

Chinese-American Consumption of Financial Service: A Cultural Framework

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DOI: 10.6007/IJARBSS/v7-i7/3089 URL: <http://dx.doi.org/10.6007/IJARBSS/v7-i7/3089>

Abstract

While the Latino/Hispanic segment of US population has garnered the most attention from the practice and research of financial services marketers, the Asian and Pacific Islanders segment has received less attention. The Asian and Pacific Islanders is among the fastest growing segment of our population and this study focuses on this group to start a fruitful research theme. In today's diverse and fast changing world, financial advisors must consider the impact of origin and culture on whether—and how—consumers choose to take advantage of their services. In order to serve these clients well, financial advisors need to know where these clients come from and the implication that has for services offered. The purpose of this study is to identify the financial traits and attitudes of Chinese-Americans, including attitudes toward risk, savings, asset allocation, international investment, and the need for financial advisors. Our research sets the stage for future empirical investigations that will enrich the understanding of academics and practitioners alike.

Keywords: Chinese-Americans, consumption of financial services, attitudes toward risk, savings, asset allocation, international investment, and cultural influences

Introduction

In today's diverse and fast changing world, financial advisors must consider the impact of origin and culture on whether—and how—consumers choose to take advantage of their services. In order to serve these clients well, financial advisors need to better understand them. The Latino/Hispanic segment of US population has garnered the most attention from the practice and research of financial services marketers, and the Asian and Pacific Islanders segment has received less attention. According to U.S. census (U.S. Census Bureau 2010), the Asian population grew more than two hundred percent faster than the total U.S. population from 2000 to 2010, faster than any other race group. The United States is projected to become more racially and ethnically diverse in the coming years and Chinese Americans are among the most culturally diverse segment of U.S. Population by the year 2060 (Sandra, Ortman & Bureau of the Census, 2015). Seemingly, today's new American mainstream are significantly influenced by Asian-American consumers. Besides being the fastest-growing ethnic group, Asian Americans also are the best educated and most affluent of any ethnic subculture. The median household income of Asian Americans is 28 percent higher than that of the general U.S. household. Their buying power is \$718 billion and is expected to increase to \$1 trillion in the next 5 years, which equals to the 18th largest economy in the world (Solomon 2016). Based on the 2013 American Community Survey, seventy-nine percent of Asian American adults are immigrants or foreign-born, bringing with them cultural traditions that continue to influence and guide their personal choices and consumer behaviors. Chinese Americans are one group among many that merge the cultures of their origins into the American culture, influencing American culture as it forms them.

We live in a globalized village. We cannot emphasize enough the importance of knowing cultural differences in business. This research study is motivated to take a closer look at the cultural influences on Chinese-American in participating in financial services. Despite the fast growth of the Chinese-American population in the United States, the ethnic group of Chinese-Americans is not well understood, and most likely, is underserved by providers of financial services. Therefore, the central research objectives of this study are: 1) to conduct a comprehensive literature review on Chinese-American financial wellbeing and financial attitude, Hofstede's five dimensions of national culture, and five-factor model of personality; 2) to identify the financial traits and attitudes of Chinese-Americans, including attitudes toward risk, savings, asset allocation, international investment, and the need for financial advisors; 3) to develop a conceptual model that enables us to test the influence of culture and consumers' individual characteristics in the context of consumers' attitude toward financial products and services.; 4) to propose a set of research hypotheses that help explain factors influence Chinese-American consumption of financial services. We set the stage and framework for future empirical investigations that will enrich the understanding of academics and practitioners alike.

