What's your spending M.O.?

Are you a spendthrift or a tightwad? Do you have a bias for the whole? And what can you do to fend off the what-the-hell effect?

Believe it or not, academics in scholarly papers have identified and labeled these traits in consumers. New research in a field called behavioral decision suggests it's all about the pain, or lack thereof, they experience when making a purchase.

Tightwads can -- and do -- control their fear of spending by carrying large bills (the "bias for the whole"). But if they fall off the wagon and lay out that cash, they go overboard (hence the "what-the-hell effect").

Spendthrifts, on the other hand, can control their spending by carrying large bills but usually don't.

So, where do you fall and how can it improve your saving and spending habits?

**Research says..**

In "The Denomination Effect," marketing professors Priya Raghubir and Joydeep Srivastava conducted a series of studies exploring our "bias for the whole," the "what-the-hell effect" and the pain tightwads and spendthrifts feel after their purchases. In one study, a researcher gave 75 adult drivers at a gas station in Omaha, Neb., $5 for answering a short survey on gas purchases.

The customers were told they could use the money to buy something in the station's convenience store. About a quarter

First off, let's define tightwad. In a study two years ago, Scott Rick, now a lecturer in marketing at the University of Pennsylvania, and two colleagues categorized tightwads as people who experience so much pain making purchases that they spend less than they'd prefer.

Spendthrifts, on the other hand, feel no such pain and spend more than they want.

Several years ago, Rick and colleagues developed a spendthrift-tightwad scale and a short questionnaire they say reliably determines where consumers fall on the scale.

Most of us -- 60 percent -- are neither, they found. We're "unconflicted." We fall in the middle and spend about as much as we like.

One in four among us is a tightwad. About 15 percent are spendthrifts. Men are nearly three times more likely to be tightwads. They are more likely to be older, to have more savings and to carry lower credit card balances.

There's a difference between being a tightwad and being frugal, researchers say. The highly frugal save because they enjoy it. Tightwads want to spend more but can't because it pains them too much.

**Fatal fiscal attraction**

In recent months, Rick and other researchers have found that tightwads and spendthrifts attract each other, causing clashes over spending in their marriages. They call this the "fatal fiscal attraction." That's a serious
of those receiving five $1 bills spent money while 16 percent of those receiving a $5 bill bought a nongas item, the study found.

In another, researchers gave 89 students either a $1 bill or four quarters and said they could buy candy if they so chose. One fourth of those given the bill bought candy; nearly two-thirds of those given quarters did.

Once those with the $1 bill decided to spend it, they spent more than those with quarters. That's the "what-the-hell effect," researchers said. Raghubir replicated those results with 24 elementary and middle-school children offered $1 to buy candy on Halloween. All who received quarters bought sweets while less than half who received dollar bills did.

Raghubir and Srivastava found the phenomenon even held true in China. In that study, market researchers recruited 150 Chinese women to complete a survey and thanked them with 100 yuan. That's a significant amount of concern, and a topic for another column.

Fortunately for both tightwads and spendthrifts, a husband-wife team seeking their doctorate in marketing at the University of Iowa identified what they call a "bias for the whole."

Their research several years ago found students less likely to buy items when given a single $100 bill versus $100 in smaller denominations. The reason, they said, is people mentally grasp a single $100 bill more easily. Therefore, people ascribe more value to that $100 and are less inclined to spend it, said Himanshu and Arul Mishra, now at the University of Utah.

Other researchers recently confirmed those findings but offer a different explanation.

"The Denomination Effect"

In a paper called "The Denomination Effect" published last week in the Journal of Consumer Research, researchers repeatedly found people were less likely to spend the single bill -- be it $1, $5, $100, or a foreign currency -- than its equivalent in smaller denominations. What's more, they found, some people deliberately chose a single $100 bill to avoid being tempted to spend. Finally, they found tightwads felt more pain from their purchases than spendthrifts.

"They fear that once they break the bill, they'll be unable to stop spending the money, and all the money will go away," said Priya Raghubir, a marketing professor at New York University who conducted the research with Joydeep Srivastava, an associate professor of marketing at the University of Maryland.

"Spendthrifts," Raghubir continued, "don't have that fear at all. They don't have the pain associated with spending money. They would not use denominations strategically. They don't want to spend a lot, but are unable to control themselves."

Ironically, and dangerously, when tightwads finally do decide to spend their large bills, they spend it all, or more than they'd intended.

"In fact, they end up spending more than those in the smaller denomination condition," Raghubir said.

Researchers have labeled this the "what-the-hell effect."

What can you do?

So what can you do to temper these traits?

Start by knowing where you fall on the tightwad-spendthrift scale by taking a short survey. Visit my blog for the link.
If you want to spend less, carry cash instead of credit cards. If you're a spendthrift, you might even want to carry larger bills.

Tightwads wanting to spend more could use plastic. Studies have found that people spend more using credit cards than when using cash. Any manner of payment that makes the outflow of cash less vivid reduces the psychological barrier to spending, Raghubir has found.

Finally, if you use a credit card, force yourself to look at the line-item breakdown on your monthly bill. Raghubir found that people recalled their individual cash expenditures better than their credit card charges.

The latter underestimated their spending and charged more on it the next month, she said. Those who think about expenditures item-by-item are more likely to curtail spending in the future because "each of them has pain associated with it," she said.

Unfortunately, it probably will take more than simple awareness to change habits, Raghubir said. When she was finishing her article, she said, "I was up to my neck in credit card bills. It was just hilarious. Which makes me wonder still how effective simply telling people how their behavior affects their spending is in changing that behavior."

Brent Hunsberger does not give individual financial advice but welcomes questions, comments or suggestions for his column and blog. Reach him at 503-221-8359 or brenthunsberger@news.oregonian.com
were doing so to control spending.

At the end of the survey, all students were offered $10 in cash to participate in a follow-up study. Researchers either gave them a $10 bill or 10 $1 bills and asked them how they felt about the money they received.

Tightwads who received the single $10 bill were more likely to indicate negativity.