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# The sociology of personal finance

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**Abstract**

Finance in general and personal finance, in particular, assume that there is a pure market money. The financial resources of a business or a household are taken to be a single mass made up of indistinguishable dollars, marks, yen, pounds, francs, or whatever. Consequently, we are free to devise "rational rules" for managing this mass, for prescribing how a business or household should choose the appropriate forms of money and the appropriate accounts for money without having to look more closely at the money itself. In this paper, we argue that rational behaviour is a more complex and richer process than simply valuing market money, since there are qualitative characteristics attached to any money, however defined. © 1998 Elsevier Science Inc. All rights reserved.

## 1. Different views of money

The economic literature makes numerous references to the symbolic value of money in its role as a medium of exchange.

> A man does not hold money for its own sake, but for its Purchasing Power—that is to say, for what it will buy. Therefore his demand is not for units of money as such, but for units of purchasing power. (Keynes, 1965, p. 53)
>
> Money is, as the classical economists said, both a medium of exchange and a "measure of value." It is symbolic in that, though measuring and thus "standing for" economic value

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> or utility, it does not itself possess utility in the primary consumption sense—it has no "value in use" but only "in exchange," that is for possession of things having utility. (Parsons, 1967, p. 306)

As money is a generalized medium, it does not symbolize a specific thing; rather, it symbolizes the utility obtainable when the money is exchanged for things (McGoun, 1997). Since as far as economics is concerned money can be exchanged by any one for any thing, money is free to symbolize any thing any one happens to desire. This makes it an especially potent symbol; it is "pure" wealth.

> Exchange value forms the substance of money, and exchange value is wealth. Money is therefore, on another side, also the embodied form of wealth, in contrast to all the substances of which wealth consists. . . . Money is therefore the god among commodities. (Marx, 1973, p. 221)

> Gold [money] is a wonderful thing! Its owner is master of all he desires. Gold can even enable souls to enter Paradise. (Columbus, in his letter from Jamaica, 1503, quoted in Marx, 1976, p. 227)

Finance in general and personal finance in particular make use of this purity of money. The financial resources of a business or a household are taken to be a single mass made up of indistinguishable dollars, marks, yen, pounds, francs, or whatever. It certainly does not matter where money has come from; once it becomes part of the mass any previous identity which may have been associated with its origin is lost. Parts of the mass may be held in different forms of money (cash, transactions accounts, securities, etc.), but there are no constraints on conversion of one form into another. And the mass may be broken down into a number of budgetary accounts (operating expenditures, capital expenditures, household funds, retirement funds, etc.), but transfers from one account to another can occur freely at the discretion of whoever it was who created the system.

Consequently, we are free to devise "rational rules" for managing this mass, for prescribing how a business or household should choose the appropriate forms of money and the appropriate accounts for money without having to look more closely at the money itself. What we mean by "rational rules" is that no non-economic values enter into the calculations; that is, that the purpose of the rules for managing money is to make more (or lose less) of it. And whatever form or whatever accounting we may choose for the money within our business or household, it is all the same money, market money, when it leaves the business or household and exercises itself as "purchasing power." Because of this seductive purity of money, there is a tendency for it to penetrate more and more aspects of life.

Zelizer (1994, p. 11) summarizes in the following way this traditional view of money, which is implicitly employed in finance:

1. The functions and characteristics of money are defined strictly in economic terms. As an entirely homogeneous, infinitely divisible, liquid object, lacking in quality, money is a matchless tool for market exchange. Even when the symbolic meaning of money is recognized, it either remains restricted to the economic sphere or is treated as a largely inconsequential feature.