Literature on Financial Literacy

The financial literacy definition of the National Financial Educators Council (NFEC) follows: *“Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual’s personal, family and global community goals”*

The conceptual definitions of financial literacy have been studied by various scholars and financial experts. They generally agree that financial literacy consists of (1) knowledge of financial concepts (Braunstein and Welch 2002; Vitt et al. 2000; Huston 2010); (2) ability to communicate financial concepts (Fox, Bartholomae, and Lee 2005); (3) mental cognition or skill in making appropriate financial decisions (Kozup and Hogarth 2008; Jappelli and Padula 2013; Chen et al., 2014); and (4) self-assured literacy or confidence in one’s own financial literacy (Chen and Volpe 2002; Koenig 2007; Cole et al., 2014).

Financial literacy consists of knowledge, skill, confidence, and mental cognition which helps individuals effectively manage financial resources and ultimately achieve individual financial wellbeing. It can be expressed these four categories:

1. Correct understanding of financial concepts
2. Assessment of financial products;
3. Capability to use financial tools for financial planning; and
4. Taking actions with confidence.

All four of these aspects of financial literacy are incorporated in our conceptual model.

Literature on Chinese American Financial Wellbeing and Financial Attitude

Research on the economic wellbeing of the fast-growing Chinese American population is far from adequate. Yao (2013) used data from a survey of Chinese American households in Midwestern states and found that the majority of the sample households expressed a willingness to take at least some financial risks. Elements that have an impact on financial risk tolerance of Chinese American households included level of income, investment horizon, gender, and non-financial assets.

Hong and Kao (1997) used the 1992-93 Consumer Expenditure Survey to examine the adequacy of emergency funds for a sample of 222 Asian Americans. They found that more Asian Americans are prepared for financial emergencies than non-Hispanic whites, African Americans, and Hispanics.

Oh and Min (2011) used a sample of male Chinese, Filipinos, and Korean decedents from the New York metropolitan area to investigate the generational status on earnings among these groups. They found that 1.5-generation Chinese and Filipino American workers (the foreign-born who migrated between age 6 and 12) had significantly higher earnings than second-generation (American born) workers and that bilingual ability increased earnings only for the Chinese group.

Kwon et al., (2004) examined features such as human capital, demographic, and acculturation that are associated with the poverty status of Asian immigrant householders by their U.S. citizenship status. They found that high levels of human capital and acculturation are associated with lower probabilities of Asian householders living below the official poverty threshold, regardless of their citizenship status.

Using the Survey of Consumer Finances, Fan and Xiao (2006) examined the risk-taking attitude and behavior of a sample of 470 Chinese workers versus a sample of 2,671 Americans. Sample results indicated that the Chinese were more risk tolerant than American counterparts in their financial decisions, in terms of both attitude and behavior.

Pyles et al. (2016) explored the influence of culture on risk tolerance using surveys completed by Chinese and American students. Consistent with previous studies, they found that Chinese students perceive themselves as more risk tolerant and their findings suggest that differences in risk tolerance can at least partially be attributed to the influence of culture.

The saving motives reported by Chinese consumers in a national survey were examined by Yao et al., (2015). Findings suggested that emergency need, children's education need, and retirement needs were the three most commonly stated motives.

Brejcha et al. (2016) studied financial attitudes of the young generation of Chinese and found that young Chinese have a medium-to-low level of financial literacy, and like their parents and family, adopt a conservative financial attitude such as having a preference of liquid assets (cash and gold) over investment instruments.

Statman and Weng (2010) explored the financial attitudes of Chinese-Americans and that they generally favor investing in real estate and were less willing to carry debt. They were not as likely to focus their investments in the United States.

Weber and Hsee (1998) targeted respondents from China, the United States, Germany and Poland and found that Chinese respondents have the smallest degree of perceived-risk aversion as compared to respondents from other countries.

Literature on Hofstede's Five Dimensions of National Culture

The Hofstede dimensional model of national culture has been adopted as a good theoretical foundation in much of the cross-culture consumer behavior research. The Hofstede national culture model provides a useful theoretical framework to explain how cultural values influence the various types of consumer, organization, and market behaviors, in other words, how consumers' perceptions of the importance and priorities of things and ideas differ across cultures. The seminal work of Geert Hofstede studied more than 90,000 people in 66 countries, and identified five dimensions that explained cultural diversity. These five dimensions are labeled power distance, collectivism/individualism, uncertainty avoidance, masculinity/femininity dimension, and long-term vs. short-term orientation (Cateora and Graham, 2013).

