

## **Impact of Financial Threat on Individual's Willingness to Change Financial Behavior**

Muhammad Ishtiaq<sup>\*</sup>, Muhammad Shahid Tufail<sup>†</sup>, Khurram Shahzad<sup>‡</sup>,  
And Muhammad Aamir Naseer<sup>§</sup>

### **Abstract**

*The Global financial crisis of 2008 raised huge disturbance on the trend of individual employment as well as one's psychological health around the globe. Pakistan is confronted with the challenges of financial threats in the form of low GDP, increasing inflation and rising unemployment. Pakistan is facing various categories of macroeconomic complications e.g. joblessness, less per capita income, inflationary pressure etc. Approximately more than 3.5 million people of Pakistan are jobless, because of this Pakistan is facing 6% unemployment rate. Inflationary rate was 10.8 % in 2012. Therefore, the purpose of this study was to explore the relationship between financial threat and individual's motivations to change one's financial behavior in Pakistan. This study examined the determinants of the financial threat through the sample of the business graduates of Pakistan. Different descriptive and inferential statistical techniques were applied to examine the collected data. The results of the structural equation modeling described that anxiety was significantly associated with financial threat while financial threat was also related to the one's willingness to change. However, economic hardship was negatively related with financial threat. On the other hand, it was positively associated with willingness to change. Additionally, financial threat mediated the association among anxiety and willingness to change. This research has made valuable contribution in the existing literature and provided various policy and practical suggestions to address the problems which are facing by the university graduates related to their financial threat.*

### **Introduction**

Economic crisis of 2008 has been engendered from the liquidity declination of the US banking sector. Because of the globalization of the economies, this crisis has not only exaggerated the developed economies but also has greatly damaged the world economy with respect to their

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<sup>\*</sup> Dr. Muhammad Ishtiaq, Assistant Professor, Lyallpur Business School, Government College University, Faisalabad. Email: [mishitq@gcuf.edu.pk](mailto:mishtiaq@gcuf.edu.pk)

<sup>†</sup> Dr. Muhammad Shahid Tufail<sup>†</sup>, Assistant Professor, Lyallpur Business School, Government College University

<sup>‡</sup> Khurram Shahzad<sup>‡</sup>, Visiting Lecturer, Lyallpur Business School, Government College University

<sup>§</sup> Muhammad Aamir Naseer<sup>§</sup>, Lyallpur Business School, Government College University, Faisalabad.

level of dependence (Miraj, Karim and Parveen, 2014). The old proverb that the rest of world sneezes, when United states catches a cold. The 2008 financial crisis, which began in US mortgage market and quickly spread over the world was the economic downturn since the great depression, resulting as 8.7 million jobs being lost in United States and about 250000 in Australia (Robinson, 2018). Global economic crisis 2008 had adversely disturb the individual's wellbeing, employment level and their living standards. Individuals and the worldwide nations were affected through this economic crisis. A huge number of people had lost their jobs (Greenglass et al. 2014). In consequences of economic crisis 2008, investment opportunities of the Pakistan have been decreased by the poor law and order situation as well as from energy crisis. These two factors create a trouble in the way of trade balances of the Pakistan. Pakistan's economy has been affected by the GFC-2008 in a numerous of ways like Trade channels, Financial system, equity flows, foreign direct investment and foreign transfers etc. (Miraj, Karim and Parveen, 2014).

Pakistan has been also faced by the increase in trade deficit by 12.5% in 2008. Unemployment rate had also increased from 5.0% to 5.5 % by 2008 to 2009 in Pakistan (The World Bank). When there is uncertainty in employment, physical and mental health of the people is disturbed. It creates stressful thought among individuals. Ficksenbaum et al., (2017) said that several varieties of the financial threats have been tackled by the world economies due to the GFC-2008. Financial threat is more in those who perceived pecuniary difficulties in their lives. When a family is suffering with the economic difficulties, students may be also affected due to these difficulties. Psychological distress is increased with the increase in debt, economic hardship etc. Financial threat plays a mediational role among determinants of financial threats and the motivations and perceptions of an individuals. Individual can get rid from these obstacles which ascends from (debt, financial hardship, anxiety, mental distress) only when person have some intentions towards their financial behaviors like: Job search behavior and willingness to change. Financial threats are more in the period of economic collapse. Ficksenbaum et al., (2017) defines term financial threat as a mental state that describe when a person is feeling ambiguity about his present and forthcoming financial position. All their collective results have shown that person faces financial threats more when he remains negative to his financial circumstances. Additionally, with the intensification of financial threats, psychosomatic disorder i.e. stress, depression etc. may also increase. Due to the financial threat people

increases alcohol abuse, nervousness and suicidal attempts. Increase in financial threat lead to the increase in economic hardship.

