

Money and consumer behavior



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Punam Dharkar Money and consumer behavior 7 March 2008 Money and Consumer Behavior In the early years of this decade, bankruptcy filings in America in one single year were over 1.6 million, that's 7.4 percent up from the previous year. (Technology & Money. MSNBC Interactive. 2007.) In a study of approximately 2,000 bankrupt families, conducted by Elizabeth Warren, professor at Harvard Law School, and Amelia Warren Tyagi, former McKinsey consultant, the mother-daughter duo have shared findings that exploded a few myths of over consumption in their book, "The Two-Income Trap: Why Middle-Class Mothers And Fathers Are Going Broke".

(Mieszkowski, Katharine).

The duo's study unraveled that a sure shot predictor of people likely to go bankrupt, were people with children. The typical middle class American family was far more insecure financially than a middle class family was over three decades ago. It was also more vulnerable to one parent getting laid off, and when that happened, the effort to keep the children in good school districts saw many parents drive to bankruptcy courts more often than to the lavish malls. This got compounded by mortgage costs that increased 70 times as compared to a man's wages over a span of one generation. Gone were the days when a one-income middle class family could be home owners. Today's families need both incomes to make the basic payments like mortgage, health insurance, education and day care costs.

When the government deregulated the home mortgage-lending industry and the credit card industry in the early 1980s without any public debate, the detrimental concept of sub-prime lending was its devious off-shoot. It's a one way street to hell when families go in for a second mortgage or refinance the mortgage on their home. Hardworking middle class families find themselves

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with no financial support through retirement, they can't dream of sending their children to college and will in all likelihood find themselves without a roof over their heads. (Mieszkowski, Katharine). According to the Center for Responsible Lending, the current outstanding debt on sub-prime mortgages totals about US\$1.3 trillion, up from US\$322 billion in 2003. (Whitman, Janet). Professor Warren suggests changes can be brought about; 1) middle class families caught in this trap need to talk about their shame rather than hide it, so that it does not remain a stigma; 2) politicians and law makers should get middle class children back in the public schools by making it a system that will welcome their children for the uniqueness they bring to the school; 3) like all civilized nations, America too should regulate the mortgage industry. (Mieszkowski, Katharine). Honest re-think, anyone?

Citations

Mieszkowski, Katharine. " Americans are not going broke over lattes!" 2003, Oct 13. Interview. Warren, Elizabeth. Co-Author. Tyagi Warren, Amelia. Co-Author. " The Two-Income Trap: Why Middle-Class Mothers And Fathers Are Going Broke". 2003. 8 March 2008. < http://dir.salon.com/story/tech/feature/2003/10/13/bankrupt_parents> Technology & Money . MSNBC Interactive. 2007. 8 March 2008. < <http://www.msnbc.msn.com/id/3079221/>> Whitman, Janet. Financial Post. 2008, March, 6. 9 March 2008. < <http://www.financialpost.com/creditcrunch/story.html?id=357555>>