We discuss the information that is most relevant to cross-cultural consumer behavior in each of the following descriptions of the five dimensions.

1) Power Distance

The power distance index measures the inequality of power distribution between superiors and subordinates. It indicates the tolerance level of social inequality among the less powerful members in a culture. Countries with high power distance scores tend to have hierarchical power systems, and members of the society perceive manipulation, inheritance

and social roles as the source of social status and power level. In contrast, societies with low power distance scores tend to have flattened power systems, equality is highly valued, and members advocate achievement and knowledge as source of social power (Hofstede 2001).

Therefore, members in larger power distance societies have expectations of the rightful place in the hierarchical power system. Consumers are more likely to be skeptical and distrust others who are not from their social groups, because the perception is that power is concentrated among individuals and coercive rather than legitimate. Consumers from high power distance cultures need clear social status to gain respect from others, and there is a general belief that superiors who hold power are entitled to privileges. In the marketing context, for high power distance powers countries such as China (Scores China 80; USA 40), reputable international brands are more easily accepted by consumers as they fit the expectations of the hierarchical power system (De Mooij and Hofstede,2011).

2) Collectivism and Individualism

The collectivism/individualism index measures the extent to which members of a society show great pride in group loyalty and value themselves as members in a group and take care of other members, versus members emphasize individual identity and personal accomplishments, and take care of themselves and their immediate family only (De Mooij and Hofstede, 2011). In countries that score high in individualism such as USA (Score: Individualism 91), people are more self-conscious and prefer behaviors that promote self-interest. Self-actualization and individual initiatives are widely accepted and endorsed. In contrast, people living in culture with high collectivism scores have a group mentality and members develop strong social ties. Consumers are integrated into cohesive and strong groups, and they show great pride and loyalty to their groups. Therefore, in collective cultures such as Chinese (Score Individualism 20), in the marketing context, consumers trust members from their social groups, and word of mouth will be highly valued and very influential (Hofstede, 2001, De Mooij and Hofstede, 2011).

3) Masculinity vs femininity dimension

Some cultures have very clear expectations for genders, in terms of gender responsibilities and social roles, whereas other societies are more tolerant. In cultures that score high in masculinity/femininity dimension (Masculinity Scores: China 66 and USA 62), dominant values for males are success and achievement, whereas the dominant values for feminine society females are to provide care for the family members. Therefore, brands that reflect gender expectations and social status will be more acceptable and important in high masculinity societies (De Mooij 2004).

4) Uncertainty Avoidance

Uncertainty avoidance index refers to a culture's tolerance level of ambiguity and uncertainty. Cultures with high uncertainty avoidance scores are associated with a high level of stress and anxiety, and members in these societies try to avoid uncertain and ambiguous situations. Consumers in high uncertainty societies are intolerant of new ideas and product, and are very distrustful. Instead, they search for truth and believe in rules and formality to structure

life, and trust historically tested and proven behaviors (Hofstede, 2001, De Mooij and Hofstede, 2011). China is a high uncertainty avoidance country (Score: China 30; USA 46) and Chinese consumers are generally risk-averse, and therefore, financial products and services are viewed as risky products. In contrast, in low uncertainty avoidance cultures, consumers have a low level of stress and anxiety and are more tolerant of risks and uncertainties, and they feel comfortable with new ideas and risky products (Hofstede 2001).

5) Long- vs. short-term orientation

This cultural dimension in Hofstede model reflects the extent to which a culture endorses a short-term or conventional historic perspective versus a long-term future orientation. China scores 87 on this scale as compared to the USA, which scores 26. Chinese consumers emphasize the future and good planning. Therefore, financial products such as retirement plans and education funds for children are popular among Chinese consumers (De Mooij 2010).

