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Original Research Article

Optimism versus Pessimism and Its Effect on Saving Habits

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Abstract: This study aims to investigate the influence of a person's optimistic and pessimistic personality on the saving habits of household financial managers in Kupang City. To achieve the purpose of the research in question, in this study, the author took literature sources from financial management and psychology, then the relevant hypotheses were built. The data was analyzed using Structural Equation Modeling (SEM) techniques using the help of SmartPLS software. This research was conducted in 2 (two) stages, namely the initial stage and the advanced stage. At the initial stage, we determine the topic and theme of the research, and formulate a research problem. In the advanced stage, conduct data collection, analysis, data interpretation and finally compile the final research report. The results of this study show that both optimism and pessimism influence saving habits through prudence in shopping.

Keywords: Optimism, pessimism, cautious in shopping, saving habits.

BACKGROUND

Conflicts in the household are often caused by the presence of financial problems. As it is well known that financial conflicts have a negative impact on household harmony, can even cause rifts between married couples and even worse can result in divorce. A study conducted in the United States showed that about 56% of divorces that occur are triggered by household financial problems (Mandell & Klein, 2009). If the financial management of the household is not well regulated, the household in question financially experiences various limitations. The follow-up consequences are psychological distress, unstable emotions, mental disorders, disturbed social relationships, and even interrupting the level of spirituality and religiosity (Fanggidae, 2022; Nugroho, 2019). Good household financial management can be reflected in how the head of the household can set aside a portion of his income for things that are urgent and often difficult to predict (Schunk, 2007).

Given the importance of saving habits in household management, many studies have been conducted to find out what factors make individuals used to saving. For example, a Chinese study found that the number of dependents of children affects saving habits, where the fewer children in a household, the higher the saving habits (Lugauer *et al.*, 2019) Other studies have shown that financial literacy (Kim & Yuh, 2018) macroeconomic uncertainty and general income increases (Levenko, 2020). We propose a proportion that saving habits are also influenced by the personality of the household financial manager (Sahetapy *et al.*, 2021; Setyorini *et al.*, 2022). In this regard, we argue that optimism and pessimism affect whether or not financial managers in households are accustomed to setting aside part of their income. To our knowledge, research that examines this topic is still rarely conducted.

The purpose of this study was to determine the influence of optimism versus pessimism on the saving habits of household financial managers. In addition, we also want to investigate the mediating role of the precautionary variable in shopping in the above relationships. To be able to achieve the objectives of this study, we conducted a review of the literature in the field of finance and psychology to be able to build relevant hypotheses. In addition, we will also take data among the wider community with household financial managers as the population. Practical benefits can be used by financial managers in the household in order to better manage finances for the welfare of household members. The theoretical benefit is the theoretical contribution of knowledge to the literature in the field of finance and psychology.

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LITERATURE REVIEW

Optimism versus Pessimism

Optimism/pessimism, as popularly seen, can be described as a psychological dimension in which optimism, at one pole, represents a bias in perception and expectation that favors the positive features of life, and pessimism, on the other hand, represents a negative bias (Puri & Robinson, 2007). As the times progressed, it became increasingly clear that optimism and pessimism were not bipolar. Thus, the scale of optimism and pessimism is separate and indicates the need for even more precise conceptualizations of these terms (Norem & Cantor, 1986).

Optimism versus pessimism is operationalized as the tendency to hope for a positive or negative outcome in one's life, also defined as the way one views the future and the present (Carver *et al.*, 2010; Dember, 2001). In general, optimism is considered a more positive personality for an individual than pessimism. Both cross-sectional and longitudinal studies found a strong link between optimism and mental health and well-being. For example, optimism has a positive relationship with subjective well-being, self-esteem, expectations, self-efficacy, social support, and mental health. Findings from previous studies highlight the key role of optimism in a person's life when traumatic events and expectations of certain outcomes are strongly emphasized. A higher level of optimism and a lower level of pessimism improve a person's psychological health. The lack of optimism can affect a person's orientation towards life which can lead to an increase in the level of depressive symptoms(Arslan & Yıldırım, 2021).

Pessimism itself is a tendency to expect a negative outcome from events that occur or that will occur (Dember, 2001). Pessimism is positively related to depression and anxiety, stress and can reduce a person's psychological health (Arslan & Yıldırım, 2021). Pessimistic people always think of all potential dangers, tend to have little hope for the future. As a result, pessimistic people tend to remain passive when facing challenges, believing that their efforts will be in vain(Hecht, 2013). The difference between optimism and pessimism lies in how both respond to their actions towards others as well as attitudes towards themselves. Arslan *et al.*, (2021) argue that optimism and pessimism are personalities that are stable in nature and have important implications in regulating a person's response to their environment.

