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Jing Jian Xiao

Consumer Economic Wellbeing

 Springer

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Consumer Economic Wellbeing

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Jing Jian Xiao
University of Rhode Island
Kingston, RI, USA

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Preface

This book is about important issues relevant to consumer economics, specifically about how to help consumers improve economic wellbeing. Motivations for writing this book are from my teaching. I have been teaching consumer economics courses at the University of Rhode Island for many years. I used several consumer economics textbooks before. These books are rich in contents about current consumer issues but lack theoretical depths. I was looking for a book with more specific details on relevant consumer economic theories and research findings. In May 2008, I was invited to teach a Ph.D. seminar course on consumer economics at Renmin University of China in Beijing. Since then, I returned to teach the course once a year for several times. I used journal papers as teaching materials. Many Ph.D. students asked if there is a book that systematically presents the content of consumer economics. I searched the textbook market and could not find a satisfying one. Then I thought maybe I could write one.

The book in my mind is a textbook that focuses on the development of theories and concepts relevant to important consumer economic issues that are relevant to consumer economic wellbeing. Many important consumer issues discussed in my classes will be described in the book but they will have theoretical explanations and research findings instead of just fact compilations. I will use an interdisciplinary approach to select material to be included in the book. I will use concepts and theories that are developed not only in the field of consumer economics but also in any relevant fields, such as economics, marketing, finance, psychology, sociology, and political science. I expect to draw material heavily from the literature of behavior economics and finance, an emerging field that integrates advances of psychology and economics to address critical consumer economic issues. I started to plan this book in fall 2009 and continued working on it until now (end of 2014). During the process, I realized the work of synthesizing research theories and findings from multiple disciplines is much more than I expected. I am not sure if I have achieved my goal after 5 years of work but at least I tried my best. Originally I thought I could develop a theoretical framework to incorporate all relevant topics and later I found my plan is too ambitious to accomplish. A realistic way for now is to identify important concepts relevant to consumer economic wellbeing and then use brief charts to

link them. Also, it is no way to fully evaluate research theories and findings from multiple fields by myself. In many sections, I just presented current research with minimum evaluations. I hope this is the first step toward building a systematic theory for consumer economics.

My interests in consumer economics, a field addressing critical consumer economic issues from a consumer's perspective, resulted from my backgrounds and training. I received my BS and MS in economics from Zhongnan University of Economics and Law in China in the early and mid-1980s. When I was a master student, I was interested in consumer protection issues. My thesis topic was on the consumer movement in China, under the guidance of Professor Peng Xinyu, who was among the first in China to introduce marketing as a field to the country. I also taught marketing courses before and after I received the master's degree. In 1987, I went to Oregon State University to pursue my Ph.D. in consumer economics under the guidance of Professor Geraldine Olson. Since then, I started my career as a consumer economist. Besides being the director for a consumer financial education research institute at the University of Arizona for two and half years (January 2005–June 2007), I have been teaching consumer economics and finance courses at the University of Rhode Island since 1991. I have grown from a young consumer economist to a measure one mainly benefited by three professional organizations, American Council on Consumer Interests (ACCI) that publishes *Journal of Consumer Affairs (JCA)*, Association for Financial Counseling and Planning Education (AFCPE) that publishes *Journal of Financial Counseling and Planning (JFCP)*, and Asian Consumer and Family Economics Association (ACFEA) that published its selected conference papers in several special issues in *Journal of Family and Economic Issues (JFEI)*. During these years, I presented papers and extended my networks there. I also provided my services for these organizations and journals. I served as the editor of JFEI for 11 years (2000–2011) and have been on the editorial board of JCA for many years. I am currently serving as the editor of JFCP. I also served on and chaired several committees of these organizations including being the president of ACCI and ACFEA. I also worked with scholars at several universities in China and Japan (Renmin University, Tsinghua University, Central University of Finance and Economics, Yamaguchi University, etc.) on research projects on consumer financial literacy, capability, and wellbeing. My interest in and commitment to consumer economics is even reflected in my name. In Chinese, my name is pronounced in a way that sounds like “consumer economics construction,” which was originally by accident but later I felt it may be my fate to devote my life working in this important field.

