

motherland, of socialism, and of the Party.) Left to their own devices, individuals whether in socialist or market economies, tend to follow different paths even though there are such things as central tendencies.

But the arrival of pure communism (with a small 'c') is far off for the Chinese. The current generations live in the present and we are concerned about that present. First, let us look at the matter of their scarce resource, namely, income.

#### THE MATTER OF INCOME

##### Worker and Household Income

If we look only at the MODERNIZATIONS period, i.e., 1980-1985, we see that workers in state owned enterprises had an average annual monetary wage of 803 yuan (3.71 yuan = \$1.00 officially) and in 1985, 1,148 yuan. This amounted to an annual increase of almost 7.4 per cent. Of course, price increases inflated this somewhat. The real wage rose only by 3.2 per cent.

When we look at urban households in 1985, we find that the income was 3,138 yuan earned by 2.2 persons for an average wage of 1,426 yuan. (Statistical Yearbook of China, 1985)

##### Income Distribution

In announcing the FOUR MODERNIZATIONS program, the government indicated that it was going to abandon the income equalization principle it claimed governed its wage policies. One might infer that the income distribution is not skewed or was only moderately skewed. And to some degree, if one looks at a particular industry or region, this was true. But if one looks at the nation as a whole, the distribution is highly skewed, e.g., based on product figures, the top 22 per cent of the population - probably in richest areas along the eastern seaboard - accounts for more than 42 per cent of the nation's industrial and agricultural output; one may infer from this that income is more or less similarly distributed. The government acknowledges the unequal distribution and has vowed to improve the productivity and income of the poorer regions, mainly in the southwestern and western regions of the nation.

In 1985, for urban households, 48 per cent had less than 60 yuan per person annually while 52 per cent had more than 60 yuan. At the official rate of exchange of 3.71 yuan to the dollar, 60 yuan translates into a bit more than \$16 per year capita for these households is equal to about \$221. (Statistical Yearbook of China, 1985)

In addition to the regional differences, there are significant rural/urban differences. Further, absolute poverty still exists in China. Now let's examine expenditure patterns.

#### EXPENDITURES

Individual Chinese may not understand THE FOUR MODERNIZATIONS nor are they necessarily personally caught up in the fervor of the drive to industrialize to become a world power. But one novelist writing about a small town, put the matter in these words: "The townsfolk did not know what exactly was meant by the 'four modernizations', but already they were having a taste of their advantages." (Gu Hua, 1987)

For consumers, especially urban consumers, this has come to mean that durable goods are now within their reach. Under Mao, they hoped to enjoy more adequate housing, more adequate clothing, more adequate diet, i.e., more grain, more gainful employment, and decent burials (one of the religious threads still embroidering Chinese lives). Increased productivity made these possible, so that by 1978 they were aspiring to own bicycles, radios, watches and sewing machines. And affluence once again fed their aspirations. By the 1980's the list of wants and desires grew longer and more sophisticated: color TV's, refrigerators, stereos, cameras, motorcycles, tape recorders, washing machines and electric fans. (Lipsey and Steiner, 1988) If one were to judge by Shanghai alone, the pursuit to acquire these is hot and heavy.

Shanghai stores are well stocked with most of these items, although not within the price/income range of all Shanghai consumers. The Shanghai Municipal Statistical Bureau, on the basis of surveys, estimates that the following number of items are owned per urban household:

Item	Number Per Household	Cost Estimate (Yuan)
Bicycles	0.87	200
Radios	1.11	50
Watches	3.85	25
Sewing Machines	.97	200
TVs		
Refrigerators	.62	2000
Cameras	.31	150
Tape Recorders	.84	250
Washing Machines	.49	300
Electric Fans	1.44	150

Source: (Shanghai Statistical Yearbook, 1988)

Rural families do not have as high a rate of ownership. Nor does the average Chinese household: here are figures for an earlier year (1985) for urban households: bicycles-1.6, sewing machines-0.7, wrist watches - 2.9, electric fans-0.8, washing machines 0.5, refrigerators-only 9 per 100, radios-0.8, black

and white TVs-0.7, color TVs-0.2, tape recorders-0.5, and cameras-0.1.

### Housing

Housing is truly a scarce commodity in China, especially for urban dwellers. In 1980, space available to an urban dweller was 5.0 square meters and this increased to 6.7 in 1985; the rural dweller was more fortunate with 9.4 square meters in 1980 and 14.7 in 1985.

Put another way, in 1985 residents of cities had approximately 2.02 rooms per household while rural dwellers had 5.11. Housing construction is but a step ahead of population growth and family formations, but the backlog of need remains formidable.

Frustration is inherent in this situation because neither increased income nor status can easily or quickly be translated into more or better housing. The fact that housing is subsidized reduces the pain somewhat, but not much. Professionals and executives are particularly pained by their meager accommodations. For the individual average urban dweller, house rent took only 1.08 per cent of his living costs and fuel and utilities another 2.41 per cent in 1985. In Shanghai the percentages were considerably higher.

### Food

The food supply in China has improved considerably over the last 35 years - the emphasis given agriculture under the FOUR MODERNIZATIONS was particularly fruitful. Between 1950 and 1980, consumption of grain increased from 238 kgs. per capita daily to 337 and by 1986 had reached 391. In the same time periods, calories rose from 1,543 to 2,487 and remained at that level to 1986. Protein consumption went from 41 grams to 64 and then to 67. Fat consumed rose from 19 to 32 and by the last year to 49. Further improvements are foreseen in all these areas but calories by 2000.

Yet, as we noted above, absolute poverty has not been abolished in China. CHINA DAILY reported (11/24/88) that 20 million people in the upper regions of the Yangtze "are still struggling for adequate food and clothing" and later (12/31/88), that although the number below the poverty line (200 yuan per capita) has been reduced by 30 per cent to 70 million in the last three years, eight per cent of the country's rural population is still short of food.

### Health

If any factor is important for a high quality of life, it is health. China has made great strides in improving the health of its citizens since the revolution, but much remains to be done. The major achievement has been to increase life expectancy from 32 years in 1950 to 69 in 1986. In this latter year, other LIDCs had reached only 61. But significant urban/rural differences persist, and the World Bank wonders out loud

whether the fight against diseases will be sustained as the drive to industrialize claims more and more resources.

I know that this only skims the surface of the progress and expenditure scene. But let me shift in the interest of brevity to CONSUMER PROBLEMS. Perhaps in the discussion period I can allude to some of the material in my longer original version that has ended up on the cutting room floor.

### CONSUMER PROBLEMS

If Chinese consumers tend to live from day to day - perhaps not too unlike their counterparts in the rest of the world - what are their daily complaints? I tried building a list from my own experience and from published reports and came up with the following:

#### General

1. Inflation: Retail sales prices rose about 27 per cent in the 12 months ending January 1989 but the rate was slowing by the end of 1988. Nevertheless, food prices remain high and this is everpresent in consumer minds. (China Daily, 12/20/88 and 3/16/89.)
2. Environmental pollution: China's air, water and land are polluted and becoming increasingly so. Congestion is a feature not only of housing but streets, buses and trains.
3. Travel: There are shortages of conveyances and hence ticket shortages. Travel involves bureaucratic processes requiring inordinate waiting in lines; no round or through tickets are available; service at best is unsympathetic.
4. Advertising: This is not yet overwhelming but it is beginning to penetrate the consciousnesses of the masses. Copy ranges from uninformative to puffing to extravagant unfounded claims.
5. Inventories: There are inadequate inventories at the retail level.
6. Double Money System: This system involves one inconvertible currency for internal use (RMBs) and another for internal and external use (FECs). The latter are designed for foreigners to allow China to gain foreign exchange and are beyond the reach of the average Chinese consumer so as to preclude foreign travel. An illegal street market exists for FECs at about double the official rate of exchange.

#### Specifics

1. Services:
  - a. Clerks are unknowledgeable, unwilling to serve, surly, rude, etc.

- b. Medical services are in short supply, e.g., western drugs, hospital beds, mental health facilities, etc.
- c. Frauds exist, e.g., short weights, products which cannot live up to claims, e.g., medical claims for homeopathic drugs, etc.
- d. Postal services are slow and service is bureaucratic. Envelopes are glueless and stamps don't always stick.
- e. Telephones: Intercity and often intra city service connections do not work; at best, connections are inordinately slow and voice quality poor. The system is not extensive and telephone books are scarce. Public phones are not readily available but calls from hotels are free.
- f. Electricity: shortages and service interruptions are not infrequent.
- g. Credit: generally not available to average consumer.

## 2. Products:

- a. Containers: Too often they are insufficiently sturdy; closures are difficult to open, etc. Often they are inadequately labeled as to contents.
- b. Canned goods: Often there is more liquid than product.
- c. Appliances: There are frauds in the form of counterfeits of foreign branded goods. There is misrepresentation in that goods do not provide service implied; there are frequent and terminal breakdowns. Repair services are inadequate.
- d. Quality: Domestic products are often inferior to imported products, e.g., film wound too tightly on roll to advance in camera. Food: lack of consistency from one pack to another. Clothing: lack of standardized sizes.
- e. Shortages: Milk, sugar, rice, etc. are not generally available at times. Inventories of durable and nondurable goods are thin so that stores which you would expect to have goods, do not, e.g., straight pins in sewing notions shops.
- f. Housing: There is an inadequate supply of space. Indoor plumbing is not present even in some newer buildings. Heated apartments are almost non-existent. Cooking facilities are primitive. The water is not potable and hot water is not available.
- g. Warranties: They don't really exist. Redress may be possible through retail outlets if outlet is cooperative.
- h. Redress: May be gained through stores but may be very expensive and time consuming. Consumer complaint agencies ineffective. Judicial appeal possible but too expensive for any but high cost products.
- i. Prices: (Beyond inflation) Some products - mainly imported - are available only for Foreign Exchange Certificates and hence not generally available to the average Chinese consumer.

