

Impact of Personal Budgeting Behaviour on Savings: Moderating Role of Income among Salaried Individuals

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Abstract- This paper looks at how personal budgeting behaviour affects both savings and how income moderate the relationship between personal budgeting behaviour and factors such as savings. A structured questionnaire was used to sample 172 respondents who were gathered through primary data collection. The research uses descriptive statistic, correlation analysis, and multiple regression analysis.

The results show that budgeting behaviour has a great and positive influence on savings, and income also has a strong positive impact, but to a lesser degree. Budgeting and income have a negative and significant impact, which means that the positive effect that budgeting has on savings decreases with income. This implies that the budgeting process is especially critical to people with lower income levels. The study notes how important financial behaviour is as opposed to demographic factors and how notable practices such as the promotion of disciplined budgeting behaviour is in promoting savings.

Key Words: Personal budgeting, spending behaviour, savings, salaried individuals

I. INTRODUCTION

1.1 Meaning of Personal Budgeting

Personal budgeting, is a budgeting technique which involves planning and using the income of individual, in the budgetary expenditure and savings line items within a defined period of time. It constitutes a significant aspect of the personal finance management, which enables individuals to observe the flow of cash, indulge discretionary spending, and prioritize the financial goals. Rather than being a constraint, budgeting is a proactive process which can inform the use of financial resources, and can encourage the discipline use of resources.

1.2 Importance of Budgeting in Contemporary Financial Context

In the contemporary economic environment, characterised by rising living costs, easy access to credit, and widespread use of digital payment systems, managing personal finances has become increasingly complex. The convenience of digital transactions and changing consumption patterns have made unplanned and impulsive spending more prevalent. In such circumstances, budgeting plays a critical role in enhancing financial awareness and maintaining control over expenditures.

For salaried individuals, whose income is relatively stable and predictable, budgeting becomes particularly significant. It provides a structured framework for allocating income towards essential expenses, discretionary consumption, and savings. Effective budgeting not only improves spending discipline but also contributes to financial stability and long-term financial security.

1.3 Theoretical Foundations of Budgeting, Spending and Saving Behaviour

Problems of interrelationship between budgeting, spending behaviour and savings can be explained on the basis of few-established economic and behavioural theories.

According to the Life-Cycle Hypothesis (Modigliani and Brumberg, 1954) people plan their consumption and savings throughout their lifetime with the aim of smoothing consumption. Budgeting is quite a practical means through which one could help himself/herself coordinate his/her current income and expenditure towards its long-term financial goals.

In the same vein, the Permanent Income Hypothesis (Friedman, 1957) is a hypothesis which holds that individuals ought not to make consumption decisions based on their current incomes, but on how their

incomes are likely to be in the future. Budgeting makes it possible by assisting individuals in stabilising their consumption and prevent excessive spending on the basis of temporary change of income.

Behaviourally, the term of mental accounting could be referred to, people group income and spending into many mental accounts called mental accounting (Shefrin and Thaler, 1988). Budgeting formalises such a process by undertaking a purposeful allocation of resources along the categories which include, necessities, discretionary spending, savings.

The economic theory of self control (Thaler and Shefrin, 1981) can explain why there is conflict between short-term consumption, and long-term financial goals. Budgeting is a sort of baggage gadget, which helps one to stay this conflict under control, and have financial discipline.

Also by Prospect Theory (Kahneman and Tversky, 1979): when individuals are faced by uncertainties when making decisions in matters that are related to money, they may exhibit biases, irrational behaviour. The efforts of certain prejudices in its averting may be effected by elaborate budgeting, which encourages more reasonable, and planned financial habits.

Combined these theories determine that budgeting is no longer merely a mechanical process but rather it is a behavioural mechanism that has significant effects on spending behaviour and savings outcome.

1.4 Problem Statement

Although they are working with stable and predictable sources of income, a large number of salaried individuals fail in budgeting their personal finances effectively. One of the common observations is the difference between levels of income and financial outcomes as indicated by inadequate savings, the recurring financial shortages at the end of every month, and unplanned expenditure patterns. This implies the problem is not merely in income limitation but also in the non-existence of regular and disciplined budgeting activities.

