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**WHY FINANCIAL LITERACY MATTERS:  
AN EDUCATIONAL PROGRAMME  
WITH PRACTICAL DAILY APPLICATIONS**

**A thesis presented in partial fulfillment  
of the requirements for the degree of**

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# **WHY FINANCIAL LITERACY MATTERS: AN EDUCATIONAL PROGRAMME WITH PRACTICAL DAILY APPLICATIONS**

## **Abstract**

Financial services and products have become increasingly accessible, complex and sophisticated in recent decades. There is now a huge variety, not only of financial service providers from whom to choose, but also of actual products and services. This transformation of financial services and the level of interaction required means that an individual now needs increased levels of understanding and knowledge of the sector to make decisions appropriate to their needs and circumstances. This thesis emphasises the importance of ensuring that the teaching of financial education is embedded in the New Zealand school system to enable all students to leave school prepared for the rights and responsibilities of adult life. Financial literacy, like reading and writing, affects the well-being of every individual. It is important to recognise that inadequate financial knowledge can be a substantial obstacle. This is not a minor issue or a side issue. Ultimately financial education is a decisive issue because it is a measure of whether an individual understands the forces that significantly affect the quality of their life.

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# Introduction

Making personal financial decisions is an essential skill for adult living. Experience alone is not the best teacher of money management. Yet relatively few students learn about personal finance while they are in school. A check of New Zealand school curriculum standards reveals no obvious requirement for the coverage of financial topics in any depth. Rather, it appears to be left to individual schools and teachers to decide whether to include this subject area.

In 2005, 94 schools and 6,256 students participated in financial education at secondary school level (Enterprise New Zealand Trust, 2005). This represents approximately 15 percent of students in New Zealand secondary schools who were given the opportunity to participate in a financial education programme (Ministry of Education, 2005). Conversely this means 85 percent of students did not benefit from receiving financial education during the time they spent at a New Zealand secondary school in 2005. Volpe, Chen and Pavlicko (1996) contend that statistics such as these are of concern because personal financial decisions ultimately impact on the quality of an individual's life.

Unless a student chooses to take an elective course in personal finance at a New Zealand secondary school, there is no guarantee they will start life as an independent adult with any firm degree of financial capability beyond the ability to spend. Some students may choose not to take an available course because they over-estimate their financial literacy, while others do not have access to a course.

This thesis builds on the growing national and international interest in the promotion of financial education. The financial landscape has been transformed in the last 20 years, with personal responsibility and consumer choice playing a more prominent role. The availability of credit and the acceptance of debt as a normal component of personal finance, with people less willing, or required, to save in

order to buy, characterise important shifts in expectations. Individuals now need to navigate a more complex range of financial products and services in order to make informed decisions and choices.

Personal finance needs to be seen as an essential life skill that must be taught to young people before they become self-supporting. To continue to expect individuals to be able to manage their finances without training is an invitation to disaster. Just as we would not expect someone to know how to fix a car by simply handing them a spanner or a wrench, it should not be expected that an individual would know how to manage their finances by merely giving them a credit card or cheque book. Successful financial management requires appropriate knowledge and skills. The objective must be to enable all students, regardless of their home circumstances, to become financially included in adult life and make informed choices about their financial futures.

A good way of thinking about financial education is to use an analogy of dropping a stone into a pond. The ripples created by the stone extend outward with wider and wider effects. Financial education works in a similar way. Well-informed, well-educated individuals can make better financial decisions for themselves and their families, increasing their financial security and well-being. Secure families are more likely to be involved in their communities as home owners and voters. Therefore, being financially literate is not only important to the individual and their family, it is also important to communities and societies.

The goal of this thesis is to examine the issues that providers need to consider in determining the content and delivery of financial education programmes within the New Zealand school system. In the process, a number of issues are considered: What is 'financial education'? Why is financial education important? What financial education initiatives are underway? Are they working - and how do we know?

The thesis begins by defining the complex issue of financial literacy, and examines the concerns that exist over an individual's ability to use financial information effectively and the implications if this does not happen. The main challenge of the field is explored - increasing the demand for, and effectiveness of, financial education programmes. Following on from this, a snapshot is presented of the current position of financial education in the school systems of the United States, the United Kingdom and Australia. Looking at what form financial education should take, the thesis addresses the theoretical foundation and pedagogical approaches required to increase financial literacy among young people, and proposes several specific actions that could be taken to ensure all New Zealand school students have access to at least a basic level of financial education. In addition, the thesis examines previous studies that document the impact of financial education and the rationale behind educational standards in general. It concludes by calling for a more rigorous research programme and evaluation of the effects of existing programmes.