- j. Savings: There are limited ways of storing funds in earning assets. There are bonds, some stocks, jewelry, stamps, etc. It is known that those fearing inflation try to purchase - usually on the illegal market - foreign currencies, especially American.

This listing is of problem as seen through western eyes. I asked one of my Chinese colleagues to draw up a similar list as seen through Chinese eyes. She prepared such a list from a consumer point of view although she is an economist. She began by noting the rising level of living, e.g., consumer durables were becoming a common feature of urban households. With this as an introduction, she found that the working wife is overburdened trying to manage a job and a household. Her household chores take up 4-5 hours daily on top of her professional work. This conflict, she felt, took a psychological as well as a physical toll on her being. How general a problem this is may be judged by the short story, "At Middle Age" in the volume of the same name by Shen Rong in which one finds a description of the problem as seen by a woman doctor. At one point she says, "I have a home but I've paid it little attention. Even when I'm not working, my mind is preoccupied with my patients. I haven't been a good wife of mother." (Shen Rong, 1987) I might add that my daughter in this country faces much the same psychological problem although with greater affluence, she is able to seek help for some of the household chores.

My colleague believes that government control of housing has led to shortages and costly government subsidies. Additional investment in housing is needed even if it increases annual living costs.

She cites the lack of vacation time and the lack of a standardized day of rest as making it impossible for husbands and wives to enjoy leisure together. In her words, "We lack spiritual consumption." meaning in the Chinese context, "life beyond getting and spending."

Her next set of complaints is more consonant with my list: inflation, unprocessed fruits and vegetables (sorted, cleaned, etc.), the disdainful attitude of service personnel, lack of standardized clothing sizes, and the poor quality of manufactured goods.

Let me close this brief paper by saying that it is almost impossible for me to say anything meaningful about the quality of life of the average Chinese consumer, i.e., the differences in the physical amenities of life available to the Chinese professional and the American professional are almost too great for my mind to bridge. One professional couple I know live in a two room unheated walkup whose privacy is continually invaded since the hall to their neighbor's apartment runs through their's. Their kitchen and bath facilities are primitive. A better apartment is out of their reach because they do not merit the "official" points for

change. Although they are not poor in RMBs, they do not come by FECs easily, so that foreign travel is not available to them. If you take the physical inconveniences in stride (do they have any other option?), their lives are made warmer by their friends, their work, the members of their family who live in the same city as they, and the books, concerts, films, sporting events, TV, etc. that are available in Shanghai. Are they more or less happy than their American counterparts? It is difficult for me to say, but perhaps "happy" is the wrong standard. If the existentialist's "becoming" is the standard, I'd judge that they are not being permitted to grow to their potentials.

On the other hand, when I posed to the young staff colleagues at the University the possibility of finding jobs in the countryside around Shanghai because it had cleaner air and water, was not congested, had more available living space, and would be a congenial place in which to raise a family, the answers were in the negative! The attractions of the city overrode the considerations I noted about above. So, I close by begging off judging the quality of Chinese life, i.e., as seen by the Chinese.

I hope that this brief introduction has in some way given you an appreciation of the pattern and shadings of the complex picture called THE CONSUMER IN CHINA. Thank you.

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## OVERLAPPING QUALITY STANDARDS: A CONDITION FOR TRADE

Jean Kinsey, University of Minnesota\*

The most salient point that emerges out of the papers is that quantity and quality of consumer goods and services is directly correlated with per capita income. The role of China's consumers has been suppressed by the socialist/worker role and by control of the currency as well as by poverty. The Western world continues to sell products unacceptable, by their standards, in poor or illiterate countries raising serious questions about ethical trade practices and the ability of international governance to protect consumers from unsafe products.

The most salient point that emerges out of these two papers is that quantity and quality of consumer products is directly correlated with per capita income and therefore, with the level of development in a country. This age old fact is, however, given new meaning in an era when quality and safety standards in the Westernized world are ratcheting upwards with increasing speed as is their propensity to produce increasingly toxic products and by-products.

Dr. Kerton sets about looking for a coherent general response to a lack of worldwide consumer protection from hazardous products. Dr. Wattel sorts through the history and status of consumers in the largest low income and socialist country in the world, China. Though both of the original papers were long and repetitive, they illustrate the state of thinking about multiple standards for product safety and quality across countries with a variety of resources. Dr. Kerton cites numerous examples of higher risk products being sold in lower income countries. Economic arguments for the existence of multiple standards are mentioned in passing. It would have been helpful if he had used a few pages to develop one of those arguments and its applicability to this situation. In discussing his paper I will summarize three levels of response to a lack of worldwide consumer protection against exposure to hazardous products and develop one economic argument that helps explain the state of affairs.

First, we react emotionally. We are revulsed by horror stories about innocent consumers being exposed to life threatening products. We feel guilty because "one of us" exported the product. We also feel anger and fear; anger that profit and political motives dominate compassion and fear that it could happen in our own back yard.

Second, we rationalize. More than anything, consumers in poor nations need more food, medicine and other consumer goods and inferior quality goods are better than none. Developing countries who can participate in international trade earn foreign currency that can be used to buy equipment and build infrastructure. These

basic necessities will speed up development and growth and improve the well-being of all consumers. These macroeconomic arguments carry some validity in real world practice, but they care not about how inter or intracountry wealth is distributed or about who wins or loses in the process.

Product safety is largely a public good, purchased with tax dollars and ensured by enforceable government regulations. As Kerton says, it is an "essential public function which provides a framework for a fair market." However, countries that have neither the resources nor the leadership to develop a tax system are in no position to establish an effective framework within which to regulate product safety. It is simply not very high in the hierarchy of risks or needs in poor countries where more tangible hazards are encountered daily.

Third, we try to analyze the benefits and costs of various product standards. In this we find the ultimate rationalization for the status quo. Analyzing consumer's benefits of safe, high quality products inevitably involves looking at (a) their willingness to pay, a factor directly related to their income and (b) the benefits from avoiding accidents, which inevitably turns out to be higher for richer consumers. Virtually all the factors one can look at tells us that the highest standards will prevail in the richest countries where the benefits are the greatest. Even the benefits to producers are greater; the benefits of avoiding product recalls, foreign competition, or liability suits are much higher when the probability of being caught is higher and consumers are better informed and more demanding.

The cost or risk side of the equation reinforces the benefit side. The costs of ensuring safe food where the government framework is well established and where manufactures employ modern, competitive technology is reactively cheap. Consumer's risk of death or debilitating disease from exposure to everyday health hazards is also lower among the affluent (Graham & Reader, 1979). Not only are they better informed and better at self protection, they are generally healthier, have access to better medical care and can recover more readily from illness. Consequently, the benefit/risk or benefit/cost ratios of high product standards in developed, affluent countries are relatively high and rising.

Science and technology are creating ever new demands for new forms of safety and quality regulations. 1) Scientific discoveries, widely reported in the mass media, are creating a demand for higher quality and better labeled foods. It is no longer enough that foods are safe, they should now be consumed to improve health and longevity. Witness for example, the demand for

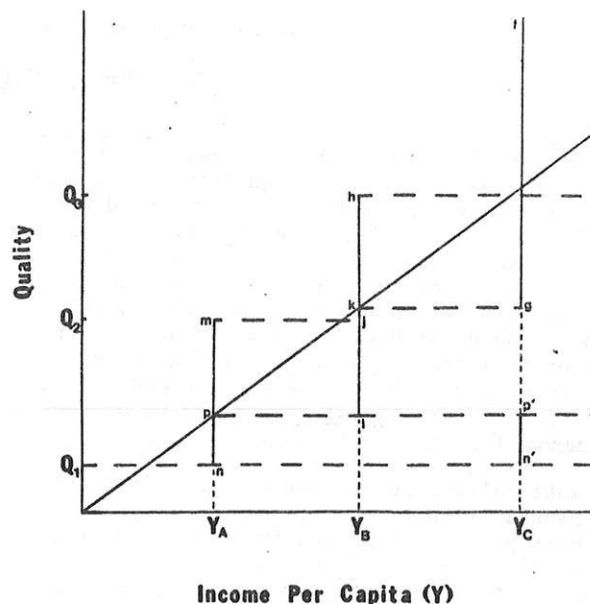
\*Professor, Agricultural and Applied Economics Department, University of Minnesota

detailed labeling about sodium and cholesterol. 2) The increased use of chemicals and biotechnology in food production and environmental control, along with an increased awareness and fear of long run dangers from exposure to carcinogens, has increased demand for health and safety regulations in the West. Witness, for example, the demand that Alar, a cancer causing chemical found in trace amounts in apples, be banned. Also, witness the European's ban on the use of growth hormones in animals used for meat. For the most part, these are demands for upgraded standards to deal with upgraded hazards that threaten the current quality of life. The type of regulations and level of enforcement needed to cope with these new standards of safety and quality have yet to be developed even in the most affluent of nations.

