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LINKING PERCEIVED ECONOMIC INEQUALITY TO FINANCIAL PRECARITY: THE MEDIATING ROLE OF SOCIAL CYNICISM

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Abstract

The rapidly increasing global wealth gap has severe implications psychological well-being of individuals. This impact has moved beyond mere economic metrics to influencing individuals' perceptions of fairness in economic system. This study has been designed to investigates the mediating role of Social Cynicism in the relationship between Perceived Economic Inequality and Financial Precarity. The research is based on cross-sectional data and hierarchical regression analysis has been used to test a mediation model. Our findings confirm that PEI significantly predicts both higher levels of social cynicism and financial precarity. Results of the study reveal that social cynicism partially mediating the relationship between perceived inequality and individual financial precarity. This study enhances our understanding of the psychosocial costs of inequality.

Key Word: Economic Inequality, Financial Precarity, Social Cynicism

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INTRODUCTION

The contemporary socio-economic landscape is defined by an unprecedented widening of the wealth gap globally. This phenomenon has transcended traditional macro-economic indicators and has become a source of stress in the daily lives of people. Although the Gini coefficient and other objective measures of wealth distribution ae still relevant tools for tracking economic trends, they mostly fail to include perceptions of individuals. The human beings are main stakeholders in experiencing effects of economic conditions so there is need to capture their feelings (Du & King, 2021). Due to this reason the nature of research in social science has undergone a significant paradigm shift in recent times. The contemporary approach has transitioned from a rigid macro-economic analysis toward a more multidimensional exploration of how individuals perceive structural disparities. At the heart of this paradigm shift is the construct of Perceived Economic Inequality (PEI). It is an individual's subjective assessment of the wealth gap. This perception exerts a deeper influence on psychological well-being, and social cohesion (Valtorta et al., 2024).

Human beings do not respond to abstract economic data in a vacuum. They process it through psychological and social interpretations of their relative position within the social structure (Schmalor & Heine, 2022). The class conflict between the "haves" and "have-nots" continues to deepen which results in a sense of Financial Precarity. Financial precarity is described as a persistent state of economic vulnerability and worry about finances. This phenomenon is no longer confined to the working poor but has increasingly permeated the middle class. The precarity affects mental health, and decision-making capabilities of individuals (Leana, 2019).

The mechanisms through which macro-level inequality is translated into individual financial vulnerability remain under-explored. This study identifies Social Cynicism as the critical psychological bridge and mediator between these two states (Leung et al., 2010). Social Cynicism is defined as a negative worldview characterized by a profound mistrust of social institutions. It's the belief that others are fundamentally self-interested and exploitative (Leung et al., 2002; Younas et al., 2023). PEI serves as a societal indicator of distributive injustice (Valtorta et al., 2024). When individuals perceive that wealth is not distributed fairly, they are highly likely to form a cynical assessment of the social world. They perceive it as a jungle where the system is fundamentally rigged in favor of the powerful (Leung et al., 2010; Younas et al., 2021).

Social Cynicism acts as a psychological defense mechanism against the cognitive dissonance generated by a system that rewards some while exploit others. According to System Justification Theory, individuals have a basic motive to legitimize the status quo to maintain a sense of order and safety (Jost et al., 2004). When inequality becomes too extreme, the individuals may transition from "system justification" to "system cynicism" (Du & King, 2021). The belief that the system is inherently unfair leads individuals to pay heightened attention to negative information and perceive unfavorable outcomes as evidence of systemic corruption (Ng, 2014). This cynicism is deeply corrosive to Social Capital (Arachchi & Managi, 2025). It isolates individuals from the supportive networks and reciprocal relationships. The links which are essential nonmaterial coping resources in society.

The objective of this research is to provide a comprehensive framework for understanding the psychosocial costs of inequality by testing the mediation effect of Social Cynicism. It was hypothesized that Social Cynicism mediates the relationship between PEI and Financial Precarity. By synthesizing scarcity theory and relative deprivation theory, this study offers a timely analysis of how the perception of an unfair economic system actively undermines an individual's ability to navigate financial challenges.

LITERATURE REVIEW

Perceived Economic Inequality

Perceived Economic Inequality (PEI) is conceptualized as a psychological construct distinct from objective inequality. it represents a global assessment of how unequal a society feels (Valtorta et al., 2024). PEI is formed through everyday interactions and social comparisons where individuals extrapolate the wealth distribution of their immediate social circles to the national level (Dawtry et al., 2015). PEI is often conditioned by an individual's socio-economic status and the visibility of status markers in their surrounding (Schmalor & Heine, 2022). Individuals, who hold more liberal political views often perceive higher levels of inequality than their more conservative counterparts (Du & King, 2021; Schmalor & Heine, 2022).

