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Adolescents' financial literacy: The role of financial socialization agents, financial experiences, and money attitudes in shaping financial literacy among South Korean youth

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A B S T R A C T

The purpose of this study was to test the relationships between financial socialization agents, financial experiences, money attitudes, demographic characteristics, and the financial literacy of Korean adolescents. Using the 2006 Korean National Financial Literacy Test Survey for Adolescents ($N = 1185$), a series of regression analyses were performed to determine the factors related to financial literacy. It was found that those who chose media as their primary financial socialization agent, and those who had a bank account, exhibited higher levels of financial literacy. Among the sample, those who saw money as good or as a reward for efforts tended to report higher levels of financial literacy, while those perceiving money in terms of avoidance or achievement had lower levels of financial literacy. Students with mid-range monthly allowances showed higher levels of financial literacy compared to the highest allowance group. Implications for financial educators, policy makers, and researchers are provided.

Financial literacy can be generally defined as a person's ability to understand, analyze, manage, and communicate personal finance matters (Vitt et al., 2000). Specifically, financial literacy refers to the knowledge and skills necessary to handle financial challenges and decisions in everyday life. Financial literacy at the macro-level ensures that citizens of a country are adequately equipped to deal with everyday financial situations and transactions in the marketplace. Low levels of financial literacy can produce sub-optimal financial decisions, which, in the aggregate, can yield low levels of well-being by making it difficult for consumers to meet their financial needs essential for living. Previous research has found that low financial literacy is associated with a tendency for consumers to be disengaged from processes leading to optimal decision making. This often results in financial behaviors varying greatly from recommended guidelines, which, in turn, contributes to low levels of financial well-being (Hilgert, Hogarth, & Beverly, 2003; Lusardi & Mitchell, 2007). Furthermore, gauging the financial literacy of young people is especially important when viewed from the perspective that financial knowledge and skills acquired early in life create a foundation for future financial behavior and well-being (Beverly & Burkhalter, 2005; Martin & Oliva, 2001).

As a fast developing country, Korea shares many of the same consumer financial problems faced by other developing and developed nations. In 1997, Korea faced a severe currency crisis. The country emerged from the predicament financially

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stronger and with a renewed interest in the well-being of the nation's consumers. While many of Korea's financial troubles have been addressed, the country still faces serious threats to the financial stability of households, as measured by the continuation of credit delinquency and increasing household debt problems. In many respects, the consumer finance environment in Korea of the 21st century is similar to that of other countries facing financial transitions (e.g., India, Malaysia, Taiwan, and the United States) (Malroutu, 2005; Masud, 2005; Sohn, 2005; Xiao, 2005; Yieh, 2005). For example, in Korea, the average urban working household sets aside a quarter of its estimated monthly disposable income to fund debt payments (Choi, 2005). This ratio of debt to income has resulted in a surge in personal bankruptcies. In 2003, excess household debt led to a Korean economic recession along with a credit card bubble collapse that pre-dated the global credit meltdown later in the decade.

In addition, and similar to the situation in other developing nations, the number of financial products and services has exploded in Korea during the past two decades. For the first time in several generations, individual Koreans face consumer finance choices related to various investment options, such as mutual funds, variable annuities, and employer provided retirement plans. Not only are the numbers and types of products increasing, the laws and regulations that are related to personal finance products and services have also changed, both in volume and complexity. The proliferation of products, services, rules, and regulations is a cause of consumer confusion. This perplexity is magnified by borderless competition and the globalization of financial markets which makes financial decision making more difficult for individuals (Yoon, 2007).

In light of these concerns, public initiatives to expand financial literacy education have been implemented to help Koreans make more informed and responsible economic decisions. A special focus of these initiatives has been on younger generation Koreans. For example, the Korean Financial Supervisory Service (KFSS) recommended that programs be established to reinforce financial education in the schools to enhance children's and adolescents' financial literacy (Sohn, 2005). Even so, the delivery of financial literacy education, in formal settings, is still lacking in Korea. This is somewhat puzzling given that, traditionally, Korean children's and adolescents' educational achievements have been valued very highly. It appears that financial literacy education has not been integrated widely in the main topics of education because the Korean school system is characterized by a strong focus on primarily core subjects such as math and languages (e.g., Korean and English), which are deemed to be essential to passing college entrance examinations (Cho, 2010).

The end result is that the financial literacy of young Koreans appears to be broadly lacking (Cho, 2010). This may be the outcome of insufficient training in the formal education school system. The lack of financial literacy is likely related to other factors as well, including learned attitudes and behaviors acquired in informal settings such as families, peers, and media. In addition, the role of financial experience and money attitudes undoubtedly affect the literacy of Korean youth as well. It is these "other" factors that are of interest in this paper. Specifically, the broad purpose of the research reported in this paper was to determine what factors relate to financial literacy of Korean adolescents.

Outside of Korea, studies have examined the effect of financial education on financial literacy (e.g., Dolvin & Templeton, 2006; Edmiston & Gillett-Fisher, 2006) and efficient ways to deliver financial education (e.g., Servon & Kaestner, 2008). To date, however, few academic studies have examined the determinants of adolescents' financial literacy beyond conceptualizing literacy as an outcome of formal education. Thus, little is known about the interactions among financial literacy and other factors. The purpose of this research, therefore, involved the investigation of the influence of financial socialization and other factors, such as financial experiences and money attitudes, on adolescents' financial knowledge. Specifically, this study utilized a financial socialization perspective as a conceptual framework to test the relationships between financial literacy and financial socialization agents.

The financial socialization perspective posits that "socialization takes place through interaction of the person and various agents in specific social settings" (McLeod & O'Keefe, 1972, p.135). Those which a person interacts within social settings are called socialization agents. A primary assumption inherent in the socialization perspective is that to understand how consumers shape their knowledge and behavior, it is important to specify the influence of socialization agents and to examine the processes by which consumers acquire such knowledge and behavior (Churchill & Moschis, 1979). Guided by this perspective, this research not only examined the relationship between socialization agents (e.g., school, family, peers, and media) and financial literacy, but also the association between financial literacy and financial experiences and money attitudes.

Review of previous research

Previous research has shown that people obtain financial knowledge not only from formal educational networks but also from interactions with socialization agents such as friends, family, and media (Hilgert et al., 2003). In addition to socialization agents, financial experiences have been noted as significant because knowledge in the financial domain could be gained much more effectively when people actually practice prudent financial activities. Previous research suggests that people, regardless of age, who receive an allowance or have a bank account tend to be more financially savvy (Johnson & Sherraden, 2007; Kotlikoff & Bernheim, 2001; National Endowment of Financial Education (NEFE), 2004). Money attitudes (i.e., perception of money as a reward for efforts or as an object for retention) can also play a significant role in boosting the motivation to gain additional financial management knowledge (Edwards, Allen, & Hayhoe, 2007). Additionally, different perceptions about money have been found to be related with financial knowledge and behaviors (Norvilitis et al., 2006; Roberts & Jones, 2001). The remainder of this literature review focuses on previous research related how financial socialization agents, financial experiences, and money attitudes impact on adolescents' level of financial literacy.