Navigating Scarcity: An Analysis of Expenditure Patterns Among Low-Income Households

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ABSTRACT

This review systematically examines the expenditure patterns of low-income households, focusing on how limited financial resources influence their spending decisions. It reveals that a significant portion of income is devoted to necessities such as food, shelter, and utilities, leaving little room for discretionary spending. The financial burden of debt repayment, particularly from high-interest loans, is a major challenge, as are healthcare and emergency costs, often exacerbated by a lack of insurance and savings. The review also highlights the prioritisation of affordable education and skills development, the low savings rates driven by immediate needs, and the reliance on informal support networks. Additionally, it underscores the common practice of substitution and bargain hunting as strategies to manage scarce resources. The findings emphasise the need for targeted policies to enhance financial stability and well-being among low-income populations.

KEYWORDS: Basic Needs, Discretionary Spending, Debt Repayment, Healthcare Costs, Education and Skills Development, Savings Behavior, Substitution Strategies, Financial Stability

JEL CODES: D12; D14; I32; J24; R21

INTRODUCTION

Understanding the expenditure patterns of low-income households is pivotal for formulating policies aimed at poverty alleviation and enhancing financial resilience. The economic behaviours of these households are influenced by several theoretical frameworks that provide insight into how limited resources and financial constraints shape their spending and saving decisions. The Lifecycle Hypothesis (Modigliani & Brumberg, 1954) and Permanent Income Hypothesis (Friedman, 1957) suggest that individuals plan their consumption and savings over their lifetime, attempting to smooth consumption despite fluctuations in income. However, for low-income households, limited financial flexibility often restricts their ability to follow this idealized model, as much of their income is consumed by essential expenses like food, housing, and utilities (Deaton & Muellbauer, 1980).

Behavioral economics frameworks, including Prospect Theory (Kahneman & Tversky, 1979), highlight how individuals' financial decisions under uncertainty are influenced by loss aversion and limited rationality, particularly in contexts of economic hardship. Low-income households may prioritise immediate needs over long-term financial stability, driven by a focus on minimising current losses rather than maximising future gains. This tendency is compounded by the high cost of debt repayment, as low-income households often rely on high-interest loans and credit cards to cover expenses, which can consume a significant portion of their income and amplify financial stress (Lusardi & Tufano, 2015).

Additionally, Human Capital Theory (Becker, 1993) illustrates the role of education and skills development in improving economic mobility. Yet, due to financial constraints, low-income individuals are often restricted to lower-cost educational pathways, which may limit their access to opportunities for upward mobility. This barrier is reflected in lower savings rates, as most income is allocated toward immediate necessities (Carroll et al., 1994), leaving little room for investments in future growth. Instead, these households frequently depend on informal support networks to navigate financial distress.

Moreover, Consumption Smoothing (Townsend, 1994) helps explain the coping strategies of low-income households, including substitution and bargain-hunting behaviours. These practices, such as using discounts, coupons, or second-hand goods, aim to stretch limited resources and buffer against income volatility (Attanasio & Weber, 2010). An understanding of these theoretical frameworks enhances the analysis of low-income expenditure patterns and underscores the need for policy interventions tailored to the unique financial realities of these households.

PROBLEM STATEMENT

The economic challenges low-income households face are a pervasive global issue, affecting millions who struggle with meeting basic needs, managing debt, and achieving financial stability. Rising living costs, restricted access to affordable healthcare, and the burden of high-interest debt create a precarious financial reality, wherein immediate financial needs often outweigh long-term planning or investments. These constraints are compounded by limited investment in education and skills, reducing opportunities for income growth and perpetuating the cycle of poverty.

Current literature on low-income households often addresses aspects of their economic behaviour, such as debt or savings patterns, within isolated contexts, lacking an integrated perspective on how financial behaviours interact. The Lifecycle Hypothesis (Modigliani & Brumberg, 1954) and Permanent Income Hypothesis (Friedman, 1957) suggest that individuals plan consumption and savings across their lifespan to smooth consumption, yet low-income households frequently struggle to apply this approach due to constant economic instability. Likewise, Behavioral Economics frameworks, like Prospect Theory (Kahneman & Tversky, 1979), illustrate how limited resources and loss aversion may lead these households to prioritize immediate needs over future financial stability, as they seek to mitigate immediate financial stress.

Moreover, Human Capital Theory (Becker, 1993) emphasises education and skill development as means to improve income potential. However, financial constraints often limit low-income individuals to affordable, sometimes lower-quality education options, constraining opportunities for upward mobility. Furthermore, Consumption Smoothing theories (Townsend, 1994) provide insight into coping strategies like bargain hunting and substitution that low-income households employ to navigate economic constraints.

Despite the urgency of these challenges, there is a research gap in understanding the specific expenditure patterns that holistically characterise low-income households. Studies tend to overlook the interconnectedness of financial behaviours and coping strategies within these households. This gap limits the effectiveness of policy interventions, as without an integrated understanding of low-income expenditure patterns and coping mechanisms, interventions risk missing critical areas of support.

This review aims to address these gaps by conducting a systematic analysis of the expenditure patterns of low-income households, guided by the aforementioned theoretical frameworks. By synthesising existing literature, this review will offer a detailed account of how low-income households allocate limited resources and manage financial constraints. The insights gained will support policymakers and practitioners in developing more targeted, effective strategies to foster financial stability and support poverty alleviation for low-income populations.

GENERAL OBJECTIVE AND SPECIFIC OBJECTIVES

GENERAL OBJECTIVE

This review aims to systematically analyse the expenditure patterns of low-income households, focusing on their financial behaviours, challenges, and coping mechanisms. The goal is to provide insights that inform policies and interventions to alleviate these households' economic challenges.