2. All monies are the same in modern society. What Simmel (1978) called money's "qualitatively communistic character" denies any distinction between types of money. Only differences in quantity are possible. Thus, there is only one kind of money—market money.
3. A sharp dichotomy is established between money and non-pecuniary values. Money in modern society is defined as essentially profane and utilitarian in contrast to non-instrumental values. Money is qualitatively neutral; personal, social, and sacred values are qualitatively distinct, unexchangeable, and indivisible.
4. Monetary concerns are seen as constantly enlarging, quantifying, and often corrupting all areas of life. As an abstract medium of exchange, money has not only the freedom, but also the power to draw an increasing number of goods and services into the web of the market. Money is, thus, the vehicle for an inevitable commodification of society.
5. There is no question about the power of money to transform nonpecuniary values, whereas the reciprocal transformation of money by values or social relations is seldom conceptualized or else explicitly rejected.

While this traditional view of money may be very useful for a number of purposes, especially business purposes, another view of money might also be useful for the purpose of understanding personal finance.

Zelizer (1994, p. 18) also summarizes in the following way a non-traditional view of money, which contrasts with the list in the preceding section:

1. While money does serve as a key rational tool of the modern economic market, it also exists outside the sphere of the market and is profoundly influenced by cultural and social structures.
2. There is no single, uniform, generalized money, but multiple monies: people earmark different currencies for many or perhaps all types of social interactions, much as they create distinctive languages for different social contexts. And people will in fact respond with anger, shock, or ridicule to the "misuse" of monies for the wrong circumstances or social relations, such as offering a thousand-dollar bill to pay for a newspaper or tipping a restaurant's owner. Money used for rational instrumental exchanges is not "free" from social constraints but is another type of socially created currency, subject to particular networks of social relations and its own set of values and norms.
3. The classic economic inventory of money's functions and attributes, based on the assumption of a single general-purpose type of money, is unsuitably narrow. By focusing exclusively on money as a market phenomenon, it fails to capture the very complex range of characteristics of money as a social medium. A different, more inclusive coding is necessary, for certain monies can be indivisible (or divisible but not in mathematically predictable portions), non-fungible, non-portable, deeply subjective, and therefore qualitatively heterogeneous.
4. The assumed dichotomy between utilitarian money and non-pecuniary values is false, for money under certain circumstances may be as singular and unexchangeable as the most personal or unique object.

5. Given these assumptions, the alleged freedom and unchecked power of money become improbable. Cultural and social structures set inevitable limits to the monetization process by introducing profound controls and restrictions on the flow and liquidity of monies.

## 2. "Rationality" and "irrationality"

In financial economics, we accept market money as the basic foundation of all of our thinking. We can reduce any set of cash flows, or any asset held for its cash flows, to a single market value by appropriate discounting, allowing for differences in risk. Conversely, we define asset values as the discounted value of future cash flows. We make different assets or forms of market money comparable, and can then rank their values. Behaviour towards different forms of market money that are equal by this calculus is rational behaviour if it treats them the same, and irrational otherwise.

In this paper, we argue that rational behaviour is a more complex and richer process than simply valuing market money, since there are qualitative characteristics attached to any money, however defined. A different treatment or attitude or valuation of sums of market money that are equal in market terms may be perfectly rational when the qualitative characteristics differ materially. The current academic literature in finance suffers from selective amnesia when it comes to utility maximization. The only argument in the formal models is wealth, and thus we have explicitly reduced utility maximization to wealth maximization, subject to whatever budget constraints are relevant in a given research question. As finance researchers we know that utility maximization should also include non-wealth considerations, but the tractability and elegance of the current models is so attractive that we ignore these other arguments in the objective function. Any field of inquiry that purports to describe and understand observable phenomena must embrace all of the reality, sooner or later.

We do not claim that apparently irrational behaviour with respect to money never exists. Individuals or social groups can suffer from misperceptions or lack of knowledge of the quantitative characteristics of money in some form that will cause them to behave in ways which appear irrational, where we would agree that their understanding is wrong in a purely objective fashion. The dividing line between an objective reality and subjective perception is not a defined boundary, and what one person thinks is totally irrational may be the manifestation of some subjective characteristic of money valued by another person. Let us consider some examples of asset allocations to illustrate the issue:

### *Family A*

. . . obeys the Muslim injunction against receiving or paying interest (sharia). This family's investment portfolio is entirely in common equity and real estate.