One attempt to deal with these evolving standards is the European Community's (EC) efforts to harmonize its product standards by 1992. It is only a matter of time before the United States and Canada and the EC will join in this effort. Kerton argues for the adoption of higher standards acknowledging the possibility of those standards being used as non-tariff barriers to trade. Later he notes that EC consumers have worried about the harmonized standards gravitating to the lowest common denominator. Whose standards will be adopted is the critical question; there is evidence that they are being moved upwards and that true health concerns prevail over trade barriers. Whatever harmonized standards the EC and North America eventually agree upon will undoubtedly be higher than those that most low income countries can afford. Kerton acknowledges that double standards may be justified when benefit/risk ratios differ widely, but the question of who will trade what with the third world remains. The "standards gap" will surely widen and the market for lower quality products will be further segregated under Western harmonization.

In his conclusions Kerton agrees that it is not in the interest of the world trading system to ignore the double standard. Indeed, it cannot, for it depends on a variety of preferences for a variety of qualities in goods and services. That is not to say that consumers in poor countries will obtain the same high quality products sold in the West, but it does allow for trading up as incomes rise. To illustrate this, examine the stylized world in Figure 1.

It illustrates the theory of overlapping demands by countries that have similar preferences and resources and uneven distributions of income (Greenaway, 1983; Linder, 1961). This idea hinges on the assumption that the quality of goods demanded is a direct function of income (other things being equal) a phenomenon readily observed in the real world. This means that richer countries demand (are willing to pay for) higher quality goods than are poor countries. On Figure 1 Country A with a low per capita income



**Figure 1. Overlapping Quality Demanded by Countries with Similar Per Capita Incomes and Income Distribution**

(< \$450 in 1988 by World Bank Standards)<sup>1</sup> would demand a range of qualities of goods and services equal to nm. Incidentally, China is in this category with a per capita income of \$300 in 1986. Country B with middle level incomes (\$460 - \$4800 per capita) demands a range of qualities equal to ih. High income countries (> \$4800 per capita) demand qualities in the range of gf. If income were evenly distributed within each country, there would be no range of qualities demanded; everyone in Country A would demand quality p and it would be provided by their own domestic production. Trade would not take place at all. This would be the extreme result in a country like China where socialist philosophy evens out consumption possibilities. In most countries consumers demand a range of quality. In the illustration some consumers in Country A demand goods with quality in the range of pm. They can trade with Country B who has some goods in that range (ij). Country B can trade goods in the range of kh with their wealthy neighbors Country C. Countries A and C have no overlapping demands and are not candidates for trade. The hypothesis that grows out of this is that the

<sup>1</sup> The World Bank reports per capita incomes as per capita Gross Domestic Product (GDP), a universally comparable measure of income. GDP is equal to Gross National Product (GNP) with income payments earned by domestic residents in foreign countries subtracted from exports and income payments earned by foreigners in the domestic economy subtracted from imports. GNP and GDP usually differ by less than 2 percent (Woglom, 1988, pp. 721).

more similar countries are in terms of their per capita income and the more similar the spread of incomes within those countries, the greater the likelihood of overlapping preferences and the greater is the potential for trade.

How does this help to understand the trends in trade in the world today?

1. It helps explain the economic dynamics of varying standards and why the developed world with its scientific knowledge, testing technologies, and informed, high income consumers cannot force their standards on lower income countries. It also helps to visualize what happens when a product is banned in a high income country. As such it has been deemed inferior, say in the quality range of  $p'n'$ . It can then be purchased by a low income country at prices they can afford. Furthermore, we might envision quality  $Q_1$  as an absolute minimum standard of safety. For example, unlabeled, fast acting, lethal food and drug products may fall below that level. Most of Kerton's review concerns this group of particularly dangerous products.

2. It helps to explain why the countries in the EC (and the U.S. and Canada) have agreed to "harmonize" their standards for a wide variety of traded products. It increases the area of overlapping demands (and supply) and is expected to increase economies of scale in production and marketing and reduce the total costs of regulations.

3. It helps to understand the enormous task that exists in trying to harmonize international standards and particularly to "protect" consumers in low income countries. It raises the question of what it is we are trying to achieve. (a) Is it a more homogeneous set of products with uniformly higher quality characteristics? This conflicts with the goals of increasing consumer's choices and competitive markets. (b) Does harmonization mean that the characteristics of the end product meet a uniform standard of quality or that the production and marketing process be certified to guarantee some range of standards? This is a point of negotiation between the EC and the US currently with the latter method having historical precedence. (c) Is the goal to average out the benefit/risk ratios across consumers in countries with different resources? If one designed a set of health and safety standards to equalize the risks across consumers of the world, the highest standards would be imposed on those products consumed by the poorest people. The quality ranges in Figure 1 would be reversed since the poorest people, with the poorest health are the least able to resist harm from unsafe products (Graham and Reader, 1979). (d) Do we want education and information to be sufficient to allow Third World consumer to exercise informed consent? What kind of activities does this require? Is it cost effective relative to banning inordinately unsafe products? (e) Is safety from unknown hazards a basic right, as much of Dr. Kerton's paper suggests, or are we simply protecting our own position in world

trade? Certainly some level of trust and consistent behavior among traders is necessary and exhibiting compassion is one way to develop trust. A more cynical view is that we are trying to build loyalty in third world markets and protect our producers from competition and lower priced goods.

Harold Wattel's paper about the status of consumers and consumption in the socialist country, China, confirms the expected results of restricting income distribution and consumption and inhibiting international trade. The range of qualities consumed by Chinese consumers is illustrated by a narrow band around point  $p$  in Figure 1. We learn about another set of forces that fosters low quality and low availability of goods. When the state sets out to even out the distribution of goods, they turn most private goods into public goods. Theoretically, all consumers receive approximately the same quantity of public goods and should, therefore, have little need (or means) to purchase additional private goods. Domestic resources, including the savings of consumers, are invested in providing basic needs (food, shelter, education, health care and clothing) to a burgeoning population. On average the standard of living (consumption) may rise, but few resources are left over for research and development, for new technology or for creative production. It is unlikely that in the past one could produce for an up-scale market in a country like China; until very recently it would have been politically dangerous to consume conspicuously. Add to this a closing of the borders to most international trade, and the amount of goods available for purchase dwindles and quality deteriorates. Whereas the profit motive has been blamed for many of the shoddy and hazardous products observed in the rest of the world, the lack of private incentives or a profit motive has led to a similar results in socialist countries.

In China, the consumer's role has been subordinated to that of the worker/saver. For several years incomes rose faster than prices, leaving workers with little choice but to save their money, albeit without good private returns. Also, working six days a week leaves little time for consuming large amounts of material goods. Recently inflation has cut into savings and made scarce goods even more expensive. Consequently, buying and using consumer goods has not been a major activity for Chinese households. In order for the role of the consumer to emerge in China, it seems at least three things must happen simultaneously: 1) More high quality consumer goods must become available. 2) It must become politically and socially acceptable for those with means to raise their level of consumption above the average. 3) The citizens must be able to easily convert their domestic currency into "foreign exchange certificates" so they can readily access the markets that sell imported goods. Control of the currency, low interest on savings and a lack of consumer credit has been key to China's ability to capture consumers' forced savings for investment in state defined



goals.

China's consumers like those in other low income countries suffer from a lack of goods and services. They are more likely to encounter hazardous conditions and more likely to be harmed by them than their Western counterparts. International consumer and humanitarian organizations are trying to pressure the governments of these nations into adopting and enforcing higher standards of product safety and quality. It is a laudable goal but the problems associated with universally setting and enforcing product standards, even at minimum levels, are enormous. As an economist I am tempted to say that it can't be done. But I also know that incentive systems work where voluntary compliance generally does not. It is up to those of us who care to start designing incentive systems that cause safe and trustworthy products to be traded around the world. This is no simple task. For starters, it requires defining the desired goals and then designing a way to measure and weight their achievement (Schultz, 1972). Before we can speak about incentives, incentives that include both rewards and penalties for both private traders and foreign governments, we need to classify the outcomes we advocate. Then the benefits to the parties who deliver those outcomes must be designed to exceed the costs of doing otherwise. To progress, we must know what of we speak.

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CONSUMER INFORMATION  
WHERE AND WHEN YOU NEED IT

Mary G. Miller, Virginia Polytechnic Institute  
and State University<sup>1</sup>  
Lorena F. Ruberg, Virginia Polytechnic Institute  
and State University<sup>2</sup>

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Now, and even more so in the future, consumer information will rely on alternative technologies in order to be readily accessible and responsive to its client's interests. The capabilities of computer-based interactive video technology provide an information delivery resource that offers consumers complete control of the learning pace and depth of presentation and can be available in a stand-alone environment up to 24 hours per day on a daily basis.

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INTRODUCTION

The Extension Interactive Design and Development (IDD) group at Virginia Tech was established several years ago with the mission of developing public information delivery systems incorporating the capabilities of interactive video technology. The Virginia Public Information System (VPIS) is bringing research-based information from Virginia's two land-grant institutions to the citizens of the Commonwealth. The development of these systems is funded by the W. K. Kellogg Foundation and the Virginia Cooperative Extension System (VCES).

One of the key goals of this project is to increase services to the public while exploring new methods for information delivery. Three objectives directly related to consumer access to information are: (1) Developing information delivery systems suitable for high-traffic public access environments; (2) Expanding and improving services offered by Extension without increasing field staff; and, (3) Improving clientele skills in specific subject matter areas.