SPECIFIC OBJECTIVES

1. Income Allocation: Examine how low-income households allocate income toward essential needs like food, shelter, clothing, and utilities, shedding light on the financial pressures that restrict discretionary spending.
2. Debt Burden: Analyse the impact of debt, particularly high-interest debt, on household financial stability and spending power, as debt often consumes a significant portion of their income.
3. Healthcare and Emergencies: Investigate how unexpected healthcare and emergency expenses influence financial decisions and overall well-being, given the limited access to savings and insurance.
4. Education and Skill Investment: Explore investment in education and skills development despite limited resources, assessing its role in economic mobility and future earning potential.
5. Savings and Support Networks: Assess savings behaviours and the reliance on informal networks and community support as essential tools for financial resilience.
6. Coping Strategies: Identify coping strategies such as substitution and bargain hunting, which help these households stretch limited resources and navigate economic hardships.

   Together, these objectives offer a detailed picture of the financial realities of low-income households, supporting the development of policies to better meet their needs.

RESEARCH QUESTIONS

The study is based on the following research questions:

1. How do low-income households allocate their income among basic necessities such as food, shelter, clothing, and utilities?
2. What is the impact of debt repayment, particularly high-interest loans, on the financial stability and spending patterns of low-income households?
3. In what ways do healthcare and emergency costs influence the financial decision-making and economic well-being of low-income households?
4. How do low-income households prioritise and invest in education and skills development, and what are the implications for their economic mobility?
5. What are the savings behaviours of low-income households, and how do they utilise informal support networks and community-based financial assistance?
6. What coping strategies, such as substitution and bargain hunting, do low-income households use to manage their limited financial resources?

SCOPE

This review focuses on analysing the expenditure patterns of low-income households, specifically examining how these households allocate their limited financial resources across various needs and priorities. The review covers key areas such as spending on basic necessities (food, shelter, clothing, and utilities), the impact of debt repayment on financial stability, healthcare and emergency costs, investment in education and skills development, savings behaviours, and coping strategies like substitution and bargain hunting. The review draws on existing literature from diverse geographical regions and economic contexts to provide a comprehensive understanding of the financial behaviours and challenges faced by low-income households. The scope includes both quantitative and qualitative studies that contribute to understanding the economic realities of these households.

LIMITATIONS

The review has several limitations affecting the scope and applicability of its findings. First, data quality on low-income households varies across regions, leading to potential analysis gaps. Reliance on existing literature introduces the risk of biases or omissions, especially with inaccessible or unpublished studies, narrowing the analysis.

Regional and cultural differences also limit the generalisability of findings, as spending behaviours and economic conditions vary widely. Time constraints may prevent the review from capturing recent developments or emerging trends. Additionally, since the review primarily identifies correlations, it may not establish clear cause-and-effect relationships.

METHODOLOGY

This study uses a systematic review approach to analyse the literature on low-income households' expenditure patterns. Following established guidelines, the review includes a structured process for selecting and evaluating relevant studies to ensure a comprehensive and unbiased synthesis. The methodology of the study follows that of the previous study such as Tsega et al. (2024); Gunarathne et al., (2022); Reid et al. (2022); Cooper and Stewart (2021). The methodology is explained in this section.

Search Strategy: A thorough search was conducted across databases like PubMed, JSTOR, Google Scholar, Scopus, and Web of Science. Search terms included combinations like "low-income households," "expenditure patterns," "debt repayment," "healthcare costs," "savings behaviour," and "bargain hunting." Boolean operators refined results, capturing peer-reviewed works published in English, without date restrictions.

Inclusion and Exclusion Criteria: Inclusion criteria focused on studies addressing low-income households' spending patterns across diverse regions, offering both quantitative and qualitative insights. Only peer-reviewed English publications were considered, excluding studies centred on high- or middle-income households, non-peer-reviewed materials, and those not directly aligned with the review’s objectives.

Data Extraction and Synthesis: Data were collected using a standardised form that captured key details, such as author, publication year, location, study design, sample size, findings, and relevance. Themes-basic needs, debt, healthcare, education, savings, and coping strategies-were synthesised into a narrative highlighting low-income households' financial behaviours.

Quality Assessment: Study quality was assessed based on criteria suitable for both quantitative and qualitative research. For quantitative studies, the focus was on study design, sample size, and data analysis;

for qualitative studies, rigour in data collection and analysis was emphasised. Studies meeting minimum quality standards were included.

Limitations and Bias: Potential biases were addressed by following a systematic search, predefined criteria, and quality assessments. Limitations include data availability, publication bias, and reliance on secondary sources.

Data Analysis: Synthesised data were thematically analysed to identify key patterns in expenditure behaviours, financial challenges, coping strategies, and policy implications.

Ethical Considerations: No ethical approval was needed as the review did not involve human subjects, but adherence to ethical standards was maintained by representing findings accurately and crediting original authors.

This methodology ensures a comprehensive, reliable, and relevant review of the literature on low-income households' expenditure patterns, aligning with the research objectives.

FINDINGS ON THE EXPENDITURE PATTERN OF POOR PEOPLE

To analyse the expenditure patterns of low-income households, we can employ theoretical frameworks such as Maslow's Hierarchy of Needs and the Basic Needs Theory. These frameworks offer insight into how limited financial resources are allocated among fundamental survival needs, including food, shelter, clothing, and utilities.

Maslow’s Hierarchy of Needs and Expenditure Patterns

Maslow’s Hierarchy of Needs posits that individuals prioritize physiological and safety needs before they can focus on higher-level aspirations. For low-income households, most financial resources are directed towards meeting physiological needs, which include food, shelter, and clothing, given their immediate importance for survival (Maslow, 1943). This theory helps explain why low-income families dedicate a substantial portion of their income to essentials, often at the expense of other spending categories.