Economic hardship means when an individual cannot meet one's need through their available funds. Economic hardship creates negative thinking among individuals e.g. one is unable to pay his bills etc. Debt is also a cause of suffering because it is related with health. Students may be affected by the debt (Norvilitis, Szablicki & Wilson 2003). It may become a challenge for students that they cannot pay back their loan amount, because in hard times they face uncertainty in search of jobs. This can be a problem of psychological distress among students for example fear, anxiety etc. Ficksenbaum et al. (2017) says that "Anxiety" means when a person is ambiguous about the coming events. Dugas et al. (2004) described the term 'anxiety' is classified into two types. One is called inhibitory anxiety and the other one is prospective anxiety. Prospective anxiety deals with imminent proceedings. Inhibitory anxiety represents incompetence regarding ambiguity. Individual who involved in prospective & inhibitory anxiety they should think that they cannot do anything because they may have threatened about their financial conditions.

Financial threats can be overcome with the help of individual's willingness to change financial behavior. Individual's motivation to change financial behavior is a self-report scale which is designed by the Ficksenbaum et al., in 2017 which measures that up to what level individual want to engage in a strategy related to one's income, expenses as well as debt level. Ficksenbaum et al., (2017) said that financial behavior of an individual is based on the three segments: Income, Expenses and Debt. These are the surviving strategies that enables individual to solve one's problems in term of the financial behaviors. Individual can overcome one's debt by means of assistance from experts to repay the debt, instead of credit use one's saving etc. individual can reduce one's expenses through: Purchasing lower end goods to save cash, avoid spending on luxurious goods, rent out a portion of his house etc. Individual generate one's income by the means of: selling some possessions and investment for the money e.g. car, house, mutual funds and bonds etc., part-time working to earn extra money, getting help from acquaintances etc.

### **Problem statement**

Pakistan is confronted with the challenges of financial threats in the form of low GDP, increasing inflation and rising unemployment (Abbasi. 2017). All these factors create distress in the mind of the individuals

(Lemoine et al., (2016. In this regard, individuals need to change their behavior. Therefore, it is valuable to find the relationship between financial threat, psychological distress as well as intentions to act in Pakistan.

### **Aims & Objective**

The overall aim of this study is to find the relationship between financial threat and individual willingness to change financial behavior. For this reason, my contribution has following targets.

- To examine whether anxiety is related with financial threat or not.
- To assess the connection between Economic hardship and financial threat.
- To measure the link between financial threat as well as individual willingness to change financial behavior.
- To find does financial threat is a mediator between predictors of financial threats and willingness to change?

### *Significance of the study*

According to the Shahnaz (2010), Global financial crisis 2008 had slight but straight effect on the Pakistan market e.g. Trade deficit, inflationary pressure and decrease in the worth of Pak rupee. Individual faces difficulty to predict one's uncertain future financial conditions and in many countries like Pakistan employment level remains low. The findings of this contribution will be beneficial for the individuals who want to change their financial behavior despite financial threats, economic hardship, anxiety, attitude toward jobs, health etc. The study of willingness to change financial behavior is important because it plays a vital part in decreasing sentimental (e.g. distress and anxiety) and perceptible like worries, fearful thoughts linked with liability and economic adversity. Moreover, this study will be helpful for Government to change its policy towards these problems.

### **Literature Review**

Ficksenbaum, Marjanovic and Greenglass (2017) defines term financial threat as a mental state that describe when a person is feeling ambiguity about his present and forthcoming financial position. Whereas individual willingness to change financial behavior might be defined as: When an individual want to engage positively alteration in one's personal financial matters and show one's intentions for management of various aspects which are related to the finance e.g. income, saving and debt etc. By utilization of these determinants one's can able to solve one's financial

difficulties. Conger et al., 1994 defines Economic hardship as when a family cannot fulfill its needs from their available funds like not able to pay debts. The term anxiety is also defined by the American psychological association as fearful emotions and tension that disturb the human body e.g. high blood pressure.

#### *Theoretical Background*

Following are the theoretical consideration which describes on the financial threat as well as on individual willingness to change one's behavior including theory of planned behavior, fear appeal theory, psychometric theory.