*Family B*

. . . believes inflation will increase rapidly around the world in the near future. Accordingly, this family's portfolio consists of real estate (heavily levered with fixed rate debt, since the lenders have not allowed for the higher inflation rates, in the family's opinion) and gold.

*Family C*

. . . often finds themselves at social events at which investments are discussed. This family's investment portfolio consists of stocks and other investments about which there has been considerable recent publicity, and they trade very frequently.

*Family D*

. . . subscribes to a number of economic databases on the Internet and follows them assiduously. At any given time, they hold a very small number of investments in their portfolio; however, its contents change rapidly as they trade daily based upon their assessments of the impact of macroeconomic variables on market performance.

*Family E*

. . . has a very successful business that grew out of a hobby of the spouse who formerly did not work outside the home. All of its profits are either reinvested in the business or in short-term money-market instruments.

*Family F*

. . . received a large inheritance of government securities from a wealthy relative who had grown up during the depression. They have not touched the money since receiving it quite some years ago and have no special plans for it.

These families are not atypical, and we think that most of us have personally known several of them, or families very much like them. And we all know that from the standpoint of traditional finance, these families are acting irrationally. They are not maximizing their wealth, as a result of: (1) concerning themselves with non-economic factors (families A and C); (2) forming irrational expectations (families B and D); (3) making insufficient investment in portfolio management (families E and F); (4) and, of course, not adequately diversifying their portfolios (all families).

But we would be hard-pressed to argue that from a sociological or psychological standpoint these families are acting irrationally. There are certainly no reasons why personal financial management should be subordinate to religious interests, why personal anxieties should not be important considerations in personal financial management not only in risk tolerance but also in the formation of expectations, why personal financial management should not also be a form of entertainment, or why families not very interested in it should spend much time at personal financial management.

At present, there is rising interest in something called *behavioral finance.* But what *behavioral finance* currently is is work which refers to the body of knowledge of cognitive psychology as support for what might be called *quasi-rational* assumptions, to use Thaler's (1992) phrase, but employs the same methods and the same methodology as traditional finance. Of course, one might argue that these new assumptions are more *realistic* than those of implicitly self-proclaimed *rational* finance and reflect a concern with *realism* at odds with Friedman's (1953) instrumentalism. But they themselves are certainly unrealistic, and arguably even more unrealistic than the current assumptions since there is no reason to believe that individuals with biases might aggregate in such ways as this work assumes.

It is necessary to distinguish between *logical* and *rational* (Devlin, 1997). What traditional finance calls *rationality* is *logic* and what it pejoratively calls *quasi-rationality* legitimately deserves the more reputable term *rationality*, given the current theories of evolutionary psychology (Pinker, 1997). We actually do observe the *logical* behavior assumed in traditional finance—in subjects who have suffered certain forms of brain damage (Damasio, 1994). We intend to show in this paper just how there are rational actions which do not currently fall under finance's definition of the term.

## 3. The colour of money

What all of this means is that when we concern ourselves with real households inhabited by real people rather than economic units made up of genderless economic persons, the colour of money matters. Therefore, personal finance research should consider the qualitative characteristics, and how they affect both our observations and empirical work, and the normative advice that we give. Let us propose some headings in order to organize our ideas of how the colour of money matters:

where money comes from: the payment form, source or recipient;
in what form money is held: coins, bills, bank accounts, credit cards, securities, real assets;
how money is labeled: special accounts, who controls it, who spends it, credit and debit cards versus cash;
what sums of money are involved.

There are numerous familiar examples to illustrate these points. We list and explain some of them in the spirit of demonstrating that personal finance research and teaching should expand their horizons. We do not claim to provide a new theory of personal finance.