Food Expenditures

Food constitutes one of the largest categories of expenses for low-income families. Under the Engel Curve, which suggests that the proportion of income spent on food decreases as income rises, low-income households spend a higher percentage of their income on food compared to wealthier households. Rising food prices intensify this burden, forcing families to prioritize cost over nutrition, which can lead to food insecurity. Low-income households may lack the financial flexibility to absorb these rising costs, leading to difficult choices that compromise their dietary quality (Nord, Coleman-Jensen, & Gregory, 2014).

Shelter Costs

Housing expenses, particularly rent and utilities, also command a high portion of income. Through the Housing Affordability Theory, which stipulates that households spending over 30% of income on housing are considered cost-burdened, low-income families often face "housing-cost burden" conditions. With limited affordable housing options, especially in urban centres, families might reside in overcrowded or substandard accommodations, which impacts their well-being and social stability. This underscores the Dependency Theory, which explores how poverty can perpetuate itself through restricted access to quality resources, further limiting socioeconomic mobility (Desmond, 2016).

Clothing Needs

In terms of clothing expenditures, the Relative Deprivation Theory is relevant, as low-income households are often required to make do with second-hand or donated items. While they spend less in absolute terms on clothing, they dedicate a higher proportion of their income to this category than high-income households. Uniforms for work or school, although essential, add additional strain on budgets. As a result, they may prioritize essential items over personal preferences, often exacerbating a sense of social exclusion (Pew Research Center, 2015).

Utility Expenses

Utility costs, particularly in extreme weather, represent a significant portion of expenses for low-income families. Energy Affordability Theory highlights how higher-income households benefit from better housing insulation and more efficient appliances, whereas low-income households bear a relatively higher cost due to inefficient housing or the inability to invest in energy-saving solutions. Utility bills can become unmanageable, leading to potential service disconnections, which severely impacts health and safety. The need to reduce energy consumption due to financial constraints can negatively impact overall quality of life and underscores Social Vulnerability Theory, which examines how specific population groups face amplified risks to well-being due to limited resources (Hernández, 2013).

Basic Needs Theory and Financial Limitations

According to Basic Needs Theory (Streeten & Burki, 1978), expenditures for low-income households are guided by the imperative to fulfil minimum material requirements. This theory emphasizes that unmet basic needs, such as inadequate food or shelter, can trap households in poverty cycles, with little room for discretionary spending, savings, or investments. The Permanent Income Hypothesis (Friedman, 1957) complements this by suggesting that low-income families often lack enough steady income to save for future needs or weather financial shocks. This lack of economic mobility reinforces the Cycle of Poverty Theory, where constant pressure to cover essential expenses and limited access to resources prevent upward social mobility (Shaefer & Edin, 2013).

In summary, theoretical frameworks provide valuable perspectives on the expenditure patterns of low-income households, highlighting how the drive to meet essential needs influences the distribution of limited income. By prioritizing basic physiological and safety needs, these households have little left for discretionary spending, increasing their vulnerability to economic shocks and perpetuating poverty.

In examining the financial constraints faced by low-income households, theoretical frameworks such as Maslow's Hierarchy of Needs, Behavioral Economics, and Vulnerability Theory provide insight into how limited income shapes spending behaviour, particularly in terms of discretionary expenditures, debt repayment, and health-related costs.

LIMITED DISCRETIONARY SPENDING

For individuals with constrained incomes, Maslow’s Hierarchy of Needs and Relative Deprivation Theory help explain the low allocation of resources to non-essential items. According to Maslow’s theory, expenditures primarily address physiological and safety needs, which leaves limited funds for fulfilling higher-level needs, such as social interaction or self-fulfillment. Relative Deprivation Theory further suggests that low-income households may feel socially excluded due to their inability to participate in consumer-driven leisure and entertainment activities available to higher-income groups.

Entertainment and Leisure Activities

Low-income individuals typically restrict their leisure spending to low-cost or free options. As reported by the Bureau of Labor Statistics (2019), households in the lowest income quintile allocate significantly less of their budget to entertainment than higher-income households. This trend reflects the Income Elasticity of Demand Theory, which indicates that as income decreases, discretionary spending also declines. Individuals in this income group often turn to public parks, television, or community events for affordable leisure (Pew Research Center, 2015).

Affordable Leisure Pursuits

Engaging in budget-friendly activities, such as reading library books, community sports, or home-based socializing, aligns with Coping Theory. Fernandez et al. (2018) found that many low-income individuals creatively find cost-effective ways to enjoy leisure time, an approach that aids mental well-being despite financial limitations. These activities help mitigate the stress associated with income constraints, reflecting how financial and social coping mechanisms intersect to support well-being.

Occasional Small Luxuries

Small luxuries, such as an occasional inexpensive meal out or modest holiday spending, are common discretionary expenses for low-income individuals. According to Behavioral Economics and Marginal Utility Theory, these minor expenditures can enhance psychological well-being by providing moments of satisfaction and a sense of normalcy. Research by Hamilton and Catterall (2005) highlights that even minimal indulgences have a positive emotional impact, promoting resilience against financial stressors.
Despite these efforts, the Consumer Expenditure Survey by the Bureau of Labor Statistics (2019) shows that limited discretionary spending reduces overall quality of life for low-income households, impacting social inclusion and mental health (Wiemers, 2014).

REPAYMENT

Debt repayment often consumes a substantial share of monthly income for low-income households, aligning with the Debt Spiral Theory, which suggests that high-interest debt obligations, such as credit cards and payday loans, can perpetuate cycles of financial instability. This theory posits that regular payments toward high-interest debt reduce financial resilience, making it difficult for individuals to escape indebtedness, especially without affordable credit alternatives.

Credit Card Debt

For many low-income households, credit cards serve as a financial bridge during cash shortages. Hyperbolic Discounting Theory explains why individuals might use credit despite high interest; immediate financial needs outweigh long-term cost concerns. The Consumer Financial Protection Bureau (2017) notes that low-income households are more likely to carry outstanding credit card debt, leading to interest accumulation that deepens financial strain over time.