Despite the growing awareness on the topic of financial management, little practical aspect can be seen in the department of finance on how to implement the financial management concepts to the individual

level. This is the case with many people not having a systematic approach to the allocation of their income and using this as a measure of their spending behaviour, which means that financial management of many people is not efficiency undertaken. This fact requires an empirical study on the question of whether structured budgeting behaviour can play an important role in affecting the financial results, especially, the savings among salaried employees.

II. REVIEW OF LITERATURES

The spending behaviour as well as personal budgeting as a part of the broader area of personal finances has received extensive studies with special emphasis on financial discipline, self-control, and financial well-being. The extant literature indicates that budgeting is not only a financial planning instrument, but also a behavioural mechanism that substantially impacts spending behavior, as well as savings behaviour.

On a very deep level, the conceptualisation of budgeting is as follows: budgeting is a structured financial resource management system. According to Gorshkova et al. (2015), personal budgeting is a methodological approach to personal accounting that consists of income, expenditure and savings budgets, which allow individuals to systematically record and analyse their financial activities. It is a systematic method, which simplifies the financial planning process and helps to develop financial literacy by matching income with spending and savings targets. Expanding on this idea, Ben-Caleb et al. (2023) emphasize the importance of having a personal budget since it is an effective financial roadmap that improves financial health by allowing individuals to monitor their financial status, as well as make knowledgeable financial decisions.

Budgeting in the theoretical perspective is closely related to behavioural control and self-regulation. Formal economist Galperti (2019) offers a formal economic theory of personal budgeting that proposes that people implement budgeting as a commitment mechanism to help them overcome self-control issues caused by present-biased preferences. In the research, it is revealed that budgeting creates restraint to consumption and leaves room of uncertainty hence enhancing consumption saving decisions. To complement this theoretical perspective, Lukas and

Howard (2021) present empirical data that indicate budgeting plays a crucial role in shaping consumer spending behaviour. Their results suggest that although the involvement of strict budget compliance was not met, the act of setting a budget did result in a decrease in expenditure, with the effect continuing over time.

Literacy in finance has been found to be one of the crucial determinants of budgeting behaviour and the financial performance. By constructing the idea that financial literacy, mental budgeting, and self-control have a positive effect on financial well-being, Bai (2023) establishes the importance of financial literacy, mental budgeting, and self-control in enhancing financial well-being in individuals. The paper also reveals that financially literate people would more readily obtain to participate in efficient budgeting behaviors, thus raising their savings and overall financial wellbeing. Equally, Ben-Caleb et al. (2023) establish that there is a positive strong correlation between budgeting practices and financial well-being.

Financial behaviour in the context of students and young people is generally influenced by limited income, the absence of experience as well as incomplete financial education. As it is observed by Lalmuampaia (2021), college students have significant issues in the management of their finances since they are often incapable of planning expenditures and maintaining savings because of external forces at play (peer pressure, exposure to marketing). In the study, it is emphasized that a lack of financial knowledge facilitates the poor level of financial decision-making, especially in budgeting and saving behaviors.

This is also supported by empirical evidence, which reveals that the relationship between spending behaviour and financial management skills are highly related. Ablay et al. (2023) demonstrate that people with higher financial management skills have more disciplined spending behaviour and are less likely to have impulsive purchasing behaviour. This study reveals a strong correlation between spending behaviour, as well as financial management capabilities, and the role of financial education in enhancing personal financial outcomes is therefore significant.

Also, it is evident that monetary education and institutional backing by the financial system is important in enhancing the budgeting behaviour (past study). Research has always highlighted that the financial illiteracy of people is a contributing factor to the low budgeting habits and poor financial discipline among individual sufferers of financial illiteracy. According to Lalmuampaia (2021) and supported by Ben-Caleb et al. (2023), incorporating a financial literacy curriculum into the education system can help people improve their financial management skills and adopt systematic approaches to budgeting.

The available literature confirms that, personal budgeting is a key factor that impacts spending behaviour, pattern of savings and general financial well being. Although studies on budgeting generally oppose the theoretical school of thought because of their emphasis on budgeting as a mechanism of self-control and commitment, empirical studies affirm this approach as an effective tool in enhancing financial performance. Nonetheless, there still seems to be an evident gap in terms of context-specific, primary data-based empirical research that directly investigates the effect that budgeting behaviour has on financial outcomes, more specifically, savings, at the individual level.