### *3.1. Where money comes from*

Ethical investment funds cater to the increasing acceptance that corporations should act to maximize something more than shareholder wealth. Ethical funds assess the suitability of companies based on 'screens' that either disqualify them completely or give them scores that are compared. For example, most ethical funds will not hold securities of tobacco companies. They will assess the commitment of chemical companies to minimize pollution and hold only

those that meet a higher standard, however determined. The excluded companies may be very profitable. We know from basic finance theory that constraining the set of allowable investments forces the investor to hold an inefficient portfolio, and thus any ethical investor is getting a poorer risk-return combination than he or she could get. In fact, if enough investors refuse to hold certain companies, we would expect abnormal profits to be available for the buyers of the unwanted securities.

In budgeting, we treat all sources of income identically and add them up. However, a formal model based on some theory of smoothing lifetime income and consumption would allocate a large part of any windfall into savings rather than expenditures. Families may not behave as the models suggest they should. One family may view all receipts as income to be spent at once with no saving. Thus, a windfall source of cash may do nothing to alleviate a low standard of living, since it is consumed very quickly. Another family may view a windfall as an amount that must be set aside and placed in savings.

A particular social view of welfare income is the preference of many governments to provide it in a tied form. Food stamps and housing subsidies are obvious examples. We know that utility would be maximized by giving the same economic value without constraints, as tied programmes usually cost more to administer, and more money would be available for distribution if it were given as straight cash. Nonetheless, tied programmes persist because society (or at least the part of society that pays more tax than it receives in welfare) has a different image of welfare income. It must be spent on only the necessities of life, as defined by those who know better. 'Excessive' amounts of booze, cigarettes, entertainment and children's toys are undesirable. We are unaware of any personal finance research that tries to estimate the lost utility due to tied programmes.

Gifts may be another form of money, when given as cash or near-cash items. For example, in some cultures, wedding gifts always take the form of cash so that the newly-weds can buy whatever they need to start life together. In other cultures a gift of cash from anyone except perhaps the parents is considered vulgar, and the friends and relatives must buy and wrap real assets—dishes, small appliances, wine, etc. If the culture that gives the money imposes no implicit restrictions on how the couple spends it, then the cash gifts have more utility because there is no constraint. However, if the society expects that only certain sorts of things should be bought with money gifts, then binding constraints exist again, and the money is not 'worth' as much as purely market money would be.

How executives are paid may matter, too, when bonus and salary are considered. In a recent example, Gibbon (1998) reported that Royal Oak Mines, a gold mining company, lowered the exercise price of previously-issued executive stock options because the share price had dropped so far the options were almost worthless. Many shareholders were very upset, since of course they had also lost money on the share price decline, and lowering the exercise price diluted their value even further. The motion passed by a close vote at the annual meeting, although most motions at annual meetings are rubber-stamped. The CEO said the options were the only means of retaining senior staff, since their salaries and bonuses had been frozen for two years, while Royal Oak wrestled with bringing a new mine into production at a time when gold prices were falling.

It seems that the executives considered the options to be salary, perhaps with a bit of

variability in total amount. Nonetheless, they had been consuming or planning to consume both salary and options. Many shareholders believe the options are a form of reward or incentive, and if the company does badly the value should be low or zero. When the company originally granted the options, the shareholders and executives would have agreed on the market money value of the options, valued by an appropriate-options pricing model. What they did not recognize was that the two sides had a very different view as to the qualitative nature of the payment being given.

An old aphorism in personal finance is to spend only your income but never encroach on your capital. This aphorism and the strong beliefs underlying it create a complex problem in personal finance, especially at the retirement stage of the life cycle. In purely rational or market money terms, only one interpretation is valid: a very high utility of bequest function. Persons have limited lives and therefore they can afford to consume their capital, too. For all but the quite wealthy few, consumption of capital in retirement is a necessity for a comfortable lifestyle or even bare subsistence. Uncertainty about the rate of return will cause you to rationally curtail your consumption to what is estimated to be sustainable, given an uncertain life expectancy (see Milevsky et al., 1997), but the consumption amount includes both income and capital. Pensions and annuities pay out both capital and income in a level or indexed stream of cash flow.

