

# Advantages and disadvantages of using credit cards



In this modern era with the rising of e-commerce in the world, the usage of credit card is getting popular among the world nowadays. The usage of credit card has actually spread towards the college student and has increasing visibility (Hayhoe, 2002). Meanwhile, this is the best chance for the credit card companies to put on target at college students because college students are expected to have higher of earning power and this makes the credit card companies believe that as a desirable market (Warwick & Mansfield, 2000). Credit card can be best defined as a small plastic card issued by the bank to the consumers to purchase goods and services in advance with a credit limit on the spending (eHow, n. d). With a credit card, the users are able to purchase goods without using cash. Users will have the ability to use it as online payment in internet and uses it as monthly installment for large volume goods and services (eHow, n. d). However, interest charges are applied to the credit cards.

There are many different types of credit card associations nowadays. For example, American Express, Dinner Club, MasterCard, Visa and many more. Each month, the credit card user is sent a statement by bank that indicated their purchases for previous month. After the cardholder received the statement, he or she must pay the amount of their purchases otherwise may choose to pay a higher amount when the credit issuer charges interest on the amount owed. Even credit cards have higher interest rates than most consumer loans; many people still prefer to use it yet. This is because almost every store that we can see allows for payment of goods and services through credit cards today.

The increasing number of banks that provides credit card has eventually increases the competition between banks in attracting the customers. Every bank has tried their own way to persuade the customers to apply the credit customers. The worst part is, they even attract college students by having promotion in the college. Historically, the bank actually started to bump into student credit card market in the late of 1980-an (Manning, 2000). In the long run, this will cause many problems to the college students. This is because most of the college students does not how to plan their money effectively. According to Henry, Weber, and Yarbrough (2001), most of the students will have the credit problems is because college students do not practice to have a written budget. The researchers also expected college students are “vulnerable to financial crisis” (Henry, Weber & Yarbrough, 2001). The incredible increase of the usage of credit card actually has demonstrated the crisis among the college students. The increased number of credit cards among college has seen a major growth since the past decade (So, Grable & Bagwell, 2003). Based on a research, 70% of all undergraduates at four-year colleges have at least one credit card today (So, Grable& Bagwell, 2003).

## **Advantages and Disadvantages of using a Credit Card**

Credit Card is an Automatic advanced card which people can use it to get the goods without paying the cash. Credit cards are widely use by people all around the world as a source of convenient to get what their needs. But, there are many advantages and disadvantages of using it.

One of the advantages of credit card is that with credit card can eliminate the need to carry large sums of cash wherever we go. For example, if we are <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

away from home for vacation, we don't need to take large amount of cash in pocket. Besides, credit cards may also offer us additional protection if goods that we bought is lost, damaged, or stolen. This is where the credit card company can know that the fact that we have made a purchase. In addition, we can also see that some credit card companies offer insurance for the customers on large purchases. By this way, the companies can protect their customers and give their customers the security of using the card. With a credit card can also assist us build a credit line. By having a good credit history is very vital, which meant that making payments on time and in full month, it help us not only applying a credit card, but also when applying for the loans, rental, or even some jobs will more easily.

In conjunction to that, credit cards can also be useful in times of emergency as well. For example, students with a credit card can take the necessary actions by helping parents when they falls ill, a car is damaged, or trying to buy a higher cost books in the university. Some credit cards also offer some extra benefits for their customers, such as discounts from particular stores or companies, bonuses such free airline miles or travel discounts. All of these benefits is helpful for us as long as we bear in mind that out spending limits.

On the other hand, the disadvantage of credit cards is that they encourage people to spend money that they don't have. The customers can spend any time as they want even they have less money. Indirectly, the customers cannot pay for the bill statements that what they had spent. By this way, the more money the customers owe the credit card companies, and yet they will charge the customers on interest each month on their spending. The other disadvantages of credit card is that the credit card companies will charge the <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

customers on high amount of interest on each balance that the customers don't pay off at the end of the month. This is how the credit card companies make their money and this is how many of credit card users will get into big troubles. And, credit card fraud also is one of the disadvantages. This is where the credit card also same as a cash, it also can be stolen sometimes. They maybe be physically stolen from customers' wallet or credit card number and use as to swap the money. The good news is that, when we realize our credit card is stolen, quickly we can report to the credit card companies. This is to avoid us by not being charged for any purchases that someone else has made.

