

Raising a Financially Uninformed Generation:
A Guide to Removing the Albatross Around Our Necks

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This study examines personal financial literacy among Missouri Southern State University students. Four populations of students were surveyed: thirty senior business majors, thirty senior non-business majors, thirty freshmen business majors, and thirty non-freshmen business majors. The sample was divided by gender, class rank, major, and GPA. Significant statistical differences in mean scores and least-squares regression were tested on the results. The study suggested that either taking a personal finance course or being a business major does increase one's understanding of personal finance topics.

Keywords: financial, literacy, money, personal, finance, health, stress, debt, management

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Introduction

The 2007-2009 financial crisis created one of the hardest economic times since the Great Depression. Within our own financial system, a system wide collapse of the housing market coupled with failing banks and financial institutions led to many people losing their jobs. During difficult economic times, it is especially important to possess financial skills. Fifty-four percent of college students who responded to a survey conducted by the Center for Economic and Entrepreneurial Literacy (“Best Practice”) said they had overdrawn their bank account and eighty-one percent had underestimated, by a large margin, the amount of time it would take to pay off a credit card balance. Financial literacy is fundamental in allowing individuals to live a healthy, low-stress life. According to the Council of Economic Education Survey of the States 2011(“Survey of the States” 2011), there are only 13 states that require students to take a personal finance course as a high school graduation requirement, so in only twenty-six percent of states do students leave high school with some basic financial concepts.

If the rising generation cannot possess financial literacy, it will not only bring about their debt-ridden destruction, but it could cause a greater financial collapse than witnessed in 2009. This paper contributes to the body of knowledge at Missouri Southern State University by showing the need for financial literacy among college students. The literature shows rising debt levels and stress, lower personal finance test scores, and an inability to understand basic personal finance concepts among U.S. citizens. These are alarming statistics that should be addressed immediately.

Literature Review

Financial Literacy

Americans are functionally illiterate when it comes to basic knowledge about financial matters. Many studies have been conducted in the last few years that show an alarming lack of knowledge not only in teenagers, but adults as well. The latest economic recession has produced numerous stories of Americans who are buried in debt, stuck in unrealistic mortgages, or hit by huge investment losses. (Steverman 2009)

In December 2005 and January 2006, the Jump\$tart Coalition for Personal Financial Literacy administered a survey consisting of 30 multiple choice questions to 5,775 high school seniors in 37 states to determine how much students knew about personal finance (Mandell 2009). These students answered only 52.4% of the questions correctly (up from 52.3% in 2003/2004 but down from 57% in 1997). In 2008, the same survey was given and the average score fell to 48%. After these results were released, Federal Reserve Chairman, Ben Bernanke, stated that improving financial education was “vital to the future of our economy”. With the uncertainty of Social Security and the trend for many companies to not have a company pension plan, today’s high school seniors will have to be more responsible for their own financial well-being. This is very troubling considering their current lack of knowledge. In a survey of 1,000 adults conducted by the Financial Services Forum in March 2006, only 57% said they knew “quite a bit” or “a great deal” about managing their own personal finances and retirement savings (Hagenbaugh 2006).

In October 2009, the Fox Cities (Michigan) Financial Literacy Coalition, led by the University of Wisconsin-Extension of Outagamie County who partnered with over 40 local organizations and businesses, conducted an online or paper format study during the Fox Cities Money Smart Week. Then in March 2010, two focus groups were held consisting of 671