Thus, the form in which the money is received from two identical endowments may affect the amount consumed. One endowment might be invested entirely in Treasury bills, paying 4% interest. The other endowment might be in an equity mutual fund with 2% dividend yield and 8% unrealized capital gains. If the families follow the traditional belief that you should never consume capital, the first family will have twice the consumption of the second family, even though the second family actually earned more.

Miller and Modigliani (1961) created a world in which dividends are irrelevant. In the real world we know they are relevant, since we observe their continued existence in spite of double taxation. Part of the dividend puzzle may relate to this belief that you shouldn't consume capital. The dividend payout may be consumed, and higher dividend payout companies permit more consumption.

Which member of the household earns an income amount also affects how it is valued, and the valuation varies widely according to the circumstances of the family and the society in which it is situated. Children's earnings from a paper route in a middle class Canadian or US family are essentially a luxury, or totally discretionary income for the child. Even if the family imposes certain discipline ("save 10%," "buy your own treats with the money"), it is not a part of the income that the family uses for its household budget. On the other hand, a family on welfare may need the children to earn some money to buy the latest new clothing, and hence the children's earnings become part of the budgeting process. A family in a third world country may require the children's earnings to avoid hunger.

A different aspect of who earns the income is how it is allocated to spending and saving. Until quite recently in history, women did not work outside the home once they were married. Now two income families are common, and the allocation of the two incomes does not necessarily correspond to formal budgeting models. Regardless of which spouse earns them, take-home dollars are identical in market money, but they are not equal in their value

to some families. A common scheme is to save the entire second income, yet it would not be unusual for the "second" income to have become substantially larger than the "first" one. The budgeting process we teach in a personal finance course advises you to add up all the income and determine how much to spend on different categories. The residual is saving. The process is iterative, because one of the family's goals will be to achieve savings targets, and hence the family should budget to reduce expenditures if the residual is insufficient.

If the family uses the model of saving the entire second income, it is skipping the budgeting process, and may save less or more than the goals it would set if it used the other process. A similar effect occurs if different household expenditures are assigned to each income earner. Thus, who earns the money affects the budgeting process, even though the dollars are the same. A more subtle effect is the way in which second incomes are characterized. A term that has become almost pejorative is "pin money," the descriptor for small amounts of incidental income earned by a wife who does not work full-time. The implication is that it is frivolous, or unimportant, and thus worth less than the same number of dollars earned by the main breadwinner.

A wife's personal income may be valued differently by each spouse as well. A wife who has been dependent upon her husband for all her money for many years may place greater value on income that she earns when she starts working, than she did on the same number of dollars received from her husband. Objectively, it may cost quite a lot to earn such income —child care, a second car, new clothing, more expensive meals—but the psychological feeling of independence makes the second income more valuable. In addition, the social benefits of working outside the home after years of housework may provide even greater psychic benefits.

Consider the following situation as an experiment that could be conducted, or as a behaviour that could be observed if sufficient data could be collected. A family unit can increase its income by a specific take home amount (that is, after taxes and deductions) in one of two ways. The principal breadwinner can work some extra hours, or the homemaker spouse can work at a part-time job. The two are mutually exclusive because one spouse must be home to care for the children. The risk of the two income amounts is identical. We have already suggested that other factors may affect the choice of which method they use to increase income. Now, consider how they spend or save the extra income. Would the extra amount be allocated exactly the same, regardless of who earned it? Furthermore, would the allocation of the income depend on whether the homemaker was male or female? We don't know the answers, but our belief is that for some families the money would be allocated the same no matter who earns it, and for others the allocation would be dependent on who earned it.

