Mom and dad as financial advisors

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Why are so many students deep in debt before they finish college, only to take on more debt as they begin their careers? The answer may be found by looking at the social forces that shape the attitudes and behaviors of today's youth - forces influencing them in ways that will determine their financial success or failure as adults.

According to a new study by Dr. Soyeon Shim, from the Norton School of Family and Consumer Sciences at the University of Arizona in the US, and her colleagues, parents have the greatest influence on students' financial habits, over and above work experience and financial education in high school. The new four-step model, which analyzes the process of financial socialization in first-year college students, is published online in Springer's *Journal of Youth and Adolescence.*

Students perceive financial independence as a means to achieve adult status. Although some young adults in college learn to manage their money well, many others overspend their budgets, accrue credit card debt, and fail to pay off debts on time. Dr. Shim and colleagues examined the processes that occur during adolescence that may explain these differences in financial management. They focused specifically on the period during which college students adjust to living away from home. The authors tested their proposed four-stage financial socialization model, which focuses on the role of parents, work and education, and their connections to the financial learning, attitudes, and behaviors of first-year college students.

A total of 2,098 students from a variety of ethnic backgrounds took part in the survey. They completed either an online or print questionnaire asking them about their parents' socioeconomic status and financial behaviors, parental direct financial teaching, high school work experience, and high school financial education. They were also questioned about adopting parental financial role modeling, financial knowledge and financial attitudes, and financial behavior (i.e., the quality of financial relationship with parents, financial satisfaction, and the performing of healthy financial behaviors).

The authors found that parents, work, and high school financial education during adolescence predicted young adults' current financial learning, attitudes, and behaviors, with the role played by parents substantially greater than the role played by work experience and high school financial education combined. The results also supported the authors' hierarchical model, indicating that early financial socialization is related to financial learning, which, in turn, is related to financial attitudes and, subsequently, to financial behavior.

The authors conclude: "In a culture that demands individual responsibility and self-sufficiency, financial literacy is an essential component of a successful adult life. Parents who intentionally teach their children about financial management may exert a greater influence on children's financial knowledge than do lessons learned in high school and those learned in the workplace combined. Given the importance of financial well-being to many indicators of college student success, such parental investment in the financial skills and knowledge of their adolescents may pay substantial dividends in terms of youth health, adjustment, and academic success."

More information: Shim S et al (2009). Financial socialization of first-year college students: the roles of parents, work and education. *Journal of Youth and Adolescence*; DOI 10.1007/s10964-009-9432-x

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