South Dakota State University Students and Debt Management

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**Recommended Citation**
Delaney, Katherine; Sinning, Tamara; and Berndt, Ashley (2005) 'South Dakota State University Students and Debt Management,' *The Journal of Undergraduate Research*: Vol. 3, Article 2.  
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STATEMENT OF PURPOSE

Money! It comes in slowly and disappears faster than students ever thought possible. People are falling into more debt than ever before, especially college students. Where does all the hard-earned money go? How can students develop habits that help them keep track of their spending and not fall deep into debt? The purpose of our research is to investigate how money can be used wisely and how to make good financial spending decisions. College students’ debt behavior is important because today’s students are the workforce of tomorrow. A plan is needed to help students learn how to handle today’s financial challenges. College tuition and expenses rise annually and many students spend more money than they earn, which leaves them struggling to manage their debt. The purpose of this paper is to study how college students manage their debts. Most students take out student loans to get a college degree; therefore they have the potential be $40,000 in debt. This debt does not include any credit card debt they might have acquired while in college. If students do not learn the proper way to manage their debt, they may be hurt financially. They may have trouble buying a house or even a car.

REVIEW OF LITERATURE

Most Americans have debt. Yet many Americans try not to think about just how much debt they have (Fowles, 2004). To get out from the burden of debt, one must face the uncomfortable truth that it may take them 30 years to pay off a credit card balance of just $5000.

Most debtors do not know the warning signs of too much debt. Credit is great when it is used wisely, but one can get in too deep if debt is not kept on track, leading one into financial ruin. Deborah Fowles, author of Your Guide to Financial Planning, gives these warning signs for people to consider.

You can tell that you are over your head if: You do not have any savings, you make minimum payments on your credit cards; you use credit cards for things you used to buy with cash (such as groceries); you use increasing amounts of you total income to pay off debts; you have more than two or three major credit cards; after you pay your credit card bills—you increase your balance by the same amount; you are at or near your credit
limit; you are unsure of the total amount that you owe on all of your debts, you take out cash advances on your credit card to pay other bills, you have tried to make purchase, and your credit card has been denied; you have been denied credit; you bounce checks; you lie to your family members about the spending or you hide purchases; and one of the final warning signs of too much debt is that you are getting calls from bill collectors (Fowles).

When evaluating college students, it has been found that 80% of all college students use credit cards (Richards, 1998). “Even though students have little spending money, credit card companies have seized the college market” (Richards, 1998). Having all of these funds available at their fingertips can create a debt management problem. When surveyed, 60-67% of college graduates have student loans. Their average payment on student loans was $222 per month for men and $141 per month for women (Collegiate Funding Service). The average credit card debt per student has risen from $1,879.00 in 1998 to $2,327 in 2001 (The Brookings Register). So, not only do college students ‘graduate’ into debt due to student loans, but also, the spending habits adopted while in college create more debt for them. Thus, it is essential that we investigate how students manage their debt while in college.

STATISTICAL METHODOLOGY

Research for this paper was carried out according to standard sampling methodology. Surveys were conducted using a random sample. South Dakota State University students were the target population. The random sample was chosen by randomly selecting a course from the course listing book. The course was a two-hundred level economics class on campus, with around 90 students enrolled. (The course was a macro economics course and did not cover any personal finance topics). The survey was developed to contain nineteen questions. The respondents were asked questions that focused on how they were paying for college, their yearly income, debt management techniques, budgeting, savings, and credit card awareness. The final questions of the survey focused specifically on general demographics such as: age, sex, and marital status. A combination of yes/no and multiple choice questions were used. The survey was distributed at the beginning of a class period for the course selected and collected immediately following respondent completion. (See Appendix A for a sample of the survey instrument.)

Seventy-eight surveys were received. Four surveys were found to be incomplete; therefore, they were discarded and not evaluated with the rest. Seventy-four surveys were coded and put into a data base. The surveys were coded using numerical values. Questions that were answered ‘yes’ were equal to one, while questions that were answered ‘no’ were equal to zero. Gender was coded using one for male and a zero for female. All questions that contained values were coded according to the highest chosen
value. Evaluation was then conducted using the SPSS program. Many different regressions, cross tab, and frequency tables were used.

Demographics were also evaluated. Thirty-eight males and 36 females participated in the survey. Fifty-six percent of the students that took the survey were sophomores at South Dakota State University.

