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<u>Financial Literacy Makes a Difference: How Financial Literacy Education Impacts African American Youth</u>

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Abstract

This paper examines the effects of financial literacy and asserts that financial literacy courses should be mandated in public school curriculum. Based on the findings, financial literacy does little to close the racial wealth gap; however, there are some positive outcomes. This paper outlines the ways in which financial literacy classes can be used in advantageous ways. For example, students in high school who receive financial literacy education are better able to make decisions about retirement, have higher levels of financial efficacy, and are able to provide their children with financial knowledge that can be passed down.

Introduction

"While no singular definition exists, financial literacy is generally defined in the academic literature as the personal ability to use knowledge and skills to effectively manage financial resources" (Lee, Yun, & Haley). Research shows that less than 50% of the states in the U.S have mandated financial literacy classes and the results show higher test scores which leads to a better understanding of good financial decisions, proving that when financial literacy is mandated it demonstrates growth. A survey and test-based research study was done by Jeanne M. Hogarth and Marianne A. Hilgert, both who are a part of the Federal Reserve Board. There were questions about different people's financial knowledge, social status, and education background and when it comes to these categories, white Americans were on top and minorities results were around the same low average.

Thesis Statement

- Due to institutional racism, financial literacy does not significantly impact the acquisition of black wealth. Although financial literacy alone does not close the racial wealth gap, it does yield positive effects toward retirement, financial self efficacy, and generational financial knowledge.

Research Question

- To what extent does financial literacy in public school curriculum impact the wealth of African American communities?

Methodology

I referred to materials from Consumer Interest Annual on financial knowledge, including statistics about preliminary results from a new survey on financial literacy; which divided and compared the results between levels of education, race and social classes, and learning preferences. I also reviewed a number of opposing opinions from Darrick Hamilton and William

A. Darity Jr. about the political Economy of Education, Financial Literacy, and the racial wealth gap. Another source that was referenced was the article, "The Effects of Prior Financial Education and Readability on Financial Disclosure Processing" which talks about the importance of a financial education and financial preparedness after high school.

Synthesis of Findings

Financial Literacy and its' Impact on the Racial Wealth Gap

The Racial Wealth Gap is a term that is used to describe the absolute difference in wealth holdings between the median household among populations grouped by race or ethnicity. Institutional racism are societal patterns and structures that impose oppressive or otherwise negative conditions on identifiable groups on the basis of race or ethnicity. Oppression may come from business, the government, the health care system, the schools, or the court, among other institutions. Even though people are aware of the racial wealth gap, most really do not understand how big the gap is. According to the 2013 SIPP data, the average African American family holds about $7,113 in net worth which is a mere 6 cents for every dollar of wealth held by the average white family, whose median net worth exceeds $100,000 (Darity, Hamilton 67). "Even for families whose head earned a college degree (the alumni donor base for colleges), the typical Black family has only about $23,400 in wealth, while the typical white family has close to 8 times that amount with a white median wealth of $180,500" (Darity, Hamilton 67). This results in a difference of about $160,000 between these closely educated households. There are those that assert that the solution to this wealth disparity is financial literacy, specifically in the

African American community. In fact, that premise was the base of this research. "The problem with this language is the implicit notion that the racial wealth gap is a matter of financial literacy, choice, and agency, as opposed to inheritance and structure" (Darity, Hamilton 60). As a result of this research, it is concluded that financial literacy by itself is not the solution to close the racial wealth gap because Black people's financial illiteracy was never the cause of the racial wealth gap but a financial education is a plus. To imply the racial wealth gap can be fixed with financial literacy, takes the blame away from the intentional racist policies that have created it.

Financial Literacy in Education

Although this research acknowledges that financial literacy does not impact the racial wealth gap, there are positive effects of being financially literate and current public school curriculum does not adequately mandate personal finance classes. There is a very small amount of states in the U.S that offer financial literacy courses, let alone mandate them. A study about *State Curriculum Mandates and Student Knowledge of Personal Finance* found that out of all 50 states in the U.S., 20 states were found to articulate some form of education policy in the specific area of personal finance. Out of these twenty states, only ten require that tests of personal finance concepts are administered to students, and three require the teaching of a specific course. "The remaining nine states set standards without specifying curriculum content, sequencing, or testing. In two states, Illinois and New York, the curriculum mandates that a specific course be taken and that students be tested on their knowledge of personal finance concepts" (Tennyson, Ngyen 5).

A study about *The Impact of Personal Finance Education Delivered in High School and College Courses* shows, "To date, studies evaluating personal finance education delivered through school curriculum have shown that the financial competency (i.e., behavior, attitude, and knowledge) of secondary school students is positively impacted by widely delivered consumer and financial education" (National Endowment for Financial Education, 1998; Langrehr, 1979; Tennyson & Nguyen, 2001). For example, students that are enrolled in a high school curriculum created to teach financial management were tested immediately following and three months after taking a class in personal financial management. They found increased financial knowledge improved financial behavior and higher levels of financial efficacy resulting from participating in the High School Financial Planning Program (Danes, Huddleston-Casas, & Boyce). Some might say, "*why don't people just take financial literacy classes in college*," however, by the time they learn all they need to know, they are already thousands of dollars into debt.

<u>Financial Literacy Passed Down Through Generations</u>

If people have parents who have retirement plans or have successfully retired, they are more likely to end up well off. "Family financial sophistication also played an important role: those whose parents owned stocks were more than 8 percentage points more likely to answer the risk diversification question correctly, and those whose parents had retirement savings were 6 percentage points more likely to answer this question correctly" (Lusardi 373). For the ones that do not have parents with this knowledge, their main source of financial literacy once again is through the school system. With the amount of information students get from public schools, there is a higher chance of obtaining debt they could have avoided if they were fully educated. This is not to say people's risk of debt is 100% in the hands of schools, because social statuses are still a factor, it is just better to be educated than uneducated. "These high levels of debt also may prevent young workers from taking advantage of employer-provided pensions, tax-favored assets or building a buffer to insure against shocks: 55% of young adults report they are not saving in either an individual retirement account (IRA) or a 401(k) account and 40% do not have a savings account that they contribute to regularly" (Lusardi 359).

Conclusion

Although finance curriculum is a prominent issue in public school education, the effectiveness of mandated financial literacy in public schools cannot be tested until courses and programs are implemented fully, therefore further research can be done. Although this paper has concluded that regardless of implementation in public school curriculum, financial literacy will not impact the racial wealth gap, there are still positive outcomes of financial literacy for African Americans in regards to retirement, and financial self-efficacy. Despite these positive impacts, institutional racism, socioeconomic, and political structure barriers need to be addressed in order to make a meaningful impact on Black wealth.

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