2017 Cherry Blossom Financial Education Institute

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“Four Bright Coins Shining At Me”

Financial Education In Childhood, Financial Confidence In Adulthood

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Motivation

- Extensive literature on the role of **financial literacy** in increasing individual ability to manage income and wealth during lifecycle.

- **Financial education**:
  - Formal programs in school
  - Targeted courses
  - Little focus on creating good habits early on.

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Research question

- **Pocket money in childhood**

  → Financial knowledge in adulthood

- Main idea: exposure to managing money generates familiarity with good financial behaviors maintained later in life.

- Finding: respondents who received an allowance in childhood report higher level of financial literacy as adults.
- Contribution: detect a practice which induce people to have a planning attitude.

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Previous literature

- **Financial education programs** (kindergarten to college) provide long-lasting effects.
  Bernheim et al. (2001), Gross et al, (2005), McCormick (2009), Carlin & Robinson (2012), Batty et al. (2015), Romagnoli and Trifilidis (2015), Alan and Ertac (2016)
- **Early childhood education** (Heckman and coauthors).
- Few studies on **allowance**.
  Furnham (1999-2001), Bucciol and Veronesi (2014), Brown and Taylor (2016), Holford (2016)
- **Habit persistence** in saving behavior.
  Becker (1993), Webley and Nyhus (2006), Friedline et al (2013), Caballé and Moro-Egido (2014), and Cronqvist and Siegel (2015)

Data: DHS 2015

- Representative of Dutch population.
- Around 2,100 households. All members aged 16 or more interviewed.
- Collected using online questionnaire.

- **Detailed information** about individual characteristics, employment, pensions, living conditions, mortgages, income, assets, loans, health, economic and psychological concepts.

Key questions

- **How knowledgeable do you consider yourself with respect to financial matters?**

  1. Not knowledgeable
  2. More or less knowledgeable
  3. Knowledgeable
  4. Very knowledgeable

- **When you were between 8 and 12 years of age, did you receive an allowance** from your parents then? By allowance we mean a fixed amount received on a regular basis.

  0. "Occasionally" or "No"
  1. "Yes" or "Yes, but it was sometimes forgotten"

- 54% received an allowance.

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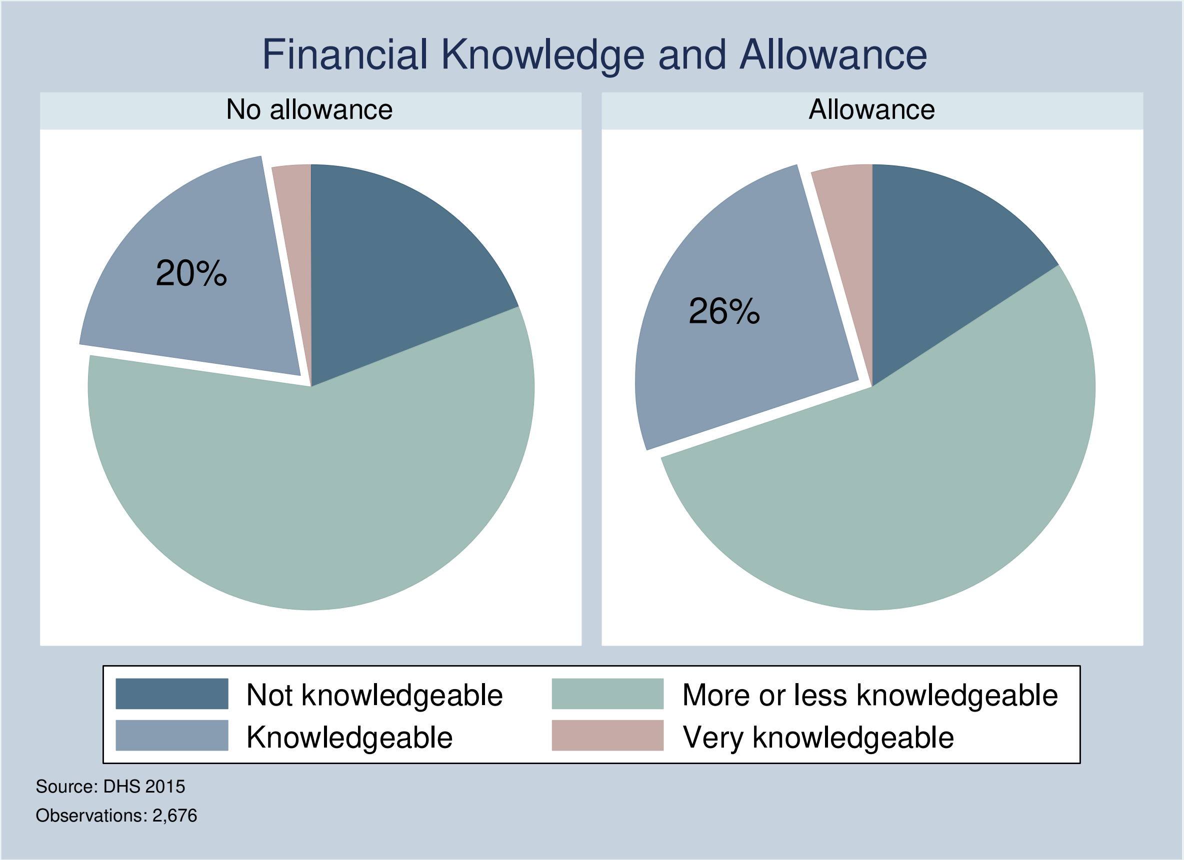
Descriptive statistics

