The Importance of Financial Literacy for Teens
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Abstract. The concept of financial literacy, as well as its constituent part – financial literacy of teenagers, has become a central topic of scientific and empirical practical research during the last two decades. Namely, the recent global financial crisis, which resulted in high unemployment rates, mortgage crisis, the growth of personal and public debt, inflation and a high level of financial uncertainty, has emphasized the importance of possessing financial knowledge and skills. Faced with contemporary financial trends, teenagers are forced to be familiar with basic financial terms, their interdependence and the regulatory instruments which affect them. The results of existing research imply that most of today’s teenagers occasionally work, own accounts in financial institutions and decide on the purchase of goods and services. In such conditions, there is a logical demand for teenagers to become qualified in financial decision-making and money management. Furthermore, financial literacy is one of basic assumptions for starting an independent life. At the same time, the unexpected and surprising fact is that most of today’s teenagers feel extreme financial anxiety and are in search of answers. The paper has been drafted in a way that it first defines the term financial literacy which has been adapted to the target group of teenage population, and afterwards it considers former research on the level of their financial literacy. The presented results of available research represent a starting assumption for recognizing the importance of financial literacy for teenagers. The final aim is to elaborate the level of financial literacy of target population in detail, and to create guidelines for awakening the teenagers and promoting financial literacy as an imperative of contemporary formal educational programmes.

Keywords: financial literacy, teens, financial education

Introduction

The topic of financial literacy has not become the subject of scientific interest and intensive consideration until this century. Global economic and financial crisis are the factors which have put the emphasized topic into the focus of government interests, regulatory bodies, various institutions, the media and public altogether. Namely, financial literacy has become a relevant problem, precisely due to its implications on the personal finance management of each individual, the stability of the entire financial system and effective allocation of resources within real economy.

In that context, the problem of financial literacy of teens has attracted special attention. Modern lifestyle and environment have compelled teenagers to make complex financial decisions at a very early stage of their life; the success of these decisions is determined by the possession of financial knowledge and skills. It can be
concluded that financial literacy in modern conditions is becoming a basic life skill for teenagers. It should be pointed out that the definition of financial literacy differs depending on the measure of individual characteristics, affinities and abilities related to personal finance management. Accordingly, financial literacy with teens is reduced to a narrow scope of competences, i.e. financial knowledge (Howlett et al., 2008). In an interaction with other determinants, that is exactly the key precondition to acquiring financial literacy.

Available results of conducted research suggest poor financial literacy with teenagers (Sherraden et al., 2011). The research in this paper is focused specifically on financial knowledge and its importance. In that context, a short review of existing research on this topic is presented, for the purpose of realizing global, primarily European, grasp related to establishing the level of financial literacy of teenagers and the attempt of its improvement.

**Concept of financial literacy of teens**

Despite a relatively short period of study, there is a large number of different definitions of financial literacy. Mostly all existing definitions can be divided into two groups:

a) conceptual definitions group and
b) operative definitions group.

Conceptual definitions explain abstract terms in concrete conditions, that is to say, they define the term through the analysis of its content. They vary from (a) specific type of knowledge, (b) ability or the skill of applying that knowledge, (c) perception of knowledge, (d) satisfactory financial behaviour, even (e) financial experience (Hung and assoc., 2009). It is the mentioned variations in conceptual definitions that prompted the idea of formulating one all encompassing, consistent conceptual definition of financial literacy which goes: *Financial literacy is the measure of the degree of understanding key financial concepts, and it implies the possession of ability and safety to manage personal finance through appropriate short-term decision-making and responsible long-term financial planning, which is based on appreciating life events and the changes of economic conditions (Remund, 2010).*

Unlike conceptual definitions, operative definitions transform concrete terms into measurable criteria, namely, they present practical effect of specific instances by clearly measurable variables. Hence, operative definitions explain the way an abstract term – like financial literacy – is presented (measured) in material form. The most common operative definitions include: budgeting, saving, borrowing and investing (Remund, 2010). Like the conceptual ones, operative definitions of financial literacy have not been synchronized, and the researchers are free to select the most acceptable way of defining and measuring financial literacy. As the most prominent operative definition, the following definition of Organisation for Economic Co-operation and Development (OECD) is stated: *Financial literacy consists of knowledge and understanding of financial concepts, as well as the ability to apply them with the purpose of effective decision-making and the improvement of financial wellbeing of an individual and the society as a whole. In line with the mentioned definition, and for the purpose of researching the reached levels of financial literacy in different countries, Atkinson and Messy (2012) formulated a particularly applicable operative definition which states the following: Financial literacy is a combination of*
awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

The proposed definition has emphasized the fact that financial knowledge is an assumption of financial literacy. If one observes the defined concept within teenage population, one realizes the compatibility of the terms financial knowledge and literacy, because this target group, considering their age, has logical limitations in financial behaviour and financial attitude through which they could build their financial literacy.