The major part of the existing studies is focused either on financial literacy or student groups or some theoretical frameworks, whereas little attention is paid to the working or salaried population and their real budgetary habits. Moreover, despite the fact that previous studies recognise the role of income and financial literacy in shaping financial outcomes, there is a lack of empirical evidence on the interactions of income and financial literacy with budgeting behaviour in influencing the financial outcomes. This implies that there is need to conduct a targeted research study that explores the direct relationship existing between personal budgeting behaviour and savings using primary data whilst further bearing in mind the contribution of income towards the formulation of this relationship.

III. OBJECTIVES OF THE STUDY

The aim of the present study is to investigate the use of the personal budgeting behaviour that influences the

financial outcome of individuals who receive a salary. The purpose of the study can be stated as follows:

1. To test how the personal budgeting behaviour impacts on the savings outcomes of individuals who are paid salaries.
2. To examine the relationship between the personal budgeting behaviour and the spending behaviour.
3. To test the hypothesis of whether income moderates the relationship between budgeting behaviour and savings.

IV. HYPOTHESES OF THE STUDY

There are some hypotheses based on objectives of the research that were formulated as follows:

H0₁: Salaried individuals experience no significant effect on the outcome of savings in relation to personal budgeting behaviour.

H1₁: Added value to savings performance of top salaried employees through personal budgeting behaviour.

H0₂: The relationship between personal budgeting behaviour and spending control is not significant.

H1₂: There is a significant relationship between personal budgeting behaviour and spending control.

H0₃: The effect of income in the relationship between the personal budgeting behaviour and savings is not significant.

H1₃: Income is a significant moderating variable between personal budgeting behaviour and savings.

V. RESEARCH METHODOLOGY

5.1 Research Design

The current research has a descriptive and analytical research design. The descriptive approach is to be used to understand the budgeting, spending, and saving behaviour of the respondents and the analytical approach is to be used to examine the relationship and the contagiveness of personal budgeting behaviour on financial outcomes using statistical methods.

5.2 Nature and Source of Data

The research entails use of primary data, the purpose of which is to record the data done pertaining to personal budgeting behaviour, spending control as well as savings output.

The questionnaire was conducted online through the survey method, which was easy to access and had a greater reach among the respondents.

5.3 Sampling Design

- Target Population: Salaried individuals
- Sampling Technique: Convenience sampling
- Sample Size: 172
- Study Area: Ahmedabad city

5.4 Instrument Design

The structured questionnaire was designed that comprises the following sections:

- Section A: Demographic details (Age, Annual Personal Income, Occupation)
- Section B: Personal Budgeting Behaviour (6 items)
- Section C: Spending Behaviour (5 items)
- Section D: Financial Outcomes – Savings (5 items)

Measurement of the behavioural variables was done on a 5-point Likert scale where:

1- Strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

Some of the negatively framed content had undergone reverse coding to ensure similarity in the interpretation.

5.5 Variables of the Study

The study includes the following variables:

- Independent Variable: Personal Budgeting Behaviour
- Dependent Variable: Savings Outcomes
- Supporting Variable: Spending Behaviour
- Moderating Variable: Income
- Control Variables: Age and Occupation

Personal budgeting behaviour, spending behaviour, and savings outcomes are measured using composite scores derived from Likert-scale items. Income is measured as annual personal income in rupees. Occupation is represented using dummy variables, with the private sector treated as the reference category.

5.6 Data Analysis Techniques

The collected data were analysed using appropriate statistical techniques to test the hypotheses and examine the relationships among variables:

- **Descriptive Statistics:**Used to summarise the characteristics of the data, including mean, standard deviation, and range of key variables.
- **Correlation Analysis (Pearson’s Correlation):**Applied to examine the relationships among budgeting behaviour, spending behaviour, savings, income, and age.
- **Multiple Regression Analysis:**Used to assess the impact of personal budgeting behaviour on savings while controlling for age and occupation.
- **Moderation Analysis (Interaction Effect):** To test the moderating effect of income, an interactional term (Budgeting x Income) was added to the regression model. Mean-centered the budgeting and income variables and then constructed the interaction term to mitigate the multicollinearity.
- **Assumption Testing:**Before the regression analysis, some important assumptions such as; linearity, normality, multicollinearity, homoscedasticity and independence of errors were tested to guarantee the validity of the model.