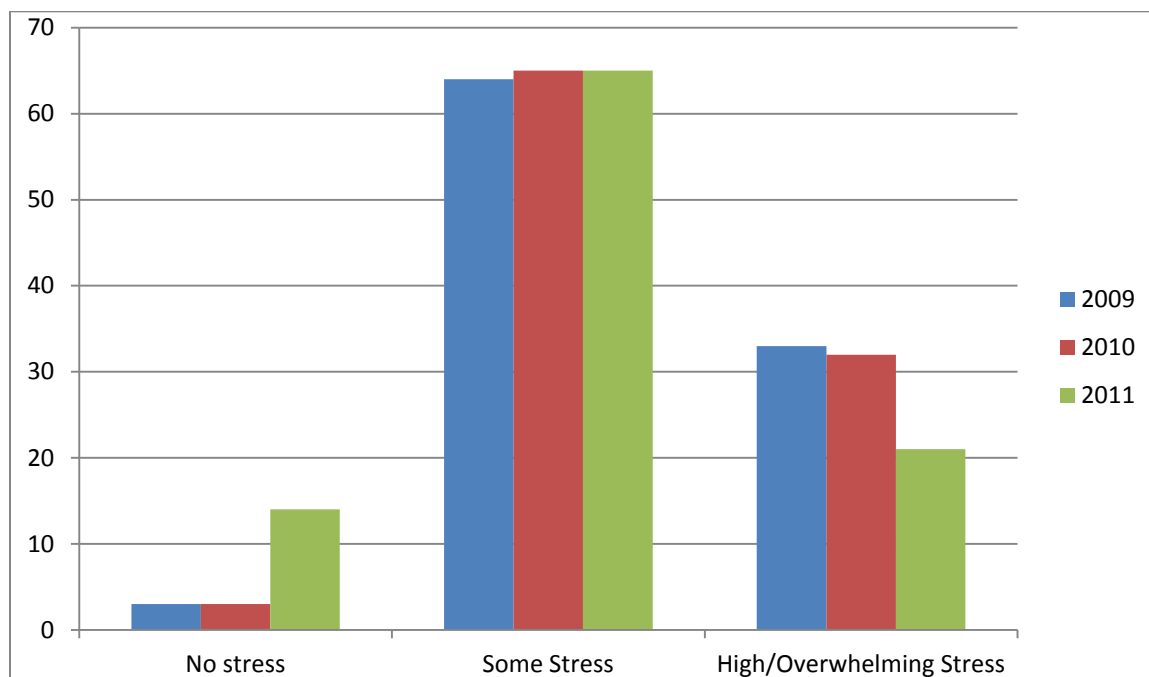
individuals in 52 zip codes of the greater Fox Cities region. The survey data that was collected included financial behavior, knowledge, and attitudes. The results indicated three key areas of needed improvement: emergency savings, understanding and managing credit card debt (and compound interest), and establishing and maintaining a budget. A summary of the survey showed that those individuals who exhibited the riskiest financial behavior and were misinformed the most had low incomes, low educational attainment, and/or were under the age of 30. More than half of the respondents who earned \$24,000 per year or less reported having zero emergency funds and exhibited the riskiest behavior involving credit cards (only paying the minimum or less than the minimum). However, 42% of all respondents, regardless of income or education, reported seldom or never using a budget. Twenty eight percent of the respondents reported having no emergency savings nor understanding its importance. Forty two percent reported seldom or never having a budget or spending plan. For those respondents, long term planning was not a priority and expenses were often unplanned and dealt with on a day to day basis (Dusek 2010). The research suggests that youth need to be exposed to financial concepts at an early age. Addressing such issues early on will help build ground for defeating the financial illiteracy of the nation and preventing adults from accumulating huge amounts of debt.

In a 2003 Washington State study on financial literacy, the number one financial concept found lacking with individuals was compounding interest, which is the basis of effective saving and understanding of credit (Dusek 2010). The students cannot hope to learn the beginning steps of personal finance without understanding this basic concept. Learning how to compound interest needs to be a priority since the accruing of interest is the main reason for ballooning debt. Compounding interest on credit cards is what can sink people in debt and create a financial hole that will take years to dig out of (O'Neill 2005).

