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A Study on Impact of Credit Card Usage on Monthly Budgeting Habits

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Abstract

This study seeks to investigate the effects of credit card use on monthly budgeting and personal financial management, with specific reference to understanding the advantages and challenges associated with such use. Credit cards have, over the years, become an essential financial instrument in the hands of various individuals due to the increasing levels of digitalization, rising incomes, and the ease of cashless transactions. Credit cards, in particular, have provided various benefits to their users, including the advantage of delayed payment, reward schemes, and flexibility in managing finances. Despite the various advantages of using credit cards, their increasing use by various individuals, coupled with limited financial knowledge, has raised concerns about overspending, debt generation, and saving habits. The research, in particular, seeks to emphasize the significance of budgeting in maintaining financial discipline and stability. It also seeks to illustrate how various psychological factors, such as instant gratification, peer influence, overconfidence, and reward-seeking, affect an individual's spending habits, budgeting, and saving habits. The research, in particular, seeks to illustrate that credit card use can affect monthly budgeting positively, but uncontrolled use can have a negative impact on financial management.

Keywords *- Credit Card Usage, Personal Financial Management, Monthly Budgeting, Spending Behaviour, Financial Literacy, Debt Accumulation, Financial Discipline*

Introduction

Credit cards are becoming a significant element of individual money, particularly in metropolis and semi-urban regions. Their consumption has been growing at an alarming rate because of the increasing disposable income, changing lifestyles, aggressive marketing by the financial institutions and online payment is easy. More than 100 million credit cards are distributed in India alone. Although credit card has advantages such as payment postponement, rewards and emergency funds, it does promote unnecessary spending, cuts on savings, and debts especially in young adults and those with low financial literacy.

The use of credit cards has a big influence in financial behaviour. Unmanaged spending may result in extreme debt and a stressful financial situation, and when used thoughtfully, including making payments on time and wisely using benefits, may enhance financial health. Nonetheless, such risks as excessive interest rates and bad credit rating are still an issue. Thus, it is important to know and control the use of credit cards in order to be convenient and economically responsible.

Historical Perspective Of Credit Card Usage:

The idea of credit cards was first developed in the early 20th century with the concept of charge plates and coins. However, the modern concept of credit cards was introduced in the year 1950 with the launch of the Diners Club Card by Frank McNamara and Ralph Schneider. This is where the concept of 'plastic money' started, and later the introduction of credit cards by renowned institutions such as American Express, Bank of America (now Visa), and Master Charge (now MasterCard) standardized the concept of credit cards. With the introduction of modern technology in the 1970s, the concept of credit cards gained popularity worldwide. Later, the introduction of e-commerce and mobile banking in the 1990s and 2000s led to the widespread use of credit cards in the personal lives of people, especially in developing nations such as India. Today, the concept of credit cards is synonymous with 'financial convenience and modern technology,' but the increasing number of people using credit cards is also leading to the problem of overspending and improper financial management.

Growth Of Credit Card In Recent Years:

During the past two decades, there has been significant growth in credit card usage all over the world. This is mainly due to technological advancements, economic growth, and the shift from traditional cash-based systems to digital or cashless systems.

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Billions of transactions happen on credit cards on a daily basis. Developed countries like the United States and European countries have high credit card usage. Moreover, with the rise of the COVID-19 pandemic, more credit cards have been used for making transactions. Developing countries like India have also witnessed tremendous growth in credit card usage. With economic growth, more people in India have been using credit cards. Moreover, with the Digital India initiative, credit cards have been more popular. Other countries in Asia have also witnessed tremendous growth in credit card usage. Moreover, with the rise of "buy now, pay later," credit cards have been more popular among young generations. However, with the rise in credit card usage, people have been overspending, which is causing more debts. Therefore, there is a need for financial discipline in credit card usage.

Importance Of Budgeting In Personal Financial Management:

The process of budgeting is an integral part of personal financial management. It is considered an essential tool used in planning, organizing, and controlling an individual's income and expenditure. Budgeting is an outline of an individual's income and expenditure over a specified period. It is an outline of an individual's expected income and expenditure over a specified period. Budgeting is an outline of an individual's expected income and expenditure over a specified period. It is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's expected income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income and expenditure over a specified period. Budgeting is an outline of an individual's income

Psychological Factors Behind Credit Card Usage

The usage of credit cards is not only affected by the individual's financial capacity but is also influenced by psychological and behavioural factors, which affect their spending patterns. For example, the perception of wealth and status leads people to use high-status credit cards to purchase non-essential items. Additionally, the instant gratification and delayed payment of credit cards reduce the "pain" of spending, which leads to impulsive buying and improper financial planning. Furthermore, the overconfidence of the individual in their ability to pay the credit card bills and the benefits of rewards and loyalty programs lead to overspending. Moreover, psychological factors such as present bias, illusion of liquidity, optimism bias, and emotional factors such as stress and "retail therapy" affect the excessive usage of credit cards. This leads to difficulties in maintaining the individual's budget, causing overspending and imbalance in their personal finance.