Personal Loans and Payday Loans

Many low-income individuals rely on personal or payday loans to cover emergencies. Predatory Lending Theory explains that payday loans, often with annual interest rates exceeding 300%, target financially vulnerable populations, resulting in debt cycles. The Center for Responsible Lending (2013) underscores that high-interest loans often lead to a debt trap, where individuals take additional loans to cover previous ones, compounding their financial instability.

Informal Borrowing

Informal loans from friends or family represent another source of debt for low-income individuals. Social Capital Theory examines the informal economy where social networks provide financial support in the absence of formal credit access. However, research by Karlan, Zinman, and Giné (2010) shows that these loans still place a repayment burden on borrowers, sometimes leading to social strain if repayment expectations are unmet.

The cumulative effect of these debt sources is substantial. As Sullivan (2012) describes, high-interest debt severely limits the budget flexibility of low-income households, often forcing them to choose between debt repayment and other essential expenses.

HEALTH AND EMERGENCY COSTS

Healthcare costs impose significant financial stress on low-income households, often leading to debt and economic hardship. The Health Belief Model (HBM) and Economic Burden of Disease Theory provide frameworks to understand why healthcare expenses can destabilize finances, particularly for those without insurance. HBM suggests that individuals' decision to seek care is influenced by perceived cost barriers, while the Economic Burden of Disease Theory shows how illness can drive individuals into poverty due to high out-of-pocket expenses.

Lack of Insurance

Many low-income individuals lack health insurance, which limits access to affordable medical care. According to the Accessibility Theory, individuals' use of health services is heavily influenced by financial barriers. The Kaiser Family Foundation (2019) reports that uninsured individuals frequently forgo care, leading to worsened health outcomes and higher future costs. Uninsured individuals face higher rates of health-related financial distress and are more likely to experience medical debt.

Out-of-Pocket Expenses

For those without insurance, out-of-pocket healthcare costs can consume a substantial portion of income. Catastrophic Health Expenditure Theory posits that healthcare costs exceeding a certain income threshold force individuals into poverty. The Commonwealth Fund (2018) found that low-income households spend a higher percentage of their income on healthcare, despite lower care utilization. This financial burden often forces individuals to choose between essential items, like food or housing, and medical care (Banerjee & Duflo, 2011).

Emergency Medical Expense

Emergency health costs represent a severe financial risk for low-income families, who often lack savings. Health and Financial Resilience Theory explores how unanticipated health crises create long-term financial challenges. Himmelstein et al. (2019) found that medical emergencies are a leading cause of bankruptcy among low-income households in the United States, further illustrating how inadequate health coverage and financial insecurity interact to reinforce poverty.

Health and Economic Stability

Social Determinants of Health Theory highlights how economic instability influences health outcomes, with poverty and financial stress exacerbating physical and mental health issues. The Cumulative Risk Theory suggests that persistent debt and health-related financial pressure elevate chronic stress levels, potentially resulting in adverse health impacts, such as anxiety or depression (Berger & Houle, 2019). Furthermore, economic challenges hinder long-term financial stability, as individuals in financial distress are less likely to invest in education, skills development, or savings, creating an intergenerational cycle of poverty (Hacker, 2006).

EDUCATION AND SKILLS DEVELOPMENT

Investment in education and skills development is widely regarded as a pathway to improved economic mobility, a concept grounded in *human capital theory* (Becker, 1993). Human capital theory posits that education and training enhance individuals' productivity, which can subsequently lead to higher earnings. However, financial limitations often hinder low-income individuals' access to education, creating a significant disparity in human capital accumulation (Becker, 1993; Haveman & Smeeding, 2006). Many individuals in this group, constrained by the immediate need for income, may prioritize vocational training over costly higher education options, seeking programs that offer practical, job-specific skills with a quicker economic return (Carnevale, Rose, & Hanson, 2012).

Limited Financial Resources and Access

The cost of tuition, books, and transportation often deters low-income individuals from pursuing higher education, leading them to opt for community colleges, online courses, or vocational programs as affordable alternatives. *Rational choice theory* (RCT) suggests that individuals make educational decisions based on maximizing personal utility given limited resources (Goldrick-Rab, 2016). These less expensive options, while providing some skill acquisition, may not offer the same social or economic returns as prestigious institutions, thus potentially restricting future career advancement (Johnson, 2019).

Vocational Training Programs and Employment

The attraction of vocational training programs lies in their time-efficient and financially feasible nature. These programs, which often focus on sectors like healthcare and technology, align with *segmented labour market theory*, which argues that distinct labour market sectors create differential opportunities (Doeringer & Piore, 1971). While vocational training can improve job prospects in sectors with high demand, it may also confine low-income individuals to less upwardly mobile occupations, limiting long-term economic growth compared to those with college degrees (Carnevale, Rose, & Hanson, 2012).

Barriers to Higher Education and Economic Mobility

Structural inequality theory highlights systemic barriers that perpetuate educational disparities, such as inadequate knowledge about financial aid and college application processes. For low-income individuals, lacking access to resources or support networks necessary for navigating the complexities of higher education creates additional barriers to economic advancement (Perna & Titus, 2005). Moreover, despite the potential long-term benefits, the immediate financial pressures low-income families face often lead to prioritizing short-term income over educational investments, reinforcing cycles of limited economic mobility (Haveman & Smeeding, 2006).

SAVINGS AND INFORMAL SUPPORT

Low-income individuals typically exhibit low savings rates due to financial constraints, which often prioritise immediate consumption over long-term financial planning. This scenario aligns with *life-cycle theory*, which suggests individuals plan savings based on anticipated lifetime income, though for low-income groups, limited income restricts this ability (Modigliani & Brumberg, 1954). A substantial portion of income in these households is allocated toward basic needs, leaving little available for savings or financial security against future contingencies (Sherraden, 1991).

