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Factors associated with financial literacy among high school students in New Zealand

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A B S T R A C T

Understanding financial literacy among young people is essential for developing effective financial education programmes. We present results from a sample of New Zealand high school students. Holding all else constant, we find that financial literacy is lowest among financially poorer students, those with less English ability, and those with less mathematical ability. However, relative poverty and lower English ability were not related to financial literacy at the highest cognitive level, i.e. the ability to apply financial knowledge. Thus, financial literacy education beginning at the high school level may be the key to improving financial decision-making in the population.
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Abbreviations: ATM, automatic teller machine; NCEA, National Certificate of Educational Achievement; FFFL-HS, Financial Fitness For Life-High School; NZDep2006, New Zealand Index of Deprivation 2006.

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1. Introduction

Financial literacy can be considered "a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (Atkinson and Messy, 2012, 14). Having an effective degree of financial literacy is important, given the increasing range and accessibility of financial products and services available (e.g. see Beckett et al., 2000; Marcolin and Abraham, 2006). Young people in particular are having to make more financial choices earlier and are increasingly confronted with opportunities to borrow money and apply for credit (e.g. see Roberts and Jones, 2001; Lusardi et al., 2010).

Despite there being no commonly accepted, standard definition of financial literacy (Huston, 2010), it is apparent from many prior studies that the level of financial literacy (however measured) amongst young people is poor (Mandell, 2008a, 2008b; Borodich et al., 2010; Cameron et al., 2013). On reviewing the need for financial education in the U.S., the Office of Investor Education and Assistance, Securities and Exchange Commission (1999, p. 2) declared the country to be facing "a financial literacy crisis", and was "alarmed" at how few high school students could pass a basic financial literacy test. Mandell (2008a) noted that financial literacy levels appear to be worsening with time. The results of the initial Jump$tart survey of 1997 were considered appalling, returning an average score of 57.3%. The following four biennial test means were between 50.2% and 52.4% (Mandell, 2008a), and by 2008 the average score had fallen to 48.3%, meaning that the test averages have never made the 60% originally designated as acceptable (Mandell, 2008b). However, the Jump$tart survey (Mandell, 2008a, 2008b) has been shown to have questionable validity and be subject to social bias (Lucey, 2005).

Many demographic and other factors have been shown to be associated with financial literacy. Hogarth (2002) and Worthington (2006) provide reviews of the relevant literature, which shows that educational attainment, income, employment and age are typically associated with financial literacy. However, only a limited number of studies have considered the factors associated with financial literacy among high-school-aged students per se. The financial literacy of boys has been found to be significantly higher than that of girls (Mandell, 2008a; Lusardi et al., 2010), although gender differences appear to not be stable over time, as girls outperformed boys in the most recent Jump$tart survey (Mandell, 2008b). The overall academic ability of high school students has been shown to be strongly positively related with financial literacy (Mandell, 2008b), as have students' educational and career aspirations (Mandell, 2008b; Lusardi et al., 2010). However, high school students who have completed an economics, personal finance or money management course have been shown to not have significantly higher financial literacy (Mandell, 2008b). This contrasts with Walstad et al. (2010), who found that a well-specified and properly implemented programme among high school students can significantly improve their financial literacy.

Parents are an important source of informal financial education, and higher financial education among parents has been shown to be correlated with higher financial literacy among high school students (Bowen, 2002; Mandell, 2008a; Lusardi et al., 2010). Financial literacy has also been shown to be positively associated with parental income (Mandell, 2008a; Lusardi et al., 2010). The characteristics of students' peers are also important (Lusardi et al., 2010), but these variables probably proxy the students' own characteristics to some extent.

Students' experience with managing their own finances is an important factor associated with financial literacy. Mandell (2008b) showed that high school students who use an ATM card for purchases and cash withdrawals have higher financial literacy than those who use a card only for cash withdrawals, or those who do not use an ATM card. In contrast, students who use a credit card have significantly lower financial literacy than those who do not. Students with bank accounts tend to be more financially literate, as do those who have worked in the paid workforce (Mandell, 2008b). Finally, time preference has been shown to be significant, with impatience associated with lower financial literacy among high school students (Lusardi et al., 2010).

Low financial literacy has been shown to impair people's capacity for wealth accumulation, as they are more likely to accrue stifling debts while young, such as student loan or credit card bills (Lusardi et al., 2010). A lack of financial understanding has been identified as contributing to insufficient retirement savings (Lusardi and Mitchell, 2007) and to the subprime mortgage crisis given the

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