

Teaching personal finance to kids: A practical application for a developing country

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Abstract

Several conducted surveys by various organizations have revealed poor financial knowledge of youth. In addition, integrating financial education into educational curriculums has shown a considerable effect on financial behaviors of children. In order to increase the financial management abilities of children some methods are proposed in this paper based on the book "Total leadership". Considering the advantages of using Technology tied to the internet which can support a wide range of users without any geographical restriction, it would be a useful method to transfer the financial concepts to children. Since the impact of financial illiteracy is more significant in developing countries like Iran, some further studies are suggested for this country.

1. Teens financial literacy

President's Advisory Council on Financial Literacy was created for the first time by an executive order of President George W. Bush in the United States on January 22, 2008. The purpose was making sure that the "next generation of consumers" is prepared enough to make money management decision when they enter the adult world and they have proper financial knowledge in making their first independent financial decisions, so it has been decided to integrate financial education into K-12 educational standards (The department of treasury; 2008).

Youth's financial literacy is important for their individual well-being and also for the economic growth of the country. "Without the proper financial education and skills children and young adults will be very vulnerable to poor financial planning and a wide range of deceptive practices" (Klemme, D.; 2002)

Various surveys by *Jump Start* and other organizations (Jump Start surveys, 1997, 2000, 2002, 2004, 2006, 2008) about financial knowledge of youth have been conducted and these tests confirm that they enter the adult world without having a proper financial education. On the 2008 Jump Start survey of financial literacy among 6.856 high school students, participants got an average of only 48.3% of the test questions correct which show a decrease from those of 2006, which correctly answered 52.4 percent of the questions. (Jumpstart coalition, News release, 2008). The questions were about taxes, inflation, banking, credit, retirement and insurance.

However, According to the 18 month evaluation of the NEFE High School Financial Planning Program®, HSFPP, which is a curriculum, provided by the National Endowment for Financial Education® the students who have studied the program showed a desirable

improvement in the financial behaviors and have had a positive impact on their financial behavior and confidence. In this program, students learnt concepts such as creating a financial plan, creating a budget, proposing a personal savings and investment plan, managing credits and debts, using financial services, creating a personal insurance plan and finding out how their choices of career and lifestyle will affect their financial plan (NEFE, high school program). Two behaviors were reported less concentrated by the students before participating in the curriculum. Those were writing the goals and using a spending plan (Danes, Sh. M., 1999).

Normally in schools there is more emphasis on concepts such as mathematics, health, computer science and physics so the gap of financial education in most educational curriculums is obvious. It is a fact that every year lots of money in educational systems is spent to teach the children how to earn money, but very little is spent in financial education and teaching them how to manage it appropriately. If this process goes on, when children enter the adulthood will face a big financial problem.

2. Jump Start for k-12

Today's children are assets of tomorrow. They will be the futures leaders and managers. They will shape tomorrow's families and communities. It is important that they learn responsibility and efficacy today to be able to reflect them in their future lives and increase its quality in consequence. The lack of financial knowledge and proper financial management skills causes many young people experience learning through trial and error (Marcolin, S., 2006).

In order to provide higher life standards for youth and students and to prepare them for family life, work and career life, the *Goals 2000: Educate America Act*, started to develop standards for Family and Consumer Sciences Education in the Unites States. The mission was to encourage and to empower individuals and families to higher levels of life skills with updated technological requirements. Since then, educational standards have been developed in various individual and family career areas and have identified a path for learners to know what should to do and to enable them to do in the content of specified disciplines (NASAFACS, FCS standards).

These national standards for elementary and secondary schools were established within 10 standards in the name of K-12 standards. It also has motivated lots of other organizations to prepare educational standards to guide American schools (Klemme, D.; 2002).

The National Standards for K-12 financial literacy program were created by Jump Start Coalition® with the purpose of increasing the ability of students in giving an adequate response to the changing personal and economical circumstances (Jumpstart Coalitions, Standards). This coalition consists of various contributors including the American Association of Family and Consumer Sciences, the National Council of Economic Education, and the Foundation for Teaching Economics. (Klemme, D.; 2002)

Its aim is to provide and maintain financial literacy standards for National standards in K-12 Personal finance Education in order to inspire curriculum enrichment to ensure that basic personal financial management skills are attained during the K-12 educational experience. K-12 is a technology based curricula which is designed to transfer essential notions and skills for a diverse group of children (About k12)

Also has been tried that National Standards in K-12 Personal Finance Education to serve as a model which describes and shows a path to students and enables them to know and do. (Jumpstart coalition, Standards)

The standards fall into six major categories of personal finance: Financial Responsibility and Decision Making; Income and Careers; Planning and Money Management; Credit and Debt; Risk Management and Insurance, Saving and Investing. These concepts are described within 29 standards in three 4th-8th and 12th grades (Jumpstart coalitions, Standards).