Informal Savings and Community Support

Given limited access to formal banking services, low-income individuals may engage in informal savings mechanisms such as rotating savings and credit associations (ROSCAs). This reliance on community-based systems exemplifies *social capital theory*, where collective community trust facilitates alternative financial arrangements (Dupas & Robinson, 2013). These groups provide both a financial safety net and social solidarity but may also impose informal obligations or constraints on participants, who often rely on these networks due to a lack of formal financial options (Stack, 1974).

Reliance on Social Capital

Community networks offer critical support for low-income individuals, including financial assistance, in-kind support, and shared resources during financial crises. However, as *network theory* suggests, reliance on dense social networks may limit economic mobility if the network itself lacks resources (Portes, 1998). While these systems offer short-term relief, they often fail to foster significant long-term financial growth due to mutual financial limitations within the network (Stack, 1974).

Financial Vulnerability and the Need for Inclusive Financial Products

The absence of substantial savings and reliance on informal financial support leaves low-income individuals vulnerable to financial shocks. This scenario underscores the necessity of accessible, inclusive financial services tailored to low-income households, which could reduce dependence on informal networks and improve economic resilience (Collins et al., 2009).

SUBSTITUTION AND BARGAIN HUNTING

For low-income individuals, substitution and bargain hunting represent essential coping strategies to manage limited resources. Drawing from *consumer behaviour theory*, these individuals exhibit a heightened sensitivity to price changes and seek cost-effective alternatives (Morduch & Schneider, 2017). This approach involves substituting name-brand products with generic alternatives, opting for public transportation, or choosing budget-friendly entertainment, which may lead to a constrained standard of living.

Substitution as Economic Necessity

Using cheaper substitutes, such as canned vegetables in place of fresh produce, aligns with the principles of *elasticity theory*, where low-income consumers are more responsive to price fluctuations due to limited disposable income (Leibtag, 2006). This flexibility is often critical for maintaining a balanced budget but may also result in compromised quality or nutrition, which can have long-term health and well-being implications (Browning & Crossley, 2009).

Bargain Hunting and Time Constraints

Bargain hunting is an additional strategy that allows low-income individuals to stretch their budgets, often through discount stores, loyalty programs, and seasonal sales. This behaviour aligns with *rational choice theory* in that these consumers seek to maximize value within their budget constraints (Kumar & Peng, 2014). However, bargain hunting can be time-intensive, a potential burden for individuals with multiple jobs or caregiving responsibilities (Bawa & Shoemaker, 2004).

Second-Hand Purchases and Quality of Life

Buying second-hand goods, such as clothing and furniture, enables significant savings but may affect social perceptions and self-esteem, given societal stigmas surrounding thrift purchases (Guiot & Roux, 2010). Additionally, while second-hand purchases contribute to environmental sustainability, the consistent need to prioritize cost over quality can lead to increased costs over time if products wear out quickly (Sobal & Bisogni, 2009).

Quality of Life Impacts

Constant substitution and bargain hunting, while necessary, may reduce overall quality of life by limiting access to higher-quality goods. This aligns with *scarcity theory*, which posits that restricted financial resources can lead to trade-offs that compromise well-being (Shah, Mullainathan, & Shafir, 2012). Though essential for survival, these strategies ultimately underscore the resilience and creativity of low-income households in managing financial challenges within constrained circumstances.

SYNTHESIS OF THE STUDY

Synthesis of Expenditure Patterns Among Low-Income Households

The analysis of expenditure patterns in low-income households reveals a complex interplay between financial constraints and essential needs, informed by various theoretical frameworks. These frameworks provide valuable insights into how limited resources shape spending behaviour, influencing the allocation of funds across necessities, discretionary items, debt repayment, and health-related costs.

Allocation of Financial Resources to Basic Needs

Using Maslow's Hierarchy of Needs, it is evident that low-income households primarily allocate their financial resources toward fulfilling physiological needs, such as food, shelter, and clothing. This allocation reflects the immediate survival imperative, resulting in a significant portion of income dedicated to essentials. For instance, food expenditures constitute one of the largest expenses for these households, as indicated by the Engel Curve, which shows that poorer families spend a higher percentage of their income on food compared to wealthier counterparts. As food prices rise, families face compounded challenges of food insecurity and compromised nutrition (Nord, Coleman-Jensen, & Gregory, 2014).

Similarly, housing costs pose substantial burdens, with the Housing Affordability Theory indicating that households spending more than 30% of their income on housing are considered cost-burdened. Low-income families often find themselves in precarious living conditions, contributing to the Dependency Theory, which highlights the cyclical nature of poverty stemming from limited access to quality resources (Desmond, 2016).

Limited Discretionary Spending and Social Exclusion

With most income consumed by essential needs, low-income households have limited discretionary spending. Relative Deprivation Theory suggests that this lack of resources can lead to feelings of social exclusion, as these individuals cannot engage in consumer-driven leisure activities. Coping Theory indicates that many resort to low-cost or free leisure options to enhance mental well-being despite financial limitations. Activities like visiting parks or community events provide social engagement without straining budgets (Fernandez et al., 2018).

Occasional indulgences, though minimal, play a role in providing psychological relief, aligning with Behavioral Economics and Marginal Utility Theory, which assert that even small expenditures can enhance emotional well-being (Hamilton & Catterall, 2005). However, the Consumer Expenditure Survey indicates that constrained discretionary spending often diminishes overall quality of life, leading to further social isolation (Wiemers, 2014).

Debt Repayment and Financial Vulnerability

Debt repayment is another critical aspect of financial behaviour in low-income households, significantly impacting their budgets. The Debt Spiral Theory illustrates how high-interest debt perpetuates financial instability, limiting the ability to save or invest in future needs. The reliance on credit cards and payday loans, as explained by Hyperbolic Discounting Theory, underscores the short-term focus of many low-income individuals facing immediate financial needs despite the long-term consequences of accruing high-interest debt (Consumer Financial Protection Bureau, 2017).

