Money Management in High School Students: Literature Review

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Abstract

The purpose of this study is to investigate young people's ability to manage money and their prospects for the future.
The financial competence of Youth has an important impact in improving the quality of life as well as the financial and economic system of a country.
This paper addresses issues related to youth's money management competence, through researching aspects such as consumption, the role of the family, other financial socialization agents and their future.
Youth attending university are an important factor in this research. During university years, young people have to take important decisions pertaining directly their finances.
The study presents findings from the work of other authors on the topic of youth financial management competence, highlighting similarities and differences among them.
Early financial education within the family will impact youth's financial management competence. The majority of findings indicated that several socio-demographic factors such as education within family, education at school or inclusion in labor market impacts youth's ability to manage money.
To conclude this study, we will present several important conclusions, which are supported by the work of many authors as well as topical literature review. We will also provide suggestions and recommendations for further research in order to complete the studies and findings related to youth's competence to manage money.

Key Words: Money Management, Youth, Family, Financial Education, Financial Ability.

Introduction

A major issue faced by youth today is the negligent distribution of income. Apart difficulties that they will cause to their families, difficulties which will most likely accompany them to adulthood, it seems that the technology and advertising impact the choices they make.

From earlier age, they go to malls and shops approximately two to three times a week, exceeding this way the standard time dedicated to reading, religion, social and family interaction and outdoors activities (Suiter & Meszaros, 2005).

This experience transforms them into mere consumers of other people's incomes, without having to exercise any judgment upon managing this income, which is however limited.

Students' low performance on "personal finances managements" tests suggests that introducing students to the concepts of money management as late as high school is very much delayed. Therefore the financial education should start earlier in life (McCormick, 2009).

It is well proven that financial education is correlated with cautious financial decision-making as well as the usage of insurance packets (Xu & Zia, 2012). Through financial education, youth will gain finance management abilities that will impact directly their life style and future.

Education institutions play a leading role in youngsters' life, however the determinant environment for their education remains family.

The model provided by parents plays an important and influential role into their future financial management competence. Parents who manage finances effectively communicate better to their adult children how to avoid needless expenses or debts (Hibbert et al. 2004). Researchers Gudmunson and Danes (2012), after a thorough desk review process on the role of parents on financial education of their children say:

"The continued negligence on family financial socialization is similar to trying to tie your shoe laces with one hand – an essential missing component. Incorporating family financial socialization on personal money management research will enable the complete "education" of the individual, not simply his work or life as a consumer. The process of socializing with money management topics is essential to achieving financial results", Gudmunson and Danes (2012, pg 663).

Parents are the main contributors to the financial behaviors and habits of their children (Jorgansen & Savla, 2010). Shim and others (2010) determined that parental influence plays a greater role in children's financial behavior than work experience and/or education. The same conclusion was reached by researchers Supinah et.al. (2016). In developed countries, families do face challenges due to lack of experience with different financial products or services or due to previous, bad experiences (Kunovskaya et al., 2013). This is reflected on children's lack of confidence with managing money.

The research conducted on the factors that determine youth's financial behavior (Supinah et. al. 2016) revealed that it is family itself that exerts a greater influence on young people's financial behavior rather than friends or society in general. Childhood is the most important period to shape individuals' future behavior and attitude.

Therefore, parents have an important role to play in influencing their children how to manage their finances. Another important, influencing agent is the social media. A large proportion of

respondents reported to using electronic media, including social media, to obtain financial information (Supinah et al. 2016).
We need to admit that due to recent socio-economic developments, the financial stability of households remains a critical challenge, especially for low - and moderate - income countries. The recent economic crisis has shown that money management skills and abilities are more important than ever (Loke et.al., 2015).

The Goal and Objectives of the study

The money management competence for youth is even more important than finances themselves.
Financial management can impact their school performance, their physical and mental welfare as well as their ability to find meaningful employment after graduation (Bodvarsson & Walker, 2004; Lyons, 2004).
The goal of this research is to study a variety of issues related to Albanian Youth Financial Management Competence such as: consumerism, the family role, other agent of financial socialization and their future.

- To conduct a desk review on the topic of Youth Financial Management.
- To analyze whether socio-demographic factors determine financial management competence
- To describe youth behaviors towards money
- To provide findings and suggestions for further studies.

Desk Review

According to Marsh (2006) and Godwin & Koonce (1992), money management or the management of personal or consumers' finances includes cash-flow, savings, investments, loans and insurance. All socio-demographic factors and the effects of good management are presented and analyzed below:

<u>Gender and Age</u>

The research on the correlation of demographic variables and financial management has been inconclusive and inconsistent (Ksendzova et al., 2017).

One of the uncertain variable is for example **<u>the gender</u>**.

In the studies of Henry et al. (2001) and Hayhoe et al. (2000) resulted that women are more likely to have better budgeting and financial abilities than men.

Xiao et al. (1995) research concluded that male students do manage credit cards better than female ones, a conclusion opposing that of Hayhoe et al. (2000).