#### *Theory of Planned Behavior*

Ajzen (1991) describe that theory of planned behavior is derived from theory of reasoned action. Theory of planned behavior focuses on How a given behavior is performed by the individual's intention. Intentions can influence the behavior. Attitudes towards behavior, subjective norms and perceived behavioral control are the predictors of the intentions to perform behavior. Attitude toward act represents individual's belief that a specific behavior makes a positive or negative change in one's life. While subjective norms describe as surrounding of the individual. Perceived behavioral control refers to the ease or difficulty to act on a behavior. These three predictors of the theory of planned behavior are suitable measure for the behavioral intentions.

#### *Fear Appeal Theory*

According to Schutz, (2013), we can fight with our financial concerns only when we will be guided that how we can avoid or overcome these troubles of financial matters. However, threat appeal can be defined as when a person is motivated to intent and frightened with the influential communication so that he can deal with his financial threats. Everyone dislikes the economic fears, so he/she is trying to use defensive mechanism to control and evade in respect of the threats. However, fear appeal theory is advantageous technique for any person. Intensity of the threat appeal is a key variable which can distress fear appeals: attention of the individual is less in case of weak threat while strong threat motivation for the individual to perform certain action against threat. Motivations among person didn't arises only from the fear appeals while perceived efficacy is also an effective component of the fear appeal.

#### *Critical review of existing literature*

Fiksenbaum, Marjanovic & Greenglass(2017) explained that anxiety and economic hardship were directly linked with financial threat while financial threat was directly related with willingness to change financial behavior. Structural equation modeling is used by them to test the model

fit. They further investigated that financial threat plays a mediating role among intentions to act and economic situational predictors.

Metsalaar (1997) elucidated that there are two factors that describes willingness to change: one is Self-control predictor and External predictors. Self-control predictors and External determinants empower the manager to take certain actions. Archuleta et al., (2013) concluded that Financial anxiety can be determined from the debt of the students, satisfaction with pecuniary concerns and gender discriminations between students. According to them, there is a positive linkage among financial anxiety and financial satisfaction.

Lemoine et al., (2016) explained that financial crisis 2008 has generated various financial problems. In consequence of these financial problematic situations people were more financially threatened. People were more engaged in coping strategies and acted willingly to overcome these financial threats. They also said that change in consumption, saving pattern and protest referred to the motivations towards act. Marjanovic et al., (2015) enlightened that financial threat scale is a tool that can evaluate fear and ambiguity about one's financial conditions. Reliability and validity of the FTS was examined through insecurity of the job, self-esteem and emotional fatigue.

Marjanovic et al. (2013) showed that people threatened and uncertain about their personal finances and for their future because of economic slump. Five-point scale was designed to evaluate these feelings. Financial threat is associated with the financial situational factors, psychological health and individual differences. As score of financial threat increases economic hardship, worries, uncertainty and psychological distress also increase while with the rise in financial threat, self-efficacy and financial wellbeing reduce. Moore et al., (2012) discovered that Economic hardship and financial threats have significantly associated with the financial downturn. They further explain that self-efficacy might be a technique for an individual to face one's problems which have been raised from financial threats. Stress and anxiety have also been faced by the university students in the period of economic decline because they were not capable to pay their loans back. In addition to this, they found that financial threat is determined from the student debt and psychological distress as the debt amount of the students and mental distress increases financial threat decreases and vice versa. Financial threat mediated the relationship between psychological distress as well as in self-efficacy.

Nelson et al., (2008) explained that university students faces complex situations in term of their health which is troubling from debt

obligations and stress. Change in behaviors lead to the decrease in that particular kind of symptoms which need to be addressed. Some promotions related to the health behavior, pecuniary management as well as coping strategies of stress can overcome these issues from the students. Conger et al., (1993) described that parent's life is distressed from economic hardship. Such kind of economic pressures put straight effect on the psychosomatic suffering of the parents. In addition to this, they argued that there is a significant linkage between the mood of the father, financial hardship as well as between the conflicts in married life. However, adolescents and financial pressure are negatively connected with each other by the behaviors and mood disorder of the parents.