5.7 Model Specification

The regression model that is going to be used in the investigation is as follows:

$$Savings = \beta_0 + \beta_1(Budgeting) + \beta_2(Income) + \beta_3(Budgeting \times Income) + \beta_4(Age) + \beta_5(Occupation) + \epsilon$$

Where:

- Budgeting = Personal budgeting behaviour score
- Income = Annual personal income
- Budgeting × Income = Interaction term (moderation effect)
- Age = Age of the respondent
- Occupation = Government, Professionals and Semi Government are dummy variables for occupation
- Private sector is treated as the reference category
- β_0 = Intercept
- $\beta_1, \beta_2, \beta_3, \dots$ = Regression coefficients

- ϵ = Error term

5.8 Reliability and Validity

The budgeting, spending and savings constructs will have their Alpha of Cronbach calculated so as to guarantee reliability of the measurement scales. A standard of above 0.7 will be seen as satisfactory.

Questionnaire content validity was achieved with a thorough design which considered the set constructs used in previous research works.

Table1: Reliability Statistics

Construct	No. of Items	Cronbach’s Alpha	Interpretation
Budgeting Behaviour	6	0.88	Good
Spending Behaviour	5	0.79	Acceptable
Savings Behaviour	5	0.83	Good

Interpretation

To evaluate the internal consistency of the measurement scales, reliability test was done by using the Cronbach Alpha. The findings reveal that the budgeting scale has good reliability (0.88) whereas spending scale has acceptable reliability (0.79). Internal consistency is also good (with no less than 0.83 internal-consistency) with the savings scale.

On the whole, the Alpha values of the Cronbach of all constructs are above the acceptable level of 0.70, which means that the scales applied in the study could be considered as reliable and acceptable to conduct any further statistical analysis.

VI. DATA ANALYSIS

6.1 Descriptive Statistics

The analysis involves measures like mean, standard deviation, minimum and maximum values of the variables of study.

Table 2: Descriptive Statistics

Variabl e	N	Minim um	Maxim um	Mean	Std. Deviat ion

Budgeting Behaviour	172	1.00	5.00	3.395	1.127
Spending Behaviour	172	2.00	5.00	3.558	0.702
Savings	172	1.40	5.00	3.897	0.854
Annual Income (₹)	172	300,000	3,000,000	1,016,740	622,799
Age (Years)	172	21	63	36.95	10.27

Table 3: Occupation-wise Distribution of Respondents

Occupation	Frequency	Percentage (%)
Government	46	26.7
Private	85	49.4
Professionals on Salary	23	13.4
Semi Government	18	10.5
Total	172	100.0

Interpretation

The results presented by the descriptive statistics imply that the respondents have a moderate level of budgeting behaviour (Mean = 3.395) and a relatively controlled spending behaviour (Mean = 3.558). The savings mean value (3.897) is relatively greater indicating high degree of promptness to accumulate savings amongst the respondents.

The annual income of respondents is about 10.17 lakhs (annual average) which shows that it is not a very concentrated income group. The average age of the people inclined to fill in the questionnaires is approximately 37 years of age, which is an amalgamation of various people of different working-age sections. The occupational distribution reveals that almost half of the respondents are in the private sector, then there is government employees and this indicates

a balanced representation of the respondents across employment types.

6.2 Correlation analysis

Pearson correlation coefficient was used to carry out a correlation analysis to determine relationships between budgeting behaviour, spending behaviour, savings, income, and age.

