

UNIVERSITY OF SWAZILAND
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION MAY 2012

TITLE OF COURSE: CONSUMER BEHAVIOUR (BA 521)

DEGREE AND YEAR: BACHELOR OF COMMERCE YEAR 5
IDE BACHELOR OF COMMERCE YEAR 6

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS:

1. TOTAL NUMBER OF QUESTIONS ON THE PAPER IS 5
2. ANSWER QUESTION 1 IN SECTION A AND ANY THREE (3) QUESTIONS FROM SECTION B
3. MARKS AWARDED ARE INDICATED AT THE END OF EACH QUESTION
4. MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH LANGUAGE AND FOR ORDERLY PRESENTATION OF YOUR WORK

SPECIAL REQUIREMENTS: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

INSTRUCTIONS

ANSWER SECTION A AND ANY THREE (3) QUESTIONS FROM SECTION B.

SECTION A: (COMPULSORY)

QUESTION 1: PREDATORY LENDING

A current practice by USA and international lenders has raised a great deal of concern among consumer advocates, civil rights leaders and politicians. It is called predatory lending – the practise of targeting low income consumers with high priced loans. The loans are high priced because they have very high interest rates, are loaded with hidden fees and have significant payment penalties. These, and other practices, make the loans difficult if not impossible to repay, and many consider them to be abusive.

It may seem ironic that those who have the least amount of money are the ones who are signing up for loans that cost substantially more than those generally taken out by consumers in higher income brackets. To some extent, this is necessary. Low income individuals generally have little to no credit history; or worse, they have very poor credit history. As such, they represent a higher risk to lenders, who are able to offset this risk by charging higher interest rates; this is called sub-prime lending.

However, predatory lending has been shown to go way beyond the justified parameters of sub-prime lending. Most middle class Americans borrow money at rates ranging from 5 to 15% but in addition to charging exorbitant fees, loans classified as predatory charge annualized interest rates of up to 100% or more. While mortgage companies are more commonly identified as predatory lenders, critics also classify pay day loan stores, rent-to-own centres and cheque-cashing stores as predatory. Typically, it is small companies and chains that are involved in targeting the elderly, minorities and other low income consumers. Various states are investigating some of the biggest names in global banking – including Bank of America, Citigroup, Wells Fargo, and HSC – for steering the poor towards ultra interest loans.

Recent studies from Harvard and the University of North Carolina estimate that more than 10 million Americans take out high interest loans each year. Estimates of the costs to consumers range from \$9 billion to \$50 billion. Regardless of the actual dollar amount, this practice is stripping low income Americans of their ability to get ahead. Predatory mortgages drain consumer equity and very often end in foreclosure. Because entire neighbourhoods may fall victims to this practice, there are also ripple effects on local economies.

It is not surprising then that since 1999 there are 31 states that have enacted laws to try and limit some types of predatory lending, especially in home mortgages. In 2005, efforts were made to draft legislation to curtail the practice on a national level. While these bills have been supported by members of the US House of Representatives, critics have fought against them saying that they do not go far enough; or worse, that they actually weaken state laws

and give more power to the lenders. Regardless of what becomes of these bills, it is more than likely that the growing practice of predatory lending will keep this problem in the political spotlight for years to come.

QUESTIONS

1. Discuss the reasons that low income consumers “fall for” predatory loans even though borrowing money at exorbitant interest rates is not logical. (15)
2. How does predatory lending hurt individuals as well as communities? (10)

TOTAL: 25 MARKS

SECTION B

ANSWER ANY THREE (3) QUESTIONS FROM THIS SECTION.

QUESTION 2

- a. Define an attitude. Discuss the methods that a marketer can use to change the attitude of consumers. (15)
- b. Discuss the five most widely used single variable measures of social class indicating an example in each case. (10)

TOTAL: 25 MARKS

QUESTION 3

- a. Define communication. Discuss the factors that a marketer should consider when developing a message. (15)
- b. Discuss the five factors that determine the degree of reference group influence. (10)

TOTAL: 25 MARKS

QUESTION 4

- a. Discuss the Freudian theory of personality as it relates to consumer behavior. (15)
- b. Define a family. Discuss the different types of families in the context of consumer behavior. (10)

TOTAL: 25 MARKS

QUESTION 5

- a. Define a decision. Discuss the four views of decision making in relation to the study of the behavior of consumers. (15)
- b. Discuss the uses and limitations of segmentation in consumer behavior. (10)

TOTAL: 25 MARKS