The book has three parts. Part I discusses the concept of consumer economic wellbeing (Chap. 1) and two important concepts relevant to consumer economic wellbeing, which are consumer rights (Chap. 2) and consumer financial capability (Chap. 3). Part II includes four chapters discussing consumer economic environments, such as government (Chap. 4), business (Chap. 5), media (Chap. 6), and Internet (Chap. 7). In these chapters, the research literature on how government and business organizations (news media, advertisement, and Internet companies are also businesses in the USA) behave that affect consumer economic wellbeing is

examined. Part III includes four components of consumer economic wellbeing: consumer income (Chap. 8), spending (Chap. 9), borrowing (Chap. 10), and saving (Chap. 11). In these chapters, relevant research theories and findings on the title topics are described and summarized.

I tried to write the book with less technical language so that college educated readers who are not experts in consumer economics can understand. I hope the book can be used for both undergraduate and graduate courses dependent on instructors' needs. Instructors may also assign the book to college students taking courses with a focus on consumer economic issues in consumer science departments, business schools, and economics departments. Law school faculty teaching a course in consumer services law would find the material useful. Similarly, instructors of "special topics" courses with a focus on consumer economic issues outside of the disciplines listed above (e.g., psychology, political science, public policy, social work, sociology) may also assign the book to their students. Also, high school teachers in business, social studies, and family and consumer science may find the book of interest.

The book can be used as a reference book for business researchers and practitioners who are working to solve critical consumer issues and improve consumer wellbeing. The book is also of interest to practitioners in the field of consumer education. In particular, those who are concerned about critical consumer economic issues and actively involved in consumer advocacy activities may find the book of interest. Finally, public policy makers at all levels of government are likely to encounter legislation dealing with consumer economic issues and therefore would find the book a useful reference on many of the topic areas covered.

I hope this book will inspire more research studies on important consumer economic issues that inform relevant public policies and business practices to help improve consumer economic wellbeing. More rigid theories relevant to consumer economics will also be inspired and developed based on information provided in this book.

Kingston, RI, USA

Jing Jian Xiao

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During my over 20-year career, I worked with dozens of colleagues and many of our collaborated products are reflected in this book. Without working with them, I would have not accomplished what I have now. They are Mohamed Abdel-Ghany, Sunyoung Ahn, M. J. Alhabeeb, Joan Gray Anderson, Dottie Bagwell, William Bailey, Bonnie Barber, Robert Bassett, Linda Block, Patricia Brennan, Barbara Bristow, Bruce Brunson, Noel Card, Swarne Chatterjee, Cheng Chen, Fuzhong Chen, Dongyao Cheng, Bie-shuein Chu, Michael Collins, June Cotte, Stuart Cohen, Brenda Cude, Sharon DeVaney, Jeffery Dew, Nik Dholakia, Ruby Dholakia, Jessie X. Fan, Matthew Ford, Alyssa Francis, Tom Garman, Ronald Gibbs, John Grable, Lin Guo, Sherman Hanna, Celia Hayhoe, George Haynes, Misako Higa, Tahira Hira, Arlene Holyoak, Gong-soog Hong, Kenneth Huggins, Janet Johnson, Punam Keller, Claudia Kerbel, Jinhee Kim, Larry Kirsch, Masayuki Kometani, Weida Kuang, Christine Lai, Fran Lawrence, Irene Leech, Berta Leon, Chunming Li, Haifeng Li, Tao Li, Li Liao, Suzanne Lindamood, Jean Lown, Angela Lyons, Lakshmi Malrouth, Robert Mayer, Jane Meiners, Xiangyi Meng, Carole Miller, Norbert Mundorf, Barbara Newman, Fran Noring, Barbara O'Neill, Geraldine Olson, Lance Palmer, Linda Price, Janice Prochaska, Lee Richardson, Barbara Robles, Jane Schuchardt, Joyce Serido, Deanna Sharpe, Soyeon Shim, Shunfeng Song, Benoit Sorhaindo, Feng Sun, Jing Sun, Lei Sun, Yunxiao Sun, Chuanyi Tang, Shayna Thums, Hilary Tso, Yongshi Tu, Radovan Vadovic, Houfen Wuan, Jeff Wang, Richard Widdows, Jiayun Wu, Jieying Xi, Yinzhou Xu, Xuejun Yan, Rui Yao, Zhihong Yi, Qingfei Yin, Shijie Yin, Bing Ying, Yoonkyung Yuh, Jinbao Zhang, Yixiao Zhang, Lucy Zhong, Pengrong Zhong, and Yi Zhou.