Table 4: Correlation of variables and p-values

Pair	Correlation (r)	p-value
Budgeting – Spending	0.259	0.0006
Budgeting – Savings	0.306	0.00005
Budgeting – Income	-0.265	0.00045
Budgeting – Age	-0.113	0.141
Spending – Savings	0.243	0.0013
Spending – Income	0.124	0.105
Spending – Age	-0.099	0.195
Savings – Income	0.317	0.00002
Savings – Age	0.013	0.866
Income – Age	0.354	0.000002

Interpretation:

The results of the correlation show that there is a significant positive relationship between budgeting behaviour and savings ($r = 0.306, p < 0.01$) and spending behaviour ($r = 0.259, p < 0.01$). The relationship between savings and spending behaviour is also significantly related ($r = 0.243, p < 0.01$) indicating that savings and savings have an important relation to the spending behaviour.

The income and savings ($r = 0.317, p < 0.01$) are positively linked with each other. Also, it is possible to note that a great negative relationship is observed between budgeting behaviour and income ($r = -0.265, p < 0.01$) and, which is more important, it is observed that income level has a significant negative influence on this relationship ($r = -0.265, p < 0.01$).

But age related relationships, e.g., age with budgeting, spending, and savings are statistically insignificant ($p > 0.05$) indicating that the age does not play a significant role in these behavioural variables. Age has a positive correlation with income ($r = 0.354, p < 0.01$), which is a positive correlation due to trends concerning career progression.

6.3 Testing of Regression Assumptions

Before, the process of regression analysis, the main assumptions have been verified in order to guarantee the validity and reliability of the model. They are linearity, normality, multicollinearity, homoscedasticity, and independence of errors.

6.3.1 Linearity

These were assumptions of linearity which were tested through the use of scatter plots between the independent variables and the dependent variable. Scatter plot of budgeting behaviour versus savings

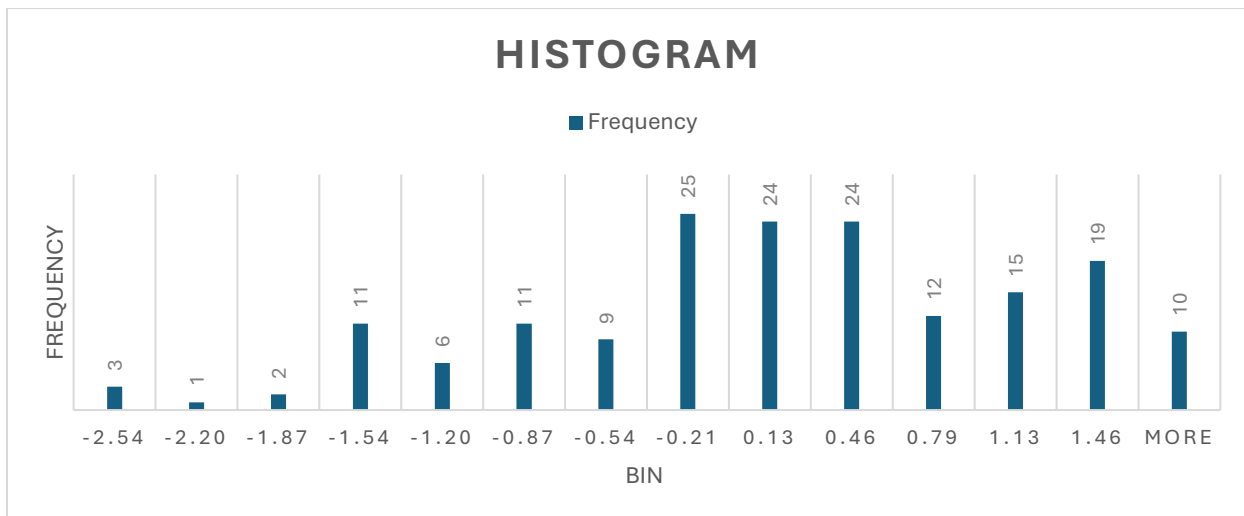
depicts a positive linear relationship as the upward trend in the scatter plot is clear. The distance between the points is not too big to oscillate around the fitted line without exhibiting any apparent curvature.

Likewise, the scatter plot income v. savings also means that there is a positive relationship although with larger dispersion of data points. Although the variability exists, none of the systematic non-linear trends can be seen.

We can thus say that the assumption of linearity is satisfied in the regression model.