Van Hooft and Jong (2009) explored that Ajzen 1991 theory of planned behavior is very appropriate determinant for someone intentions and attitude to get temporary jobs. Carleton et al., (2007) found that to determine intolerance of the uncertainty, IUS-12 is a comprehensive psychometric instrument. IUS-12 is related with the original 27 items scale as well as it is internally reliable. Smaller intolerance scale made by two factors represent inhibitory anxiety and the prospective anxiety. Andrews and wilding (2004) examined that anxiety and the depression among university graduates is affected by the financial and non-financial problems which also impacts on the students' educational performance. Conger et al., (1994) described that in the presence of the strain, each members of the family is disturbed, and parents felt dysphoria resulting from conditions of the life. Worst financial situations and economic burden negatively associated with one another. Gorgievski et al., (2010) concluded that health of the farmer is disturbed from their negative thinking about their financial concerns and these negative thoughts are not performing willingly to their business and arises psychological symptoms.

Hausdorf (2007) explained that financial dwindle and work contribution are the predictors of efforts for the job and quality of the work. Students who are more financially troubled are more engaging in early career decisions whereas they are not focusing on the quality of the jobs. Financial quality predicted from two dimensions economic difficulties and work engagement. McLoyd (1990) inspected that psychosomatic suffering, parenting and development of social emotions are associated with the economic hardship in black families. He said that black children are very important for his study because they face a lot of risks in term of disproportionate poverty share etc. Tracie fobes, (2017) argued that Millions of persons are disturbed with the anxiety and economic stress. Anxiety and stress exaggerated negative thoughts, worst



events in people's life. Barrera et al., (2001) revealed in their study that Ethnic families of the United states faces prevalence of the economic hardship as stress burden. Therefore, they found scale to measurement and validation of financial adversity through perceived economic hardship. They describe that perceived economic hardship is based on the following contents: inability to make ends meet, when not sufficient resources to meet necessities, pecuniary strain as well as cutbacks related to the expenses

### **Hypothesis**

*H1: Economic hardship has significant relationship with financial threat.*

*H2: Anxiety has significant relationship with financial threat.*

*H3: Economic hardship has significant impact on the willingness to change financial behavior.*

*H4: Anxiety has significant impact on the willingness to change financial behavior.*

*H5: Financial threat has significant impact on the willingness to change financial behavior.*

### **Research Methodology**

Population of the current study is comprised of the students of business studies who were graduated from various Pakistani public sector universities. Primary data were collected from 400 business graduates by using simple random sampling technique. The current study has adopted questionnaire from the earlier studies (Carleton et al., 2007; Barrera, Caples and Tein, 2001; Marjonovic et al., 2013; Fiksenbaum, Marjanovic & Greenglass, 2017).

### **Results and Discussion**

Primary source of data collection has been utilized for the collection of data through questionnaire. For analysis purpose, SMART PLS 3 software has been used. According to Ringle, Wende, and Will (2005) SMART PLS 3 is used for the statistical analysis that provides user friendly interface through which structural equation modeling can be determined with the help of PLS algorithm. Following results indicate about the results of the Structural equation model.

#### *Demographics of the Respondents*

The first variable in demographic section of the research is based on the age of the participants those who contribute in this research by the questionnaire. According to the given data, there were total 400 business graduates participated in this research. Out of which 233 participants



were belongs to 21 to 25 years of age, 160 participants from 26 to 30, six participants were from 31 to 35 years as well as only 1 respondent from 36 to 40 whereas in percentage form participants were 58.2% from 21 to 25, 40% of the respondents from the age of 26 to 30, 1.25% from 31 to 35 and only 0.25% from 36 to 40 years of age. This section is shown in table 1, which is given below:

Table 1: Demographics of the Respondents

Age	Frequency	Percentage
21-25	233	58.25%
26-30	160	40.00%
31-35	6	1.50%
36-40	1	0.25%
<b>Gender</b>		
Male	290	72.50%
Female	110	27.50%
<b>Permanent Locality</b>		
Rural	185	46.30%
Urban	215	53.80%
<b>Total</b>	<b>400</b>	<b>100%</b>

Second section of the demographics is gender. The result of the gender showed that total number of participants were 400 out of which 290 were male while 110 out of 400 were female. In addition to this, the results also indicate that there were 72.5% were male whereas 27.5 % were female participants. Permanent locality is the last demographic variable in this study. This section indicates that the participants belongs to which area i.e. rural or urban. From the rural area, there were 185 out of 400 participants while 215 participants out of 400 from urban area. In percentage form the results showed that 46.3% of the total sample was from rural area and 53.8 percent of the sample was from urban area.

