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An exploratory study of financial literacy training for accounting and business majors

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ABSTRACT

Consumer financial literacy remains a subject of intensive discussion within academic, business, and governmental policymaking communities. This study considers learning outcomes associated with teaching basic financial literacy concepts to undergraduate accounting and business students enrolled in the principles of accounting sequence. The study was conducted at a small mid-western university utilizing a full-time, Master of Business Administration student to develop and deliver financial literacy training workshops to students enrolled in the target courses. This single source for training materials and pedagogical delivery removed any potentially confounding effects that would be associated with engaging more than one person. A statistical assessment of the pre-test and post-test outcomes was conducted within a matched-pair, repeated measures statistical evaluation framework. The findings suggest that a parsed approach to teaching financial literacy, as opposed to a single personal finance course, represents a potentially effective method for addressing the basic financial literacy needs of undergraduate accounting and business students. Further, these results suggest that it may be possible to expand the training model in a cost effective and efficient way so that financial literacy training could be provided in a reasonable manner to all undergraduate students regardless of their major area of study.

1. Introduction

Consumer financial literacy persists, some seven years following the beginning of the great recession in the United States, as a subject of fascination and considerable discussion within the academic, business, and governmental policymaking communities. The ongoing debate remains both informative and constructive leading in many cases to calls for action and initiatives specifically designed for and directed at addressing the perceived lack of knowledge among the broad group of consumers. Concurrently, an important consumer sub-group of consumers is represented by the cohort of young adults (16–22 years of age) – budding consumers who arguably have immediate and unquestionably will have substantive long-term and lasting impacts on the aggregate economy. It is within this distinct consumer base that the greatest opportunity exists for educators and educational institutions to play a role in this important debate and the ultimate identification and implementation of an effective, efficient, and timely solution to address this fundamental literacy issue.

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Secondary educational institutions, formative environments that are clearly and certainly intended to be and are instrumental in developing the overall knowledge base of younger adults (16–18 years of age), have recently faced broader demands for mandatory financial literacy education in high school curricula (Jump$tart Coalition for Personal Financial Literacy, 2010; National Association of State Boards of Education, 2006; President's Advisory Council on Financial Literacy, 2008; U.S. News & World Report, 2009). Many schools and states have responded in a proactive manner by requiring, and in some cases mandating, such an educational focus within their curriculums. These efforts have generally involved a free-standing course in personal finance or economics. What is clear and central to the discussion is that this group of younger adults (16–18 years of age) likely represents the correct target for such efforts as it includes the broadest coalition of persons fitting the definition of young adults. This is a factual statement because while most young adults attend and graduate from high school, many do not take advantage of post-secondary educational opportunities. As a result, financial literacy efforts exclusively directed at vocational and college students hold a reduced probability of influencing a significant portion of the young adult cohort. Yet, empirical assessments of secondary school financial literacy over the past decade have provided mostly discouraging results indicating that these efforts leave considerable room for improvement (Jump$tart Coalition for Personal Financial Literacy, 2010).

Post-secondary educators and academic institutions find themselves faced with both an issue and an opportunity. The issue, of course, is financial literacy for young adults (18–22 years of age – the millennial generation) while the opportunity is represented by the chance to make a difference, to educate, to teach, to have a long-lasting impact on our students – the goal of faculties and institutions of higher learning. To be clear, respected business leaders, concerned business organizations, and highly regarded government policy-making officials have reflected at length on the many issues presented by financial literacy educational gaps and omissions relative to young adults (16–22 years of age). These deliberations have identified significant educational gaps and omissions that have served and will continue to serve to feed a portfolio of important and pervasive financial issues including, but not limited to, personal bankruptcies, credit card debts, excessive personal borrowing, household foreclosures, stock market losses, and sub-prime mortgages failures (Bernanke, 2008; Johnson, 2010). Ultimately, these knowledgeable and interested stakeholders have concluded that an overwhelming need and demand exists for focused educational efforts that will develop an immediate and long-term ability in the educational subjects to make good financial decisions that will benefit their own economic welfare while concurrently providing correct and positive stimuli to the aggregate economy.

All of these points of view provide a foundation upon which a compelling argument for action can be articulated, built on the belief that the financial literacy of our young adults (16–22 years of age – the millennial generation) holds the very key to prosperity for coming generations. These citizens will soon form a significant portion of the foundation upon which the United States and the global economic environments will be built; to the extent that they are ready and able to participate in an informed and positive manner, these economies will have great potential for success – to the degree that they are not ready, no more needs be stated and the outcome is quite predictable.

2. Financial literacy – A working definition

Financial literacy, from a purely monetary perspective, has been defined as "the ability to make informed judgments and to take effective actions regarding the current and future use and management of money" (U.S. Department of Treasury, 2008). The true concept, however, is much broader and more pervasive. Financial literacy, for purposes of this research, refers to the ability of young adults to make informed and well-reasoned economic and financial decisions in their own best interests across time (Mandell, 2009). It includes a wide and divergent variety of economic and financial actions, behaviors, and decisions including, but not limited to, effective money management strategies; the ability to understand financial choices; a knowledgeable and reasoned approach to developing and planning for asset acquisitions and liability assumptions; to prepare for life's events – both good and bad; to put in place insurance to protect assets, provide for family members, and to satisfactorily resolve liabilities should the need for such funding ensue; and to plan for and save for retirement.

3. Literature review

Chang and Hanna (1992) found that individuals with high levels of financial knowledge appeared to make more efficient decisions when contrasted with those possessing lower levels of financial knowledge. Chen and Volpe (1998) studied 924 college students examining their financial literacy and interrelationship amongst a limited group of demographic characteristics. They found that the subjects answered approximately 53 percent of the questions correctly while non-business majors and younger students tended to score lower. In a well-known and widely reported study, Bernheim, Garrett, and Maki (2001) considered high school education in personal finance and reported a positive relationship between the receipt of such training and higher levels of savings decades later. Hilgert, Hogarth, and Beverly (2003) argued that financially literate consumers are more likely to formulate and implement economic decisions in a fiscally responsible manner. Avard, Manton, English, and Walker (2005) assessed the financial literacy of 407 college students enrolled in a freshman English class reporting literacy levels widely dispersed from scores of zero to 80 percent with an average of 34.8 percent correct responses. Perry and Morris (2005) found that individuals deemed to be financially literate are inclined to behave in a more responsible manner saving, budgeting, and planning for the future to a greater extent. Norvilitis et al. (2006) compared the financial literacy, as measured by the Jump$tart survey, of college students to high school cohorts reporting only marginally higher