**FINDINGS**

Questions were analyzed using a linear regression model. These results are presented in Table 1. Significant t-scores tell a story of how each question relates to one of the four explanatory values used. The explanatory variables that hold some significance are the student's age (year in college), gender, income, and the total number of credit hours for which they are currently enrolled.

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
<th>Pay for College by Working</th>
<th>Manage Debt with a Budget</th>
<th>Manage Debt with Credit Cards</th>
<th>Manage Debt by Other Means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year in College</td>
<td>B = .078  (t) 1.103</td>
<td>B = -.091  (t) -1.09</td>
<td>B = .059  (t) 1.72*</td>
<td>B = -.005  (t) -.075</td>
</tr>
<tr>
<td>Gender</td>
<td>B = .294  (t) 2.81**</td>
<td>B = -.231  (t) -1.87*</td>
<td>B = .092  (t) 1.81*</td>
<td>B = .271  (t) 2.86***</td>
</tr>
<tr>
<td>Yearly Income</td>
<td>B = -.012  (t) -.715</td>
<td>B = -.231  (t) -1.87*</td>
<td>B = -.019  (t) -2.38**</td>
<td>B = -.030  (t) -2.00**</td>
</tr>
<tr>
<td># of Credits</td>
<td>B = -.022  (t) -1.19</td>
<td>B = .011   (t) .500</td>
<td>B = .005   (t) .561</td>
<td>B = -.020  (t) -1.21</td>
</tr>
<tr>
<td>Constant</td>
<td>B = .283   (t) .141</td>
<td>B = .256   (t) .111</td>
<td>B = -.115  (t) .116</td>
<td>B = .533   (t) .177</td>
</tr>
<tr>
<td>R Squared</td>
<td>.141</td>
<td>.111</td>
<td>.116</td>
<td>.177</td>
</tr>
</tbody>
</table>

Table 1

First, in the pay-for-college-by-working equation, the explanatory variable that was significant was gender. The gender variable was coded with a number one for male and a zero for female. The significant value suggests that males tend to work more to pay for their college education.

The explanatory variables of significance in the manage-debt-with-a-budget equation were gender and yearly income. As stated above, gender was coded using a one for male and zero for female, while yearly income was coded according to the highest chosen value given. The significant variables suggest that females and those with lower income are more likely to use a budget.
In the manage-debt-with-credit-cards equation, all three variables were significant. Those significant variables suggest that an older student was more likely to use their credit card to manage their debt, more males than females use credit cards, and the lower a student's income, the more likely they were to use a credit card to manage their debt.

The students manage-debt-by-other-means equation was also found to hold some interesting findings. The significant variables for gender and income suggest that males and students with lower incomes are more likely to use other means to manage their debt.

Table 2 examines three more issues, namely: Do you currently use a budget, What is your total credit card debt, and Would you utilize professional debt management counseling on campus if it were free? The significant variable for using a budget was income. It suggests that higher income people are more likely to use a budget.

<table>
<thead>
<tr>
<th>Explanatory Variables</th>
<th>Use a Budget?</th>
<th>Total Credit Card Debt</th>
<th>Seek Counseling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year in College</td>
<td>B = -.077</td>
<td>B = -.151</td>
<td>B = .016</td>
</tr>
<tr>
<td></td>
<td>(t) -.933</td>
<td>(t) -.915</td>
<td>(t) .194</td>
</tr>
<tr>
<td>Gender</td>
<td>B = -.201</td>
<td>B = -.120</td>
<td>B = .140</td>
</tr>
<tr>
<td></td>
<td>(t) -1.63</td>
<td>(t) -.494</td>
<td>(t) -1.132</td>
</tr>
<tr>
<td>Yearly Income</td>
<td>B = .061</td>
<td>B = .116</td>
<td>B = .011</td>
</tr>
<tr>
<td></td>
<td>(t)3.15***</td>
<td>(t) 2.59***</td>
<td>(t) .573</td>
</tr>
<tr>
<td>Number of Credits</td>
<td>B = .032</td>
<td>B = .015</td>
<td>B = -.006</td>
</tr>
<tr>
<td></td>
<td>(t)1.49</td>
<td>(t) .348</td>
<td>(t) -.282</td>
</tr>
<tr>
<td>Constant</td>
<td>B = -.105</td>
<td>B = .723</td>
<td>B = .362</td>
</tr>
<tr>
<td>R Squared</td>
<td>.176</td>
<td>.134</td>
<td>.022</td>
</tr>
</tbody>
</table>