Cronbach's Alpha:

Table 2: Cronbach Alpha

	Cronbach's Alpha
Anxiety	0.64
Economic Hardship	0.856
Financial Threat	0.758

## Willingness to Change

0.734

Various authors accepted the lower value of alpha from 0.60 or more (Pallant, 2001; Sekaran and Bougie, 2013). However, value of anxiety, economic hardship, financial threat and willingness to change are acceptable because these values are more than the criteria of 0.06.

## Path Estimates

Table 9: Path Estimates

	Path Coefficient	Standard Deviation	T Statistics	P values
Anxiety -> FT	0.371	0.053	6.995	0.000
Anxiety -> WCB	0.231	0.063	3.695	0.000
EH -> FT	-0.016	0.056	0.285	0.776
EH -> WCB	0.235	0.051	4.577	0.000
FT -> WCB	0.125	0.055	2.273	0.023

The above table represented that anxiety to financial threat shows (path coefficient 0.371, T statistic 6.995 which is higher than 1.96 and  $p < 0.001$ ). while anxiety to willingness to change financial threat, path coefficient 0.231, t statistic 3.695 which is greater than 1.96,  $p < 0.001$ ). However, there is no association in economic hardship to financial threat because path coefficient value is -0.016, t statistic 0.285 which is less than 1.96 as well as  $p > 0.001$ . while in economic hardship to willingness to change financial behavior, there is significant relationship among them path value is 0.235 and t value 4.577 which is greater than 1.96 as well as  $p < 0.001$ . Financial threat to willingness to change financial behavior also shows significant relationship with one another because path value is 0.125, t value 2.273 which is greater than 1.96 as well as  $p < 0.05$ .

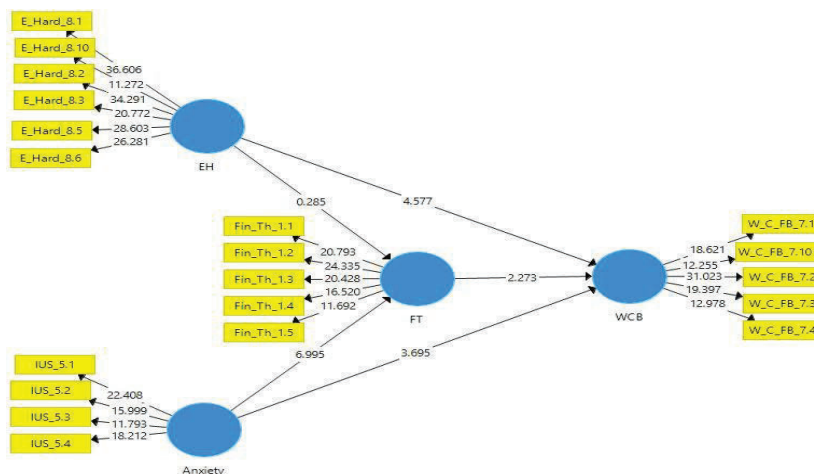
## Total Indirect Effects

Table 10: Total Indirect Effect

	Path Coefficient	Standard Deviation	T Statistics	P values
Anxiety -> WCB	0.046	0.021	2.186	0.029
EH -> WCB	-0.002	0.008	0.257	0.797

As mentioned in above table of total indirect effect that t value 2.186 of anxiety to willingness to change financial behavior is higher than 1.96 criteria. So, anxiety is indirectly effecting willingness to change financial behavior while other value of t statistic is 0.257 which is low as compared to the 1.96 t value. Therefore, economic hardship is not affecting indirectly to willingness to change financial behavior.

**Theoretical Model**



**Discussion**

In this section, detail discussion about the result which have described in the previous section.

*Anxiety and financial threat*

The result of path coefficient (T statistics 6.995, p<0.001) describe that there is a positive relationship among anxiety and financial threat. The results of the Fornell and larker and path coefficients etc. shows that anxiety has a positive impact on financial threat. However, above results indicate that anxiety examine the financial threat in Pakistan. These findings of the study are similar to the results of the relevant studies (Ficksenbaum et al., 2017; Higbee, 1969). Additionally, these findings support the fear appeal theory that describe that with the help of self-efficacy one can reduce financial threat (William, 2012). Hence, this study revealed that there is positive relationship among anxiety and financial threat, with the increase in anxiety, financial threat also increases.

