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# Comparison of financial literacy between Korean and U.S. high school students<sup>☆</sup>



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### ABSTRACT

This study looks into the financial literacy between Korean and U.S. high school students. The mean scores for Korean students fell between those for U.S. students with and without FFFL, but much closer to those with FFFL. Korean students tended to be stronger in such contents as “earning income.” A comparison of financial literacy based on the Bloom’s cognitive level indicates that Korean students showed relatively strong financial literacy at the cognitive level of knowledge, but weak financial literacy at higher cognitive levels of comprehension and application.

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## 1. Introduction

Financial literacy has received increasing attention worldwide because financially literate individuals are more likely to make rational decisions as consumers, investors, and savers, which in turn can facilitate sustainable economic growth. Many countries have addressed financial literacy by implementing various initiatives (Orton, 2007). Despite being a latecomer, Korea has also emphasized the public's financial literacy.

Korea has witnessed a rapid change in its economic system since the East Asian economic crisis of 1997. Globalization and the opening of its financial market have been occurring at an increasingly rapid pace. On the one hand, this has provided the Korean economy with new opportunities, but on the other, it has seriously burdened those lacking sufficient financial literacy. According to the Financial Supervisory Service, as of 2003, Korea had an estimated number of 3.7 million individuals with credit delinquency (10.0% of the total population aged 15 and over) because they generally lacked the ability to respond effectively to rapidly changing environments and thus overused their credit cards or consumed more than they could afford. The number fell to 1.2 million at the end of 2012 due to the government's relief policies.

Korea's growing income inequality has been another serious social issue arising from the widening economic gap between those with the ability to take advantage of new opportunities afforded by globalization and open financial markets and those without. For instance, Korea's Gini coefficient published by Statistics Korea, which was 0.245 in 1992, increased sharply to 0.288 by the end of the 1997 economic crisis and did not show any improvements even in the 2000s, increasing to 0.295 in 2009 (see Fig. 1). The income quintile share ratio of the highest 20% to the lowest 20% showed a similar trend, peaking at 4.97 in 2009.

Korea implemented a reinforced financial education program to improve the public's financial literacy as a possible solution for the country's income inequality, which has been driven in part by the financial literacy divide, as well as for sustainable economic growth.<sup>3</sup> For instance, the economics education curriculum was revised in 2009 to incorporate finance into the economics course for high school students for the first time, and in 2010, the Financial Supervisory Service (2010) developed standards for personal finance.<sup>4</sup> In this regard, measuring Korean students' financial literacy and comparing it with that observed in other countries should yield important implications for the successful implementation of the new curriculum and the development of an effective promotional strategy. The OECD (2012) stated the following:

Policy makers, educators and researchers need high quality data on levels of financial literacy in order to inform financial education strategies and the implementation of financial education programs in schools by identifying priorities and measuring change across time. . . . However, there are currently very few data on the levels of financial literacy amongst young people under the age of 18, and none that can be compared across countries. This is a serious omission (pp. 10–11).

Although many studies have been conducted in the U.S. to measure the financial literacy of various groups of individuals including high school students, college students, and even adults, there are no reliable data from Korea concerning this matter. According to the 2008 national JumpStart survey (Mandell, 2008a), which measured the financial literacy of U.S. high school and college students, the mean score for high school seniors decreased from 52.4% in 2006 to 48.3% in 2008, whereas financial literacy scores were higher for college students (59% for freshmen and 65% for seniors). Volpe et al.

<sup>3</sup> The Bank of Korea (2013) conducted a research looking into the financial knowledge, behavior, and attitude of Korean adults according to the method proposed by the OECD INFE (International Network on Financial Education). Consequently, they found that those with higher incomes and better education, the middle-aged than the young, metropolitan residents, and salaried employees than the self-employed had a relatively higher financial literacy. On the other hand, a report of the Financial Supervisory Service (2011) stated that Koreans' low financial competency contributed to the deepening of the financial crisis, and that it is not an exaggeration to say that such low financial competency can be expressed as 'financial illiteracy' (p.1). Furthermore, this report pointed out that individuals' lack of financial literacy was the cause of financial exclusion and poverty while arguing for the need to strengthen financial education in Korea (p.11).

<sup>4</sup> The report for standards for personal finance is available in Korean at <http://edu.fss.or.kr> or from authors upon request.

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