

How Does Financial Literacy Education Affect Student Debt



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Abstract

This study was done based on the belief that students are not being prepared sufficiently to position themselves for financial success. This study used a survey administered to a low-income school district. The survey administered in this research is based on the survey of the Organization of Economic Co-Operation and Development. The limitations of the school district were the restriction on when a student can take a financial literacy class and the fact that no business degree is required to teach financial literacy. The study found a correlation between socioeconomic status and financial literacy education as well as no correlation with gender. As well the study found that lack of financial literacy education had an influence on student debt.

Introduction

Study Questions:

Does the quality of financial literacy education influence the amount of student debt a student incurs in college?

Is there a correlation between gender and student debt?

Is there a correlation between socioeconomic status and student debt?

Introduction:

The study is designed to examine the faults in the high school education system in relation to financial literacy and determine the extent to which they negatively impact students in the future. Student debt is a current issue that is growing exponentially. While it is understood that there are multiple factors that influence whether a student accumulates a large amount of debt, this research focuses on the foundation that is failing to be built for students and the lack of knowledge they have going through the college process. It also aims to challenge the societal norm of what dictates financial success.

Hypothesis:

H_0 : There is a relationship between the quality of financial literacy education and amount of student debt.

H_a : There is no correlation between gender and financial literacy education, but a positive correlation between socioeconomic status and quality of financial literacy education

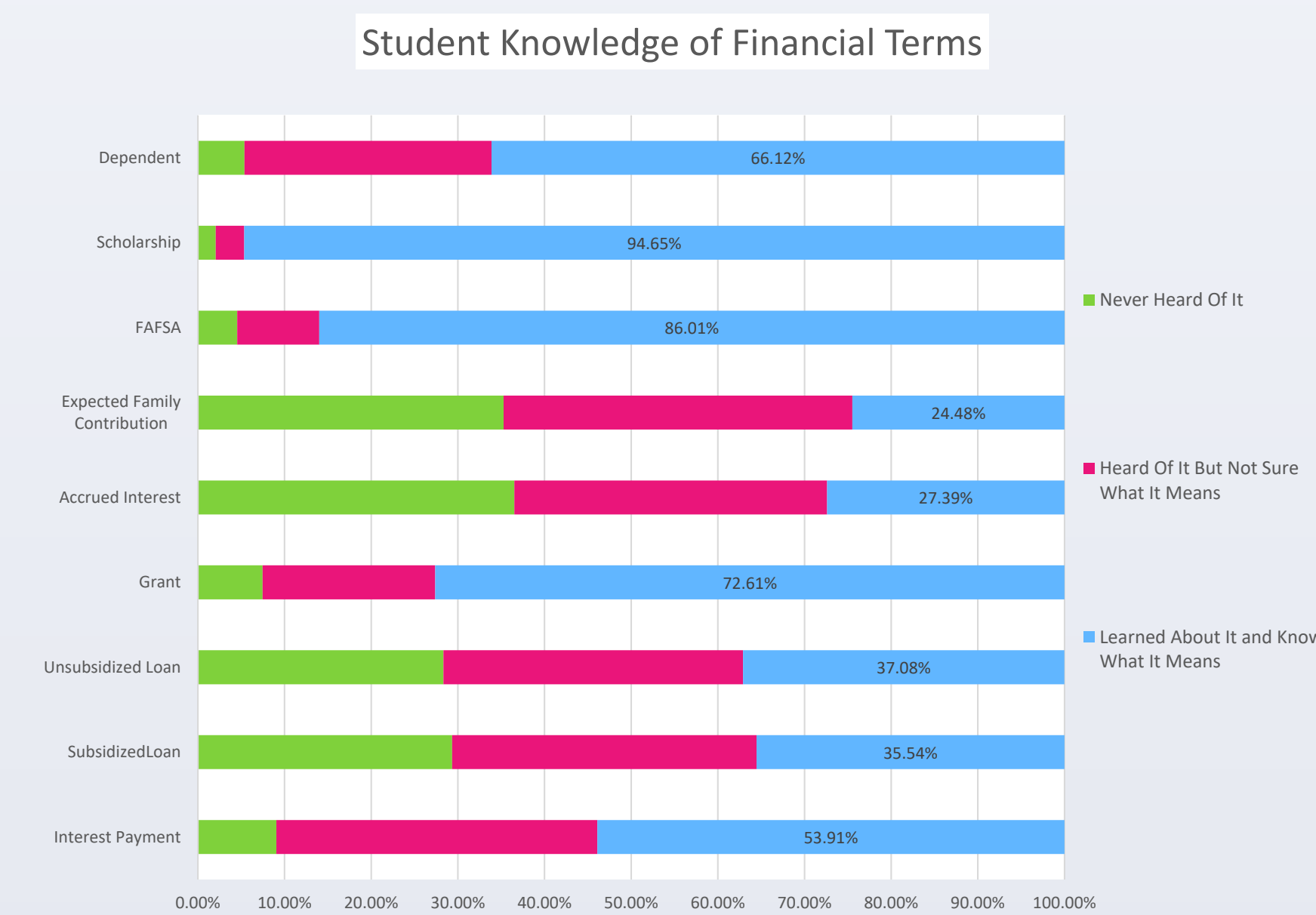
- As socioeconomic status increases so does financial literacy education quality