Predatory Lending Theory highlights the risks associated with payday loans, which often trap individuals in cycles of debt, further exacerbating their financial challenges (Center for Responsible Lending, 2013). Informal borrowing from family and friends also represents a coping mechanism, revealing the importance of social networks in providing financial support, albeit at the risk of straining these relationships (Karlan, Zinman, & Giné, 2010).

Healthcare Costs and Economic Stability

Healthcare costs significantly affect the financial stability of low-income households, with the Health Belief Model and Economic Burden of Disease Theory providing insights into the impact of medical expenses on overall financial well-being. Many low-income individuals lack health insurance, limiting access to affordable care and leading to adverse health outcomes, as supported by Accessibility Theory (Kaiser Family Foundation, 2019).

The Catastrophic Health Expenditure Theory demonstrates how unexpected medical costs can push individuals deeper into poverty, illustrating the interconnectedness of health and economic stability (Banerjee & Duflo, 2011). Moreover, health-related financial stress contributes to chronic stress and can lead to further mental health issues, reinforcing the Social Determinants of Health Theory, which emphasizes how economic instability influences health outcomes (Berger & Houle, 2019).

Synthesis of Financial Behaviors in Low-Income Households

The financial behaviours of low-income individuals are shaped by a combination of systemic barriers, limited resources, and strategic coping mechanisms. Understanding these behaviours through various theoretical frameworks highlights the complexities of their economic challenges and the impact on overall quality of life.

Investment in Education and Skills Development

Investment in education is often viewed as a critical pathway to economic mobility, as outlined by Human Capital Theory, which posits that education and training enhance productivity and earning potential (Becker, 1993). However, financial constraints frequently hinder low-income individuals from accessing higher education, leading them to prioritize vocational training over more expensive options like traditional college degrees. This aligns with Rational Choice Theory (RCT), which suggests that individuals make educational decisions aimed at maximizing utility within their limited financial means (Goldrick-Rab, 2016). While vocational programs can provide immediate employment opportunities in high-demand sectors, they may also restrict long-term career advancement, reinforcing the concept of Segmented Labor Market Theory (Doeringer & Piore, 1971).

Additionally, Structural Inequality Theory highlights systemic barriers, such as inadequate knowledge of financial aid, which perpetuate educational disparities among low-income individuals (Perna & Titus, 2005). The immediate need for income often leads these individuals to prioritize short-term financial gains over long-term educational investments, which can entrench cycles of limited mobility (Haveman & Smeeding, 2006).

Savings and Informal Support Networks

Low-income households typically struggle with low savings rates due to prioritizing immediate consumption over long-term planning. This behaviour aligns with Life-Cycle Theory, which indicates that individuals' savings strategies are influenced by anticipated lifetime income (Modigliani & Brumberg, 1954). In the absence of sufficient savings, low-income individuals often resort to informal savings mechanisms, such as Rotating Savings and Credit Associations (ROSCAs), exemplifying the principles of Social Capital Theory (Dupas & Robinson, 2013). These informal networks provide financial support and foster community solidarity but may also impose constraints on participants due to shared vulnerabilities (Stack, 1974).

Moreover, reliance on social networks for financial assistance reflects Network Theory, which shows that while these networks can offer temporary relief, they may lack the resources necessary for significant upward mobility (Portes, 1998). The lack of substantial savings, coupled with reliance on informal support, underscores the urgent need for accessible financial services tailored to low-income households, which could enhance their economic resilience (Collins et al., 2009).

Substitution and Bargain Hunting Strategies

Substitution and bargain hunting are essential coping strategies employed by low-income individuals to manage their limited resources effectively. Consumer Behavior Theory indicates that these individuals are particularly sensitive to price changes, leading them to seek cost-effective alternatives to maintain their budgets (Morduch & Schneider, 2017). This can involve substituting higher-quality items with cheaper alternatives, as seen in the use of canned vegetables instead of fresh produce, aligning with Elasticity Theory (Leibtag, 2006). While these strategies help manage immediate expenses, they may compromise nutritional quality and overall well-being (Browning & Crossley, 2009).

Bargain hunting, which includes shopping at discount stores or utilizing loyalty programs, reflects Rational Choice Theory as individuals aim to maximize value within their financial constraints (Kumar & Peng, 2014). However, these activities can be time-consuming, adding stress for those balancing multiple jobs or caregiving responsibilities (Bawa & Shoemaker, 2004). Furthermore, the purchase of second-hand goods, while financially prudent, can evoke societal stigmas and impact self-esteem (Guiot & Roux, 2010), illustrating the trade-offs low-income individuals face in their quest for cost savings.

DISCUSSION ON EXPENDITURE PATTERNS AND FINANCIAL BEHAVIORS AMONG LOW-INCOME HOUSEHOLDS

The financial landscape for low-income households is characterized by a series of interconnected challenges that shape their expenditure patterns and financial behaviours. This discussion highlights the complex interplay among these factors, demonstrating how systemic barriers, resource limitations, and individual coping strategies converge to influence the economic well-being of these households.

Allocation of Financial Resources: Basic Needs as Priority

At the heart of low-income households' expenditure patterns is the prioritization of basic needs, as elucidated by Maslow's Hierarchy of Needs. Families allocate a significant portion of their income to essentials such as food, shelter, and clothing, reflecting an immediate survival imperative. This allocation is reinforced by the Engel Curve, indicating that poorer families spend a higher percentage of their income on food compared to wealthier households. Consequently, rising food prices exacerbate food insecurity, compelling families to make difficult trade-offs that further strain their limited resources (Nord, Coleman-Jensen, & Gregory, 2014).

