



Financial Literacy: How It Affects The Choices Families Make About Their Finances

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Abstract

The current economic environment has developed a major concern about Americans' financial security especially for those that lack the skills and resources to withstand the financial market changes. Individuals are taking responsibility for a number of financial decisions. Such as purchasing, and financing of a home and planning for retirement. As these choices are becoming more complicated and the magnitude of financial decision making without sufficient tools brings about the importance and need for financial literacy.

Introduction

Financial literacy is becoming important in our society due to the increasing complexity of financial products, withholding of economic safety nets by government, employers and employees and individuals who are concerned about their retirement plans. Financial literacy plays an important role in financial decision – making, ignorance of basic financial concepts results to poor financial decisions individuals make such as lack of retirement planning, participation in the stock market, poor borrowing behaviors and students decision making in college. If this problem is not brought to light and consumer do not fend for themselves, lack of financial literacy may influence an 'irrational' behavior that may twist the financial market.

Statement of the Problem

Research shows that most Americans young and old lack the financial knowledge needed to make sound financial decisions. There is evidence that the least financially literate are the least to save for retirement. Studies show that financial knowledge has a connection with financial behavior and decisions.

Purpose

Purpose of this literature review is to (a) examine the influence financial literacy has on choices that people make about their finances and (b) look at how financial literacy influences financial behavior and financial decision making. This review of literature is guided by three broad questions.

1. Why is financial literacy so important?
2. How much do families know about finances?
3. What influences families decision making on financial matters?

Rationale and Significance of Study

The rationale for this review of literature is to examine the financial behavior individuals have during financial decision making, how this knowledge impacts parent/child attitude about finances, and how these attitudes frame financial practices for young adults college bound and beyond. Financial literacy helps one avoid major mistakes by equipping individuals with sound financial knowledge and skills in managing money and other assets. Thus consequently, this might help one on the road to financial independence by controlling future issues with significantly less anxiety. Financial education is very important in helping families balance their budget, buying a home, funding education for children, and for future retirement. Our economic system is becoming more complicated and has evolved into a system that is reliant on consumers making important financial decisions early in life. The financial system is far too complicated and consequences are far too great for consumers to continue to learn tough financial lessons from the school of hard knocks.

Overview of Literature

Researchers in the financial literacy field have begun to examine the rationale behind one gaining financial literacy as they study the relationship between knowledge, savings and investments (Lusardi, 2008). Studies have found that low level of financial literacy has an impact on individual financial decision-making (Drexler, Fischer & Schoar, 2013; Hastings, Madrian & Skimmyhorn, 2013). There is a wide spread of lack of financial literacy among a large section of the US population especially individuals who have low level of education, women and ethnic minorities. Literature from financial scholars have documented that many US consumers display low level of financial literacy and most fail to understand the basic financial concepts. Studies also show widespread lack of financial knowledge among college students which clearly indicates they did not learn it from their parents.



“Financial literacy provides foundation to build wealth and fully participate in the economy....By understanding basic financial principles and putting them to use, you can be on the road to improving the lives of your household and your community ...”- NAACP Financial Empowerment Guide 2.



Conclusions

In our dynamic and complex financial market –place, financial education must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances, take advantages of products and services that best meet their needs. Well informed consumers, who can serve as their own advocates are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessary costly, or abusive. Financial literacy is very important in each household for a day to day decision making as it assists in saving money, which later could be invested or saved for realizing goals that have been set. Any effort directed toward human well-being, whether related to policy, education or practice, has a propensity for greater success if grounded in rigorous research. Researchers have stressed that building research priorities may provide a common framework for the interdisciplinary study of financial literacy and education.

**1 out of 3
Americans are
Financially
Literate.**
#IntelliQuote



**“FINANCIAL LITERACY IS AN ISSUE THAT
SHOULD COMMAND OUR ATTENTION BECAUSE
MANY AMERICANS ARE NOT ADEQUATELY
ORGANIZING FINANCES FOR THEIR EDUCATION,
HEALTHCARE AND RETIREMENT.”**

RON LEWIS

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