In sum, to further complicate matters an individual transplanted into another culture might exhibit behavioral and cultural traits more complex than those that are native born. Further, these scores and resultant behavior become more complex and confusing from first, to second, to third generation immigrants that might be more interracial than their predecessors.

Literature on Five-Factor Model of Personality

After decades of research, the five-factor model of personality has been accepted as a general taxonomy of personality traits in the field of personality research. The five-factor model of personality adopts the basic principles of trait theory, and believes that personality can be quantitatively measured, as individuals exhibit relatively consistent enduring patterns of feelings, actions and thoughts (McCrae and John, 1992). The five-factor model of personality has been subsequently labeled the “Big Five” (Goldberg 1990). The Big Five has been empirically tested in many research areas and in various languages, and results have shown that the dimensionality is generalizable across cultures and remains fairly stable over time (Costa and McCrae, 1992).

The dimensions that compose the Big Five model are neuroticism, extraversion, and openness to experience, agreeableness, and conscientiousness.

1) Neuroticism

Neuroticism refers to an individual’s lack of emotional stability and psychological positive adjustment. Individuals with high neuroticism scores are neurotic, and can easily get upset. They are more likely to experience various emotional and psychological problems, such as depression, anxiety, hopelessness, guilt, fear, and sadness, etc. People with high neuroticism scores tend to have low-esteem, hold irrational perfectionist beliefs, and generally have pessimistic attitudes (Costa and McCrae, 1988).

2) Extraversion

Extraversion is associated with sociability, and indicates a preference for social stimulation and companionship. Extraverts are generally more social-oriented, gregarious and outgoing. Extraverts are also characterized as being dominant, adventuresome, assertive, and ambitious. They are more likely to have a larger number of friends and to take on leadership roles. Extraversion is also closely related to positive emotions, social skills, club memberships, and participation in team sports (Watson and Clark, 1997).

3) Conscientiousness

Conscientiousness reflects an individual's need for achievement and level of self-control. Conscientiousness is composed of three related facets: dependability (carefulness and responsible), orderliness (organized), and achievement-orientation (persistent, and hardworking). Therefore, conscientious individuals generally have a high level of aspiration and strong sense of purpose. They have great leadership skills, and generally make long-term plans. Conscientiousness has also been found to be positively related to job performance (Costa, McCrae, and Dye, 1991).

4) Openness to Experience

Openness to experience measures an individual's need for novelty, change, and variety. It is manifested on two dimensions: unconventionality, and intelligence. Individuals who are open to experience are generally independent minded, imaginative, autonomous, and nonconforming. They are interested in a very wide variety of activities, including many different hobbies, travel, diverse vocational interests, and knowledge of foreign cuisine, etc. They are also very intellectual and philosophical (Judge et al., 1999).

5) Agreeableness

Agreeableness indicates an individual's compliance level. Agreeable individuals are cooperative, cheerful and have very gentle personalities. They trust and care for others and are more willing to defer to others during social conflict. Agreeable people are generally good natured, use inoffensive language, and have a more forgiving attitude (Judge et al., 1999).

Literature on Heterogeneity among Chinese Americans: ABC vs. Immigrants

Understanding the heterogeneity among Chinese-Americans is important for financial advisors who want to better serve their potential Chinese American clients. There are primarily two types of Chinese Americans: Chinese immigrants and American-born Chinese (ABC). The duration of stay in the U.S. makes a big difference and huge impact on the level of cultural assimilation as well as attitude and preference on product selection among Chinese Americans.