3. Total leadership and financial management

In order to encourage students to increase their financial management skills, in this part we get advantage of some methods of leadership based on “Total leadership” a recent published book by Prof. Stewart Friedman to help kids to recognize their personal abilities in creating a financial plan. The purpose of Total leadership is to improve life performance through creating harmony in four main domains of life by mutual relationship between them (Figure 1).

For this aim, it uses three principal concepts:

Be Real: Act with authenticity by clarifying what’s important

Be Whole: Act with integrity by respecting the whole person

Be Innovative: Act with creativity by experimenting to find new solution



Figure 1. The practice of Total leadership; Total Leadership.org

According to Stewart Friedman, leadership can –indeed must – be learned. Learning starts with clarifying a direction for anybody and then, moving toward this direction. In this way, supports and skills should be achieved and reflected on the experience. Finally they will be coached by the others. The reflection of leadership abilities is not just visible in business matters but also it can be applied in personal life and even financial management skills.

3.1. Be Real:

The first step is about to act with authenticity with knowing the priorities, strengths and weaknesses in order to achieve valued goals, to set a vision for a realizable future.

According to Stewart Friedman there are some skills for being real which begins with knowing “who you are and who you want to be”. It is crucial to look back and assess what events and people have been influenced on shaping someone’s personality. As a practice the pupil should think back over his personal history and identify the four or five most important events in his life and impact of those events on his values and direction in life and write them down. It is important to be honest with him.

In this process, another helpful practice is to explore the people whom are admired by the student as his heroes and describing why he has chosen them. It gives the possibility to the student to visualize his ideals in a real person which he would like to emulate.

The next step is to clarify a leadership vision. To determine what matters most in life. What are his main goals weather short or long term. It is the imagination of his future life. Where will he be in fifteen years and what will he do. Setting goals and shaping an achievable future helps the student to have a clear vision of his financial plans in order to accomplish those goals.

This is how financial planning begins. It is the process of setting goals, developing a plan to achieve them and putting the plans into action. With these practices kids learn how to know their priorities and make choices.

Being real also helps the student to know better his abilities in choosing a career. Writing down about the aspirations in the future and heroes helps him to reach this purpose.

In this experience, as says Total leadership, students can choose a coach for themselves of their friends or family, and ask them to give their ideas about what they already have written. It helps to compare and use their ideas and experiences in enrichment of their own thoughts and visions.

After knowing what is important and clarifying the life's vision, the next important step will be exploring the four domains of life which according to Friedman can be work, home, community, and self. For the students, school would be part of work domain, the home stands for family or people someone lives with; community is what is wider than household, like friends, social networks, cultural and charity activities, or anything that is on the world beyond family and school.

The purpose of this experience, which Friedman calls it four-way view, is to determine the focuses of student's attention on each of the domains. For this reason the student can draw a graphical representation (Figure 2) which shows how time, energy and financial resources of the student is allocated on each of them.

The size of each cycle reflects the importance and concentration of the budget on it and it would be assigned by percentage. They may have some interference or be overlapped. It shows the relation of each cycle to the other. The numbers of sizes of the cycles in total, add up to 100.

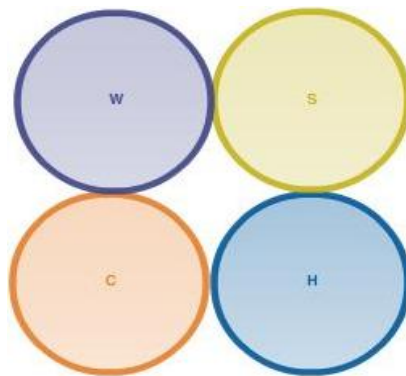


Figure 2. For way view graphical representation; total leadership.org

Illustrating the priorities and life's four domains helps the student to think about the importance and the role of these different parts in his life and also his financial plans. How much does he dedicates for the community or for himself? What is the role of family and its importance? The purpose is trying to create some changes in order to align these cycles. It finally may lead the student to discover new ideas to increase this harmony between them and also he may find new opportunities to make some positive changes. As Friedman says this final goal can be started by asking questions like what changes he can make to bring each part into harmony. For example if the financial resource of a student is his parents what would he does to change the level of dependence on his parents if so, how might he does this in a way that would be good for this domain and himself.