### *3.2. In what form money is held*

One way to categorize the holding of money is as currency, coinage, bank account accessed by debit card, credit card paid in full each month, or bank account accessed by check. The rational way to treat money in these different forms is simply a comparison of transaction costs and opportunity costs of money held in a bank account paying low interest. For example, bills and currency are most convenient for small transactions or for paying

merchants or machines that do not accept anything else, but they also carry a theft risk and the nuisance of having to go to a financial institution or an ATM to get cash. A credit card may carry a fee, and also a risk of theft and forgery, but it is very convenient, and the free credit period allows money to be held temporarily in a form earning more than a bank account. It may also convey various other financial benefits such as affinity points or free insurance.

There are other aspects to the form of holding money, however. The best known is the nature of spending different forms of money. If a family goes out for a night on the town and takes a credit card, will it spend more or less than if it takes a wallet with $300 in it? Does it create a different feeling to pay for an expensive audio system with a roll of $1,000 bills, or does tendering the most exclusive platinum credit card create a better image?

Does it matter what denominations of bills or coins are used? For example, many people save pennies. Every time they have an odd amount to pay in cash in a store, they pay with an even amount, and all the pennies in pocket or purse go into a bowl at the end of the day. A family could save more easily by putting a dime or quarter into the bowl each day and avoid having to roll all the pennies some day. However, the idea of the huge bowl of pennies is somehow appealing, and makes savings seem more concrete, as well as less painful to achieve.

Another example is the Canadian $2 bill on the Prairies. This bill no longer exists, having been replaced by the $2 coin. During its long history, it was said that it was uncommonly tendered in the Prairies provinces because it had been the price of a prostitute for a long time, and to be seen using one had an aura of immorality. This story was firmly believed by many people, which would make it self-fulfilling to some extent. One of the authors believes that he saw far fewer $2 bills than he would expect during his various trips to the Prairie provinces, compared with what he saw in the central provinces, but that may be an illusion.

### *3.3. How money is labeled*

The labels we put on different sums of money are closely related to the forms in which they are held. Even with identical forms, however, the labels have different meanings, and create different behaviour. The point in labeling is generally in the budgeting system, and is a means of control or enforced saving. Creating different accounts, or holding money in cash form for long periods, are inefficient in a rational sense. Transaction costs rise and income on the money may be lower. Nonetheless, enforced saving is necessary for many families.

We have already mentioned that money may be permanently labeled by source, and from then on its fate is may be quite precisely determined. But we can be equally adamant adhering to our voluntary labels. Even without tax implications, money set aside for retirement or education will only in extreme circumstances be used for something else, even though it may not be all that necessary for its originally intended purpose. If a certain sum is put away in a Christmas club account or a vacation club account, it will be used for that purpose, even though that might mean a more lavish Christmas or vacation than would really be prudent given other circumstances. In fact, the very existence of special retirement,

education, Christmas, and vacation accounts points out the importance of labels in disciplining personal financial management.

### *3.4. What sums of money are involved*

We have long known that money does not obey the laws of mathematics. Although utility might, wealth does not, since utility and wealth are not directly proportional. The very foundations of finance in the work of Daniel Bernoulli in the eighteenth century assumed that monetary losses and gains were less important to a richer person, who would be willing to undertake gambles that a poorer person would rationally avoid. More recently, work in behavioral finance has shown that losses and gains are asymmetrical; that is, that more utility is lost with an investment loss than is gained with an equivalent gain. This is not so surprising, nor so "irrational" from a utility standpoint, since it certainly makes sense that we would value more what we have had for a while than what we have not had time to accustom ourselves to yet.

Other examples of the phenomenon are less familiar. There are some things that are obtainable for large sums of money that are unobtainable with sums of smaller sums. One example suggested by Simmel (1978) is political influence. The principle of one person one vote notwithstanding, someone whose net worth is one million dollars is likely to have more influence over government decision-making than ten persons who have one hundred thousand dollars each. At the same time, a person who has ten million dollars probably will not have more influence than ten millionaires. Similarly, having sufficient money to purchase the least expensive house in a prestigious neighborhood can give someone vastly greater social standing than someone who can not quite afford it; but not that much less social standing, at least as far as residence is concerned, than someone who is able to live in one of the most expensive there.