As conclusion, credit cards can make life easier and convenient to the users as they utilize it wisely. But, if we use it wrongly, it will become huge financial burden for us. If we decide to use the credit cards, we must know some simple rules such as limit our purchases, don't spend outside our budget, pay off the balance at the end of each month, and most importantly is don't give credit card information to anyone else as the safety methods.

## **1. 1. 2 Development of credit card in Malaysia**

In old days, there was no such thing as money. Each person would provide for his own food and clothing and also shelter. As time goes by, a system of barter by exchange of needs began. Barter trade however, was not that simple. Sometimes, it was difficult to find those who had exactly the item that was needed. Some goods were used for barter trade because they could easily be carried, have a common value and be easily divided. This commodity money became a medium of exchange soon. Common goods

such salt, bread, grain, tobacco were among the item that had served as money.

The first money appeared when the ruler or king issued a constant value. For example, in historical times in Malaysia, blocks and tin were kind of commodity money.

As businesses developed, it became inconvenient to move large sums of coins around the country. In the middle ages, people preferred to deposit their coins with trustworthy goldsmiths, in exchange for paper receipts. Whenever a depositor wanted to make payments, he would exchange these receipt back for coins. As long as the goldsmith was trustworthy, the paper receipt was as good as coins. Thus, the first paper money and first banks were developed.

In Malaysia, only the Bank Negara Malaysia is allowed to issue coins and paper currency notes. The value of ringgit is legal tender and is backed by gold and foreign exchange held by Bank Negara.

In nowadays, there are now 3 forms of money we can see in Malaysia. They are coins, paper currency, and transaction account which are cheques and credit cards. While coins and paper currency are used to transfer money at the present time, cheques and credit cards commit money that will be earned in the future. Cheques is the most common instruments used to transfer funds. And then, cheques and credit cards become more popular as they provide their holders with the power to purchase without having carried around large amount of cash.

## Research Background

Credit card among college students has become a hot topic of growing nowadays. This is because college students are experiencing unique transition period in their lives. Financially, they are going through the process from financial dependence to independence. They may have learned some consumer skills in cash management at home before coming to college. At this moment, students just want to start to learn on how to use credit wisely and just matured enough to be able to sign legal contracts include credit card contracts.

There are also some other studies that show that students are greatly involved with credit cards. Yet, the use of credit cards among students has received much attention in recent year from members of the financial community and policy makers. Credit card companies grab this golden chance to target students because they are expected to have higher average earning power and are seen by the credit card companies as a desirable market (Warwick & Manfield, 2000). Besides, we can see that mixed practices among students' credit use will make them have a low knowledge about credit because they do not fully understand the financial implications of having a large number of credit card debt. By this way, this will make them to spend more. (McNeal and Yeh, 1993) A research also showed that at average age of eight years children, making their first independent purchase as socialization as a consumer begins in their early years.

Nowadays, as we know that a service tax of RM50 will be charges on each principal credit card in Malaysia start from 2010. And, for every

supplementary card, a service with RM25 will be charged yearly. The <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

governments impose this tax is because the users of credit card is increasing day to day.

### **1.3 Problem Statement**

This study analyzes the factors that influence the usage of credit card among IPTA and IPTS students. The research will give the opportunity to collect accurate data from the designed questionnaire in order to analyze the relationship of the variables. The following problem statement is supporting the research background of this study:

“ To what extent do demographic, knowledge, kind of purchases, credit attitude, and family background influence the usage of credit card among IPTA and IPTS students? “

### **1.4 Research Objectives**

Students' attitudes towards credit card could play a vital role in determining its distribution. After figuring out the problem statement of this research, let go to the objectives of this research. The objective of this research is to distribute a proper framework and to analyze the factors that influence the usage of credit card among IPTA and IPTS students.