Table 2

Yearly income, the significant variable for the students total credit card debt equation, suggests that higher income people have more credit card debt. Finally, the significant variable for those that seek counseling showed no significance at all. The fact that there was no significant variable for this question may indicate that there is no particular type of person that would seek out debt management counseling.
DISCUSSION AND IMPLICATIONS

The purpose of this research was to see how students manage their debt and to show other college students how to manage their debt. The major research question was how do students manage their debt. Findings related to gender show that males work more to pay for college and they use credit cards to manage debt. Males also use other means to manage their debt. This could include, but is not limited to, a second job or money from their parents. Females are more likely to use a budget.

The findings related to income level showed that the higher the income the more likely a person is to use a budget and that they usually carry a higher credit card debt. The lower the income the more likely the person uses a credit card to manage debt. Also, even after budgeting, the lower the income the more likely the person is to use other means to manage debt, which could include a second job. The findings indicated that no particular type of person seeks debt management counseling at South Dakota State University. Therefore, we recommend a finance management course for all incoming freshmen.

Finally, we see that men are using more credit cards to manage their debt and that women are using budgets more to manage their debt. Students need to be enrolled in financial courses not only for their future careers but so they can learn the skills they need to survive the rest of their lives.

LIMITATIONS

A limitation to this study was that the random sample of students used were enrolled in an economics class. They may have a more concrete knowledge base for financial matters and know how to manage debt. Also, some would argue that a student sample from a freshman level general class like, Mastering Lifetime Learning Skills, would respond differently than that of a 200-level economics class. Another limitation to this study was that only a class of 90 students were surveyed, which excludes the larger portion of students from South Dakota State University.

WORKS CITED

APPENDIX A: DEBT MANAGEMENT SURVEY

Purpose
To see how college students manage their debt. Our goal is to help other college students manage their debt.

All results are confidential. This information is only for research purposes and will only be used for class CA 31. If you have any questions, you can contact our instructor, Dr. Yao, at 605-688-5009.

(Please circle your responses.)

1. How are you paying for college?
   - Savings
   - Loans
   - Parents
   - Credit Cards
   - Scholarships
   - Work

2. Approximately what is your income per year? (Do not include student loans)
   - $0 - $2,000
   - $2,001 - $4,000
   - $4,001 - $6,000
   - $6,001 - $8,000
   - $8,001 - $10,000
   - $10,000 or more

3. How do you manage your debt?
   - Budget
   - Credit Card
   - Savings Account
   - Other

4. Do you currently use a budget?
   - Yes
   - No

5. Do you put money in savings each month?
   - Yes
   - No

6. How many credit cards or store charge cards do you have?
   - 0
   - 1
   - 2
   - 3
   - 4
   - 5 or more

7. What is your total credit card debt?
   - $0 - $1,000
   - $1,001 - $2,000
   - $2,001 - $3,000
   - $3,001 - $4,000
   - $4,001 - $5,000
   - $5,001 - $6,000
   - $6,001 - $7,000
   - $7,000 or more

8. Do you pay more than the minimum balance on your credit cards each month?
   - Yes
   - No

9. Do you pay off your entire credit card bill each month?
   - Yes
   - No
10. When are you employed?
   Summer only    School year only    All year

11. Approximately how many hours a week do you work during the school year?
   0 – 10       26 – 30
   11 – 15      31 – 35
   16 – 20      36 – 40
   20 – 25

12. Which do you think is your largest expense each month?
   House/Rent    Car Payment    Credit Card Payment
   Cell Phone Bill         Utilities        Other

13. How many credits are you currently taking?
   Less than 6    6 or more    12 or more    20 or more

14. After graduation how much will you owe in student loans?
   $0 - $2,000     $6,001 - $8,000
   $2,001 - $4,000 $8,001 - $10,000
   $4,001 - $6,000 $10,000 or more

15. What year are you in college?
   Freshman    Sophomore    Junior    Senior

16. What type of home do you live in?
   With Parents    Apartment    Dorm    House

17. What is your Marital Status?
   Single    Engaged    Married

18. What is your gender?
   Male    Female

19. Would you utilize professional debt management counseling on campus if it were free?
   Yes    No