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<sup>1</sup>Extension Specialist, Instructional Design and Project Director

<sup>2</sup>Research Associate and Assistant Project Director

The IDD group has defined three distinct phases of project development-- consumer information, horticulture, and nutrition information. The phase one project, consumer information, has recently been installed in three high-traffic public locations. This discussion will provide a brief summary of what's included on the system, the rationale for delivering this information via interactive video technology, our anticipated outcomes for the public information systems, and our on-going plans for implementing systems in additional locations.

INFORMATION INCLUDED ON  
CONSUMER INFORMATION SYSTEMS

A variety of consumer information was designed and developed for consumers with an attempt to have "something for everyone." The system provides users with the opportunity to identify household insect pests, learn the basic facts about and background of Virginia's two land-grant institutions, learn the basic nutritional content of typical sandwiches, and explore the answers to questions frequently asked of Extension field staff. For those interested in how the system was created and how it works, a short video clip called "About This System" is also available to users.

Since our present primary focus is on consumer interests, we will analyze the consumer service topics in more detail. The general purposes of the consumer services presentations are to provide easy access to facts that may help consumers make purchases that will be more satisfying, to increase awareness of consumer rights, and to provide basic financial information related to borrowing and saving money. The design philosophy in this section proposes that the presentation provide a level of detail that will be helpful to a wide range of users, but that these details be organized so as not to overwhelm or frustrate the user. Our solution was to

sort the facts into logical topics so that users could readily explore the depth of facts to answer their questions or quickly locate just those two or three specific details of interest.

Information about 180 products from 16 different categories which we call "stores" are addressed in the Consumer Products section. Forty-seven Extension specialists of appropriate expertise provided support material and reviewed the content of every individual product script. The product presentations are designed to contain enough details to help consumers identify a product model, style, and design best suited to their needs. Each presentation includes a shopping guide which system users may choose to print from the system. The shopping guides serve as working check lists to enhance the process of comparative shopping. Each guide is essentially a checklist which summarizes on-screen information about a given product.

We believe that the effectiveness of the whole Consumer Products section is largely dependent on the usability of the individual shopping guides. Before refining the on-screen design for this section, we tested how consumers viewed the effectiveness of our shopping guides for a variety of products independent of the interactive video program. We recruited participants in our testing of the usability of the guides by running classified advertisements in the local and regional newspapers. Each participant was asked to complete five guides and was given a notebook to record their comments about the guides as they used them. Once participants had completed their comparison shopping work, we set up informal meetings with the participants to find out how each person used the shopping guides assigned to them.

All participants found the shopping guides to be helpful and all participants voluntarily reported that these guides inspired them to do further comparison shopping than they typically would do. We also learned that participants used the guides in very different ways, based on their preferences and level of interest in details about a product. Many of the shoppers acknowledged that they typically based their purchasing decisions on price, selecting the least or most expensive item. These same individuals mentioned that using the shopping guides helped them compare features as well as prices and encouraged them to consider additional variables besides price in their purchasing decisions.

## THE DELIVERY SYSTEMS

### The Technology

The system uses computer-based interactive video (CBIV) technology, which is designed for easy access and operation by novice users. This technology couples the power of a computer with the benefits of full-motion video images to produce an integrated presentation. The user controls the presentation simply by touching the screen.

The storage medium for video images in the VPIS is a laser videodisc read by a Pioneer LaserDisc player. This LaserDisc player is controlled by an IBM PS/2 Model 60 computer, and the presentation is seen on the IBM InfoWindow monitor. Audio information is stored on both the computer's hard disk and the video laserdisc. The program presentation uses video, slides, EGA (Enhanced Graphic Adapter) graphics, digital voice, and text. The interactive format of the presentation allows users to move through the content at their own speed. Since visual images, written text, and spoken messages are integrated in this system, users are not limited to one mode of perception in the process of obtaining information. In addition, each system contains a printer to provide users with hard-copy information.

### The Presentation Environment

Because the information developed in this project is being delivered in a areas of public access, we had to acknowledge that an individual interacting with the system would have the option to walk away at any point during the presentation. It was our assumption that an individual learning session would continue as long as the information was of value to the user and the time required to reach the information was minimal. Obviously, it was important that we provide the flexibility to allow a user to easily and quickly move through the material. In trying to accomplish this added usability, or modular design, the term "interactive" became a key idea.

"Interactive" program material warrants its name because the user is allowed to select menu items to view. Traditionally, however, the user's interaction is really governed and limited by predetermined program objectives and not necessarily user objectives. This type of program, although interactive in a sense, provides little flexibility to the user. That is not to say a

presentation of this type cannot be effective. If the objective is to expose the user to the material, then it can be accomplished with a minimum of inter-activity and a fairly linear design. Conversely, if the objective is to allow the user some degree of success in obtaining the information which he/she desires, then the design must reflect a much higher degree of inter-activity.

The real challenge in developing effective presentations for a public audience is to identify the pieces of information and design and interface which allows the creation of sessions which are pleasing and informative to the user. A relational database type of structure must be configured which indicates the relationship between pieces of information. The learner's path cannot be predefined because a learner may dynamically change his/her information goals as he/she moves through the material. The "program state" must be able to provide easy access to related states. This type of program negotiation has been referred to by some as "grass-hopper" activity, and can provide the user with a learning environment which more closely resembles the normal brain activity.

This design philosophy has been supported by formative evaluation activities. We have found that users embrace the flexibility of this programming style and we anticipate that future development will continue to support maximum user flexibility.

#### The Delivery Environment

Malls and libraries are being selected throughout Virginia for placement of these systems. These locations coupled with the technology and the presentation environment offer VCES an opportunity to increase services to clientele without increasing field staff. Because there is no personnel stationed with the system, users may engage in a private information gathering session.

In addition, malls offer a number of other benefits:

The opportunity to provide consumer information in a location where many purchasing decisions are made.

Increased convenience for the consumer:

-Last year, more than 42 million people visited 13 of the major malls located in Virginia.

-Malls continue to broaden their services. In many areas, the community center of yesterday has been replaced by the malls of today. This modern "community center" offers an excellent setting to VCES for program delivery.

-Most malls open at 6:00 a.m. for walking and jogging programs and close at 10:00 p.m. In addition, most are open for walk-through traffic seven days a week.

#### ANTICIPATED OUTCOMES

This project presents exciting opportunities for consumer program delivery. VCES is looking forward to continued implementation and evaluation of VPIS. We anticipate a number of positive outcomes. They are:

-Increased program opportunities for the citizens of the Commonwealth.

-Increased public awareness of VCES.

-Increased communication with the public.

-Establishment of close working relationships with mall owners, library directors, state agencies, and other state extension services.

-A decrease in requests for information from an agent when the information is contained on the system and in areas where the system is available.

-An increase in the amount of time an agent may devote to areas other than "problem solving" in response to an individual's request.

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COOPERATIVE EDUCATION/FIELD EXPERIENCES FOR CONSUMER AFFAIRS UNIVERSITY STUDENTS

Shirley P. Reagan, Louisiana Tech University<sup>1</sup>

The benefits of field experiences for Consumer Affairs university students and employers were identified. Suggestions for recruiting employers and matching students and employers were provided.

Field experiences or cooperative education programs provide excellent opportunities for students to gain related work experience. Although all students in cooperative education programs are compensated monetarily for their work, students completing field experiences may be paid or unpaid. The value of the experience to students pays dividends far beyond the dollars earned. A panel of educators knowledgeable about work experiences of university students identified the following benefits to students:

- "actual work experiences;
- exposure to current procedures and state-of the art equipment;
- development of personal relations;
- communication and leadership skills;
- motivation to succeed in the classroom;
- the opportunity to earn funds to support college work;
- better placement and advancement opportunities upon completion (Hines, 1987)."

In addition, students have an opportunity to test their career choice in a realistic setting. Students can thus make changes in their educational program to enhance future career satisfaction.

Recruiting employers to provide experiences for the students requires a systematic process. Knowledge that will be helpful in recruiting is a profile of companies/agencies that are likely to hire Consumer Affairs students and the potential contact within the company. This information is often available from networking or contacting graduates currently working in the company or agency. The faculty member who uses a personalized approach and spends time cultivating prospective employers tends to be the most successful. Recruiting and maintaining employers willing to work with the students is a time consuming task.

One important focus in recruiting is emphasizing what the student can do for the employer. In a survey of 2200 employers Rowe identified the following employer objectives in hiring students:

- "obtain productive work;
- meet cyclical/project/short term work needs;

- recruit potential full-time employees;
- contribute to student's professional development;
- maintain cost efficient work force (Rowe, 1987)"

Other advantages for employers include professional staff may be relieved of some necessary but routine tasks; students are energetic, enthusiastic and eager for assignments; employer has opportunity to observe potential employee in an actual work setting which provides much more information for hiring decisions than an interview; and the good relation developed with the university can have a positive influence on recruiting (Hunt, 1987).

In placing a student in a work experience both the student and the company/agency must be considered in relationship to one another. Several preliminary steps can foster a more positive work experience for the student. The student who develops a career plan and identifies competencies needed to fulfil that plan provides the information needed by the faculty member to identify an appropriate experience. The company/agency selected for the student or by the student should be a good "fit" with the student in terms of career goals and plans, ability, and maturity. In addition, the experience needs to be challenging for the student.

Numerous types of experiences can be meaningful and worthwhile for students and employers. A field experience, paid or unpaid, provides benefits and these benefits will be more numerous when the particular experience parallels the capabilities and aspirations of the student.

