Do Past Financial Knowledge and Positive Behaviors Portend Change or Continuity Among Young Adults During Economic Crisis?

Joyce Serido, Sun Young Ahn and Soyeon Shim University of Arizona

Financial capability encompasses behavior change in addition to knowledge gains (Sledge, Tescher, & Gordon, 2010). Although previous literature confirms important associations between financial knowledge and behaviors in adults (e.g., Lusardi & Tufano, 2009; Lusardi & Mitchell, 2009), much less is known about the association among young adults. Yet, emerging adults (18-25) are navigating a pathway toward financial self-sufficiency during a dynamic and volatile economic period. Therefore, it is important to understand more about the association between financial knowledge and financial behaviors among emerging adults and how it changes over time. The present study examines the associations of financial knowledge (e.g., objective, subjective) and the practice of proactive financial behaviors (e.g., budgeting, saving) using data collected both prior to the economic crisis (spring 2008) and during the recession that followed (spring 2009) from a sample of young adults in college to answer the following questions:

(1) Are financial knowledge and proactive financial behavior associated? If so, does this association change after an economic crisis?
(2) Do young adults who practice proactive financial behaviors at Time 1 demonstrate gains in financial knowledge at Time 2?
(3) Do young adults who practice proactive financial behaviors at Time 1 continue to practice those behaviors at Time 2?
(4) Do these associations differ by gender, ethnicity and socioeconomic status (SES)?

The data for this study comes from 609 college students (83% White, 17% Hispanic), a subsample of respondents from a larger study examining formation and change in financial behaviors over time. Results from a series of OLS hierarchical regression equations revealed a significant positive association between subjective and objective financial knowledge and proactive financial behaviors at Time 1; however, only the associations with subjective financial knowledge were significant at Time 2. Results further indicated a decline in subjective financial knowledge between Time 1 and Time 2, with greater decline for women and those practicing more frequent proactive financial behaviors at Time 1. Finally, results provided support that those who practiced positive financial behaviors at Time 1 continued to practice positive financial behaviors at Time 2, with higher SES respondents reporting less of a decline in budgeting behaviors.

One key finding of the present study is the connection between previous financial behaviors and present financial behaviors following a severe economic crisis. This behavior continuity suggests that opportunities to apply what is taught at home and in financial education classes may help young adults establish a positive financial practice strong enough to withstand unexpected life events. The transition to college, a time when young adults make more financial decisions independent of their parents, may be an especially important time for establishing the financial behaviors that will stay with them through adulthood (Shim, Xiao, Barber, & Lyons, 2009). The study also demonstrates that practicing responsible financial behaviors promotes financial knowledge, although the associations are different by type of behaviors practiced and type of knowledge gained. Budgeting promotes subjective knowledge, or financial self-confidence, perhaps by increasing awareness about one's resource availability whereas savings behaviors promote gains in objective knowledge, perhaps by putting cognitive understanding into practice (e.g., the power of compound interest; interest rates). Although the recession appears to have undermined young adults' confidence in their understanding of personal finance, evidenced by the decline in financial knowledge particularly among women, their practice of proactive financial behaviors (budgeting and saving) continued.

These combined findings point to a need for additional education to help young people understand and manage their personal finances within the context of a larger --and changing economy. Further discussion of study findings and implication for theory and practice will be presented.

References

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