Optimism vs. Pessimism and the Principle of Prudence in Shopping

Optimistic and always pessimistic people have different attitudes towards the availability of resources. A successful life requires a good balance between optimism and pessimism. Optimism is identified with overconfidence that can lead to negligence and reckless attitudes so as not to take the necessary precautions to prevent unwanted events from occurring (Hecht, 2013) For example, excessive optimism can push a person to take unaccounted financial risks that can end in disaster (Kahneman, 2011). On the other hand, worrying too much about potential dangers and focusing one's energy on risk can lead to passivity, exaggerating mood and increasing susceptibility to depression. Therefore, optimal equilibrium is needed in order to face challenges.

High optimism can make a person less cautious in spending his money. On the contrary, high pessimism makes a person too careful in allocating his money. Puri and Robinson (2007) found that optimistic people tend to work harder than pessimists and believe that they will earn more money in the future. For example, an optimistic investor tends to keep speculating even though he has been reminded to be careful in spending his money. He did this because he believed that he would obtain positive results in the future (Åstebro *et al.*, 2007)

For a pessimist, the risk of failure becomes something very large and dangerous. Therefore, they tend to be very careful in their actions, especially those that can bring risks. In the literature, the term defensive pessimism is known where pessimists tend to set low targets in an event so that they are expected not to be too disappointed if the target is not achieved (Norem & Cantor, 1986). Thus, a pessimist is known to be less active in achieving lofty goals and refuses to enjoy hedonistic materials. Based on the above description of the literature, it can be concluded that in terms of spending his money, an optimist tends to be more extravagant while a pessimist tends to be more cautious. Our next hypothesis is:

Hypothesis 1: Optimism negatively affects caution in shopping.

Hypothesis 2: Pessimism positively affects caution in shopping.

Caution in Shopping and Saving Habits

It is logically predictable that individuals who are fond of spending money at the time of shopping do not have good saving habits. Thus, the relationship between these two variables is negative. Research conducted by Ajeesh (2019) found that when individuals spend a lot of money on shopping, the habit of saving becomes low. It is explained that spending money and saving are two sides of the coin where the relationship between the two is negative. That is, if one increases then the other will decrease. Therefore, we hypothesize:

Hypothesis 3: Caution in shopping has a positive effect on saving habits.

Hypothesis 4: Optimism vs. pessimism indirectly affects saving habits through prudence in shopping.

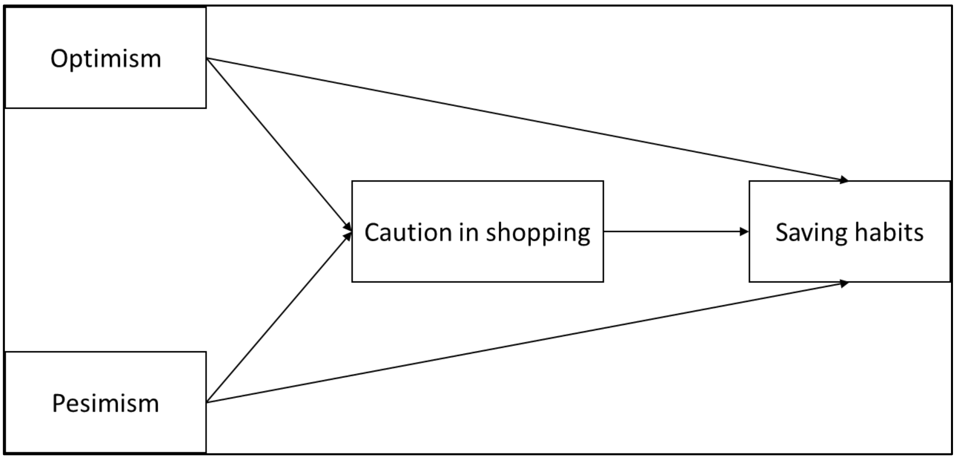

Figure 1: Research models

Previous studies have explored the dichotomous influence of pessimism and optimism on a person's psychological condition (Scheier *et al.,* 1994) Research from Kaida and Kaida (2019) further reinforces this premise by showing the influence of pro-environment behavior and happiness, both emotionally and behaviorally. This research brings the concept of optimism vs. pessimism to a new realm, namely the realm of personal financial management. Specifically, it can be explained that optimism vs. pessimism can affect a person's saving habits through prudence in shopping.

METHOD

Respondents and Data Collection

The respondents in this study were workers in Kupang City, the provincial capital of East Nusa Tenggara. Respondents must be mature and able to answer questionnaires with full awareness. They must be willing without coercion to fill out questionnaires and not know the hypothesis of the study. This requirement must be met so that the answers from the respondents are not biased. The respondents were not rewarded for filling out the questionnaire and they were allowed to stop filling out if they were uncomfortable with the questions in the questionnaire.