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<sup>1</sup>Professor, Family Management/Consumer Studies



## ISSUES PROGRAMMING: IS IT WORKING FOR EXTENSION?

Jane Schuchardt, U.S. Department of Agriculture<sup>1</sup>

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The Cooperative Extension System (CES) is being encouraged to move from discipline-driven to issue-based programming. Is it working, or is this merely a new vocabulary for business as usual? What is the role of family economists in issues programming? The discussion leader gave insight to these questions from a nationwide perspective. Roundtable discussants offered state-specific viewpoints.

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### INTRODUCTION

The Cooperative Extension System (CES) enjoys 75 years of proud history as a national educational network. Future success for the System, and the indispensable part family economists play in it, depends on the ability to shift from discipline-based to issues-based programming.

Consider the revised mission statement for Extension: *The CES helps people improve their lives through an educational process which uses scientific knowledge focused on issues and needs.* The statement reflects the philosophy of helping people help themselves. That's not new. The statement emphasizes the research base of our programs. That's not new. What is new is the emphasis on issues.

### ISSUES PROGRAMMING DEFINED

Issues are human problems identified in their own context--outside the Extension organization--and are unbounded by discipline, audience, geography, and methods of program delivery. Issues programming has both a philosophical and logistical rationale.

Philosophically, issues programming makes sense in this information age. Few, if any, problems facing Americans today can be addressed by a single specialty. Extension clients do not need more fragmented, compartmentalized information; they need synthesized, integrated knowledge to make daily decisions.

From a logistical viewpoint, issues programming categorizes Extension efforts into areas of state and national concern. Using words already on the public agenda (e.g., child care, water quality, food safety) helps Extension leaders more effectively report past accomplishments and justify additional resources.

### THE FAMILY ECONOMIST'S ROLE

The overall goal of issues programming is to foster a dynamic, flexible, progressive, and visionary educational system. Within that context, Extension family economists have a responsibility to continue as strong subject matter experts while working in interdisciplinary teams, building coalitions, and anticipating critical issues.

Strong disciplinary specialists are the essential foundation to issues programming. The CES has identified nine National Priority Initiatives that will drive its educational agenda into the 21st century. Family economists have a crucial role in at least five of those Initiatives. The one most directly related to family economics is Family and Economic Well-being, which encompasses such current critical issues as family financial instability, children at risk, family disruption and dislocation, and responsibility for dependent elderly.

Rather than expending resources on individual efforts, Extension family economists will join the ranks of interdisciplinary project teams assigned to a specific issue. In addition to programming, these teams also will be responsible for building coalitions with external groups with similar interests.

Finally, family economists will play a crucial role in strategic planning. This involves anticipating emerging issues, analyzing how they might affect the economic well-being of families, and developing responsive educational programs.

### THE QUESTION

Is issues programming working for Extension? With less than a couple of years experience with this paradigm shift, the question remains open for debate. When the votes are cast, it is crucial the answer be "yes." If Extension does not meet the relevant issues facing people, it may be replaced by new institutions that will.

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<sup>1</sup>National Program Leader, Family Resource Management, Extension Service

## CONSUMER EDUCATION: SHARING A MODEL PROGRAM

Pat Dulmes, Eastern Michigan University<sup>1</sup>

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Partnerships can be formed with education, business, government, labor, consumer and community groups to promote consumer education programs. The MICHIGAN AGENDA FOR CONSUMER EDUCATION, a three-year public-private partnership, is an example of a program that can be modeled in other states.

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### HISTORICAL BACKGROUND

During the early 1980s there were cutbacks in federal educational funding which resulted in the dismantling of the Office of Consumer Education within the United States Department of Education, and the national Consumer Education Resource Network (CERN). Following these cutbacks, three major conferences focusing on consumer education underlined the need for private sector initiatives:

1. 1983, Washington, D.C.; an international conference sponsored by Avon Products, Inc., and the U.S. Office of Consumer Affairs;
2. 1984, Detroit, Michigan; a Consumer Education roundtable sponsored by the U.S. Office of Consumer Affairs and the Detroit Testing Laboratories; and
3. 1984, Dearborn, Michigan; a national invitational conference sponsored by Avon Products, Inc., addressing the question, "Should There Be A National Agenda for Consumer Education?"

The education panel of the Dearborn Conference cited limited funding and uncertain academic credibility as major problems hindering the advancement of consumer education in the schools. Higher standards for teacher and student performance were suggested as attainable goals.

The business panel of the Dearborn Conference pointed to the growing necessity for quantitative documentation of the effectiveness of consumer education. Accountability is essential in order to justify continued budget support. Corporations need to be convinced that support of consumer education programs is sound business policy.

All sectors agreed that consumer education should be strengthened in the elementary, secondary, and adult education levels, and that individual and societal benefits of consumer education should be recognized.

The 1984 Dearborn Conference challenged consumer educators to identify a leadership program to unite and mobilize all consumer education constituencies for action. The MICHIGAN AGENDA FOR CONSUMER EDUCATION is a direct response to that challenge.

The Avon report of the Dearborn Conference became the focus of the 1985 National Consumer Week activities in Michigan, ultimately resulting in the formation of a planning committee which developed the MICHIGAN AGENDA FOR CONSUMER EDUCATION.

### THE MICHIGAN AGENDA FOR CONSUMER EDUCATION

The MICHIGAN AGENDA FOR CONSUMER EDUCATION is a three year plan for developing a statewide program to strengthen consumer education and to promote its importance.

The five strategic thrusts of the MICHIGAN AGENDA include:

1. Personal Finance Education
  - Elementary Schools
  - Secondary Schools
  - Adult and Community Settings
2. Careers in Financial Services
3. Corporate Consumer Education
4. Public Policy Change
5. Sharing the Michigan Model

The primary focus of the MICHIGAN AGENDA is to develop and disseminate a personal finance education program in Michigan schools, communities, and workplaces. A goal of the program is to promote confidence in one's ability to attain financial independence, thus, lessening economic dependence on family and society.

### IMPLEMENTATION OF THE MICHIGAN AGENDA

#### Working With Key Leaders

In order to bring together a unified effort of people with common interests in consumer education, an advisory group was formed. This group is composed of key leaders from business, government, education, labor, community and consumer organizations. Each leader brought with them the willingness to work hard, to compromise, to take some risks, and each had the power to take action. This advisory group was divided into six subcommittees:

- o Adult and Community Education
- o Elementary, Middle Schools and Career Education
- o Secondary Education

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<sup>1</sup>Program Associate, Michigan Consumer Education Center, College of Education

- o Corporate Education
- o Public Policy
- o Finance

The subcommittees were instrumental in developing the initial Strategic Plan. The Strategic Plan narrowed the focus of the program, focusing on personal finance education. The Strategic Plan is the management plan including documentation showing the need for the program; strategic thrusts and target audiences; timelines; proposed budgets for the three years; and the names of the advisory group, including the agencies and institutions they represent. A written plan is essential to guide progress toward achieving the agreed upon goals of the program.

#### Products and Programs

Educational programs accomplished during the first two years of the MICHIGAN AGENDA include graduate courses in personal finance, consumer economics, and teaching consumer education in the elementary grades. Workshops and seminars were conducted on insurance, consumer approach to investing and personal finance software programs. Statewide consumer education conferences were held, as well as National Consumers Week programs.

Products include a video on the MICHIGAN AGENDA and a video series on consumer credit with discussion guides. Teaching manuals were developed on consumer credit, consumer law, children and money, and the Michigan Consumer Protection Act.

Additional products of the MICHIGAN AGENDA include a summary report on consumer and personal finance education surveys conducted in Michigan in 1987 and 1988, a consumer economics test bank, consumer credit factsheets, and a teaching guide on the U.S.-Canadian Free Trade Agreement.

#### SUGGESTIONS FOR NEW CONSUMER EDUCATION AGENDAS

1. Begin with a leadership group that has a track record of producing quality programs and products. Include key policymakers in agencies, businesses and organizations.
2. Select a concept that is manageable in scope. Consumer education is very broad; narrow the focus of your program to a specific topic of current concern.
3. If possible, obtain seed money to take you through the initial stages of the preparation of proposals, travel, meeting and "selling" others on your program.
4. Contact all potential financial contributors who have an interest in the focus of your program.
5. Develop the scope of your program to its fullest potential. Using the selected topic, reach as many audiences as possible, using variations of printed matter, audio and visual media.

6. Match pay-back to pay-out. Try to ensure that everyone involved in the program is comfortable with the results that match their interests and needs.

7. Plan visible success points along the way. Through ongoing communication with the advisory group, funders and public, show completed products and benchmarks which pave the way to the goal(s) of the program.

8. Don't re-invent the wheel. Make use of quality programs and products already available and integrate them into your program.

9. Evaluate the impact of your program. Assess the degree of public policy or programmatic change resulting from your program's actions. Allow for pre- and post- program evaluation.

10. Share your program with others. Tell "Your Story" at local, state and national meetings with key leaders and policymakers.

## IMPLICIT HIGH INTEREST RATES OF RENT-TO-OWN DEALERS: AN UPDATE

Frances C. Lawrence, Louisiana State University Agricultural Center<sup>1</sup>  
Susan G. Cooper, Southeastern Louisiana University<sup>2</sup>  
David Czernik, Louisiana Consumers League<sup>3</sup>  
Carolyn G. Carter, Louisiana State University Agricultural Center<sup>4</sup>

This presentation was designed to stimulate discussion concerning the necessity of state and local laws providing protection for consumers entering into rental-purchase agreements. Currently, at least eight states have statutes related to rent-to-own businesses. Copies of the laws can be obtained from the authors.