Figure 1. The concept of financial literacy of teenagers

The importance of the precise scope and exact definition of certain components of financial literacy derives from the necessity to adapt each component to target population and to prompt its empowerment which would generate the preconditions for individual, as well as general, wellbeing.

A logical follow-up is the consideration of the reason why the concept of financial literacy was ignored in the previous period, that is, how it is possible that the development of this human potential was not dealt with before.
The intense development of financial instruments, mechanisms and systems has been noticeable only recently, primarily in the countries of the former “Eastern bloc”, as well as in those which did not change their political and economic system administration. The understanding of modern financial environment and the participation in it requires a possession of a certain level of financial literacy. Therefore, in the light of modern financial trends, which are characterized by an increasing degree of financial products and services sophistication, a growing spectrum of available information and possibilities, there is an undeniable fact that the displayed concept of financial literacy is becoming the subject of individual interest, but also the interest of national politics.

In so doing, a special attention has been given to the young population considering that the investment in the financial education of this target group, through their expected action, quality financial attitudes and responsible financial and investment decisions, should ensure multiple refunds in the future.

**An overview of some major surveys of financial literacy among teens**

As previously stated, teenagers are, from a financial aspect, a particularly interesting population of each society. They generate a significant consumption in the given period, while a further expansion of their consumption is expected in the upcoming period. Shao & Bao (2014) estimate that teens spend USD 105.1 billion on day-to-day expenditures, and roughly USD 53.8 billion on food and their families, which is a powerful segment that will continue to grow. The consensus is that teenagers have and spend more money each year than teens in previous years (Bowen, 2002). In addition to the mentioned consumption, it is expected that, in the near future, the same teenagers will actively participate in the labour market and, if they enter the world of labour with insufficient financial knowledge, it can be foreseen that this insufficiency could manifest itself through consumption which surpasses available means, resulting in problems of insolvency and over-indebtedness of individuals and the economy as a whole.

International experience, having derived from the research of this specific group, point out that it is of primary concern to conduct initial research of the level of financial literacy, and then conduct the same measuring continuously in regular time intervals. Hence, the first step would be to establish a basis for formulating and implementing appropriate programmes of financial education and then to ensure an informational basis to test the efficiency of education programmes and their improvement. However, despite the realized consensus on the matter of procedure formulation, namely the compatibility on a theoretical level, the analysis of existing literature suggest that, besides the fact that former research of financial literacy among teenagers is extremely scarce, it varies considering the set goals, the chosen methodology and alike. The results of the most significant research on this topic are listed hereafter.

Bowen (2002) has researched financial knowledge of 61 teens and 47 of their parents. A survey instrument was a questionnaire and it contained 19 multiple choice questions which assessed the teens' knowledge relative to money management. Teens were knowledgeable about two areas related to money and uninformed on others. The two questions on which the highest number of teens scored correctly dealt with net income (87%) and endorsing checks (87%).
Jones (2005) completed a survey on 216 freshmen students via a printed questionnaire. The survey revealed a low level of financial literacy among freshmen students, mostly in the segment of knowledge on credit concepts. Thus, the author suggests additional education on credit concepts prior to college education to enable students, at the beginning of their study, to reach informed decisions and avoid excessive debt which affects their current and future financial security.

Mandel (2008) and Jump$tart Coalition conducted a national research to measure financial literacy of young adults in America, with senior high schools students and college students participating in the research. According to the research results, college students showed a higher level of financial literacy than the high school students. Their financial literacy increases with the completion of each college year.

Lusardi at al. (2010) proved that less than one third of young people possess basic knowledge on interest rates, inflation and risks by a national survey on the sample of 7417 young persons between 12 and 17 years of age. At the same time, a significant correlation between financial literacy and socio-demographic characteristics of the surveyed subjects was pointed out.

