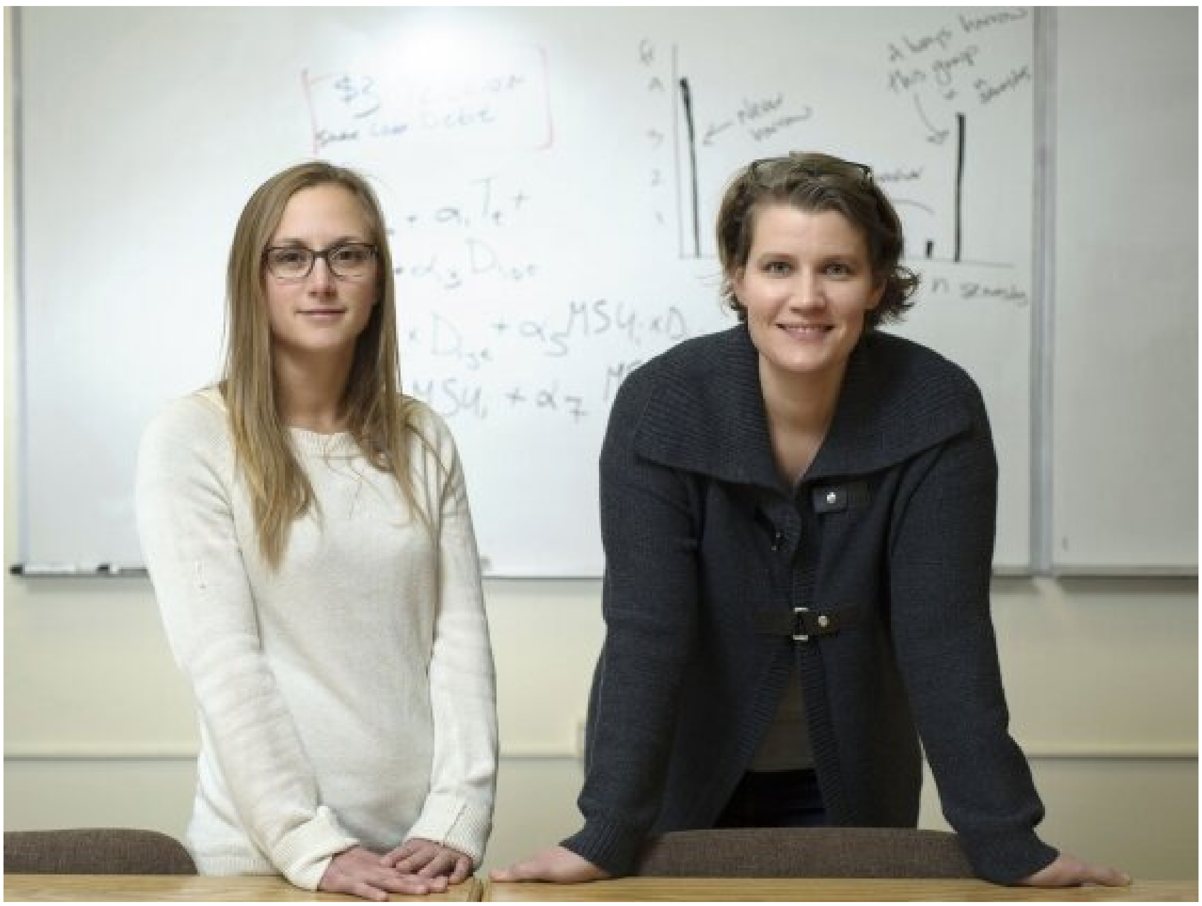
Effects of financial education on college financing behaviors highlighted in policy brief

March 8 2019



MSU professors Carly Urban, left, and Christiana Stoddard, from the Department of Agricultural Economics and Economics. Credit: Kelly Gorham

A new study conducted by Montana State University professors shows that students who graduate from high school in states that make financial education a graduation requirement make better decisions about how to pay for college.

These findings and more are included in a policy brief, "Better Borrowing: How State-Mandated Financial Education Drives College Financing Behavior." Published by the National Endowment for Financial Education, the brief aims to help students and families understand how K-12 financial education mandates affect postsecondary education outcomes for young adults.

The information in the brief is based on key findings from an academic paper written by Carly Urban and Christiana Stoddard, both professors in the MSU Department of Agricultural Economics and Economics in the College of Agriculture and the College of Letters and Science. The article, "The Effects of State Mandated Financial Education on College Financing Behaviors," has been accepted for publication in the Journal of Money, Credit, and Banking. Urban and Stoddard received a grant of $175,000 from the National Endowment for Financial Education to complete the research.

"We're glad to have our research form the basis of this report," Stoddard said. "We found that in states with mandated finance graduation requirements for high school, more college students make better borrowing decisions, including applying for and receiving federal aid and grants, while simultaneously decreasing credit card balances. This information could lead to policies that will help students make sound financial decisions."

Among other findings, Urban's and Stoddard's research shows that financial education graduation requirements cause students to shift from high-cost to low-cost borrowing, although these effects vary by family background. Specifically, they found that state-mandated financial education graduation requirements:

- Increase the likelihood that students will apply for financial aid
- Increase the acceptance of both grants and subsidized federal loans
- Decrease private loan amounts for borrowers
- Decrease the likelihood of carrying a credit card balance.

The study also found that personal finance education requirements do not affect students' biggest and most basic financial decisions about college, such as whether to go to college and where to go to college, Urban noted. And, it found that students from families with lower expected family contributions for financing college who received financial education are 7.8 percent less likely to be working while in school.

"(Not working) potentially allows students to free up time to study more," she said. "It shows that students may learn about opportunity costs. What do you give up by working more?"

Urban said the finding suggests that additional federal aid may replace job income for these students, and that freeing up time to study may improve academic performance and shorten total time spent in college, which also saves costs.

Urban and Stoddard's study compared incoming freshmen at four-year institutions from states with personal finance graduation requirements before and after implementing the requirement to comparable students in states without a mandate. (In 2017, 18 states required personal finance education prior to high school graduation.) They used data from the National Postsecondary Student Aid Study, a nationally representative study of students enrolled in higher education institutions.

Urban said that one of the report's takeaways for young people considering how to finance college is the importance of making a budget to see how much they will need for expenses beyond tuition.

"Students often don't realize how expensive books, food and going back home are," she said. "Those expenses really add up."

Another takeaway is that debt isn't always bad.

"We're living in a world where 'debt' seems like a really bad word, but think about how much more valuable you will be on the market if you have a college degree," Urban said. "And some sources of debt are better than others. If you're using a credit card with 15 percent interest, that adds up more than taking out a little more in a student loan."

Greg Gilpin, chair of the Department of Agricultural Economics and Economics, said Stoddard and Urban's research is timely and important.

"As the cost of higher education continues to rise relative to overall price levels, educating students on the cost of borrowing will become increasingly important," Gilpin said. "Drs. Stoddard and Urban's research is important as it provides evidence of the costs and benefits of high school education finance graduation requirements reform."

More information: Better Borrowing: How State-Mandated Financial Education Drives College Financing Behavior. www.nefe.org/Portals/0/WhatWeP … -Report-v9-final.pdf

Provided by Montana State University

(2019, March 8) retrieved 23 April 2024 from https://phys.org/news/2019-03-effects-financial-college-behaviors-highlighted.html