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About the Author

Dr. Jing Jian Xiao is a professor of consumer economics and finance at the University of Rhode Island. He teaches courses and conducts research on consumer economic and financial issues. He is the editor-in-chief of *Journal of Financial Counseling and Planning* and a book series, *International Series on Consumer Science*. For 11 years, he served as the editor-in-chief of *Journal of Family and Economic Issues* (2001–2011). In addition, he serves on editorial boards of several journals in consumer economics and finance such as *Journal of Consumer Affairs*, *Journal of Personal Finance*, *Journal of Consumer Education*, and *International Journal of Bank Marketing*. He has published extensively in areas of consumer economics and finance. He edited and contributed to books such as *Mathematics of Personal Finance* and *Handbook in Consumer Finance Research*. He has played active roles in professional organizations in consumer economics and finance and has served as the president of American Council on Consumer Interests, the president of Asian Consumer and Family Economics Association, among others. He received research grants and provided consulting services for government and nongovernment organizations including the U.S. Department of Agriculture, Department of Treasury, Department of Transportation, National Endowment on Financial Education, and Certified Financial Planner Standard Boards. He was invited to speak on national and international professional conferences on consumer economic wellbeing. He received his BS and MS in economics from Zhongnan University of Economics and Law and Ph.D. in consumer economics from Oregon State University. He was the inaugural Take Charge American Endowed Chair Professor and Director of Take Charge America Institute for Consumer Financial Education and Research at the University of Arizona in 2005–2007.

Part I
Basic Concepts of Consumer
Economic Wellbeing

Chapter 1

Consumer Economic Wellbeing

Abstract Consumers in this book refer to individuals and families. The term consumer can be defined in broad and narrow ways. Broadly, consumers are those who acquire and use natural, market, and other goods. Natural goods are air and natural resources that are not privately owned and priced. Market goods are priced products and services provided by commercial companies. Other goods refer to products and services provided by nonprofit organizations. Narrowly, consumers are those who purchase and use market goods. In this book the narrow definition of consumer is used in most discussions. This introductory chapter first discusses several definitions relevant to consumer economic wellbeing, such as wellbeing, subjective wellbeing, economic wellbeing, and consumer wellbeing. Then, the key term of this book, consumer economic wellbeing, is defined and introduced. The organization of the book is presented at the end of this chapter.

1.1 Wellbeing

In the literature, the spelling of wellbeing has two alternative forms, well being and well-being. In this book, “wellbeing” is used. Wellbeing can be defined in many ways. For example, wellbeing is the state of being healthy, happy, and free of want (Zimmerman 1995). For this book, a slightly revised definition is used: Wellbeing is the state of being healthy, happy, and wealthy. This definition suggests that wellbeing means doing well physically, mentally, and financially, which is an appropriate definition for the purpose of this book, to identify academic theories and research that enhance consumer economic wellbeing. In psychological literature, wellbeing often refers to happiness that emphasizes the subjective measure of welfare. In this book, wellbeing can be measured by both subjective and objective indicators.