- Financial confidence **higher** among those who received an allowance.



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Main Model

- **Order Probit Model** (FL going from 1 to 4).
- Main regressor of interest: receiving allowance as child.

- Note: uncorrelated with current variables that determine FL (government programs, macroeconomic shock).
- Controls: gender, age, education, working and marital status, household composition, income, regional indicators.

- Control for parental attitudes and **family background**: respondent's (grand)parents taught how to manage a little budget (age 12-16).

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Main Result

- Allowance statistically significant.

	Coeff	No	A bit	Yes	Very
Allowance	0.118**	-0.028**	-0.011**	0.030**	0.009**
	(0.055)	(0.013)	(0.005)	(0.014)	(0.004)
Female	-0.321***	0.076***	0.029***	-0.080***	-0.025***
Age	-0.003	0.001	0.000	-0.001	-0.000
College	0.216***	-0.051***	-0.020***	0.054***	0.017***
Income	0.039***	-0.009***	-0.004***	0.010***	0.003***
Working	-0.027	0.006	0.002	-0.007	-0.002
Taught budgeting	0.196***	-0.046***	-0.018***	0.049***	0.015***
Married	0.147**	-0.035**	-0.013**	0.037**	0.012**
# Children	-0.008	0.002	0.001	-0.002	-0.001
Observations	2,014	2,014	2,014	2,014	2,014

Robustness checks

- Order Logit Model and OLS.
- **Intensity matters**: individuals always receiving the allowance drive results.
- Additional controls:
  - Home-ownership.
  - Number household members.
  - Age squared.
- **Additional retrospective variables**:
  - Little chores.
  - Parents control how money spent.
  - Teen working.
  - (Grand)parents pushing teen to save.

Within-couple FE

- Compare partners in the household.
- Control for unobservables common in the couple (**assortative matching**).

	2 Categories	4 Categories
Allowance	0.102**	0.192**
	(0.048)	(0.081)
Female	-0.084*	-0.130
Age	-0.007	-0.021
College	0.043	0.171*
Income	0.001	0.019
Working	-0.073	-0.195*
Taught budgeting	-0.010	-0.023
Household head	0.057	0.189**
Observations	1,953	1,953

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Robustness checks

- Similar results for conditional **FE Logit**.
- **Mundlack's approach** (FE vs. RE):
  - RE order probit model with HH means of the individual regressors.
  - Such averages are not jointly significant: cannot reject RE.
  - Allowance remains positive and significant.
  - When dependent variable equal to one if respondent reported positive level of financial knowledge, zero otherwise: household averages not significant.
- **Hausman test** (Conditional logit FE vs RE): Reject RE.

Conclusions

- **Positive effect** of receiving pocket money during childhood on the level of (self-assessed) financial literacy in adulthood.

- Simple and **inexpensive** way to provide financial literacy to children and prepare them for future choices.
- Objection to arguments against financial education on the basis of its costs and limited benefits (Willis, 2011).

- Indirect evidence of the importance of providing basic financial education to children.
- **Wealth inequality** due to gaps in financial knowledge (Lusardi et at, 2016).
- School programs delivered to all children to smooth the differences among families.

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Thank you!

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