Research Methodology

Objectives:

1. To study how credit card usage affects monthly budgeting and spending habits
2. To examine the frequency and purpose of credit card usage among individuals.
3. To suggest ways to improve budgeting practices while using credit cards.
4. To assess if credit card uses leads to overspending beyond planned budgets.
5. To analyse the relationship between credit card spending and over spending tendencies.
6. To evaluate the awareness level of users regarding hidden cost and their effect on budgeting accuracy.

Scope of the Study:

This study is specifically designed to assess the impact of credit card usage on individuals' budgeting habits during their monthly budgeting. The study aims to understand how credit cards affect individuals' spending habits. The study is restricted to working adults who frequently use credit cards. The study also includes individuals from different income groups in order to assess their differences in terms of budgeting habits. Although historical data may be used in reference, the study is mainly focused on individuals' current credit card usage habits and their impact on their monthly budgets. The study also includes other aspects, such as individuals' financial knowledge, spending habits, and debts, in order to understand the challenges associated with credit card usage.

Statement of Problem:

As the number of credit card holders grows, it becomes challenging for people to manage and control their monthly budgets, and this may affect financial planning. A large number of credit card holders are not aware of how credit card usage patterns affect their budgeting habits. This, in turn, requires a study of whether credit cards are contributing to the proper management of financial resources or not. In this regard, this study aims to analyse the impact of credit card usage on financial planning.

Data Collection:

The information to be used in the study was gathered using primary sources with the help of a structured questionnaire.

Hypothesis:

<u>Hypothesis 1</u>

H0 - There is no significant relationship between age group and repayment behaviour.

H1 - There is a significant relationship between age group and repayment behaviour.

<u>Hypothesis 2</u>

H0 - Credit card availability does not lead to unplanned or over spending.
H1 - Credit card availability does not lead to unplanned or over spending.

Literature Review

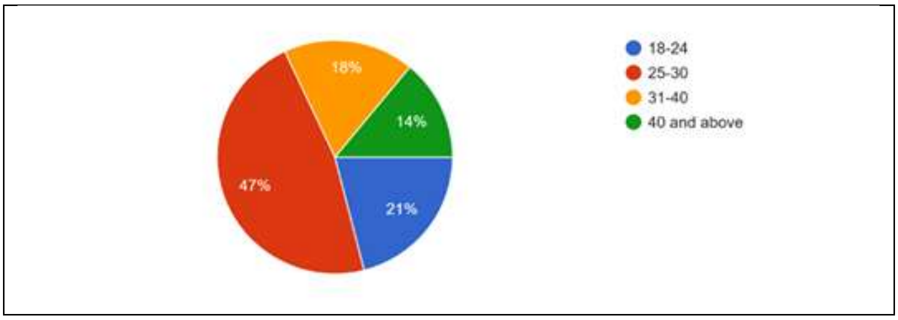
1. **Monika Thapa (2025)**
   Monika Thapa's study examines the impact of financial education on credit card usage among undergraduate students. The findings show that students with financial knowledge use credit cards more responsibly, demonstrating better budgeting, timely repayments, and awareness of debt, while those without financial education are more prone to impulsive spending and poor debt management. The study highlights the importance of financial literacy in promoting responsible financial behaviour among young adults.
2. **Celil Koparal (2014)**
   Celil Koparal conducted a study on credit card usage behaviour using survey data and statistical analysis techniques like factor analysis and Chi-square tests. The findings show that demographic factors, attitudes, and spending patterns significantly influence credit card usage, providing insights into consumer financial behaviour.
3. **Wu, J., Zhao, X., Yuan, H. (2023)**
   Wu, Zhao, Yuan, et al. proposed a credit scoring model called CDGAT that uses graph-based techniques to predict credit card defaulters by considering customer interactions like transactions and transfers. The study finds that this approach outperforms traditional models in accuracy and performance, highlighting the importance of advanced data analytics in improving credit risk assessment.
4. **Patel, P., Chauhan, S., Gupta, S., Gupta, T., Agrawal, R. (2024)**
   Patel et al. studied fraud detection using SMOTE, GANs, and a hybrid SMOTEfied-GAN approach. The results show that these methods improve detection accuracy, with the hybrid model performing better, highlighting the role of advanced analytics in financial risk management.
5. **Tripathi, D., Edla, D.R., Cheruku, R., Kuppili, V. (2019)**
   Tripathi, Edla, Cheruku, and Kuppili developed a hybrid credit scoring model to improve prediction accuracy by addressing issues of noisy and redundant data. The model integrates feature selection techniques with a multilayer ensemble classifier framework, along with a classifier placement algorithm based on the Choquet integral. Tested on multiple real-world datasets, the study demonstrates improved predictive performance, highlighting the effectiveness of combining advanced machine learning techniques in credit risk assessment.

