Families play vital role in children's financial literacy, study finds

13/03/2019

Research news

A study conducted by researchers from the University of Granada (UGR), Spain, has found that families play a pivotal role in developing the financial literacy of their children. Boys and girls whose parents discuss financial issues with them are encouraged to think about financial matters, which in turn increases their financial awareness.

The study, published in the Children and Youth Services Review, was devised by academics from the UGR's Faculty of Economics and Business: **Dolores Moreno Herrero**, **Manuel Salas Velasco**, and **José Sánchez Campillo**
. The team carried out a multi-level econometric analysis to explain the score differentials in financial literacy among the 15 countries participating in the Financial Literacy Assessment produced by the Programme for International Student Assessment (PISA).

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Among other findings, the researchers note: “In recent years there has been growing concern for citizens’ financial literacy (defined as an understanding of basic financial concepts such as inflation or compound interest). This heightened concern is due, in part, to the recent financial crisis and to major changes witnessed by the financial market. Finances are also a part of everyday life for even the youngest citizens. As young people approach the end of compulsory education, they are faced with complex decisions and important financial challenges.” Mindful of this fact, in 2012 the Organisation for Economic Co-operation and Development (OECD) incorporated a Financial Literacy Assessment to its wider international survey of 15-year-old students (PISA). This new assessment was then repeated in 2015.

The UGR research team analysed the mean financial literacy (competence) scores of the more than 125,000 students who took part in the Financial Literacy Assessment, from the 15 countries that participated as part of the overall 2015 PISA survey.

Of these, 10 were OECD countries and economies (Australia; the Flemish Community of Belgium; the Canadian provinces of British Columbia, Manitoba, New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, and Prince Edward Island; Chile; the Slovak Republic; Spain; the United States; Italy; the Netherlands; and Poland) and five were partner countries and economies (Brazil; the Chinese provinces of Beijing, Guangdong, Jiangsu and Shanghai; the Russian Federation; Lithuania; and Peru.

The highest scores were obtained by China (566), Belgium (541), and Canada (533), and the lowest by the three South American countries included in the Assessment, namely: Chile (432); Peru (403); and Brazil (393). At 469, Spain’s score was significantly below the OECD average of 489 points.

Inter-country variation

The authors observe: “In explaining the differences between scores for different countries, we found that a significant predictor of financial literacy is the existence of a well-functioning education system (estimated according to educational quality in Mathematics and the sciences). This explains 59% of the inter-country variation in financial literacy results.”

Within each participating country, the researchers also studied the role played by the family and by experience with money in the acquisition of financial competencies among young people. In the case of the former, it was found that the financial education given to a young person from within their own family unit is a predictor of their financial competence.

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According to the UGR researchers, “Specifically, discussion of financial matters between young persons and their parents was associated with higher financial literacy scores in nine countries. These were Australia, Belgium, Brazil, Chile, the Russian Federation, Lithuania, the Netherlands, Poland, and the Slovak Republic”. The researchers also found that talking to parents about money-related issues increased young people’s financial literacy scores by more than 10 points in the PISA assessment (once Mathematics and Reading results had been taken into account, along with other characteristics of the students and their schools).

The explanation for this finding is that, given parents’ crucial influence on their growing children, whatever knowledge young people have about money is primarily influenced by their parents. It is for this reason that those girls and boys who discuss financial matters with their parents receive encouragement to think about finances, which helps develop their financial awareness.

The value of saving

But the development of financial competence among young people is also positively associated with understanding the value of saving. The authors affirm: “15-year-old students who do not have enough money to buy what they want prefer to save up for it rather than asking for a loan. And the value of saving up exerted a positive effect (more than 9 points) on financial literacy scores in 10 out of the 15 countries in the sample—in particular, Brazil, the Slovak Republic, and Lithuania. In some countries, exposure to (and use of) financial products—especially having a bank account—also improves students’ financial knowledge.”

The study also found that students in Australia, Belgium, Canada, and Spain who have a bank account score higher in financial literacy (approximately 10 points) than students with similar characteristics who do not possess their own account.

Financial ignorance, warn the researchers, results from a lack of awareness of basic financial notions. But it can be overcome by means of formal financial education (instruction) and also within the family context (information).

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In the case of the latter, financial education initiatives aimed at parents (based on information-provision and financial tools) would be advisable. In the case of the former, inequalities in the levels of financial competence among school-age students could be addressed via the formal education systems, by: improving performance in mathematics and reading; providing equality of opportunity in financial learning among boys and girls; addressing the particular needs of poor-performing students; and responding to those groups at the highest risk of social exclusion (such as young immigrants and students from poorer neighbourhoods).

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