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## **ABSTRACT**

This case study analyzed the persistent demand for informal lenders despite their usurious practices by applying Leon Festinger's Cognitive Dissonance Theory among 31 purposively sampled households who borrowed from informal lenders in Barangay Pantoc, Meycauayan City in the province of Bulacan. The questionnaire was administered to the participants from 17-24 October 2017.

The respondents lacked knowledge on fair and proper lending and borrowing practices. Evidence of contradictory beliefs or cognitive dissonance was found among the respondents although this may not be apparent to them due to their lack of financial literacy and sophistication. After making the contradictions in their beliefs more apparent by giving them information that informal lenders were disadvantageous to their financial wellbeing, they with their original action. In the process of forced compliance, they chose to rationalize or justify their irrational behavior by changing their perception of their action and saying that the usurious interest rates were a trade-off to easy access to credit from informal lenders. Enhancing financial literacy and providing information and access to affordable credit through the formal system are recommended.

Keywords: financial literacy, usury, 5-6 borrowing, underground economy