Throughout the literature wellbeing is used as a synonym for quality of life (QOL). In this book, wellbeing and QOL are used interchangeably. Contemporary QOL or wellbeing research can be traced back to 1970s (Campbell et al. 1976). As indicated by Alex Michalos (2008), a leading scholar of QOL, because human beings are complex organisms and an adequate construction of the idea of human wellbeing is complex, an interdisciplinary perspective is needed to study this important topic. In a comprehensive review, several leading scholars from multidisciplinary

fields provide historical overviews of QOL research (Sirgy et al. 2006b). Coauthors of this overview are scholars from diverse fields such as Joseph Sirgy from marketing, Alex Michalos from philosophy, Abbott Ferriss from sociology, Richard Easterlin from economics, William Pavot from psychology, and Donald Patrick from health. According to Michalos, QOL can be a descriptive measure, quantity of things, or an evaluative measure, the value or worth of things. For example, weight is descriptive and desirable weight is evaluative. Indicators of QOL can be both objective and subjective.

Wellbeing can be measured at both individual and collective levels. Most social indicators are measured at collective levels such as at city, state, regional, country, or global levels. At the global level, the United Nations Development Program (UNDP)'s annual human development reports provide indicators on the wellbeing of world populations and comparisons between countries. This report presents several internationally comparable indicators including the Human Development Index (HDI). HDI includes three components: life expectancy index, education index, and GDP index, covering wellbeing indicators from physical, psychological, and economic perspectives. These measures are considered as objective measures. For example, the 2013 report lists HDI and other indicators for 186 countries and areas in four categories: very high human development, high human development, medium human development, and low human development. Based on data from 2013, the top five countries that have the highest HDIs are Norway, Australia, Switzerland, the Netherlands, and the USA. China is listed as the 91st in the category of high human development (UNDP 2013).

In the USA, with assistance of a team of top researchers, Gallup and Healthyways have developed wellbeing indexes for American cities and states since 2008. With the goal of providing the world's most up-to-date measure of individual and collective health and wellbeing, this index tracks the wellbeing of US residents 350 days out of the year, interviewing no fewer than 1,000 US adults nationwide each day. The index includes components of life evaluation, emotional health, physical health, healthy behavior, work environment, and basic access (<http://www.well-beingindex.com/>). This database has been used by researchers to produce some interesting research findings (e.g., Diener et al. 2010; Kahneman and Deaton 2010).

1.2 Subjective Wellbeing or Happiness

1.2.1 *The Concept of Subjective Wellbeing*

In the literature, subjective wellbeing (SWB) research is also called happiness research (Sirgy et al. 2006b). As discussed by psychologist, William Pavot, this line of research can be traced back to the 1960s. A comprehensive review by Diener (1984) serves as a focal point for investigators working within the growing area of SWB research. Diener himself is a leading researcher in the SWB research and published numerous influential studies on this topic.

SWB can be defined in many ways. Diener et al. (1999) offer the following definition: “Subjective well-being is a broad category of phenomena that includes people’s emotional responses, domain satisfactions, and global judgments of life satisfaction” (p. 277). Such a definition casts SWB as representing a broad area of research activity and interest, rather than as a specific construct (Sirgy et al. 2006b).

The measure of SWB has three components, positive affect, negative affect, and life satisfaction. The labels “life satisfaction” or “satisfaction with life” are usually associated with a very broad conceptual level, involving summary judgments of one’s life as a whole (Pavot and Diener 1993). Multi-method longitudinal research has demonstrated that all three components are separable constructs (Lucas et al. 1996).

Diener (1984) identifies several characteristics of SWB. First, it is subjective, residing within the individual and based on one’s unique experience of the world. Second, SWB includes positive experience, rather than just the absence of negative factors. Third, SWB is usually considered from a broad level, as an overall assessment, rather than according to specific experiences or aspects of the individual’s life.