Data

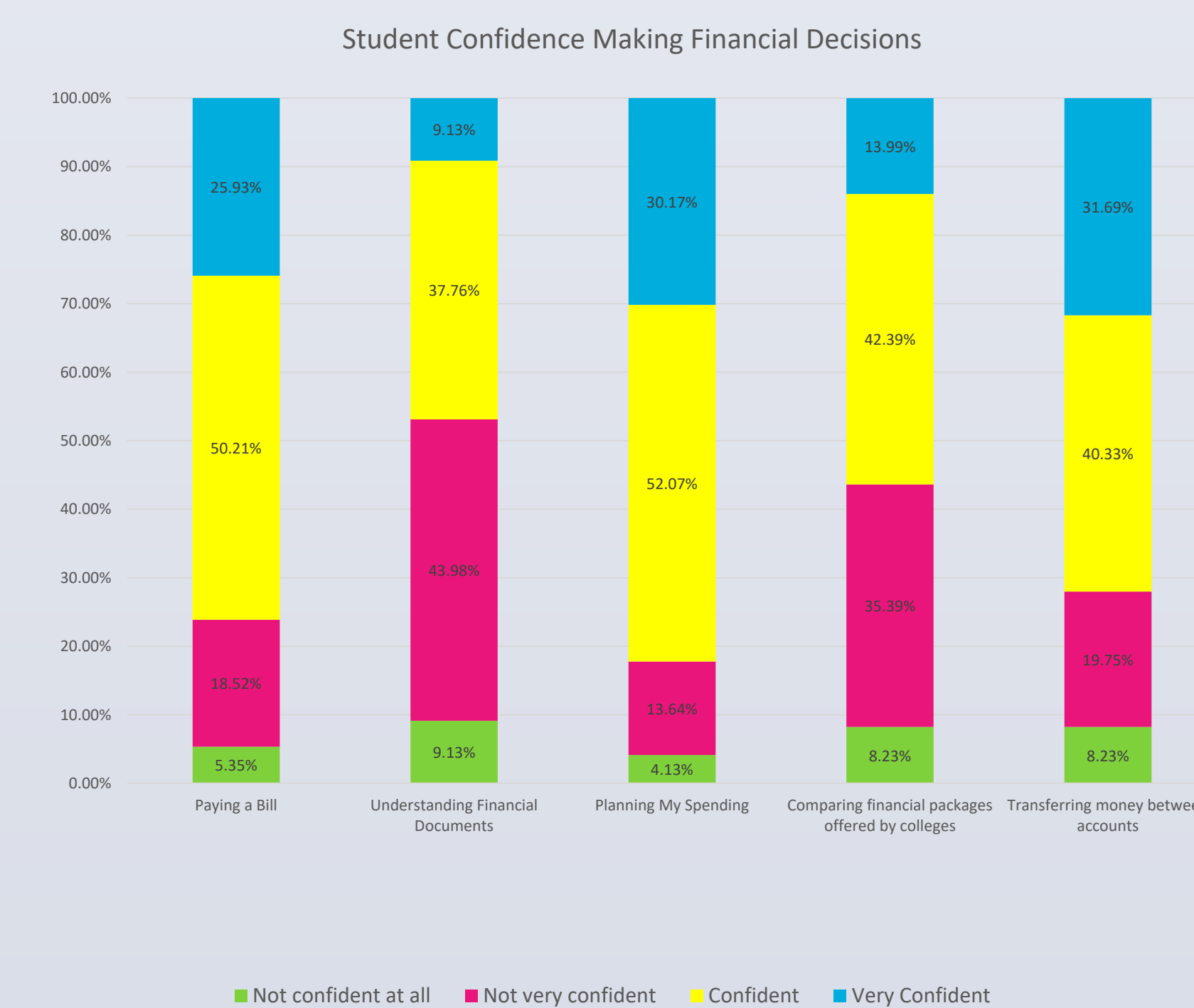
- 243 responses were received for the survey
- Of the 243 respondents about 35% were juniors and 65% were seniors
- Student knowledge of relevant financial literacy terminology
- Student Confidence performing financial tasks and making financial decisions
- Chart of college prices
 - Initial year 1985-1986
 - Secondary year 1995-1996
 - Every year from 2000-2001 to 2017-2018
 - Breakdown of constant US dollars and current dollars taking factors such as inflation into account
 - Breakdown of type of institution

Results

Students lacked knowledge about expected family contribution, accrued interest, and the two loans listed.



Students need confidence in understanding financial documents.