Stress and Health Literacy

One of the leading effects of inadequate financial understanding is stress. It is estimated that 60% of illness is directly or indirectly caused by financial stress, which costs companies millions of dollars in health care expenditures. The American Psychological Association has found financial stress to be the leading cause of unhealthy behaviors such as smoking, weight gain, and alcohol and drug abuse (Anderson 2011). Poor money management skills continue to be the key driver of employee financial stress. In a survey done by Financial Finesse, a research institute designed to provide people with guidance to become financially secure and independent, found that 14% of employees reported no financial stress, 65% of employees reported financial stress, 16% of employees reported high financial stress, and 5% of employees reported overwhelming financial stress. A graph indicating stress trends can be found in Figure 1:

Figure 1 **Breakdown of Employee Financial Stress**



(Anderson, 2011)

*All numbers are based as percentages.

Poor money management skills are the direct relationship between financial stress and the ability to manage expenses, control debt, and pay bills on time. The study also found that those with no financial stress were the ones doing well managing their daily expenses. This group also had emergency savings funds, while the other groups did not (Anderson 2011).

Another study done on relating financial stress to health effects was conducted allowing respondents to give open-ended answers. The population was a group of financially distressed customers for a credit counseling organization that sought help with their current financial problems. Over 3,000 respondents answered the survey. The question asked was “Do you feel your health has been affected by your financial problems? If yes, please explain.” Eighty-two percent of the respondents said there was some type of health affected and listed the ailments.

Figure 2 shows the results of this survey:

Figure 2

Health Effect of Financial Problems	Frequency %
Stress/stressed out	613 (46.3%)
Worry, nerves, tension, anxiety, pressure	157 (11.9%)
Depression/depressed	132 (10.0%)
Insomnia and sleep disorders/problems	122 (9.2%)
Headaches/migraines	96 (7.3%)
High blood pressure/hypertension	95 (7.2%)
Stomach/abdominal/digestive problems	38 (2.9%)
Other aches and pains (e.g., back, chest)	16 (1.2%)
Ulcers or possible ulcers	13 (1.0%)
Appetite disorders and weight gain or loss	46 (3.5%)
Fatigue and feeling tired/weak	14 (1.1%)
Drug, alcohol, or cigarette use	4 (.3%)

General or other sicknesses	85 (6.4%)
Unable to afford or access health care services and exams	8 (.6%)
Can't afford or don't follow recommended health maintenance practices	22 (1.7%)
Other responses	111 (8.4%)

(O'Neill 2004)

This study found that overextended credit was one of the main factors to physical health effects such as insomnia, migraines, and anxiety. Poor health results in increased medical expenses, reduced productivity, and increased debt burdens (O'Neill 2004).

Paul Lavrakas, a research psychologist from Ohio State University, developed a Debt Stress Index to find the impact of debt burdens on one's health. The index was at its highest during June of 2009, near the economy's lowest point, but has decreased since the economic recovery has begun. Twenty-seven percent of the people in the study reported ulcers and 29 percent with severe anxiety also had high debt levels compared with eight percent and four percent, respectively, of those with low debt levels (Choi 2009).

Laura Choi of the Federal Reserve Bank of San Francisco found that the recession has led to more people reporting health problems. Long periods of stress can take their toll on a person. As people find ways to strengthen financial stability at the institutional level, they also need to keep in mind the impact that financial woes can have on individuals (Financial stress and its physical effects). A health poll conducted by the Associated Press – AOL, found that 10 to 16 million Americans were suffering due to their debts, and their health will be negatively impacted (Choi 2009).

Research has also found a correlation between financial literacy and health literacy. Financial literacy is a measure of the knowledge and skills an individual needs in order to make sound financial decisions throughout one's lifespan. It generally includes (a) being

knowledgeable on issues involving managing money and assets, banking, investments, credit, insurance, and taxes; (b) understanding basic concepts underlying the management of money and assets; and (c) using that knowledge and understanding to make informed financial decisions (Hogarth, 2002). Using that same reasoning, the Institute of Medicine defined health literacy as “the degree to which individuals have the capacity to obtain, process, and understand basic health information and services needed to make appropriate health decisions” (Ratzan & Parker, 2000).