*Economic Hardship and financial threat*

The findings revealed that path coefficient  $-0.016$ ,  $t$  value is  $0.285$  and  $p > 0.005$  however economic hardship is negatively related with financial threat. However, findings of other researchers showed that positive relation in economic hardship and financial threat (Ficksenbaum et al., 2017; Moore et al., 2012; Drentea and Reynolds, 2012). Furthermore, economic hardship and financial threat are negatively connected with each other. As in Pakistan students are dependent on their families rather than the UK and US students who are not relied on their families. That's why these results show negative relation among these variables. Families direct faces economic hardship while students indirectly effected (Lempers et al., 1989).

*Anxiety and willingness to change financial behavior*

Anxiety as well as willingness to change financial threat have path coefficient  $0.278$ ,  $t$  static is  $4.675$  and  $P > 0.001$ . The findings of this study revealed that anxiety and willingness to change financial behavior are significantly related with each other in the presence of mediator (financial threat). Existing literature has also found the similar results (Ficksenbaum et al., 2017; Krisher et al., 1973; Lemoine et al., 2016). Ajzen theory of planned behavior support to these results as intentions of an individuals are dependent on subjective norms, perceived behavioral control etc. In addition to this, the finding shows that financial threat plays a mediational role in anxiety and willingness to change financial behavior,

*Economic hardship and willingness to change financial behavior*

Economic hardship to willingness to change financial behavior has path coefficient of  $0.235$ ,  $t$  static  $4.577$  and  $p > 0.001$  therefore economic hardship and willingness to change financial behavior are significantly connected with each other through financial threat. Ficksenbaum et al., (2017) and lemoine et al., (2016) have also argued that financial threat mediates the relationship between economic hardship and willingness to change financial behavior. However, with the increase in economic hardship, individual motivation to change one's financial behavior is also increases.

*Financial threat and willingness to change financial behavior*

The results which have described in previous section of this research indicates that path value of  $0.125$ ,  $t$  value  $2.273$  and  $p < 0.005$ . Hence there is positive relationship between financial threat and willingness to change financial behavior. Existing literature also showed relationship e.g. (Ficksenbaum et al., 2017; Lemoine et al., 2016). Ajzen theory of planned behavior support to the results. That describe financial threats can be reduced by applying intentions towards behavior. Therefore,

overall results indicate that higher the financial threats, higher the intentions to change financial behavior.

### **Conclusion**

This study has found that anxiety and financial threat are significantly related with one another. When an individual is more threatened with one's personal financial conditions, anxiety level among individual also rises. While financial threat itself associated with individual's motivation for change in one's financial behavior. It represents that as a person highly afraid with his current financial circumstances, he is trying to engage in the coping strategies so that he can avoid and mitigate with financial threats. There is a negative relationship in economic hardship and financial threat because in Pakistan, students are dependent on their families rather than in advance countries like United states and United Kingdom etc. students are independent, and they are not relied on their family's income. That's why families are directly faces the economic difficulties while students are indirectly confronting these challenges by their families. Hence, economic hardship and individual willingness to change are positively associated with each other. Increase in economic difficulties can be a cause of motivation to act.

Consequently, results describe that those who faces more anxiety, reported more financially threatened in contrast to this lower anxiety level among persons shows less financially threatened. Further findings revealed that financial threat plays mediational role between anxiety and one's motivation to change financial behavior. When people faces financial threat, they are more engaged in their intentions related to the financial difficulties. Because these financial disturbances create problematic situation for an individual. In Ajzen theory of planned behavior, an individual can get directions that how one can change its intentions toward their behavior like attitude, subjective norms and perceived behavioral control.

### **Research Contribution**

This research contributes in the literature by various policy and practical suggestions. The problems which are facing by the university graduates related to their financial threat can be easily understandable by the researchers and consultants i.e. when a student is disturbed with anxiety, he can be referred to the consultants for his behavioral distress in term of financial matters. Therefore, this study can be useful for consultants for checking of their weak financial decision making of the clients. In addition to this, this research can also valuable for government to initiate

such kind of programs through which an individual can cope one's negative outcomes related to the unemployment.

### **Recommendations for future research**

Limitations of the current investigation report that numerous areas of the predictors of financial threats and behaviors have been partially measured in the present research while it also gives some suggestions to the researcher for future contribution. There are following recommendations for future research: Future research in Pakistan related to the predictors of financial threats and intentions should be spread by means of objective measures. As financial knowledge is associated with the several financial behaviors e.g. savings, investment, management of the credit, as well as management of the inflow and outflow of the cash. Therefore, future study should include financial knowledge. With the use of psychological resources, objective measure as well as personality, future study can get benefit through the development of the model that predicts pecuniary stress by financial knowledge.

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