

Four Bright Coins Shining At Me

Financial Education In Childhood, Financial Confidence In Adulthood

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Research Question

- The basic idea is that the habit of managing some pocket money could generate a familiarity with good financial behaviors, like planning, which are kept later in life.
- does an **allowance** between the age of 8 and 12 increase financial literacy, measured as self-reported financial knowledge, later in life?
- children who are used to receive an allowance are likely to be more knowledgeable in adulthood.

Literature and New Results

- previous literature has concentrated on the effects of **financial education programs for children** (Luhrmann et al. for Germany 2015, Kalwij et al. for the Netherland 2016).
- Evidence of long-lasting effects of basic courses taught to pupils in elementary schools (for the US Batty et al. 2015) and strong impact at University Level (Gross, Ingham, Matasar, 2005)
- Effect on saving/debt attitude: Carlin Robinson (2012) show students who attended a course on FL have better habits than peers who did not.
- Becchetti, Caiazza, Coviello, 2013 show less impulsiveness in purchasing due to the effects in terms of higher propensity to get economic news in the media

- Brown and Taylor (2016) for the UK find that saving behaviour of parents does not influence that of children, while saving in childhood affects attitudes towards saving
- little has been written on the effect of allowances and pocket money during childhood on subsequent financial behavior. Exceptions are Bucciol Veronesi, 2014
- Lusardi, Michaud, Mitchell, 2016 find that 30-40% of wealth inequality can be attributed to financial knowledge. It is important, thus, that formal education programs are institutionalized in order to create a more levelled playing field and compensate, at least partially, for the differences that can be passed on by the families.

Data

- **Data** CentERData 2015
- in 2015 we exploit the module on allowance in childhood
- among the respondents who did not receive pocket money when children, only **22.7%** deemed themselves knowledgeable or very knowledgeable, while the same figure increases to **30.1%** among those having received it
- Around 50% of the sample received an allowance

Variable	Obs	Mean	SD	Min	Max
Financial Knowledge	2,677	2.131	0.730	1	4
Allowance	2,676	0.546	0.498	0	1
Female	5,137	0.508	0.500	0	1
Age	5,130	43.309	23.322	0	96
Tertiary education	5,137	0.264	0.441	0	1
Log(Individual Gross Income)	2,098	9.314	2.880	0	12.627
Working	5,137	0.230	0.421	0	1
Number of children in the household	5,133	1.147	1.241	0	6
Married	5,137	0.359	0.480	0	1
Household Head	3,651	0.583	0.493	0	1
Parents taught budgeting	2,676	0.774	0.419	0	1
Parents taught saving	2,676	0.808	0.394	0	1
Teen Work	2,676	0.669	0.471	0	1
Chore	2,676	0.290	0.454	0	1
Parents managed expenditures	2,676	0.450	0.498	0	1

Dependent Variable and Technique

- Dependent variable: Financial Knowledge (self stated)
 - not knowledgeable (Level 1)
 - more or less knowledgeable (Level 2)
 - knowledgeable (Level 3)
 - very knowledgeable (Level 4)
- Ordered Probit model
- robustness: Within couple fixed effects, OP with random effects and average hh level variables (Mundlak)
- variable of interest: Allowance in childhood - equal to one if allowance was given, zero if was occasionally given or not given.

Financial knowledge	Freq.	Percent	Cum.	Allowance Given (8-12)	%.
Not knowledgeable	462	17.26	17.26	Yes	47.31
More or less knowledgeable	1,499	56	73.25	yes but sometimes forgotten	7.25
Knowledgeable	618	23.09	96.34	occasionally	12.41
Very knowledgeable	98	3.66	100	No	33.03

Ordered Probit

Financial Knowledge Level and Allowance

Regressor	Level 1 (not)	Level 2	Level 3	Level 4 (very)
Allowance	-0.028**	-0.011**	0.030**	0.009**
Female	0.076***	0.029***	-0.080***	-0.025***
Age	0.001	0.000	-0.001	-0.000
Tertiary education	-0.051***	-0.020***	0.054***	0.017***
Log Individual Gross Income	-0.009***	-0.004***	0.010***	0.003***
Working	0.006	0.002	-0.007	-0.002
Parents taught budgeting	-0.046***	-0.018***	0.049***	0.015***
Married	-0.035**	-0.013**	0.037**	0.012**
Number of children in the HH	0.002	0.001	-0.002	-0.001

not knowledgeable (Level 1); more or less knowledgeable (Level 2); knowledgeable (Level 3); very knowledgeable (Level 4)

Ordered Probit, Allowance Intensity

Regressor	Level 1	Level 2	Level 3	Level 4
Allowance - Always	-0.036**	-0.014**	0.038**	0.012**
Allowance - Almost always	-0.019	-0.007	0.019	0.006
Allowance - Occasionally	-0.018	-0.007	0.019	0.006
Female	0.076***	0.029***	-0.080***	-0.025***
Tertiary education	-0.051***	-0.020***	0.053***	0.017***

Within Household Linear Fixed Effects

Allowance	0.1024**	0.1921**
Female	-0.0835*	-0.1296
Tertiary education	0.0429	0.1709*

a FE to capture all common factors between these two individuals. The idea behind this approach is that since there is assortative matching in the marriage market (Verbakel Kalmijn, 2014), partners share several individual characteristics which may affect financial literacy. The FE model should allow us to control for these unobservable components. Running an ordered probit with RE and average variable at hh level, we cannot reject the null (pvalue 0.59) of joint significance of those last terms, indicating no correlation between the time-invariant unobservable and your regressors, thus random effect validity

Final Remarks

- Evidence suggests a strong importance of developing financial skills early in life, which will generate higher returns later in life.
- Importance of providing basic financial education to children endowing them with essential knowledge to understand notions and tradeoffs and acquire some planning capabilities, so as they develop some good habits that seem to persist in time.
- Policy implication: practice of pocket money can be a good supplement to formal financial literacy courses in school