Even as economic woes worsen, basic needs continue to rise, and many people end up with reduced income through unemployment or underemployment. As a way of dealing with their financial problems, research has shown that many people with low health literacy tend to use emergency services more, are less able to control a chronic illness such as diabetes, and use preventive care such as immunizations and mammograms less often (Braun 2009.) Poor health then negatively impacts society causing higher healthcare costs and loss of productivity. Literacy, both financial and health, is the key to personal and family health and financial well-being. Research has found that those individuals who are not proficient in managing their financial resources tended to have less proficient levels of health literacy as well (Braun 2009).

Health and personal finances are related in other ways. The most obvious association is the high cost of unhealthy habits. If one eliminates a smoking habit that costs \$5 per day, it will save them \$1,825 annually. The U.S. Department of Health and Human Services reports that a 10% weight reduction in an over-weight person will reduce lifetime medical costs by \$2,200 to \$5,300. Even employers are giving incentives like cash bonuses to enable workers to adopt healthier habits and reduce health care costs (Andrews, 2004). Lower savings rates, raising debt levels, and high foreclosure rates all indicate that families are struggling. Being able to make

sound financial and/or health decisions requires skills that can easily be taught in high schools and colleges.

Methodology

Purpose

The purpose of this study is to evaluate financial literacy among four different populations of students: freshmen business majors, freshmen non-business majors, senior business majors, and senior non-business majors to see whether taking a personal finance course prepares students for managing money. The survey attempts to determine whether or not there is a significant statistical relationship in financial understanding between males and females, seniors and freshmen, business majors and non-business majors, and students with GPA's above or below 3.2.

Hypothesis

Taking a personal finance course increases an individual's understanding of basic financial concepts.

Population

The population for this study is college students at Missouri Southern State University (MSSU) who were freshmen business majors, freshmen non-business majors, senior business majors, and senior non-business majors. The number of persons participating in the study (n=130) was the original sample. Unfortunately, some of the respondents did not complete the demographics section, thus bringing the total to (n=107). I contacted a variety of professors who had the students in their classroom and administered the surveys.

Survey Development and Administration

I contacted the personal finance teacher and was given access to all the test questions covered in the course. There are five key categories of personal finance: investing, taxes/cash and credit management, insurance, housing, and retirement/estate planning. Four questions in each section were pulled from the test banks and put into the survey totaling 20 questions. Each question was multiple-choice with four possible answers. See Appendix A for the complete survey. After I had received approval from my advisors and the Institutional Review Board (IRB), I began contacting teachers about surveying their students in certain classes containing freshmen, seniors, business majors, and non-business majors. Once the anonymous surveys were administered, all of the answers were input into Excel. The demographics on the survey included age, gender, major, GPA, freshmen or senior, and whether the participants had taken a personal finance course. Each question was scored and input into the spreadsheet, along with each demographic for each student. Several of the participants did not completely fill out the demographic section and were discarded from the survey.

The data was then imported into Statistical Analysis Software (SAS) for analysis. First, the difference in mean scores of each category, i.e., freshmen or senior, GPA ≤ 3.2 or > 3.2 , gender, and major were all calculated. A Pooled test estimated the variance in several different samples where the mean varied between samples. The Pooled test showed if there was a statistical significance for each question in each category.

After the mean differences were calculated, the scores and corresponding categories were analyzed using least-squares regressions. R-Squared represents the probability of the total score being statistically significant. The regression found that 53% of the variance in the total score is explained by the independent variables. The equation to derive total score was:

$$\text{Total score} = \text{Intercept } \alpha + \beta_1 \text{ Gender} + \beta_2 \text{ Freshman} + \beta_3 \text{ Age} + \beta_4 \text{ Business Major} + \beta_5 \text{ GB 101}$$

GPA was not measured in this test. The test found that being a business major was significant at the 0.01% level and being a freshman was significant at the 3% level. Taking GB 101 was significant whenever tested as a variable separate from being a business major at the 0.01% level. When tested with the variable business major, the results of GB 101 captured the same results, since all students who had taken GB 101 were business majors.