6.3.2 Normality of residuals

Chart 1: Histogram of residuals



A histogram of standardized residuals was used to test the normality of residuals. The distribution is approximately bell-shaped whereby most values are located at the centre. Even though we can see only minor deviations but there is no substantial skewness. Thus, the normality assumption is deemed to be met.

Age	0.34	1.52
Government	0.31	1.45
Professionals	0.12	1.14
Semi Government	0.13	1.15

6.3.3 Multicollinearity

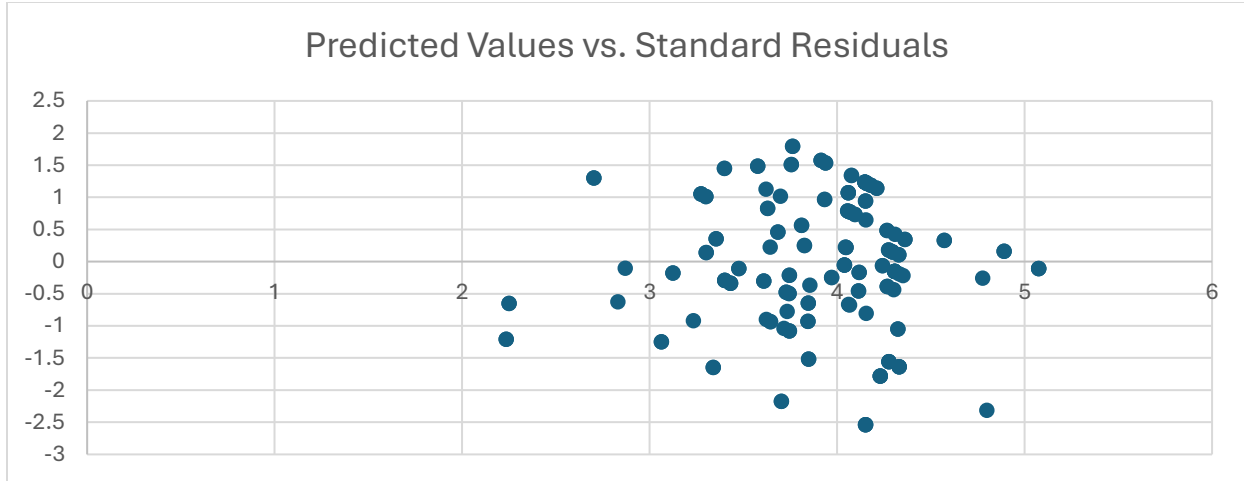
Table 5: Variance Inflation Factor (VIF)

Variables	R ²	VIF
Budgeting_c	0.13	1.15
Income_c	0.42	1.72
Interaction	0.32	1.47

To measure multicollinearity, Variance Inflation Factor (VIF) was used. The conclusions point to the overall fact that all VIF values are significantly less than the generally accepted value of 5, with the values of 1.14, 1.38, 1.62, 1.72. This indicates that there is no great multicollinearity between the independent variables. Thus, the null hypothesis that there is no multicollinearity is met.

6.3.4 Homoscedasticity

Chart 2: Predicted values of savings vs. Standard residuals



The measurement of homoscedasticity was done by looking at the scatter plot of standardized residual versus the expected values. The residual values are randomly spread about the mean and are devoid of any apparent pattern or funnel-like form. This propagation of the residuals seems to be the same throughout the predictive value range, which implies that the variance remains constant. Thus, a homoscedasticity assumption is met.

6.3.5 Autocorrelation

Table 6: Durbin–Watson Test

Model	R	R Square	Adjusted R Square	Std. Error	Durbin–Watson
1	0.588	0.346	0.318	0.705	1.91

The Durbin-Watson value is 1.91, and is near the optimal value of 2, so that there is no significant autocorrelation in the residuals. In this way, the independence of errors is met.

6.4 Regression Analysis

There was a multiple regression analysis to see how budgeting behaviour affects savings and also to determine the moderating effect of income. The model is also equipped with demographic control variables to ascertain robustness of the results.