Because American-born Chinese were born in the United States, they are imbued with American culture, but at the same time, because they were born to Chinese parents, they are also exposed to Chinese culture. ABC's are primarily exposed to mainstream American culture in their life (e.g., school, work, etc.), however, their influence from Chinese culture is very limited to specific contexts, for example, interaction with their family at home, experience at

Chinese language school and/or Chinese church, etc. Therefore, for ABC, Chinese culture influence and American culture is context-specific, and may be independent of each other (Tsai, Ying, and Lee, 2000).

In contrast, immigrant Chinese are exposed and immersed in Chinese culture all their lives, in all contexts, prior to their migration to the United States. After their arrival in the United States, in order for immigrant Chinese to functionally adapt to the American culture in contexts that conflict Chinese culture values, they have to assimilate to mainstream culture and relinquish certain aspects of Chinese culture. For them, Chinese and American culture influences are negatively related to each other, the more they are Americanized, and the less Chinese they may be (Tsai, Ying, and Lee, 2000).

The Conceptual Model and Hypotheses

We want to test the influence of culture and consumers' individual characteristics (i.e., their financial literacy, personality features, and other related demographic information, etc.) in the context of consumers' attitude toward financial products and services. Figure 1 provides a graphical depiction of the proposed conceptual relationships. We expect that Chinese American consumers' attitude toward various financial products and services (e.g., education, consulting, services, characteristics of financial advisors, etc.) will derive from their level of financial literacy. Cultural influences such as risk attitude, international investments, and variation among Chinese Americans will also influence individuals' attitude and preference on the choices of financial products and services. Further, we propose that individual personality characteristics and other relevant demographic variables will influence Chinese American consumers' attitude toward financial products and services.

In the next sections, we elaborate on the constructs in our conceptual model and propose specific hypotheses.

Insert Figure 1 about here

Proposed Hypotheses: the Effect of Consumer's Financial Literacy on Attitude toward Financial Products and Services

Previous research about the demand for and impact of financial advice is limited. Understanding Chinese-American's demand for financial advice is even more limited. Using original survey data from India and Indonesia, Cole et al., (2009 & 2011)) show that financial literacy was a powerful predictor of demand for financial services.

Studies that focus on American's financial literacy (e.g. Lusardi and Mitchell, 2008 and Van Rooijet al., 2011) find that, in general, financially educated people behave in an optimal manner, such as holding stocks, preparing and saving for retirement, optimizing and diversifying a portfolio, and paying low fees. In a more recent study, Calcagno and Monticone (2015) provide additional evidence that the demand for financial advice could be related to financial literacy. Similarly, financial literacy could be a good predictor of Chinese American's demand for financial services. Therefore, the following hypothesis is proposed:

H1: Chinese American consumers' financial literacy (i.e., knowledge, skill, mental cognition, and confidence) has a main effect on their attitude toward and demand for financial products and services, such that if individuals are financially educated and comfortable with financial products and services, they will demand them.

The Effects of International Investments on Attitude toward Financial Products and Services

As discussed in the literature review on Hofstede's five dimensional model of culture, as far as long-term vs. short-term orientation is concerned, Chinese consumers generally have a future-oriented perspective, and the Chinese culture places an emphasis on good planning and investments for the future. Therefore, financial products such as an education fund and a retirement plan are popular among Chinese consumers (De Mooij 2010). It is important to identify and understand potential Chinese American consumers' international investments, in terms of their investments status and their needs. Therefore, the following hypothesis is proposed:

H2: Chinese American consumers' international investments (i.e., status and need) have a main effect on their attitude toward and need for financial products and services, such that financial products and services that are related to consumers' existing international investments that match their future-orientation will be preferred.

The Effect of Risk Attitudes on Attitude toward Financial Products and Services

As discussed in the literature review on Hofstede cultural dimension model, in terms of uncertainty avoidance index, Chinese consumers generally exhibit a high level of anxiety and stress, and they tend to avoid uncertain and ambiguous situations and products. Chinese consumers are generally risk-averse, and very distrustful of new ideas and products (Hofstede, 2001, De Mooij and Hofstede, 2011). Many financial products and services are perceived as risky products by Chinese consumers. Yet Chinese Americans are the best-educated and most affluent ethnic groups among all the subculture groups, and they have high level of confidence in self-education. Therefore, the following hypothesis is proposed:

H3: Chinese Americans are generally risk-averse, and financial products and services are perceived as risky products. Self-education products (e.g., online tutorial, webinar, seminar, and consulting sessions, etc) will be positively received by Chinese American consumers.