The psychological impact of high PEI is characterized by the activation of a "scarcity mindset" and "status anxiety" (Melita et al., 2021). Scarcity theory posits that the perception of limited resources narrows an individual's cognitive bandwidth. It forces a preoccupation with immediate survival at the expense of long-term planning (Mani et al., 2013; Mullainathan & Shafir, 2013). This mental condition acts as an invisible backpack of worry for individuals (Leana, 2019). High PEI increases status anxiety as individuals become hyper-aware of their relative position in the social hierarchy and fear falling behind (Sánchez-Rodríguez et al., 2020). This anxiety is not merely emotional; it is socio-ontological and affects how individuals perceive their worth in the economic system (Lowe, 2014).

Financial Precarity

Financial Precarity is defined as both an objective state of economic instability and a subjective experience of vulnerability (Lowe, 2014). The objective precarity might be measured by debt-to-income ratios or a lack of emergency savings. On the other side subjective precarity is the persistent feeling of worry about money in future. It severely affects an individual's health and social relationships (Leana, 2019). Available research suggests that financial precarity is increasingly common in post-industrial economies. In these economies the erosion of social contract between employers and employees has shifted economic risk from institutions to individuals (Lowe, 2014).

This state of insecurity is a powerful stressor. People who feel financially precarious are significantly more likely to experience time poverty due to excessive hours of low-paid work (Leana, 2019). Gig workers during economic crises experience heightened mental distress that is strongly mediated by their subjective financial precarity (Apouey et al., 2020; Wang et al., 2022). Financial precarity is not just a lack of funds rather it is a comprehensive framework of insecurity that permeates every aspect of an individual's life (Leana, 2019; Mani et al., 2013).

The role of Social Cynicism

Social Cynicism is defined as a negative worldview characterized by a mistrust of social institutions. It is a belief that others are fundamentally self-interested and exploitative. There also is a feeling that ethical values are compromised to achieve vested interests (Leung et al., 2002; Younas et al., 2023). This construct is particularly relevant in unequal contexts because high PEI serves as a societal indicator of distributive injustice (Valtorta et al., 2024). When individuals perceive that wealth is not distributed fairly, they are likely to form a cynical assessment of the society. The perceive world a system that is fundamentally rigged in favor of the powerful (Leung et al., 2010; Younas et al., 2021).

Social Cynicism functions as a psychological defense mechanism against the cognitive stress caused by a system that rewards the privileged class and marginalizes others. According to System Justification Theory, individuals have a basic motive to legitimize the status quo to maintain a sense of order and safety. This creates stagnancy in the economic system (Jost et al., 2004). When inequality becomes too extreme to be rationalized by people, then instead of thinking about justifications for the status quo they develop a sense of system cynicism (Du & King, 2021). The belief that the system is fundamentally unfair becomes a core schematic processor of human psychology (Ng, 2014).

Social cynicism is the main hurdle in development of Social Capital (Arachchi & Managi, 2025). The belief that most people can be trusted declines sharply when the system is perceived as highly unequal (Schmalor & Heine, 2022). Social cynics are less likely to cooperate with peers or engage in collaboration (Policarpo et al., 2023). This breakdown of trust is precursor to financial vulnerability in society. Social cynicism isolates individuals from the supportive networks that serve as essential coping tool during economic hardships.

Conceptual Framework & Hypotheses Development

Individuals who believe that success is only available to those who have inherent advantages are less likely to invest effort in long-term financial planning, as they perceive these actions to have a low reward (Bernardo, 2013; Leung et al., 2012). This fatalism traps individuals in a cycle of low aspiration and low effort, which directly contributes to both objective and subjective financial precarity.

The breakdown of social capital caused by social cynicism removes the safety net provided by community and family. Individuals high in social cynicism are less likely to seek help when facing financial crises because they distrust the motives other people (Kuo et al., 2007). This means that minor financial shocks can spiral into major financial disasters. This can ultimately increase the person’s sense of precariousness (Leana, 2019). Social cynicism converts the perception of inequality into an individual vulnerability by stripping the person of the social resources necessary to survive in a volatile economy (Lowe, 2014).

Available research suggests that social cynics pay more attention to negative information (Ng, 2014). This means that every minor economic setback is interpreted not just as a temporary problem, but as further proof of a corrupt system (Ng, 2014). This sensitivity increases their stress and anxiety. It further narrows the cognitive bandwidth available for solving financial problems (Mani et al., 2013). It can be configured that the relationship between PEI and financial precarity is not just direct. Rather it is amplified by the cynical lens through which the individual views their environment.

Several key theories of literature provide the structural base for this mediation model. Scarcity Theory explains how the perception of limited resources (PEI) creates a cognitive burden that mirrors the experience of precarity (Mullainathan & Shafir, 2013). Relative Deprivation Theory provides the motive for social cynicism, as individuals compare their own struggling circumstances to the perceived privileged class (Runciman, 1966). System Justification Theory serves as the baseline from which individuals diverge. When the wealth gap becomes too extreme, the psychological need to justify the system is replaced by the cynical belief that the system is broken (Du & King, 2021). Finally, Social Capital Theory explains the loss of trust and community ties that once protected individuals from absolute precarity (Putnam, 1993; Coleman, 1988).

Based on the preceding discussion, the following hypothesis are proposed for the study:

H1: Perceived Economic Inequality positively effects Financial Precarity.