### INTRODUCTION

Consumers can have it all, right now, for a price. For \$64 per month, one can eventually own a microwave oven. That is right, for \$1,151 one can rent-to-own a microwave oven. That same microwave oven can also be purchased at a retail store for about \$200. This may seem like an extreme case, but it is a realistic one found in Baton Rouge, Louisiana.

The consuming public can be readily satisfied by "Rent-to-Own" outlets in Baton Rouge and throughout the country. The renter signs an agreement to use an item on a weekly or monthly basis with no obligation to purchase it. If the customer makes all payments when due for a specified length of time, he/she acquires ownership. Delivery and repair are usually included in the agreement. Business is booming for Rent-to-Own outlets, which increased their volume from \$1 billion at 4,000 dealers in 1986 to over \$1.5 billion with 5,000 outlets in 1987.

### THE COST OF CONVENIENCE

Consumers can rent a product from 18 to as much as 32 months and pay on a weekly or monthly basis for an approximated annual percentage rate (APR) of 50 to over 300 percent. The alternative is buying with retail (18-22% APR) or licensed financial services' (22-36% APR) credit, or even with cash. No cash, no credit, and limited cash flow create and sustain the pool of consumers who use the Rent-to-Own consumer goods industry.

Technically, the consumer is considered a short-term renter of merchandise. The disclosure provisions of the federal Truth-in-

Lending Act do not apply to rental transactions. Therefore, Rent-to-Own stores are not required to disclose their charges as finance rates or interest. In reality, the fees assessed consumers for the use of the goods for a particular period of time, with the possibility for outright ownership, does constitute a service charge on par with the calculation of the annual percentage rate formula.

If rental fees are treated as installment payments, it is possible to calculate an annual percentage rate. Basically, the interest charged is equal to the difference between the total Rent-to-Own cost and the total retail price of the item. See the excellent paper presented by Walden in this 1989 ACCI Proceedings, which discusses additional components that could be used in the formula. Table 1 indicates rent-to-own costs in Baton Rouge, Louisiana.

TABLE 1. ANNUAL PERCENTAGE RATES FOR RENT-TO-OWN PRODUCTS

Product	Retail Price		Rent-to-Own	
	Low Cost	High Cost	APR	APR
Microwave	\$200	\$434	118%	272%
Color TV	\$209	\$565	155%	288%
Stereo	\$319	\$719	120%	230%
VCR	\$230	\$702	170%	263%
Refrigerator	\$429	\$1062	135%	188%
Washer	\$270	\$721	148%	224%

### STATE LAWS

Currently, at least eight states have statutes related to rent-to-own businesses (FL, GA, MD, MI, NY, PA, SC, and TX). In general, the laws enable the consumer to know more readily the actual costs of the transaction. For example, New York statutes state that a rental-purchase agreement must disclose: (1) whether the merchandise is new or used; (2) the "total cost," which is the amount that must be paid to acquire ownership, and the total number of payments; (3) the cash price, which is the price one would pay if the merchant were to sell the product on the date that one enters into the rental-purchase agreement; and (4) the conditions under which one may exercise an early option. Copies of the various state laws can be obtained from the authors.

<sup>1</sup> Associate Professor, Family, Child and Consumer Sciences

<sup>2</sup> Assistant Professor, Home Economics

<sup>3</sup> Executive Director

<sup>4</sup> Specialist, Extension Family Resource Management



ANALYSIS OF CONSUMER INFORMATION PROVIDED TO STUDENT LOAN BY  
STUDENT FINANCIAL AID OFFICES

M. M. (Peggy) Whan <sup>1</sup>, and Sheila Mammen <sup>2</sup>

-----ABSTRACT-----

Recently Congress mandated that attention be paid to students mortgaging their future by taking on a greater student debt loan than they can comfortably repay given their income potential. Survey results indicate that although at least one-half of college students borrow to pay their education costs, they are not provided adequate financial counseling regarding the consequences of their debt burden.

In the last decade, student borrowing for college education has skyrocketed. However, little, if any, attention has been paid to the impact of such consumer indebtedness on the lives of these young people. Congress recently required financial aid officers to address the issue of students mortgaging their future by taking on a greater student debt load than they can comfortably repay given their future income potential.<sup>3</sup>

The study reported here has 3 specific objectives:

- Determine if financial aid officers feel a responsibility to educate student borrowers regarding these borrowers' ability (and obligation) to repay their student loans.
- Determine how post secondary schools have met the federal mandate to educate student debtors regarding credit choices and the consequences of the debt they assume.
- Determine the course of action pursued by various schools.

A telephone survey of 22 selected schools in the North Central and South Central regions was conducted in spring of 1989. In every case, the

<sup>1</sup>Professor and Head, Home Economics, University of Arkansas.

<sup>2</sup>Associate Professor, Family Economics, North Dakota State University.

<sup>3</sup>Reorganization of the Higher Education Act (P.L. 99-498) signed into law October 17, 1986.

director of the financial aids office or a representative of that office was contacted. With the exception of one private school, the rest were either state or state land-grant schools.

Results of the survey indicated that 50% to 86% of the students in those schools received some form of financial aid. The mean amount received by students in the North Central region was \$4,013 (high \$6,000; low \$2,642) and in the South Central region was \$2,800 (high \$5,300; low \$1,800). Schools with students with high amounts of loan included those with higher tuitions as well as those with professional schools.

Every school made an attempt to meet the federal mandate if only by simply providing information on debt repayment. In most schools this information was provided during an exit interview. Other alternatives included the provision of information detailing debt repayment; the distribution of repayment schedules with each check disbursed; use of a computer software package on budget programming; and access to a money management video. None of the surveyed schools felt it was their responsibility to inform students of the impact of high debt loads on their future lifestyle. Furthermore, those schools which offered a program in financial counseling did not use the students enrolled in this program as peer counselors for the student debtors.

The large number of student borrowers and the amount of money borrowed clearly indicate a need for student financial counseling when they request such loans. While the schools make every attempt to meet the letter of the law by providing students with some information, they do not counsel students on the impact of their loans on their future economic well-being. These students need to be aware that consumer indebtedness at such an early age can create a serious financial handicap that will prevent them from future buying and/or borrowing and from finally achieving the American dream. Additionally, growing student indebtedness also has serious implications for the national economy in an age of high federal deficits.

THE DASH TO CERTIFICATION AND LICENSURE: ECHO OF THE LEMMINGS?

Joseph G. Painter, jr.<sup>1,2</sup>  
V.P.I. & S.U.

The issue of certification and/or licensure is of increasing interest to consumer professionals. There has been a seemingly proliferation of initials as differing groups have attempted to define their identity and turf. The debate is often taken on the trappings of frontier days when the call would pierce the air for the wagons to be circled. Of prime importance to our brief inquiry are two questions - what does it mean for members of a particular occupational/professional group and what does it mean for consumers?

One classic analysis of occupational licensure was by Milton Friedman (1962). Friedman argued that the existence of such interfered with the market process and was thus inherently less than desirable. While perhaps an oversimplification of the Friedman thesis the argument casts a shadow on the desire by any profession to seek licensure (i.e. the imprimatur of government) or certification (the profession's evaluation of desired standards). It would not be unfair to suggest that Friedman views licensure (and by extension certification) as an attempt to achieve economic control over the market with respect to a particular profession. Such an indictment glosses over the reduced search costs associated with licensure and certification.

The whole concept of consumer protection can be divided into three general areas - information, prevention, and compensation. (Brannigan (1983) labels them information, intervention, and compensation.) In the case of licensure and certification the information role is obvious. Intervention is represented more by licensure in that only those licensed could practice in a professional capacity. The

intervention role of certification is less evident but could arguably be served in that there has been an attempt to define what constitutes a professional in a particular arena. The compensation element of consumer protection comes into play as an ever present "incentive" for the professional to perform up to a particular standard lest the spectre of malpractice become a reality.

It is in this final aspect - compensation - that future battles will be joined. With the prestige and joy of certification and licensure comes the raised standard of care owed by the professional so certified and/or licensed. It is incumbent upon consumer professionals when they raise their glasses (and swords) to the issue of defining and redefining professionalism to remember the humble lemming and its behavior in group decisions. Continued discussion is needed if the issue is to be evaluated with respect to consumers and those who would seek to study and/or serve their needs and actions.

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<sup>1</sup>Assistant Professor, Consumer Law and Family Economics

<sup>2</sup>Special gratitude is extended to Karen Goebel and Rader Hayes, University of Wisconsin, Madison

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## HEALTH CARE INSURANCE FOR THE ELDERLY

Irene E. Leech, Virginia Polytechnic Institute and State University<sup>1</sup>

This roundtable session was designed to allow participants to discuss and share ideas for extension programming related to the issue of health care insurance for the elderly. Changes in Medicare coverage and options for long term care were the primary focus.

### BACKGROUND

In July 1988, Congress passed the Medicare Catastrophic Coverage Act (Public Law 100-360). Changes in health insurance for the elderly mandated by this law will be phased in beginning on January 1, 1989. Not only must consumers learn about the changes in Medicare, but these cause changes in medigap insurance too.