Davies & Lea (1995) found out that male students are more likely to be in debt, opposing Armstrong & Caven (1993) study, whose results showed that females are more in debt than males.

From their studies, Markovich & DeVaney (1997) and Chen & Volpe (1998) concluded that men have higher financial literacy than women. As such, men are more capable than women to make financial decisions (Lussardi & Mitchell, 2007).

Khrisna et al (2010) came to quite different conclusions. They found out that female students have higher levels of financial literacy, especially in regard to investments, loans and insurance.

Goldsmith & Goldsmith (2006) found out that men show greater confidence than women in managing money and were more likely to invest.

Another variable is **Age**.

Older students demonstrate higher level of financial literacy than younger ones (Danes & Hira, 1987). The university years are critical to developing students' financial skills as they transition from financial dependency to independence (Arnett, 2011). Nevertheless, there is fewer research on the correlation between age and financial management competence.

Funfgeld & Wang (2008) found out that younger students are less interested in financial management issues and spend more money.

Employment during school years

Young adults (18-25 years) go through a special phase (Petterson & Leffert, 1995) having to manage their own finances independently for the first time in their life (Sabri et al, 2010). As such, many of them start working to sustain themselves.
There are two different behaviors that may be encountered in the relationship between employment status and money management. First, students become more aware and more positive towards maintaining a budget due to their personal efforts to make money. Or, students feel less positive about maintaining a budget due to the increased level of income (Kidwell et al., 2003).

A research conducted by Mortimer (2003) discovered a correlation between work experience and increased level of responsibility and money management. Furthermore it was discovered that working students save more money and have a higher finance culture (Mandell & Schmidt, 2007), because they make their own money and have a direct management experience.

Financial Education

According to Hogarth (2006), financial education has to do with: "... (1) knowledge, education and information on issues related to funds and asset management, banks, investment, loans, insurance and taxes; (2) understanding the main concepts of funds and asset management (e.g. the Time Value of Money in investments, risk analysis in purchasing insurance); and (3) using this knowledge and analysis to plan, implement and assess financial decisions".

A good financial education during university years improves the knowledge, attitude and the behavior of individuals (Loke et al., 2015) and improves the likelihood of a higher life quality in the future (Worthy et al. 2010).

The lack of financial education increases the risk of improper and inefficient decision making (Chen & Volpe, 1998; Lusardi and Mitchell, 2007), for e.g. decisions on savings and investments (Wickramasinghe & Gurugamage, 2012; Lusardi & Mitchell, 2007), choosing a high interest loan (Lusardi & Tufano, 2008; Huston, 2012), or segregation from the formal financial system (Alessie et al., 2007; OECD 2012).

Parents (family)

In their study, Cude et al. (2006) report that parents strongly impact the way their children manage the money. The role of the parents starts early on in life (Cude et al, 2006). Furthermore, Kozina & Ponikvar (2014) showed that parents who intentionally taught their children to manage finances impacted their children's financial knowledge more than the school or work itself. The students whose parents demonstrated responsible financial behavior and actively taught them how to manage finances considered their parents to be a model for them (Shim et al.,2010). The students who considered their parents as a role model for their financial behavior reported better control and management over their financial behavior (Shim et al., 2009).

The effects of effective money management

In their research, Xiao et al (2006) concluded that people who maintain a budget or an expenditure plan are less likely to be financially stressed. Effective money management is correlated with financial satisfaction (Dowling et al., 2009).
Godwin and Koonce (1992) and Ksendzova et al. (2017) concluded that effective money management protects individuals from excessive consumption and debts. Individuals who manage their money well are less likely to make hasty purchases (Pham et al., 2012; Donnelly et al., 2013). Effective money management affects positively the reduction of debt level for all different social and economic layers of society (Lea et al., 1995; Donnelly et al., 2012; Srivalosakul et al., 2018).

People who are able to manage their money effectively do enjoy better health (O'Neil et al., 2005) and higher life quality (Xiao et al., 2009).

Conclusions

A number of different authors' work on the effect of "gender – as a demographic factor" on financial management issues concludes that men have higher level of financial knowledge than women, while women have better financial behaviors or attitudes.

Working students save more money and demonstrate a higher financial culture due to the fact that they make their own money and gain a direct experience in money management.

Young adults have more financial knowledge to manage money than younger students.

Effective financial education during university years improves the financial knowledge, attitude and behavior of individuals and improves the opportunities for a better life in the future.

Family plays a determining role in young people's money management competence. Parents who intentionally teach their children to manage finances do influence them more than the education system or working experience.

Another conclusion is that effective money management does protect individuals from excess consumption and debts. People who manage their money well are less likely to do hasty purchases. Also, effective management of money impacts positively the reduction of debt for all layers of society.

Another important conclusion is that individuals who maintain a budget or expenditure plan are less likely to be financially stressed. Effective money management is correlated positively with financial satisfaction, higher quality of life and improved health.

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