Results

The data was exported from SAS into Excel to derive the following results. Refer to Table 6 (See Page 23) for regression analysis statistics. In Table 1 (See page 19), the male and female category, the overall data was insignificant with only one question being significant at the 1% level. Total score had no statistical significance. In the regression analysis, there was a 91% probability the variable was not related to total score.

Being a senior or freshmen painted a different picture in the scores (Table 2 Page 20). Twelve questions and the total score were significant at the 1% level, three questions at the 5% level, and two questions at the 10% level. The least-squares regression shows there was a 3% chance the variable was not related to total score. This makes sense considering the seniors, regardless of their major, would have learned more basic knowledge as they got older.

The category that was most concerning and the driving question behind the hypothesis was whether or not taking GB 101 affected total score (Table 3 Page 21). Fourteen questions and the total score are significant at the 1% level, four questions at the 5% level, and one question at the 10% level. The regression analysis shows that there is less than a 0.1% chance the variable is not related to total score. The parameter estimate appears lower in this test because all business majors have taken GB 101. In running the regression, it captured those results and affected the parameter estimate and p-value. When the regression was run without the business major

variable, the results were statistically significant. It can be observed that taking GB 101 does increase one's knowledge of personal financial topics here at Missouri Southern State University.

Being a business major or non-business major greatly affected the total score (Table 4 Page 22). Seventeen questions and the total score are significant at the 1% level making it the most significant variable, two questions are significant at the 5% level, and one question is significant at the 10% level. Regression analysis shows that the variable had a 0.01% chance it does not affect total score. The GPA variable brought up no significant statistics with one question being significant at the 1% level, and one question being significant at the 5% level. No regression was run on the GPA variable (Table 5 Page 23).

The regression test was run four times, each time certain variables were left out (Table 6 Page 24). The first test left out the GPA variable because freshmen did not have a true GPA since this was administered in the fall semester. The freshmen variable was significant at the 5% level while the business major variable was at the 1% level. Adjusted R^2 was 0.516. GB 101 was significant as well, but it does not show up in the first test which is why the second test was run. In the second test, the GPA variable and business major variable were both left out. Freshmen was significant at the 1% level, and GB 101 was at the 1% level. Its results were being captured in the business major variable because all students who had taken GB 101 were business majors, but not all business majors had taken GB 101. Adjusted R^2 was 0.439. The third test left out the freshmen variable to consider GPA, which ended up not being significant. The business major variable was still significant at the 1% level, and adjusted R^2 was 0.425. The final regression test left out the freshmen and business major variable and showed that GB101 was still significant. Adjusted R^2 was 0.259.

Recommendations

The solution to solving the financial illiteracy problem can be resolved in creating a mandatory class for students. Sometimes budget cuts and political accords do not allow such a thing; however, I feel that there are ways to implement this into other classes if need be. For example, Missouri Southern State University students are required to take a lifetime wellness class. Implementing materials from the personal finance field could be better than having students graduate with no financial understanding. Also, students could see the direct correlation between financial literacy and health literacy.

There needs to be more teachable moments that show low income, under-educated persons how money can create stability in their lives through asset building and long term budgeting as well as the consequences of not planning ahead, mismanaging credit and debt, and not understanding financial contracts such as mortgages. Children need to be exposed to financial concepts early on, such as using a budget to guide their financial decisions. If there is one thing the financial crises has shown us, it is that not having the necessary skills and knowledge to manage day to day finances, manage credit and debt, and prepare for unexpected events by saving is a risk not only to the individual, but to communities and the nation as well.

The results of this study were solely from Missouri Southern State University, but it is applicable to students everywhere. One can see the benefit of taking a personal finance course, and the ramifications of not possessing those money management skills.