The respondents received an invitation to participate online in which there was a URL link that would direct them to the survey page. They are free to accept or decline the invitation. Be informed that their decision to accept or refuse to participate will have no effect on their relationship with the college. The respondents were informed that the purpose of this scientific research was to find out their views on household financial management. The sample was taken based on the principle of convenience sampling where the total number of respondents was at least 186 people. Respondents are welcome to answer questions relating to existing research variables. At the end of the online survey, they are asked to fill in demographic data such as age, gender, and education level. The respondent's name and mobile number are not requested in order to guarantee the principle of confidentiality so as to motivate the respondent to give an honest answer.

Question Items

The questions in the questionnaire are adapted from previous studies that have passed validity and reliability tests. For the variables optimism and pessimism were adopted from previous research conducted by Scheier *et al.,* (1994). As for the variables of prudence in shopping and the variables of saving habits, we adapted from research conducted by Bauer and Mitev (2012). Prudence in shopping consists of 2 items while the habit of saving consists of 4 items. All variables are measured using a 5-point Likert scale (1 = Strongly Disagree; 5 = Strongly Agree).

Data Analysis

Because this research is a quantitative study that aims to find out the existence and type of relationship between one variable and another, the analytical tool used is Structural Equation Modeling (SEM). SmartPLS software will be used to simplify SEM calculations. The stages of analysis itself will be divided into early and advanced stages of analysis. Initial analysis is carried out to ensure that all measurement scales are valid and reliable, as well as perform data cleaning. Meanwhile, further analysis is basically to test the hypotheses that have been built.

RESULTS

Before testing the hypothesis, we first analyze the measurement model. First, we tested the internal consistency of model reliability by looking at Cronbach Alpha and Composite Reliability values. This can be seen in Table 1. Cronbach Alpha (α) and Composite Reliability (CR) values where they are above the recommended lower limit of 0.70. Therefore, the structures used in the study are considered reliable. Furthermore, the effectiveness of convergence is reviewed by examining the load factor value and Average Variance Extracted (AVE). It can be seen that all items have an item loading score higher than 0.7 and an AVE score greater than 0.50. Thus, the requirements for measurement have been met in this study.

Table 1: Measurement Model

Variable	VIF	Loading	α	CR	AVE
Optimism (OP)			0.71	0.82	0.57
OP1	2.33	0.81			
OP2	1.32	0.80			
OP3	1.22	0.81			
OP4	1.24	0.69			
OP5	1.42	0.72			
OP6	1.33	0.78			
Pessimism (PS)			0.90	0.82	0.71
PS1	2.42	0.83			
PS2	1.12	0.72			
PS3	2.43	0.83			
PS4	1.33	0.85			
PS5					
PS6					
Prudence in Shopping (HH)			0.82	0.73	0.73
HH1	2.53	0.74			
HH2	1.34	0.84			
Saving Habit (KM)			0.81	0.75	0.52
KM1	1.33	0.73			
KM2	1.67	0.80			
KM3	2.32	0.83			
KM4	1.21	0.71			

Structural Equation Modelling (SEM) analysis found several results. First, we found that optimism negatively affects prudence in shopping ($b = 0.22$, $p < 0.01$). In other words, the higher a person's optimism, the less careful he is in shopping. Thus, this proves our first hypothesis. Second, pessimism positively affects prudence in shopping ($b = 0.32$, $p < 0.01$), where pessimistic people tend to be more cautious in shopping while proving the second hypothesis. Third, we found that careful shopping has a positive effect on saving habits ($b = 0.21$, $p < 0.05$), thus proving our third hypothesis. Fourth, optimism and pessimism have an indirect effect on saving habits through prudence in shopping ($b = 0.09$, $p < 0.05$).

DISCUSSION

The results of this study found that optimism and pessimism have an indirect impact on saving habits through mediation of prudence in shopping. However, the nature of the variables of optimism and pessimism contradict each other where optimism reduces prudence in shopping, while pessimism is the opposite. These results are in line with previous research conducted by Puri and Robinson (2007) which found that optimism and pessimism are at different poles, so the implications are seen in constructs that affect or affect both. Thus, although in general optimism is seen as a more positive personality (Carver *et al.*, 2010) context of this study, pessimism has a more positive impact than optimism in terms of saving habits.

The practical benefits of this research can be enjoyed by various parties. For household managers, it is better to know the personality of each partner well so that they can anticipate if there are difficulties in terms of saving. Because high optimism can have a negative impact on saving habits, it is better for those who have high pessimism to be given the task of being a financial regulator. In addition, the same implications can also be applied to small companies that have the same problem, for the sake of improving the company's financial performance.

CONCLUSION

The purpose of this study is to determine the impact of optimism and pessimism on saving habits. The results of this study show that both optimism and pessimism affect saving habits through prudence in shopping. Thus, the objectives of this study have been achieved. In the future, further research can conduct research on the same topic but more direct to personality differences other than optimism and pessimism.

Disclosure Statement

The authors declare that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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