Finding and Data Analysis

1. **Age**

Age	Responses	Percentage
18 – 24	21	21%
25 – 30	47	47%
31 – 40	18	18%
Above 40	14	14%
Total	100	100%

(Table 4.1)

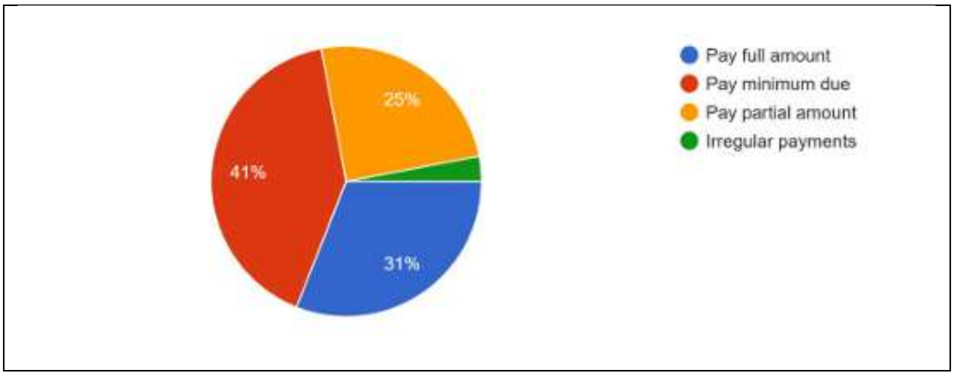


(Chart 4.1)

2. **How do you repay your credit card bill?**

Mode of Repayment	**Responses**	**Percentage**
Pay full amount	31	31%
Pay minimum due	41	41%
Pay partial amount	25	25%
Irregular payments	3	3%
Total	100	100%

(Table 4.2)

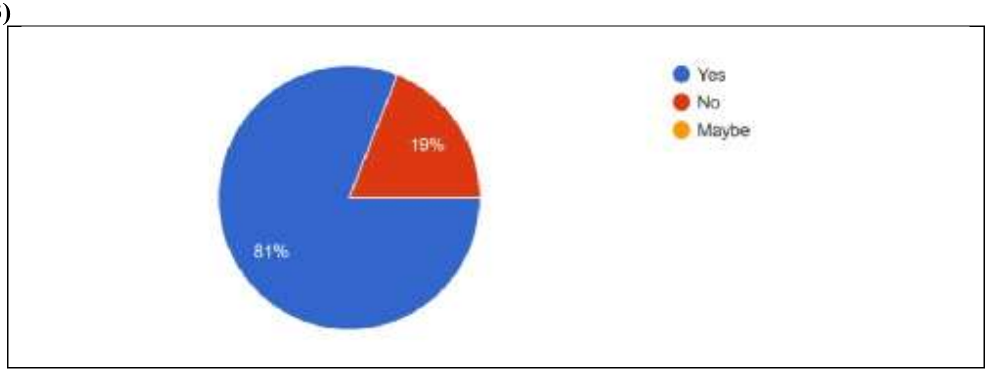


(Chart 4.2)

3. Do you own a credit card

Options	Responses	Percentage
Yes	81	81%
No	19	19%
Maybe	0	0%
Total	100	100%

(Table 4.3)

