MORE SCHOOL DOESN'T TEACH GOOD FINANCIAL CHOICES: An additional year of general education creates many good effects, but better financial decision-making isn't one of them

An extra year of school has a limited impact on financial behaviour in later life, according to research by Mirko Moro, Alberto Montagnoli and Daniel Gray, to be presented at the annual congress of the European Economic Association in Geneva in August 2016.

Their analysis of two UK surveys identifies the causal relationship between years of schooling and financial outcomes. It does so by examining financial decisions in the later lives of children who attended school for an extra year after a compulsory change in leaving age, and comparing it with their immediate predecessors.

While higher levels of education are associated with better financial decision-making, this does not mean that more time at school will improve the financial choices that people make in later life. This research implies that even though a year of extra schooling has positive outcomes, it doesn't help people balance their cheque books.

The authors argue that more targeted financial education, such as that implemented at many schools in recent years, would have the positive effect on financial decision-making that an additional year of general education does not: 'These policies should increase responsible financial behaviours of individuals at later stages of life.'

More...

An additional year of general schooling has a limited impact on a range of financial behaviours in later life.

This study, which draws on data from two nationally representative surveys of the UK, examines the relationship between education and financial decision-making by identifying the causal relationship between years of schooling and financial outcomes.

The researchers exploit compulsory changes in the school leaving age to explore the effects of an additional year of schooling on a range of household financial behaviours. The authors conclude that financial education should be promoted to secure better financial decision-making as opposed to general education.

Since the financial crash of 2008, policy-makers have promoted the need for households to adopt a more responsible financial position – that is, increasing levels of saving and reducing debt accumulation. Consequently, understanding what influences households’ financial decision-making is of increased importance.

The correlation between education and a range of household financial outcomes has been well established, with higher levels of education being associated with better financial decision-making. But there remains sparse and inconclusive evidence on the causal relationship between education and financial decisions. The results give support to the growing evidence relating to financial literacy, in that, general education has a limited impact on financial decision-making.
The authors analyse two data sources – the British Household Panel Survey and Understanding Society – and exploit two changes in the compulsory schooling ages in the UK, that is, the increase in the compulsory school leaving age from 14 to 15 years of age in 1947 and from aged 15 to 16 in 1972. These reforms had a significant impact on the average length of schooling the affected cohorts.

The study explores a variety of financial outcomes including savings behaviour, investment incomes and debt accumulation. Generally, comparing outcomes for individuals born shortly before and after these reforms, the results reveal that those with additional levels of education did not behave in a systematically different way to those who do not complete additional education.

But the research does provide some evidence that the 1947 reform had some impact on the savings behaviour of women. This outcome could indicate that the reform had a far reaching impact on women as they may have been potentially the most influenced by this schooling reform, as it was arguably coincided with wider social change.

This research shows that despite educational reforms having significant positive effects on a wide variety of aspects of one’s life, it does not have any impact on individuals’ financial decision-making.

Consequently, this research advocates the promotion of specific financial education to improve individual financial decision-making. Such initiatives have been increasing in recent years, for example, financial education in the UK has been taught to 11-16 year olds as part of citizenship since 2014, and as part of Core maths, which aims, among other things to increase confidence with managing personal finances.

It is probably too early to assess the effect of these policies on savings and investments, but these policies should increase responsible financial behaviour at later stages of life.

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