The Effect of Personality Characteristics on Attitude toward Financial Products and Services

The discussion on the Big Five personality model indicates individual differences in terms of the five dimensions of personality construct. Neuroticism reflects an individual's lack of emotional stability and psychological positive adjustment, and people with high neuroticism scores generally have pessimistic attitudes (Costa and McCrae, 1988). Therefore they may experience more anxiety and are more concerned with the risks associated with financial products and services, and will have a negative attitude. Openness to experience refers an individual's need for novelty, change, and variety. Individuals who are open to experience are

generally interested in a very wide variety of activities, including many different hobbies, travel, diverse vocational interests, and knowledge of foreign cuisine, etc. They are open-minded and imaginative (Judge et al., 1999). Therefore, consumers with high openness to experience scores are more likely to show interest and have a positive attitude toward financial products and services. Therefore, the following hypothesis is proposed:

H4: Chinese American consumers' personality characteristics (e.g., openness to experience, neuroticism, etc.) have a main effect on their attitude toward and need for financial products and services, such that consumers with high openness to experience scores/low neuroticism scores are more likely to have a positive attitude toward financial products and services.

The Effect of Individual Demographic Characteristics on Attitude

Discussion on the heterogeneity among Chinese Americans revealed the culture-orientation differences between American-born Chinese and immigrant Chinese. Immigrant Chinese are exposed and immersed in Chinese culture in all contexts through their whole lives, prior to their migration to the United States, and they have to make adjustments and compromises to assimilate to the mainstream American culture. Generally speaking, the longer they have stayed in the United State, the more they assimilate to American culture (Tsai, Ying, and Lee, 2000). In contrast, American-born Chinese are imbued with American culture in their life, and have limited exposure to Chinese culture, Therefore, for American-born Chinese, American culture has dominant influences on their attitude and value system, whereas Chinese culture has very limited influence and is context-specific (Tsai, Ying, and Lee, 2000). Therefore, the following hypothesis is proposed:

H5: Chinese American consumers' length of stay in the US (i.e., American-born Chinese vs. immigrant Chinese) has a main effect on their attitude toward and need for financial products and services, such that American-born Chinese will have a similar attitude and preference to that of mainstream American consumers, whereas immigrant Chinese are more risk-averse and exhibit different attitude patterns.

We recommend that the aforementioned conceptual model be empirically investigated. To empirically test the proposed model, a survey will need be developed with all the relevant measurement questions. The survey should be designed for Chinese Americans who reside in the US.

Conclusion

Professional financial planner is facing a fast changing and diverse market. Financial advisors must consider the impact of origin and culture on whether—and how—consumers choose to take advantage of their services. In order to serve these clients well, financial advisors need to know where these clients come from and the implication that has for services offered. The Asian and Pacific Islanders is one of the fastest growing segment of the US population. The purpose of this study is to identify the financial traits and attitudes of Chinese-

Americans, including attitudes toward risk, savings, asset allocation, international investment, and the need for financial advisors. In this study, we conducted a literature review on Hofstede's Five Dimensions of National Culture, the Five-Factor Model of Personality, Chinese American Financial Wellbeing and Financial Attitude. We also developed a conceptual model and five testable hypothesis. Our research sets the stage and framework for future empirical investigations that will enrich the understanding of academics and practitioners alike.

Acknowledgement: The authors gratefully acknowledge the Siena College Diversity Action Committee Grant that made this research possible.

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Figure 1 Proposed Conceptual Model