The new coverage is financed by a \$4.00 increase in the monthly fee for Part B Medicare Coverage and a new tax. This tax is due to be collected for the first time with 1989 income taxes. Although withholding or estimated taxes are not required in 1989, they will be in the future. Currently, the tax is \$22.50 for each \$150 of income tax liability of anyone who is entitled to or qualified for Medicare. Even if that person does not use Medicare, the tax must be paid. In 1989, an individual will have to pay a maximum of \$800.

Many consumers are confused about the changes in Medicare and their supplemental health insurance. They are also concerned about affordability of long term care, an issue that Medicare still does not address. Across the country, Extension is responding in a variety of ways to help elderly consumers adjust to the changes in Medicare and to consider their alternatives for long term care.

### PROGRAM IDEAS

Because many publications available to the public are now out of date or were printed before all of the regulations for the Catastrophic Health Care Act were out, there are many inconsistencies. Extension staff have found it necessary to create publications to distribute the correct information to clientele. For example, Virginia (Leech and Scott, 1989) has an unpublished three page fact sheet which is available for agent use.

While some states have provided programs which deal with the broad issue of health care for the elderly, others have found that more specific

programs are more successful. Program participants have included both elderly consumers and their children or care takers. Thus both day and evening programs have been held.

Interactive video is a potential medium for disseminating information on health care for the elderly. Because information is available in kiosks placed in malls, clientele can access it during hours when offices are typically closed. Availability of a printer with the system allows consumers to take information home for future reference.

Another innovative program delivery system which may be useful in this area is satellite programming. Quick delivery of up-to-date information can easily be made available to staff and clientele who are geographically spread with satellite technology. When such programs are taped, a videotape becomes available for flexible future use.

Local Virginia staff also suggested that flyers describing Medicare coverage changes could be placed in resource packets. These could then be distributed to key locations, such as physicians' offices.

### AUDIENCES

Each state has unique groups which are appropriate audiences for this programming. Some potential groups include: Volunteer Financial Counselors, Volunteer Information Provider Program Leaders, Extension Homemakers, Tax Preparers, American Association of Retired People Chapters, Local Task Force on Aging, Retired Teachers, and Senior Citizens. As noted earlier, both older consumers and their children are interested in this area.

### CONCERNS

As our population continues to age and health care costs continue to escalate, provision of health care and ways to finance it, will be an ongoing societal issue. In future years, difficult choices will have to be made. Extension has an important role to play as the public learns about available options, and public policy makers work to create new solutions.

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<sup>1</sup> Assistant Professor and Extension Specialist  
Consumer Education



TESTIFYING AS AN EXPERT WITNESS IN FAMILY  
ADVOCACY CASES: PROBLEMS AND IMPLICATIONS

Kathleen Corpus<sup>1</sup> and Beverly Howell<sup>2</sup>  
Mississippi State University

Family economists have been called upon to provide expert testimony in a variety of family advocacy cases. Two major problems associated with providing testimony are estimating the value of household production and estimating the time used for household tasks. Roundtable participants discussed the various methods of calculating the value of household production and what has been accepted by the courts.

### INTRODUCTION

Family economists are uniquely qualified to provide expert testimony in a variety of court cases. According to Fischer (3), liability suits regarding the loss of earning capacity for household producers are on the upswing. This increases the demand for family economists to provide expert testimony in cases where a monetary value for household production is necessary.

One major problem in providing expert testimony is in providing value estimates for household work of family members. Another problem in determining the value of household work for litigation is the absence of current time-use data. Studies such as those conducted by Walker and Woods (6), Gauger and Walker (4), and the University of Michigan (2,7) have estimated the amount of time used in various household activities, but for the consultant who is facing court deadlines and budget constraints, these data are not practical to use (1).

### ESTIMATING THE FIGURES

The most widely accepted method for estimating the value of a household producer is the "replacement cost method," which estimates the market replacement cost of a homemaker with the skilled person in a comparable marketplace position (3). However, this method, it has been argued, does not allow for the value the family puts on the homemaker's work nor the quality or quantity of his/her work (3,5). Other methods such as the "opportunity cost approach" account for the value of household production which is determined by the family (1,2), but courts are not as accepting of the intangible value families place on production of other family members.

For the family economist called on to testify, it is important to gather as much information about the case as possible. First, set up a time frame with the attorney. Find out when the

information is needed, and obtain a detailed description of the family. Second, determine the tasks performed and the number of hours per week spent on each task. Third, assign job classifications to each task and select an appropriate wage rate (3). It may be necessary to calculate future value as well.

### CONCLUSIONS

The task of providing expert testimony on the value of household production is complex, and each case is different. The establishment of guidelines for adults similar to the guidelines, established for the cost of raising children would be helpful. Until some definition and guidelines determining household production are established court awards will be unpredictable. Education and a consistent method of determining the worth of household production will make testifying easier and more equitable (3,5).

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<sup>1</sup>Asst. Professor of Consumer Economics

<sup>2</sup>Ext. Family Economics and Management Specialist



CONSUMER KNOWLEDGE OF SECONDARY SCHOOL STUDENTS IN KOREA:  
FACTS AND IMPLICATIONS FOR CONSUMER EDUCATION PROGRAMS

Jin Hwa Jung, University of Illinois at Urbana-Champaign<sup>1</sup>

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This paper evaluates the consumer knowledge of secondary school students in Korea using a test instrument designed for that purpose. The 1984 survey of 780 secondary school students provides data concerning consumer knowledge in four major areas: principles of economy, financial management, consumerism, and buying practices. The scores for consumer knowledge are low, but increase with grade level, demonstrating the effect of consumer education in the school. The findings indicate that consumer education should be reinforced in the schools to improve the students' consumer knowledge, which in turn should help enhance their present and future well-being.

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#### INTRODUCTION

This paper discusses consumer knowledge as a key to consumer welfare. Consumer knowledge reflects the individual's potential ability to make the best consumer decisions in given situations. Thus, the dissemination of necessary knowledge is crucial to the efficient utilization of one's time and financial resources, and ultimately to one's own well-being.

Consumer knowledge is transmitted primarily through consumer education which, in order to be effective, must be based on what information consumers need to know. Then, an evaluation can be made regarding the knowledge consumers currently possess about a particular area and identify the area in which they need most help. However, Brown and Dimsdale (1973) pointed out that existing educational programs have not shown much success because they do not adequately handle what the consumer needs to know and do not communicate well with the consumer.

Although consumer knowledge has been a research topic in the United States,

little has been done for Korean consumers. Because consumer problems are emerging as an important social issue in Korea, consumer knowledge deserves special attention. Consumer problems in any country are not inherent to any particular age group, but adolescents seem to need more help because they are going through a critical period during which they are learning to shape their future behavioral patterns (Campbell 1969; Ward 1974). Therefore, the present paper is devoted to consumer knowledge of Korean adolescents, particularly secondary school students. More specifically, this study:

- (1) defines what consumer knowledge is needed by Korean adolescents in order to function effectively as consumers,
- (2) measures the actual level of consumer knowledge of Korean adolescents in relation to their demographic backgrounds, and
- (3) provides suggestions for the future direction of consumer education programs to improve consumer well-being.

#### CONSUMER KNOWLEDGE

##### Consumer Knowledge: Key to Consumer Welfare

To function effectively as consumers, individuals should be familiar with the various aspects of the economy, ranging from pertinent economic concepts (e.g., effects of inflation or recession on the level of living) to useful buying practices. Consumer knowledge is more than product information that helps induce more satisfaction from market transactions. It further involves the basic understanding of the role of consumers in the economy and the way in which that role should be filled.

In spite of the increasing need for consumer knowledge in today's sophisticated market structure, it becomes more and more difficult to acquire the knowledge needed for efficient consumer decision-making. Many of the consumer problems found in modern industrial society stem from this lack of information. Surrounded by rapidly changing technology and mass production, consumers can hardly keep

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<sup>1</sup>Research Assistant, Department of Economics

abreast of information about the wide variety of products available to them, let alone discern the relative price or quality of products. In consequence, consumers tend to rely mostly on producer-controlled sources of information, which by nature tend to be biased (e.g., advertisements). To the extent that consumers make decisions based on distorted information, they make sub-optimal choices and subsequently lose their potential purchasing power.

One symptom of the informationally imperfect market is the existence of extensive price dispersion, which cannot be explained by any properties of quality or locational convenience. Maynes and Assum (1982), in their study, reported that most products exhibited extensive, yet unjustified, price dispersion. While this type of price dispersion is certainly not in the consumer's interest, it persists nevertheless because consumers are ignorant of it. In their experimental study, McCracken, Boynton, and Blake (1982) showed that retail-food price reporting can lower the relative level of food prices. Further, Sexton (1981) estimated consumer losses resulting from imperfect net-weight information for packaged chicken as reaching between 0.037 and 0.01 percent of expenditures for chicken.

There are compelling reasons for consumers to learn their role in the economy and how to fill that role for the sake of themselves and the economy as well. For one thing, consumers potentially can exert a tremendous power over the economy. It is consumers' needs, at least in principle, that determine the production of goods and services. For another, in the real economy, it is mostly their expenditures that keep the economy running smoothly. Thus, they have a responsibility as well as right to make the economy more responsive to their true needs. Consumers should take their stand, in lieu of assuming a passive role, in the face of problems such as fraud. This requires that consumers have sufficient knowledge about their rights, consumer regulations, and the activities of consumer organizations. Consumers also must be informed about what specific channels are available to them and how to access those channels when they do have problems. The existence of consumer regulations, for example, is of no use unless consumers actively utilize them.