From the research study also, it could assist to provide some suggestion to solve this problem. The three main objectives of this research study are:

To investigate the role knowledge of credit card use plays in compulsive buying among the students.

To test demographic.



To compare the monthly usage of credit card among IPTA and IPTS students.

To determine which factors is most significant effect towards usage of credit card among IPTA and IPTS students.

## **1. 5 Significant of study**

It is important to study that how the credit card as a key of contribution to everyone no matter to bankers, users, society or among college students.

Every companies and banks will benefit with owning a credit card. Mostly are those banks making money from the credit card companies? This is how it goes. If a bank agrees to take their customers' deposit, they don't keep it all in the back. This is because there are only a small percentage of the bank customers will demand their money at any given time, a percentage of all deposits( vault cash), is kept on hand. Some of this cash will loan out to credit card companies so that they can finance the purchases their customers make, until the customer pays the credit card company back. Actually, most credit card companies are organized as banks, so that they are regulated in a different way than regular companies. As a result, the more money that is owed by bank or company, the more that bank or company is worth. This is because of the way the American accounting system works.

Meanwhile, the main benefit to each customer is convenience. A credit card allows small short-term loans to be quickly made to customer who need not calculate a balance remaining before every transaction, provided the total charges do not exceed the maximum credit line for the card. Credit card also provides more fraud protection than the debit card for the users. Many credit <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

cards offer rewards and benefits packages, such as offering enhanced product warranties at no cost, points which may be redeemed for cash, products, and also for the airline tickets. This makes the users feel more satisfaction about their services of owning a credit card. Additionally, carrying a credit card is more comfortable to some users either than carrying a bucket of cash in their pocket.

On the other hand, owning a credit card also benefited to community. This is how they permit people around to make a large purchase, such as expensive materials or those for cars. This make the people can buy those things easier. Yet, with credit card be useful for emergencies use like medical bills. Also, credit card offer additional protection of purchases. Example, if the goods that already bought by people is lost or had been stolen, the credit card company can prove for the fact that people have made a purchase with original receipts. So that people do not need to worry too much because some credit card companies are offering insurance on credit card. With a credit card too, it can help to create entrepreneurs. Many entrepreneurs who were unable to get the bank loan will have to use credit card as a way to finance their projects. Although by this way it is extremely risky, there is no choice to help some entrepreneurs become more wealthy and successful in future.

Nowadays, we might see many credit companies also set up target in campus areas to encourage college students for sign up their card. They might give free gift such as t-shirts, umbrella, water bottles for those who signing up the card. Some research shows that students are valuable customers because they are loyal for their first card and will continue to <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

make their purchases in future. With the credit card, students can make large purchases easily such as expensive text books, airline ticket, hotel room booking, garments, and etc.

## **1. 6 Organization of study**

This research focus mainly on how credit card use by students of IPTA and also IPTS.

This research project comprises of 3 main chapters. It consists of introduction and background, literature review, and also research methodology.

The first chapter introduces the area of the study that mainly on the overview and background of the research and the concept of credit card, its advantages and disadvantages, and overview of the previous and current issues related to the topic, and followed by problem statement of this study. Problem statement is referred to a clear statement of the question or issues that to be investigated with the goal of finding and answer solutions.

The second chapter is provides a review on the related literature on credit card and the factors that can affect its usage. Literature review is review of facts from past researchers who conducted theirs studies on the same field (usage of credit card) in order to support this research study. The effort to form literature review was done by the information gathering from the internet, journals article and other sources such as past researches journals and articles that is vital to form the literature review. The purpose is to find out all the facts, data and information required to support the topic selected.

Besides that, this chapter also includes the review of literature that explains <https://assignbuster.com/advantages-and-disadvantages-of-using-credit-cards/>

the relationship between each independent variables and dependent variable.

The third chapter presents the organized research methodology by explaining the research techniques used in the collection and analysis of the survey data. It includes designation framework, area of study, population sample size, data collection methods are also included, and identifying the variables that consist of dependent variables and independent variables.