Housing costs also emerge as a major burden, often consuming more than 30% of a family's income, thereby categorizing them as cost-burdened under the Housing Affordability Theory. This dynamic is compounded by Dependency Theory, which suggests that limited access to quality housing and resources perpetuates cycles of poverty, reinforcing the challenges of financial stability (Desmond, 2016). The combination of these pressures creates a precarious financial situation that restricts low-income households' ability to save or invest in opportunities for upward mobility.

Limited Discretionary Spending: Social Exclusion and Coping Strategies

The significant allocation of income to basic needs leaves little room for discretionary spending, resulting in a limited capacity for engaging in consumer-driven leisure activities. Relative Deprivation Theory suggests that this scarcity of resources leads to feelings of social exclusion among low-income individuals, who may perceive themselves as marginalized in comparison to their wealthier peers. In response, many households adopt coping strategies, such as participating in low-cost or free leisure activities to enhance their well-being. These activities serve as vital social engagement opportunities without exacerbating financial stress (Fernandez et al., 2018).

Despite these coping mechanisms, the constrained nature of discretionary spending can diminish the overall quality of life, leading to increased feelings of isolation (Wiemers, 2014). Behavioural Economics and Marginal Utility Theory underscore the psychological relief that occasional indulgences can provide, yet the persistent limitations on spending highlight the trade-offs faced by low-income individuals, who must balance short-term satisfaction with long-term economic realities.

Debt Repayment: A Cycle of Financial Vulnerability

Debt repayment is a crucial factor that exacerbates the financial vulnerability of low-income households. The Debt Spiral Theory illustrates how reliance on high-interest credit options can entrap individuals in a cycle of debt, limiting their capacity to save and invest in future needs. This short-term focus is further emphasized by the Hyperbolic Discounting Theory, where immediate financial pressures overshadow long-term consequences, leading to choices that perpetuate instability (Consumer Financial Protection Bureau, 2017).

Predatory lending practices, particularly through payday loans, exemplify the risks associated with short-term borrowing. Predatory Lending Theory highlights how these loans can entrap borrowers in a cycle of debt, reinforcing financial insecurity (Center for Responsible Lending, 2013). The reliance on informal borrowing from family and friends showcases the critical role of social networks in providing financial support, albeit with the risk of straining these relationships (Karlan, Zinman, & Giné, 2010).

Healthcare Costs: Interconnectedness of Health and Economic Stability

Healthcare costs pose a significant threat to the financial stability of low-income households, often exacerbating existing vulnerabilities. The Health Belief Model indicates that the lack of health insurance among low-income individuals limits access to affordable care, resulting in adverse health outcomes and increased financial strain (Kaiser Family Foundation, 2019). Unexpected medical expenses can push families deeper into poverty, as articulated by the Catastrophic Health Expenditure Theory (Banerjee & Duflo, 2011). This interplay between health and economic stability underscores the importance of addressing healthcare access as part of broader economic support strategies.

The Social Determinants of Health Theory emphasizes how economic instability influences health outcomes, leading to a cycle of chronic stress and mental health challenges among low-income individuals (Berger & Houle, 2019). This further complicates their financial situation, as health-related financial stress can reduce their capacity to engage in productive activities and limit economic opportunities.

The Interplay of Factors

The interplay of these factors reveals a complex web of challenges that low-income households navigate in their pursuit of financial stability. The prioritisation of basic needs shapes expenditure patterns, limiting discretionary spending and fostering feelings of social exclusion. Meanwhile, the burden of debt and healthcare costs exacerbates financial vulnerability, highlighting the necessity of supportive policies and programs that address these interconnected issues.

To foster economic mobility and resilience among low-income households, comprehensive approaches that enhance access to education, financial services, and healthcare are essential. By understanding the multifaceted nature of their financial behaviours, stakeholders can develop targeted interventions that empower these households to break the cycles of poverty and achieve sustainable economic well-being.

This discussion emphasizes the interconnectedness of various factors affecting low-income households, integrating theoretical frameworks to illustrate the complexity of their financial situations and the need for comprehensive solutions.

GENERAL CONCLUSIONS

Prioritization of Basic Needs: Low-income households predominantly allocate their financial resources toward meeting essential needs such as food, housing, and clothing. This prioritisation underscores the immediate survival imperative and reflects the significant financial constraints they face. As a result, these households often struggle with food insecurity and housing affordability, leading to a cyclical nature of poverty.

Limited Discretionary Spending and Social Exclusion: The limited ability to engage in discretionary spending not only restricts access to leisure activities but also contributes to feelings of social exclusion. The psychological effects of this exclusion can further compound the financial strain, as low-income individuals may resort to low-cost leisure options, which do not fully address their social needs.

Impact of Debt on Financial Vulnerability: High reliance on debt, particularly through high-interest loans and credit options, exacerbates financial instability among low-income households. The resulting debt spiral hinders their ability to save and invest in long-term opportunities, perpetuating a cycle of poverty that is difficult to escape. Informal borrowing practices, while providing temporary relief, can also strain social relationships.

Healthcare Costs and Economic Stability: The burden of healthcare expenses significantly impacts the financial stability of low-income households. Lack of access to affordable healthcare can lead to adverse health outcomes, which in turn affects economic opportunities. Unexpected medical expenses can drive families further into poverty, highlighting the interconnectedness of health and economic well-being.

Need for Comprehensive Solutions: Addressing the financial challenges faced by low-income households requires a multifaceted approach that encompasses education, access to affordable healthcare, and tailored financial services. Interventions must consider the systemic barriers that perpetuate economic disparities and work towards enhancing economic mobility and resilience.

Importance of Social Support Networks: While low-income individuals often rely on informal support networks for financial assistance, these networks can have limited resources and may not provide a sustainable path to economic stability. Enhancing access to formal financial services can help reduce dependence on informal arrangements and foster greater financial resilience.