Conclusion

The most significant statistics from my survey was whether or not they were a freshmen or senior, if they were a business major, or if they had taken a personal finance course. Being male or female, age, and GPA did not have any significant bearing in the results. From the data,

it can be observed that taking a personal finance course better prepares students for financial decisions after college. Not only are they more likely to have more wealth as a percentage of their incomes than students who did not take the course, but they are also less likely to experience severe stress from mismanagement of money. Poor money management skills correlate directly with one's ability to manage expenses, control debt, and pay debt obligations on schedule.

While events such as the 2007-2009 Financial Crisis cannot be avoided by individual citizens, they can still be equipped with the proper educational tools. People end up in poor health due to financial stress, which often results from financial illiteracy and poor to marginal instruction. At this time, 13 states require a personal finance course in high school which is only 26% of the high graduate population ("Survey of the States 2011"). Even more alarming, fifty-four percent of college students who responded to a survey conducted by the Center for Economic and Entrepreneurial Literacy said they had overdrawn their bank account and eighty-one percent had underestimated, by a large margin, the amount of time it would take to pay off a credit card balance ("Best Practice"). These facts are alarming if we want to continue future prosperity for this country. If they are not adhered to and fixed soon, a financially illiterate nation will be the future for America.

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Tables 1-5

Summary statistics are reported from five different categories in the first five tables: gender, freshman/senior, taken GB 101 or not, business major or non-business major, and GPA above or below 3.2. The mean scores in each category were calculated and the differences were tested using a pooled variance method.

Table 1

Question	Male	Female	Difference
1	0.610	0.563	0.048
2	0.661	0.500	0.161*
3	0.475	0.396	0.079
4	0.542	0.667	-0.124
5	0.492	0.375	0.117
6	0.678	0.542	0.136
7	0.288	0.208	0.080
8	0.475	0.354	0.120
9	0.508	0.542	-0.033
10	0.508	0.229	0.279***
11	0.678	0.563	0.115
12	0.525	0.292	0.233**
13	0.525	0.542	-0.016
14	0.593	0.604	-0.011
15	0.542	0.521	0.022
16	0.525	0.375	0.150
17	0.475	0.667	0.192**
18	0.525	0.438	0.088
19	0.661	0.563	0.099
20	0.424	0.0396	0.028
Total	10.712	9.333	1.379

*, **, *** denote statistical significance at the 10%, 5%, 1% level.

Table 2

Question	Senior	Freshmen	Difference
1	0.709	0.462	0.247***
2	0.709	0.462	0.247***
3	0.564	0.308	0.256***
4	0.655	0.538	0.116
5	0.491	0.385	0.106
6	0.800	0.423	0.377***
7	0.309	0.192	0.117
8	0.582	0.250	0.322***
9	0.618	0.423	0.195***
10	0.545	0.212	0.333***
11	0.800	0.442	0.358***
12	0.509	0.327	0.182*
13	0.636	0.423	0.213**
14	0.727	0.462	0.265***
15	0.673	0.385	0.288***
16	0.545	0.365	0.180*
17	0.673	0.442	0.231**
18	0.600	0.365	0.235**
19	0.764	0.462	0.302***
20	0.600	0.212	0.388***
Total	12.509	7.538	4.971***

*, **, *** denote statistical significance at the 10%, 5%, 1% level.

Table 3

Question	GB 101 Yes	GB 101 No	Difference
1	0.900	0.517	0.383***
2	0.850	0.529	0.321***
3	0.850	0.345	0.505***
4	0.800	0.552	0.248**
5	0.650	0.391	0.259**
6	0.900	0.552	0.348***
7	0.500	0.195	0.305***
8	0.700	0.356	0.344***
9	0.750	0.471	0.279**
10	0.700	0.310	0.390***
11	0.900	0.563	0.337***
12	0.700	0.356	0.344***
13	0.600	0.517	0.083
14	0.900	0.529	0.371***
15	0.900	0.448	0.452***
16	0.700	0.402	0.298**
17	0.750	0.517	0.233*
18	0.800	0.414	0.386***
19	0.900	0.552	0.348***
20	0.800	0.322	0.478***
Total	15.55	8.839	6.711***