H2: Perceived Economic Inequality positively effects Social Cynicism.

H3: Social Cynicism mediates the relationship between Perceived Economic Inequality and Financial Precarity.

METHODOLOGY

This study has adopted quantitative research design with a cross-sectional data. Purpose of this this research design is to establish a robust empirical link between perceptions of overall economy and individual-level economic outcomes.

Sampling

The target population for this study consists of MBA graduates who have completed their degrees within the last three years. Convenience sampling technique has been adopted for this study. As Sekaran (2003) has stated that this sampling is an acceptable approach when the total population is unknown. Data collection was done through an online survey instrument administered via Google Forms. The survey was disseminated primarily to alumni networks of major business schools in Peshawar.

Sample size was determined as 384. This is based on Sekaran's (2003) guidelines for sample size determination in research involving unknown populations. Participation was entirely voluntary, and respondents were provided with clear informed consent protocols prior to commencing the survey. To ensure participant confidentiality the data was collected anonymously.

Measures

All constructs were operationalized using previously validated instruments. Sclae for Perceived Economic Inequality was adapted from Valtorta et al. (2024). Social Cynicism was measured by using subscale from the Social Axioms Survey developed by Leung et al. (2002). And finally Financial Precarity was measured by the scale developed by Lowe (2014).

Analytical Tools

Data analysis was performed using SPSS. To test the hypothesized mediation model, the four-step approach proposed by Baron and Kenny (1986) was followed. This approach involves a series of regression equations to estimate the direct and indirect effects of the independent variable on the dependent variable through the mediator.

RESULTS AND ANALYSIS

Results of the study indicate that all three scales demonstrate high internal consistency as Cronbach's alpha values exceeding the acceptable threshold. Furthermore, the p-values confirm statistically significant relationships between the variables.

Table 1

Reliability

Construct	α
Perceived Economic Inequality (PEI)	.927
Financial Precarity (FP)	.929
Social Cynicism (SC)	.871

Table 2

Hierarchical Regression Results for Mediation Analysis

Variables	Model 1 (SC)	Model 2 (FP Total Effect)	Model 3 (FP Direct + Mediator)
Constant	.79*** (.15)	.04 (.12)	−.28** (.10)
PEI	.81*** (.03)	.98*** (.03)	.70*** (.05)
SC	—	—	.35*** (.05)
Model Statistics			
R^2	.60	.75	.81
ΔR^2	—	.15	.06
F	556.29***	1369.60***	969.56***

Table 3

Standardized Effects

Variables	Model 1 (SC)	Model 2 (FP Total Effect)	Model 3 (FP Direct + Mediator)
PEI	.76***	.90***	.59***
SC	—	—	.35***

Table 4

Direct, Indirect, and Total Effects (Bootstrapping Results)

Effect Type	Effect (B)	Boot SE	95% CI
Total Effect (c)	.98	.03	[.93, 1.04]
Direct Effect (c′)	.70	.05	[.60, .80]
Indirect Effect (PEI → SC → FP)	.28	.05	[.18, .38]

Table 5

Standardized Indirect Effects

Effect Type	β	Boot SE	95% CI
Partially standardized	.34	.05	[.25, .40]
Completely standardized	.27	.04	[.22, .35]

The results show that for impact of perceived economic inequality on Financial Precarity the value of *B* = (0.98), this suggests that one standard deviation change in perceived economic inequality caused 98 standard deviations change in financial precarity. So, hypothesis 1 (H1) is accepted. This confirms that individuals who perceive their social environment as increasingly disparate experience high levels of financial vulnerability.

The (*B* = (.81) for impact of perceived economic inequality on social cynicism is also significant. This means that one standard deviation change in perceived economic inequality causes 81 standard deviations change in social cynicism. So Hypothesis 2 (H2) is also accepted. This reinforces the notion that negative perceptions of inequality cause cynical view of social and economic institutions (Leung et al., 2010).

The findings of the research further confirmed that social cynicism mediates the relationship between perceived economic inequality and financial precarity. The indirect effect (Effect = .28, 95% CI [.18, .38]) demonstrates that social cynicism is a significant mediator through which perceived economic inequality influences financial precarity. The direct path from PEI to FP (Path c') remains statistically significant even after controlling for the mediator. Furthermore, the total effect of PEI on FP ($B = .98$, $p < .001$) is larger than the direct effect. This reduction in the magnitude of the PEI coefficient confirms partial mediation.

CONCLUSION

This research enhances the understanding by shifting the focus from objective economic metrics to the cognitive and interpretative assessment of the individual. Traditional approaches often fail to explain why individuals in same economic conditions report different levels of financial worry. This research addresses the issue by considering the subjective understanding of individuals. The implications of this research for policymakers and practitioners are significant.

This study highlights crucial role of social cynicism. Policymakers must consider strategies to restore social trust. They should try to build the social infrastructure. By identifying social cynicism as an important mediator, this study highlights the necessity of addressing both the structural disparities and the linked psychological alienation. To dismantle financial precarity in the modern economy, society must prioritize the restoration of the social coherence upon which sustainable economic development depends.

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