Average total tuition, fees, room and board rates charged for full-time undergraduate students in degree-granting institutions, by level and control of institution: Selected years, 1985-86 to 2017-18

| Year and control of institution | Constant 2017-18 dollars ¹ | | | Current dollars | | |
|---------------------------------|---------------------------------------|---------------------|---------------------|------------------|---------------------|---------------------|
| | All institutions | 4-year institutions | 2-year institutions | All institutions | 4-year institutions | 2-year institutions |
| All institutions | | | | | | |
| 1985-86 ² | \$11,138 | \$12,551 | \$7,677 | \$4,885 | \$5,504 | \$3,367 |
| 1995-96 | 14,133 | 16,590 | 7,588 | 8,800 | 10,330 | 4,725 |
| 2000-01 | 15,333 | 18,313 | 7,746 | 10,820 | 12,922 | 5,466 |
| 2001-02 | 15,847 | 18,992 | 7,962 | 11,380 | 13,639 | 5,718 |
| 2002-03 | 16,369 | 19,674 | 8,519 | 12,014 | 14,439 | 6,252 |
| 2003-04 | 17,272 | 20,674 | 8,940 | 12,953 | 15,505 | 6,705 |
| 2004-05 | 17,854 | 21,370 | 9,184 | 13,793 | 16,510 | 7,095 |
| 2005-06 | 18,247 | 21,760 | 9,022 | 14,634 | 17,451 | 7,236 |
| 2006-07 | 18,822 | 22,453 | 9,076 | 15,486 | 18,473 | 7,467 |
| 2007-08 | 19,019 | 22,696 | 8,951 | 16,227 | 19,364 | 7,637 |
| 2008-09 | 19,703 | 23,536 | 9,500 | 17,045 | 20,361 | 8,219 |
| 2009-10 | 20,206 | 24,186 | 9,778 | 17,650 | 21,126 | 8,541 |
| 2010-11 | 20,735 | 24,773 | 9,953 | 18,475 | 22,074 | 8,868 |
| 2011-12 | 21,154 | 25,090 | 10,191 | 19,401 | 23,011 | 9,347 |
| 2012-13 | 21,700 | 25,601 | 10,267 | 20,233 | 23,871 | 9,573 |
| 2013-14 | 22,171 | 26,084 | 10,445 | 20,995 | 24,701 | 9,891 |
| 2014-15 | 22,780 | 26,638 | 10,644 | 21,729 | 25,409 | 10,153 |
| 2015-16 | 23,367 | 27,213 | 10,838 | 22,439 | 26,132 | 10,407 |
| 2016-17 | 23,612 | 27,192 | 10,836 | 23,091 | 26,592 | 10,597 |
| 2017-18 | 23,835 | 27,357 | 10,704 | 23,835 | 27,357 | 10,704 |

Analysis

The analysis found that most students have knowledge of terms such as dependent, scholarship, and financial aid. Simultaneously, the students are less knowledgeable when it comes to expected family contribution, accrued interest, and the two loans listed. This analysis supports the initial belief of a faulted education system.

The data suggests that students are learning about general financial terms and not being educated about the terms that will be key during the college application process. For example, the data shows that only 36% of the students could distinguish the two types of loans. This was a key piece of information as this is a distinction that could save thousands of dollars.

The decision-making skills suggested knowledge of concepts but inability to understand financial documents, suggesting an inability to apply concepts. The rising price of college was considered in the analysis and was determined to support the need for educational reform.

Conclusion

The research supported all hypotheses and determined there was a link between socioeconomic status and financial literacy education.

As well, the research concluded that a lack of financial literacy education had a direct impact on student debt and hence future financial stability. It supported previous research done and also came up with alternative solutions. These alternative solutions were two alternative approaches to financial literacy education: a more praxis approach which takes into consideration all the social and personal factors that affect decision making, and a critically compassionate approach which considers the idea of self-worth being viewed separately from the financial resources one has.

Future Research

Several alternatives can be considered for future studies:

- Larger sample size spanning the whole United States
- Using statistical tools and correlation information
- Survey conducted of recent college graduates including student debt amounts as well as perceived value of education looking back

Since this analysis was limited in time frame and data collection, future research and data collection can have more time and a wider range of data to consider. As well, a more statistics-oriented approach can be used if deemed appropriate.

Call to Action: Adjusting the current financial literacy education framework to take into consideration individual circumstances and the lack of a level playing field. Also, a curriculum adjustment to include a chapter, or a brand-new class, dedicated to educating students about the college process and how to make smart, educated decisions throughout it.

Appendix

Survey Questions:

- What is your gender?
- What is the primary language you speak?
- Who is responsible for making decisions about money in your household?
- Does your household have a budget?
- Do you have your own source of income?
- Have you ever taken a class in school that teaches you about financial literacy, personal finance, or student debt?
- Where do you get your information about money and how to make smart decisions?
- Have you heard of or learned about the following terms as they pertain to college? (First graph)
- How confident would you feel doing the following things? (Second Graph)
- Do you feel ready to apply to college and make educated financial decisions to give yourself the most opportunity for success?
- Do you plan to pay for college yourself?

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