3.2. Be Whole:

To be whole is to act in a way that all the parts are integrated and have coherence. The aim of this practice is looking at the systems as a whole from an out site view and try to distinguish probable deficits in order to make some changes which increases the integration of the system (Friedman, S. D.; 2007). The process starts by identifying the most important expenses in each domain, in school or work, in home or family and in the community or in the society. As Friedman says they will be called “Key Stakeholders”. They can be personal expenses, what is dedicated to friends, donates, bills and etc. The student tries to make a list of the names and explain why he has chosen each of them as a stakeholder, why do they matter most to him and describes it in some sentences and tries to answer this question. Then he seeks to find out the different types of his requirements. What are the things which he really needs them, describes which of them are what he ‘Wants’ and which of them are what he ‘Needs’. They can be evaluated from 1 to 10. Are these according to his values and what he wanted to achieve in the future? Which of them needs to be reconsidered? Is it easy or difficult to be changed? Answering to these questions and looking profoundly in order to make some probable changes causes him to find the gaps. Obviously the larger gap and where he should be more concerned about, would be where is scored 1. What changes can be done to obtain more satisfaction and improvement in his performance in all domains; this may help to come some new ideas for innovation into mind. (Friedman, S. D.; 2007)

3.3. Be Innovative:

According to Friedman being innovative is acting with creativity to adopt the circumstances with confidence. By passing time, some changes in life may occurs which cause to rethink about the plans or may cause to change the goals. Some unexpected events may make us to have some unwanted expenses or our financial resources may vary (HSFPP, sample our materials). The qualified leader should have the ability to rethink and manage the way of achieving these new goals efficiently. It is a possibility to try new ways of doing things.

Having a clearer perspective of priorities and rearrangement of possible options, where and when is necessary, will give the possibility to meet the expectation more convenient. According to Total leadership there are some types of experiments in creating most effective changes which would result to gain more desirable and sustainable outcomes. Some possible experiments can be:

- Tracking and Reflecting: it is about keeping a record of activities in order to control that the financial plans and goals are staying on the track. This can increase self-awareness. This review can be done like every two weeks or monthly
- Planning and organizing: it involves taking new actions to use the resources better and plan for the future. This may need a new list called “to do” things
- Exploring and venturing: involves taking steps toward a new job, career or activity that is more in comply with the values and the leadership vision. (Friedman, S. D.; 2007)

3.4. Reflect and grow:

Finally, to have a more acceptable result, the process and what have been done from the beginning should be reviewed. It should be assessed what have been achieved and what have been failed. What are the impacts of experiments and learning in the performance? What changes should be done to act better in the future and what should be done to have a sustainable growth as a successful financial plan management.

4. Technology in the use of Education:

In 1998, cosmetic educational reforms in the United States started by the consent of President Clinton. His goal was connection of every American student to the internet by the year 2000 (Skinner, D.; 1997).

There is no need to convince the role of technology and its' fast growing influence on today's modern life style. Technology helps to increase the creativity and learning performance of the people and makes him to play a role and to be involved in a "global village".

Technology and Internet conjunction provides a remarkable facility for the students to enjoy a worldwide basis of knowledge which never was possible before. It reduces costs, saves time and provides an access to more learning opportunities which student would never reach it in isolated schools (McNabb, M.L; 1999). Technology is used to classrooms teaching enrichment and is a supplement for traditional means of training (Bates, T.; 2001).

These sorts of technologies are means of accomplishment and facilitate growth and empowerment. They offer the prospect of having a widen access to all levels of education without any geographical or distance restriction and empowers teachers in using innovative training methods. Providing this unlimited access to information and enjoying this multiple training opportunities, make us to reconsider about the "purpose of education" and its consequences in a relevant national growth (Guttman, C.; 2003).

Technology has been regulated the quality of educational curriculums as well as training methods. This type of technology which had been used to curriculums enrichment and has provided an access to curricular content for students is expanding (McNabb, M.L.; 1999). Existing technology applications support all areas of curricula including world languages, business, vocational education, fine arts and special education including financial education.

K-12 uses web-based innovative approaches which was created in response to the parents claims that traditional education models could not fulfill their children's needs in the United States (Figure3). Now K-12 provides a curriculum and assistant tools that provides this opportunity for children to get a maximum benefit of their personal abilities, in spite of any geographic, financial or demographic circumstance. (About K12)

Taking advantages of technology in the educational systems, some other organizations like *Junior Achievement (ja.org)*, *NEFE (NEFE.org, smartaboutmoney.org)*, *the stock Market Game (smg2000.org)*, and US. Government's portals (*kids.gov, my money.gov*), offer the possibility of online financial education for their users in the United State. For this aim, they get advantage of some utilities which are both easy to use and interesting for the children. For example games which are designed to describe the principle concepts of finance for kids. These opportunities make their users to enjoy the benefits of online trainings in increasing their financial knowledge.