Numbers and sums themselves have psychological value. One of the most common examples of the phenomenon is stock indices, round numbers of which may represent "floors" or "ceilings." Once the Dow has passed 9,000 on the way up, a certain optimism may be triggered that accelerates the rise. Or when the Nikkei finally falls below 15,000, a despair falls over the market which may lead to a continued decline. More relevant to personal finance is another common example which appeared in the preceding paragraph. There is something about being a "millionaire" that one does not have being a "nine hundred ninety thousand-aire." Or if one has set an investment target of $100,000, once having reached that amount it is possible or perhaps permissible to imagine possibilities that were not thought of before that time.

Amounts of money have sociological as well as psychological value. As noted by Zelizer (1994), there is a protocol associated with using certain forms of money for certain purposes that is not necessarily related to transactions costs. Small purchases can generally not be made with small bills or with credit cards, but some can. More significant along these lines are the values of gifts. There are fairly precise and often quite elaborate, but unwritten, rules concerning how much you can spend on what occasion. And there can be quite severe penalties for falling short or exceeding that amount by not so large margins.

## 4. Why does this matter to academic personal finance?

The colour of money affects human behaviour individually, in families and in larger groups or societies. The reader can think of many more examples than we have presented in this paper, and can enlarge on every aspect of what we have outlined. The reader may also disagree with specific examples, in the belief that they reflect purely irrational behaviour rather than social norms. We think the general argument is undeniably valid, however. The question then is, so what?

First, teachers of personal finance need to reflect both the rational economic models for students to learn to improve personal financial management (their own or that of their future clients) and the reality of what people do and why. Financial advisers of every form must deal with their clients in a world that does not obey the limiting assumptions of our formal financial models. If they insist on trying to force their clients into uniform plans that do not take account of the broader social situations these families are situated within, they will either lose the clients or possibly convince them to act in ways that may reduce their utility.

Second, researchers in personal finance need to recognize that their apparent empirical findings may be coloured, changed or even invalidated by the sociological phenomena and situational nature of the family, because they have assumed these away. Perhaps the small firm effect or the January effect has rational causes grounded in our society, causes that are not directly related to maximizing wealth and hence not easily found by purely rationalist, objectivist financial research or even the purely quasi-rationalist but nonetheless still objectivist financial research of behavioral finance.

Third, related to our second point, is the question of the appropriate methods in personal finance research. The dominant paradigm comes from corporate finance and investments, and is rigidly quantitative. There is a huge literature on method and methodology in the social sciences in general that finance has ignored. In particular, we rarely use qualitative methods, though they are much commoner everywhere else in the social sciences. To give one example, we might learn a great deal about budgeting if we participated directly in the budgeting processes of families and recorded our observations in a systematic way. This paper is not the place to go into extensive detail, but several different ways of doing it—action research, case study method, grounded field theory—exist and have been developed thoroughly. Bettner et al. (1994) provide an introduction to qualitative research in the context of corporate finance and investments.

Fourth, we think that investigation of these sociological or psychological aspects of personal finance offers a great opportunity to expand the scope of the field. Many of the examples we suggest lead to clear research questions. We observe that personal finance research as represented in the programmes of the *Academy of Financial Services* and the *Association for Financial Counseling and Planning Education* and their respective journals, *Financial Services Review* and *Financial Counseling and Planning* are narrower than is necessary or appropriate. Investments, government income/pension/welfare/taxation laws and institutional arrangements seem to dominant the discourse. We think there is a lot more to personal finance, though we agree that these are critical topics, and do not wish to minimize the usefulness of these lines of inquiry.

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