Measures of SWB can be categorized in a variety of ways. From a public policy perspective, these measures are divided into three broad categories: evaluation, experience, and eudaimonic (Dolan et al. 2011). The evaluation measure refers to life satisfaction and satisfaction of specific life domains. The experience measurement equates to past happiness and positive or negative affect (“worried, energetic, or relaxed yesterday”). The eudaimonic measure refers to purpose in life. The measure asks people to identify the purpose of life in general, and purposes and meanings of specific activities. The three types can be considered daily happiness, life satisfaction, and living a meaningful life. Most existent studies focus on daily happiness and life satisfaction. More research is needed to study living a meaningful life.

1.2.2 Money and Happiness

Many studies have examined the relationship between income and SWB and generated many interesting findings (Xiao 2013). For instance, data from Russian consumers show that the relationship between income and life satisfaction is complex (Schyns 2001). Furthermore, data collected from five countries indicate the effects of wealth and non-durable consumptions on life satisfaction (Heady et al. 2008). Money buys happiness and people care about relative income (Blanchflower and Oswald 2004). Cummins (2000) find that income is associated with happiness through mediating variables. Subsequently, Diener and Biswas-Diener (2002) review studies on the relationship between income and SWB and conclude that there are, at most, small correlations between income and SWB within nations. In addition, unless they are rich, people who value material goals are less happy than those who do not. Another review study has similar conclusions in a more focused review of the relationship between income and happiness within nations and across nations (Arthaud-Day and Near 2005).

One limitation throughout the literature is the various measures of happiness employed throughout research; depending on the measure used, income effects may vary. Kahneman and Deaton (2010) have analyzed more than 450,000 responses to a daily survey of 1,000 US residents conducted by the Gallup Organization and find that emotional wellbeing and life evaluation have different correlates. Income and education are more closely related to life evaluation, but health, care giving, loneliness, and smoking are relatively stronger predictors of daily emotions. When plotted against log income, life evaluation rises steadily. Emotional well-being also rises with log income, but does not progress beyond an annual income of \$75,000.

Happiness researchers also observe the *adaptation effect* of personal income on happiness over time. People are happy when their incomes increase. The effect decreases over time but lasts for several years. Based on panel data, researchers find that German homeowners, who are presumably wealthier than tenants, adapt fully to the effects of higher levels of log income after approximately 7 years. With panel data from Europe, researchers find that in wealthy European countries, full adaptation may take at least 5 years (Di Tella and MacCulloch 2010). In another study with a panel of German data, researchers examine happiness adaptation to income and to status. They find that in the short term, one standard deviation increase in status and 52 % of one standard deviation increase in income are associated with similar increases in happiness. However in the long run, 65 % of the current year's impact of income on happiness is lost over the following 4 years whereas the impact of status remains intact (Di Tella et al. 2010).

Income inequality may cause unhappiness. Research indicates that individuals have a lower tendency to report being happy when inequality is high. The effect, however, appears to be stronger in Europe than in the USA (Alesina et al. 2004). Decreased happiness associated with inequality may be related to perceived fairness and trust. Data from the General Social Survey from 1972 to 2008 show that Americans are, on average, happier in the years with less income inequality than in the years with more income inequality. The researchers demonstrate that the inverse relation between income inequality and happiness is explained by perceived fairness and general trust. The negative association between income inequality and happiness held for lower income respondents, but not for upper-middle and highest income groups. Most importantly, the negative link between income inequality and the happiness of lower income respondents is explained not by lower household income, but by perceived unfairness and lack of trust (Oishi et al. 2011).

1.2.3 Can Happiness Buy Money?

Many happiness studies attempt to examine whether higher income contributes to happiness. However, some researchers explore if happiness can increase one's income. If they find causality, SWB may be a factor to be promoted to increase productivity for society. Oishi (2012) considers happiness as psychological wealth and contends that a nation's psychological wealth is important for a good society.