It has been pointed out that the various consumer protection laws do not perform

their intended role because consumers cannot or do not take the necessary legal steps. Tootelian (1975) showed that consumers, especially those from low-income groups, had little knowledge of consumer protection laws and therefore were least likely to use them. Cunningham and Cunningham (1976) also confirmed that consumers lacked knowledge concerning consumer protection laws, casting doubt on the effectiveness of these laws. Swagler (1979) illustrated that consumers often resist legal actions because they are costly and because consumers fail to recognize the effectiveness of such actions. Accordingly, consumers should be educated about the availability and benefits of the various laws.

#### Consumer Knowledge of Adolescents: Contents and Measure

During the 1970s and 1980s, in the United States, there has been a growing emphasis on consumer education for adolescents. Consumer education has been increasingly adopted in many states as a regular curriculum in secondary schools; in some states, like Illinois, it is a mandatory course.

For the specific range of consumer education, there exist some variations both in the content area covered and in the weight attached to each area, depending on the specific program. The content of consumer knowledge stressed in secondary school education programs in general can be classified into the four major topics (Herrmann 1982). According to Herrmann, choice-making concerns about the role of standards and personal values in guiding decisions; financial management covers credit, savings and investment, banking services, and insurance; buymanship covers product choice, consumers and the market, and public goods; and consumer citizenship includes the consumer's role, rights and responsibilities, consumer problems, and consumer protection.

Since consumer knowledge of adolescents is primarily acquired via consumer education in schools, written test scores are often used to evaluate the effectiveness of school education programs. Stanley (1976) measured the cognitive knowledge of secondary school students in 14 areas, including the individual consumer in the marketplace, money management, consumer credit, categories of consumption goods such as food and clothing, and others. He found that students who completed a

course in consumer education scored higher than did students who had not completed a course in consumer education. Langrehr (1979) tested high school students in terms of their competency in the areas of credit, money management, insurance, and savings and investments. Again, students who took a course specifically designed to present consumer education topics showed higher competence in consumer economics. The significant improvement of consumer knowledge resulting from the experience of consumer education was also reported by Stokes (1982).

In Korea, consumer education has not been established as a regular curriculum at any level of school. Nevertheless, some materials are taught in the related subjects, such as economic principles in social science and buying practices in home economics. Based on the previous studies and on the current status of adolescent consumers in Korea, this study breaks down consumer knowledge into the following four areas: principles of economy, financial management, consumerism, and buying practices. Principles of economy refers to the basic concepts and mechanism underlying the whole economy, and includes the composition of the economy, inflation, demand and supply, money and interest, unemployment, and economic development. Financial management deals with how to manage income and resources to maximize the resulting benefits, and includes budgeting, savings and investment, credit, installment payments, and insurance. Consumerism covers the items that consumers should be aware of to strengthen their position in the marketplace. This includes the consumer's role, rights and responsibilities, consumer protection laws and consumer organizations. Buying practices pertain to practical and helpful tips for wise retail buying of such items as clothing, food, furniture, transportation, and housing.

## METHODOLOGY

### Data Collection

The data set for this study was obtained in a survey conducted in July of 1984. The survey included 780 secondary school students randomly selected from one urban area and one rural area in Korea. Out of 741 completed questionnaires, 32 were deemed invalid. Accordingly, the final sample consisted of 709 respondents, 476 residing in the urban area and 233 residing in the rural area.

## Test Instrument

The questionnaire was specifically designed to measure consumer knowledge of adolescents and consisted of 10 multiple-choice statements in each of four areas: principles of economy, financial management, consumerism, and buying practices. Each question was developed based on previous test items (Braun 1979; Stanley 1976; Stokes 1982) and discussions with experts in consumer economics. Extensive efforts were directed to making the questions better suit the particular needs of Korean adolescents. Pretests were conducted on a small representative sample, and items in the questionnaire were revised if indicated. For each question, the correct answer received one point, and the sum of all points was used as the score of consumer knowledge.

## FINDINGS

The demographic backgrounds of the respondents are presented in Table 1. The respondents were evenly distributed over the 8th grade through 11th grade, with 25% falling into each grade. The sample was evenly divided between males and females. Urban students represented 67% of the sample, and the remaining 33% came from rural areas.

TABLE 1. Sample Characteristics (N=709)

Background Variables		N (%) <sup>a</sup>
Grade	8th	179 (25.2)
	9th	178 (25.1)
	10th	179 (25.2)
	11th	173 (24.4)
Sex	male	349 (49.2)
	female	360 (50.8)
Residence	urban	476 (67.1)
	rural	233 (32.9)

a. Percentages may not add to 100.0 due to rounding.

The average score of consumer knowledge, as reported in Table 2, shows that students have insufficient consumer knowledge. On the average, they were able to answer only 53% of the questions correctly. For each particular content area, the scores were highest in the field of financial management, followed by principles of economy and consumerism. It is worth noting that



students were most vulnerable in the area of buying practices, which is most closely related to their consumption behavior. In general, consumer knowledge of adolescents appeared to be strong with regard to conceptual problems but very low with regard to practical problems. For example, the students under study were well aware of the factors to consider when making investment decisions, but they indicated very little knowledge of what types of savings actually yield high interest rates. In addition, the students understood well that consumers can influence the economy by making conscientious decisions, but they had not the vaguest idea about consumer fraud.<sup>2</sup>

TABLE 2. Score of Consumer Knowledge

Area of Consumer Knowledge	Mean Score of Consumer Knowledge <sup>a</sup>
Principles of economy	5.26 (2.07)
Financial management	5.87 (1.97)
Consumerism	5.25 (2.12)
Buying practices	4.93 (1.90)
Total knowledge	21.32 (6.07)

a. Standard deviations are in parentheses.

The relationship between the demographic variables and consumer knowledge was examined by analysis of variance (ANOVA). Table 3 shows the differences in the level of consumer knowledge in accordance with grade, sex, and residence.

Consumer knowledge had a strong positive relationship with grade. The scores continuously grew from 17.63 for the 8th grade to 24.41 for the 11th grade. This implies that considerable consumer knowledge appears to be acquired through the formal education programs, a finding consistent with that of Stanley (1976) and Moschis (1976).<sup>3</sup>

<sup>2</sup>The analysis of consumer knowledge of each particular item was reported in detail in Jung (1985).

TABLE 3. Demographic Backgrounds and Consumer Knowledge: ANOVA

Background Variables		Mean Score of Consumer Knowledge	F
Grade	8th	17.63	70.4**
	9th	20.31	
	10th	23.03	
	11th	24.41	
Sex	male	21.08	.02
	female	21.55	
Residence	urban	22.82	148.06**
	rural	18.23	

\*\* Significant at the 1 percent level.

With respect to the student's sex, the consumer knowledge score displayed no significant difference. This shows a contrast to Moschis' finding (1976) that male students are superior in consumer knowledge. Residence, however, turned out to be an important determinant of consumer knowledge, with students from urban areas scoring substantially higher than those from rural areas.

Table 4 shows data regarding consumer knowledge in each specific content area. On the whole, the behavioral pattern of consumer knowledge in regard to a student's background variables is the same for each knowledge area. In all areas, the knowledge score was considerably higher for those in higher grades and from urban areas. In particular, the improvement in consumer knowledge associated with a higher grade level was most prominent in the area of principles of economy, a subject covered mostly in the current school textbooks. This again indicates the importance of school education as a major source of consumer knowledge.

The relationship of consumer knowledge and sex varied, depending on the specific content area, though the

<sup>3</sup> Students with higher grade may manifest advanced consumer knowledge in part because they are gaining more market experience. Judged by the importance of formal education on this age group, however, the increase in consumer knowledge with grade may be ascribed mainly to consumer education.



SUMMARY AND CONCLUSIONS

variance was not statistically significant. Male students showed relative strength in the areas of principles of economy and consumerism. By contrast, female students showed relative strength in the areas of financial management and buying practices. However, the differences are so small as to be statistically insignificant. In terms of residence, however, students from urban areas uniformly showed a higher consumer knowledge level than their counterparts from rural areas. This may be due to the higher quality of education as a whole and the more abundant sources of information in urban areas.

The individual consumer should have sufficient knowledge of the various aspects of the economy and fully utilize that knowledge in actual decision-making to improve his or her well-being. Consumer knowledge is especially important because consumer problems today are to large extent due to the lack of adequate knowledge. Thus, the present paper has focused on consumer knowledge as a possible solution to the consumer problems mushrooming specifically in Korea.

TABLE 4. Demographic Backgrounds and Consumer Knowledge in Each Area: ANOVA

Mean Score of Consumer Knowledge				
Grade	Principles of economy	Financial management	Consumerism	Buying practices
8th	3.98	5.15	4.39	4.11
9th	4.71	5.84	4.13	4.63
10th	6.40	6.09	5.41	5.13
11th	5.99	6.45	6.11	5.85
F	85.11**	15.05**	26.37**	33.12**

Mean Score of Consumer Knowledge				
Sex	Principles of economy	Financial management	Consumerism	Buying practices
male	5.31	5.71	5.27	4.79
female	5.22	6.03	5.24	5.06
F	2.85	2.05	1.82	1.41

Mean Score of Consumer Knowledge				
Residence	Principles of economy	Financial management	Consumerism	Buying practices
urban	5.69	6.16	5.70	5.28
rural	4.39	5.30	4.34	4.21
F	105.46**	35.20**	84.15**	63.35**

\*\* Significant at the 1 percent level.