PISA (Programme for International Student Assessment), the largest international educational research that studies financial knowledge and competences of teenagers in the age of 15, stands out as the most significant research of financial literacy among teenagers. It is conducted in three-year cycles (2000, 2003, 2006, 2009 and 2012) in member countries of Organisation for Economic Cooperation and Development (OECD) and partner countries. PISA cycle 2012 focused on financial literacy among other things. Financial literacy was studied as an additional exam domain in 18 out of 65 participating countries.

Croatian 1145 teenagers from 163 secondary schools participated in the PISA evaluation of financial literacy in the Republic of Croatia. According to the research results, Croatia occupied the 14th place on the overall scale of financial literacy. The average Croatian result was 480 points, which put Croatia in the group of countries with a statistically significantly lower result than the OECD average. The achievements of Croatian teenagers, presented on the overall scale of financial literacy which contains five levels of knowledge and competences, are contradictory. Namely, that scale shows that 15,5% of Croatian teenagers do not reach even level 2, that is, they do not possess even basic skills of financial literacy. On the other hand, a little over 10% of Croatian teenagers reach the result at the highest level of excellence (level 5) in this area. For comparison: in 13 OECD countries, 21% of students reach level 5 of financial literacy which means they are capable to analyse complex financial services, solve unusual financial problems and understand a wider financial environment (like income tax and financial advantages of certain investments).

In this context, it is of extreme importance to point out the paper by Lončar & Golemac (2015) which questions the level of financial knowledge of freshmen student population of undergraduate studies of the Department of Economic and Business Economics at the University of Dubrovnik, basically, teenagers. The analysis resulted in the realization that teenagers with previous secondary school economic education showed a higher level of financial knowledge at the beginning of their studies, while the level of financial knowledge of all students was significantly improved at its end. This contributes to the attitude that financial knowledge of teenage population is mostly determined by their formal education and that compulsory financial education at all levels of educational system would have multiple positive effects.
The considered research has undoubtedly pointed out to a low level of financial literacy among teenagers. Different research (Varoce et al 2010) have shown that education in the area of financial management can indeed create a certain distance in view of financial literacy, but it does not imply that it will always result in positive outcomes. Danes and Haberman (2007) investigated gender differences in financial knowledge, self-efficacy, and behaviour of 5329 teenagers after studying a financial planning curriculum. In sum, male teens reinforced their existing knowledge, whereas female teens learned significantly more about finances in areas in which they were unfamiliar with prior to the curriculum.

In order to establish appropriate educational programmes with the aim of improving financial literacy, it is necessary to establish the areas which the teenagers want to study. Therefore, Varoce et al (2010) surveyed teens in 1998 and again in 2008 to determine what teens wanted to know about money and how they wanted to learn. In both cycles of research, teenagers showed their interest for studying the same financial topics: saving, crediting, bad credit implications and the importance of money. But, during the pause between these two researches, their interest in web education significantly increased, so, the perceived preference could be a good starting point for the consideration of developing new educational programmes adapted to teenage needs and wishes.

**Conclusion**

In its narrow sense, financial literacy represents a synthesis of knowledge, awareness, skill, attitude and behaviour in money management. However, modern development of economic and financial system in particular, required the broadening of the concept of financial literacy which resulted in including many modern financial instruments and mechanisms in the context of financial literacy. In order for individuals to make quality financial decisions under new circumstances, namely to manage available limited means in a quality manner, it is necessary to conduct continuous upgrade of existing financial knowledge. Knowledge improvement is especially relevant among the teenage population, taking into consideration that this group in particular is about to make numerous financial decisions in the future.

The paper therefore analyses specifically teenage population. The existing research results implied a problem of a low level of their financial literacy at a global level. The gained insight is very significant in theoretical as well as in practical sense. The diagnosed condition primarily points out to the existence of the problem of poor financial literacy, that is, general ignorance of basic financial concepts. Furthermore, the analysis suggests the necessity of organized institutional solution of the problem. Ultimately, all acquired insight presents an incentive for further scientific research of the financial literacy phenomenon, which should determine the factors that influence financial literacy of the target population (in the context of this paper – teenagers), and the most acceptable way of improving financial knowledge and overall financial literacy.
References