Table 7: Regression Results

Variables	Coefficient (β)	Std. Error	t-value	p-value
Intercept	3.917	0.236	16.59	0.000
Budgeting_c	0.339	0.051	6.624	0.000
Income_c	0.000000385	0.000000113	3.401	0.001
Interaction	-0.000000297	0.000000073	-4.060	0.000
Age	-0.003	0.006	-0.457	0.648
Government	-0.031	0.147	-0.213	0.832
Professionals	0.249	0.168	1.480	0.141
Semi Government	0.087	0.188	0.461	0.645

Table 8: Model Summary

Statistic	Value
R ²	0.346
Adjusted R ²	0.318
F-value	12.39
Significance	0.000
N	172

Interpretation

The regression results also show that the overall model is statistically significant ($F = 12.39$, $p < 0.01$) and accounts about 34.6% of the variances in savings behaviour. The coefficient is not large because the income is expressed in the absolute rupee terms.

VII.RESULTS & DISCUSSION

The current research focuses on how budgeting behaviour adds to savings and the moderating effect of income on salaried individuals. The results are interpreted in regard to regression-based results with the help of descriptive statistics and correlation analysis.

The findings of the regression point to the fact that the budgeting behaviour has a positive and statistically significant impact on savings (0.339 , $p < 0.01$). This implies that, those who go the extra mile to organize and keep track of their finances are more probable to save successfully. There is also a significant positive relationship between income and savings ($= 3.85E-07$, $p < 0.01$), such that higher income will increase the level of savings. Nonetheless, the size of the income coefficient is fairly less as compared to the behavioural factors, indicating the greater impact of the budgeting behaviour.

One of the main contributions of the research is that the moderating impact of income was identified. The interaction term between the budgeting and the income are found to be negative and significantly ($2 = -2.97E-07$) so less as income increases. This means that budgeting is of greater importance to individuals who have a lower income level as they have to depend on financial discipline so that they can manage with the minimal income available to them. Conversely, people who have more money might not need to be as budget-conscious as they are because they just have more money.

Correlation analysis also supports the findings of the study as the relationship between budgeting behaviour and savings are significantly positive as also the relationships between income and savings. Also the negative association between budgeting behaviour and income indicates that low income earners are more likely to be actively involved in budgeting behaviour.

Descriptive statistics indicate that the respondents have moderate budgeting and spending behaviour and

rather high savings levels. It is a sign that there is a general tendency towards saving, it may be because of precautionary reasons and financial consciousness of the people on salaries.

The control variables, such as age, occupation, etc. are statistically insignificant in the regression model. It means that, behavioural factors, especially budgeting serve a more hegemonic role in influencing savings, as compared to demographic characteristics.

On the whole, the results are useful in terms of indicating the significance of behavioural elements of personal finance. Although income is a contributory factor to savings, budgeting behaviour becomes a more significant factor such that, an individual with a low level of income appears more affected by budgeting behaviour. These findings do not contradict the theories of behavioural finance theories, as these theories stress the importance of financial discipline, planning and self control in determining financial outcomes.

VIII.CONCLUSION

The current research was on the relationship between personal budgeting behaviour and savings, and the moderating factor of income among salaried persons. These results indicate that the budgeting behaviour has a significant positive impact on savings making it one of the critical behavioural determinants of financial performance. Income as well has a positive effect on savings but its impact is significantly lower than that of budgeting behaviour.

One of the major contributions of the study is determination of a moderating role played by income. The outcome shows that the quality of budgeting has a negative association with income which indicates that budgeting activities are most essential to people with low income. Such individuals have a stronger focus on the financial discipline in order to utilize limited resources, but higher-income people might feel more flexibility in the financial decision-making.

Another finding of the study is that demographic variables like age and occupation have no substantial impact on savings when behavioural variables are taken into account. What this demonstrates is that financial behaviour is more important in determining saving patterns than the demographic factors.

It is on these findings that it is advisable that financial literacy programs and policy interventions be directed to reinforce budgeting practices, in particular, those of the lower and middle-income population. Promoting responsible budgeting and offering useful and practical tools to help them budget efficiently can go a long way in promoting saving behaviour and overall financial health.

On the whole, the paper supports the value of behavioural financial management and the critical role of budgeting as a key driver of savings, with its efficiency depending on income levels.

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