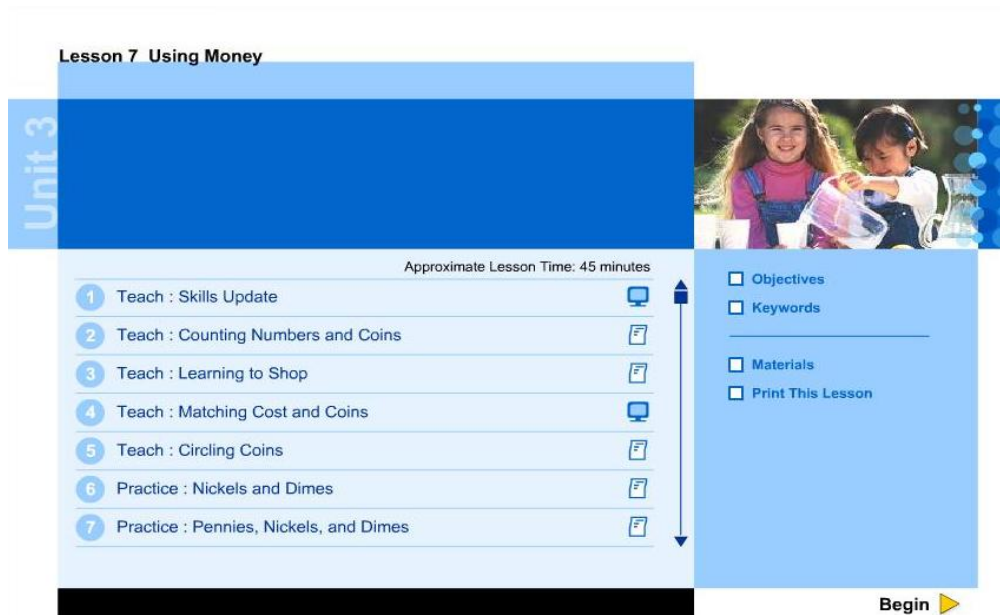


Figure 3. K12 for financial education sample; k12.com

5. Conclusion:

To summarize, the literature has provided evidence that financial education can improve the financial management ability in youths. It is an important mean for empowering consumers to make informed decisions and its impact upon their lives, the society and the economy cannot be renounced (Kosicki, D.; 2008).

Having in consideration that financial illiteracy and its consequences is more significant in developing countries and can influence financial well-being especially in low-income individuals and their families; this can be a practical subject in those countries. Although this is not a new topic, it has not been so favored in some developing countries like Iran. No research or statistic in subjects like financial literacy rate neither among adults nor youths could be found. Fortunately recently in Iran some NGOs in the name of “Creativity and Job creation” are trying to help kids to know their abilities and make them familiar with labor world, in order to make a better decision in their futures career life. On the other side, in the current economic crisis, “it is important for the students to go into a profession, based on what they enjoy, what is valuable to them, what they think is valuable to their society and not to make financial compensation the main factor in what profession they choose” (BlackStone, B.; 2009) . For this reason, we tried to get advantage of the book, Total leadership and simplify its methods and exercises to be more applicable for the students.

Kids’ accessibility to the internet in schools and home in a country like Iran is another topic which demands more studies. In the concept of technology usage in training, the statistics show (Figure 4) that about 26% of people in Iran use internet and about 10% of them have personal computers at home(Iran, Islamic Rep., ICT at a glance; 2006).

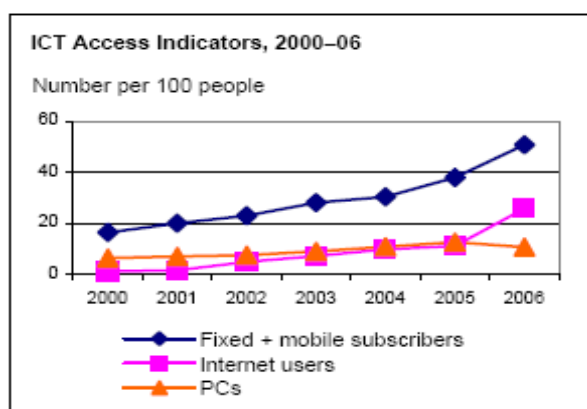


Figure 4. ICT Access in I.R.Iran ; world bank

It is not clear how many percent of schools in the country are equipped with computers and internet connection. The other future topic can be investigation about kid's monthly expenses in this country. How many percent of family's total expenses is dedicated to their kids and normally in which areas, the other question will be what are the kid's financial resources.

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