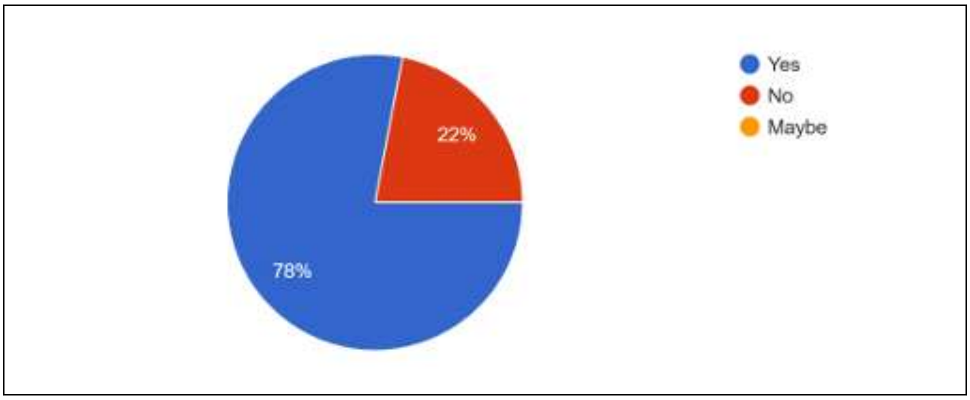


(Chart 4.3)

4. Do you set a monthly limit for credit card usage

Options	Responses	Percentage
Yes	78	78%
No	22	22%
Maybe	0	0%
Total	100	100%

(Table 4.4)



(Chart 4.4)

4.1 Hypothesis Testing

Hypothesis 1

H0 - There is no significant relationship between age group and repayment behaviour.
H1 - There is a significant relationship between age group and repayment behaviour.

T- Test

	Age	How do you repay your credit card bill?
Mean	2.25	2
Variance	0.896464646	0.686868687
Observation	100	100
Pooled Variance	0.791666667	
Hypothesized Mean Difference	0	
Df	198	
t Stat	1.986798536	
P(T<=t) one-tail	0.024161821	
t Critical one-tail	1.652585784	
P(T<=t) two-tail	0.048323642	
t Critical two-tail	1.972017478	

ANOVA Test

Summary

Group	Count	Sum	Average	Variance
Gender	100	225	2.25	0.896465
How would you rate your comfort level with using smartphones or computers for banking?	100	200	2	0.686869

ANOVA

Source of Variation	SS	df	MS	F	P- Value	F crit
Between Groups	3.125	1	3.125	3.947368	0.048324	3.888853
Within Groups	156.75	198	0.791667			
TOTAL	159.875	199				

Interpretation: Since p value = 0.048324 < 0.05, the result is statistically significant, and therefore the null hypothesis is rejected. This means that alternative hypothesis is accepted.

Hypothesis 2

H0 - Credit card availability does not lead to unplanned or over spending.
H1 - Credit card availability does not lead to unplanned or over spending.

T- Test

	Do you own a credit	Do you set a monthly limit for credit card usage?
Mean	1.19	1.22
Variance	0.155454545	0.173333333
Observation	100	100
Pooled Variance	0.164393939	
Hypothesized Mean Difference	0	
Df	198	
t Stat	-0.523194724	
P(T<=t) one-tail	0.300711885	
t Critical one-tail	1.652585784	
P(T<=t) two-tail	0.601423769	
t Critical two-tail	1.972017478	

ANOVA Test

Summary

Group	Count	Sum	Average	Variance
Do you own a credit	100	119	1.19	0.155455
Do you set a monthly limit for credit card usage?	100	122	1.22	0.173333

ANOVA

Source of Variation	SS	df	MS	F	P- Value	F crit
Between Groups	0.045	1	0.045	0.273733	0.601424	3.888853
Within Groups	32.55	198	0.164394			
TOTAL	32.595	199				

Interpretation: Since p value = 0.601424 > 0.05, the result is statistically significant, and therefore the null hypothesis is accepted. This means that alternative hypothesis is rejected.

Conclusion

However, the present study also emphasizes that credit cards have now become an integral part of modern financial management, which is convenient and flexible in terms of accessing short-term credit facilities. The results of the present study also revealed that though the judicious use of credit cards in terms of timely repayment and spending is helpful in managing the budget and financial planning in an effective manner, overuse of credit cards results in overspending, which further leads to debt and reduced savings. The psychological factors of instant gratification, social influence, overconfidence, and reward sensitivity also affect the spending of consumers in such a way that it is difficult for them to stick to their budgets every month.

Moreover, the statistical results also revealed that factors such as age have a significant influence on repayment behaviour, but the use of credit cards is not related to overspending unless accompanied by financial discipline. The results of the present study conclude that the use of credit cards is entirely dependent upon the awareness of consumers and their financial discipline in terms of maintaining their budgets in an effective and efficient manner.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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