as-