*, **, *** denote statistical significance at the 10%, 5%, 1% level

Table 4

Question	Business Major	Non-Business Major	Difference
1	0.929	0.468	0.461***
2	0.821	0.506	0.315***
3	0.786	0.316	0.470***
4	0.786	0.532	0.254**
5	0.679	0.354	0.325***
6	0.857	0.532	0.325***
7	0.536	0.152	0.384***
8	0.750	0.304	0.466***
9	0.750	0.443	0.307***
10	0.643	0.291	0.352***
11	0.857	0.544	0.313***
12	0.750	0.304	0.446***
13	0.679	0.481	0.198*
14	0.821	0.519	0.302***
15	0.821	0.430	0.391***
16	0.714	0.367	0.347***
17	0.750	0.494	0.256**
18	0.750	0.392	0.358***
19	0.821	0.544	0.277***
20	0.786	0.278	0.508***
Total	15.286	8.253	7.033***

*, **, *** denote statistical significance at the 10%, 5%, 1% level

Table 5

Question	GPA >3.2	GPA ≤3.2	Difference
1	0.765	0.619	0.146
2	0.765	0.619	0.146
3	0.559	0.571	-0.013
4	0.647	0.667	-0.020
5	0.559	0.381	0.178
6	0.912	0.619	0.293***
7	0.353	0.238	0.115
8	0.529	0.667	-0.137
9	0.647	0.571	0.076
10	0.618	0.429	0.189
11	0.765	0.857	-0.092
12	0.618	0.333	0.284**
13	0.647	0.619	0.028
14	0.735	0.714	0.021
15	0.706	0.619	0.087
16	0.559	0.524	0.035
17	0.647	0.714	-0.067
18	0.618	0.571	0.046
19	0.765	0.762	0.003
20	0.676	0.476	0.200
Total	13.088	11.571	1.517

*, **, *** denote statistical significance at the 10%, 5%, 1% level

Table 6

Table 6 shows statistics for the four regression models using total score as the dependent variable and 6 different explanatory variables: gender, freshman/senior, age, taken GB 101 or not, business major or non-business major, and GPA above or below 3.2. Total score was calculated as:

$$\text{Total score} = \text{Intercept } \alpha + \beta_1 \text{ Gender} + \beta_2 \text{ Freshman} + \beta_3 \text{ Age} + \beta_4 \text{ Business Major} + \beta_5 \text{ GB 101} + \beta_6 \text{ HighGPA}$$

	Coefficient / P-Value			
Intercept	7.930*** (0.000)	9.898*** (0.000)	8.920*** (0.000)	11.248*** (0.000)
Gender	-0.068 (0.913)	0.058 (0.931)	-0.217 (0.817)	0.089 (0.933)
Freshman	-1.735** (0.035)	-3.065*** (0.000)		
Age	0.069 (0.308)	0.034 (0.637)	0.017 (0.842)	-0.035 (0.719)
Business Major	5.155*** (0.000)		5.089*** (0.000)	
GB 101	0.768 (0.555)	4.746*** (0.000)	0.732 (0.592)	4.658*** (0.000)
High GPA			0.715 (0.439)	0.615 (0.557)
N	107	107	55	55
Adjusted R ²	0.516	0.439	0.425	0.259

*, **, *** denote statistical significance at the 10%, 5%, 1% level.

Appendix: Survey

Demographics:**Gender:** Male or Female**Grade Classification:** Freshmen or Senior**Age:****Approximate GPA:****Major:****Taken personal finance:** Yes or NoSurvey:**Investments:**

- 1.) Over the past 70 years the type of investment that has earned the most money, or the highest rate of return, for investors has been
 A. Stocks.
 B. Corporate bonds.
 C. Savings accounts.
 D. None of these.