POLICY RECOMMENDATIONS

Based on the conclusions drawn from the discussions about expenditure patterns and financial behaviours among low-income households, the following policy recommendations can be proposed to enhance economic stability and promote upward mobility:

Expand Access to Affordable Education and Training

i. Subsidize Vocational Programs: Increase funding for vocational training programs that are accessible and affordable for low-income individuals. This can include partnerships with community colleges and local businesses to provide training that aligns with job market demands.
ii. Financial Aid Awareness Campaigns: Implement programs that educate low-income individuals about available financial aid options, scholarships, and grants to facilitate access to higher education.

Strengthen Healthcare Access

i. Increase Affordable Care Options: Expand access to affordable healthcare plans through subsidies and public health initiatives, ensuring low-income families can receive necessary medical care without incurring catastrophic expenses.
ii. Preventive Care Initiatives: Promote preventive healthcare services to reduce long-term medical costs and improve overall health outcomes for low-income populations.

Enhance Financial Literacy and Resources

i. Community Financial Education Programs: Develop community-based financial literacy programs that educate low-income individuals on budgeting, savings, and responsible credit use, empowering them to make informed financial decisions.
ii. Accessible Financial Services: Encourage financial institutions to create inclusive financial products designed for low-income households, such as low-fee checking accounts, savings programs with matched contributions, and affordable credit options.

Address Debt and Financial Vulnerability

i. Regulate Predatory Lending: Implement stricter regulations on payday lending and high-interest loans to protect low-income consumers from falling into debt traps, including caps on interest rates and fees.
ii. Debt Relief Programs: Establish programs that provide debt counselling and assistance for low-income individuals, helping them to negotiate with creditors and develop manageable repayment plans.

Support Informal Networks and Community Resources

i. Strengthen Community Support Systems: Invest in community organizations that provide informal financial support and resources, such as food banks and emergency assistance programs, ensuring they can meet increased demand during financial crises.
ii. Encourage Rotating Savings Programs: Promote and facilitate the creation of Rotating Savings and Credit Associations (ROSCAs) and other community-based savings initiatives to bolster savings and financial solidarity among low-income households.

Foster Inclusive Economic Development

i. Create Jobs in High-Demand Sectors: Invest in economic development initiatives that focus on creating jobs in sectors with high demand and growth potential, providing stable employment opportunities for low-income individuals.
ii. Promote Local Entrepreneurship: Support programs that offer training and resources for entrepreneurship, enabling low-income individuals to start and sustain their businesses.

Policy Research and Data Collection

i. Conduct Longitudinal Studies: Invest in research that tracks the economic mobility of low-income households over time to better understand the effectiveness of existing policies and inform future interventions.
ii. Disaggregate Data: Ensure data collection on economic indicators disaggregates by demographics (e.g., race, gender, geographic location) to identify and address specific barriers faced by various subgroups within low-income populations.

By implementing these policy recommendations, stakeholders can create a more supportive environment for low-income households, facilitating their access to education, healthcare, and financial resources. Ultimately, these efforts can contribute to breaking the cycles of poverty and fostering greater economic resilience and mobility among disadvantaged populations.

DIRECTION FOR FUTURE RESEARCH

To build on the findings and discussions outlined in the synthesis of expenditure patterns and financial behaviours among low-income households, several avenues for future research can be pursued:

Longitudinal Studies on Economic Mobility: Conduct longitudinal studies that track low-income households over time to assess the long-term impacts of education, training, and financial interventions on economic mobility. Such studies can provide insights into the effectiveness of various programs and policies aimed at reducing poverty.

Impact of Financial Literacy Programs: Investigate the effectiveness of community-based financial literacy programs in improving the financial behaviours and outcomes of low-income individuals. Research could focus on measuring changes in savings rates, debt levels, and overall financial well-being following participation in such programs.

Exploration of Informal Financial Systems: Examine the role and efficacy of informal financial systems, such as ROSCAs and community lending circles, in supporting low-income households. Research can explore how these systems impact financial resilience and whether they offer sustainable alternatives to formal banking services.

Health and Economic Outcomes: Analyze the relationship between health outcomes and economic stability among low-income households. Future studies could explore how healthcare access and medical expenses influence financial decisions and overall quality of life.

Substitution and Bargain Hunting Behaviors: Conduct qualitative research to better understand the decision-making processes behind substitution and bargain hunting among low-income individuals. This could involve interviews or focus groups to capture the nuances of how financial constraints shape consumer behaviour and perceptions of quality.

Policy Impact Assessments: Evaluate the impact of specific policy interventions on low-income households, such as changes in financial aid programs, healthcare accessibility initiatives, or regulations on payday lending. Research could assess both short-term and long-term effects on financial stability and economic mobility.

Disaggregated Data Analysis: Perform research that disaggregates data by demographic factors such as race, gender, and geographic location to understand the unique challenges faced by different subgroups within low-income populations. This can help tailor interventions to address specific barriers and inequalities.

Role of Technology in Financial Inclusion: Investigate how emerging technologies, such as mobile banking and fintech solutions, can improve financial inclusion for low-income individuals. Research could assess the accessibility, usability, and effectiveness of these technologies in providing financial services.

Psychological Impacts of Financial Stress: Explore the psychological effects of financial stress on low-income households, including mental health outcomes and coping strategies. This research could inform interventions aimed at improving mental health alongside financial stability.

Community-based Approaches to Economic Development: Study community-driven economic development initiatives that aim to empower low-income individuals and families. Research can focus on understanding best practices and models that have successfully promoted economic resilience and mobility within specific communities.

By pursuing these research directions, scholars can contribute to a deeper understanding of the complexities surrounding low-income households' economic behaviours and outcomes. This knowledge can inform the development of more effective policies and programs aimed at fostering economic stability and mobility among marginalized populations.

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