- 2.) Jennifer wants to take some of her savings and invest in a mutual fund because mutual funds are
 A. Guaranteed to earn more than savings accounts.
 B. Risk free.
 C. Managed by experts at picking investments.
 D. Pay the highest yields.

- 3.) If you were buying a bond with the least amount of risk, which would you choose?
 A. Municipal bond
 B. Investment grade bond
 C. High-yield bond
 D. U.S. treasury bond

- 4.) Monica owns a wide variety of stocks, bonds, and mutual funds to lessen her risk of losing money. This is called
 A. Saving
 B. Compounding
 C. Diversifying
 D. Dollar cost averaging

Insurance:

- 5.) If you have caused an accident, which type of automobile insurance would cover damage to your own car?
- A. Term
 - B. Liability
 - C. Collision
 - D. Comprehensive
- 6.) _____ insurance protects the tenant against the loss of personal property.
- A. Renter's
 - B. Liability
 - C. Lender's
 - D. None of these
- 7.) If you wish to pay exactly the same life insurance premium each year, you would choose a
- A. Nonparticipating policy
 - B. Participating policy
 - C. Term insurance policy
 - D. Variable life policy
- 8.) Health insurance includes
- A. Life insurance
 - B. Disability insurance
 - C. Personal liability insurance
 - D. An annuity
 - E. An endowment

Housing:

- 9.) If you were wanting to buy a loan with an interest rate that varied from month to month, which would you choose?
- A. FRM
 - B. ARM
 - C. balloon mortgage
 - D. interest-only loan
- 10.) Which document is used to transfer ownership of property from one party to another?
- A.) Title
 - B.) Escrow account
 - C.) Settlement statement
 - D.) Appraisal
 - E.) Deed

- 11.) Refinancing of a mortgage is recommended when
- A.) Interest rates rise
 - B.) Interest rates fall
 - C.) The escrow account balance declines
 - D.) Two or more points are required by the lender at the time of closing
- 12.) If a homeowner leaves toys on stairs that results in injury to a delivery person, this may be ruled as
- A.) Vicarious liability
 - B.) Negligence
 - C.) Assigned risk
 - D.) Umbrella coverage
 - E.) Coinsurance

Retirement/Estate Planning:

- 13.) You can determine your net worth by
- A.) Subtracting your assets from your liabilities
 - B.) Subtracting the value of your home from the mortgage balance
 - C.) Adding your liabilities and assets
 - D.) Subtracting your liabilities from your assets
- 14.) Which one of the following expenditures for retirees is likely to increase?
- A.) Insurance
 - B.) Federal income taxes
 - C.) Clothing expenses
 - D.) Work-related expenses
 - E.) State income taxes
- 15.) Which one of the following is the most widely used source of retirement income?
- A.) IRAs
 - B.) Keogh plans
 - C.) Social security
 - D.) Company pension plans
 - E.) Union pension plan
- 16.) A person who will follow your instructions specified in your will is called a(n)
- A.) Beneficiary
 - B.) Trustor
 - C.) Witness
 - D.) Executor or executrix

Taxes/Cash & Credit Management:

- 17.) If you are using a credit card prudently, you should
- A.) Make only the minimum payment each month
 - B.) Pay the balance in full each month
 - C.) Pay only the interest on any outstanding balance
 - D.) Gradually expand the amount borrowed to the card's credit limit
- 18.) Which of the following is true about sales tax?
- A.) The national sales tax percentage rate is 6%.
 - B.) The federal government will deduct it from your paycheck.
 - C.) You don't have to pay the tax if your income is very low.
 - D.) It makes things more expensive for you to buy.
- 19.) Which of the following is the best place to set funds aside for "surprise" expenditures?
- A.) The stock market
 - B.) Your regular checking account
 - C.) A savings account
 - D.) Ownership of real estate
- 20.) A term that refers to the borrower's assets or net worth is called
- A.) Capacity
 - B.) Character
 - C.) Capital
 - D.) Collateral