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The effects of childhood allowances on adult financial capabilities

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The Effects of Childhood Allowances on Adult Financial Capabilities

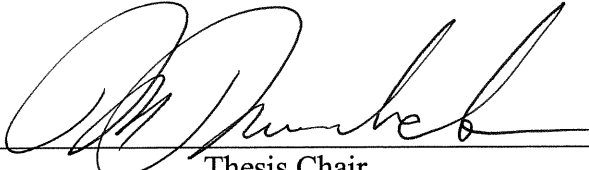
A Thesis Submitted to
the Faculty of the University of North Georgia
In Partial Fulfillment
Of the Requirements for the Degree
Bachelor of Business Administration
With Honors

Eavan L. Thomas

Fall 2016

Accepted by the Honors Faculty
of the University of North Georgia
in partial fulfillment of the requirements for the title of
Honors Program Graduate

Thesis Committee:



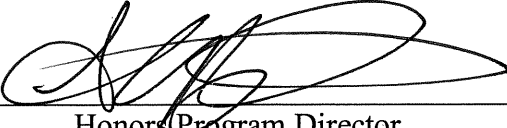
Thesis Chair



Committee Member



Committee Member



Honors Program Director

Abstract

This paper studies the connections between individuals' childhood allowances and financial education and their subsequent financial capabilities in adulthood. Earning an allowance as a child can instill a work ethic in the formative years and help children progress towards financial independence. The lessons learned through earning an allowance can translate to a better grasp of financial concepts in adulthood (Danes, 2005). Conversely, an allowance that is given freely without any means of earning it can be detrimental to a child by imparting a sense of entitlement. Having this mindset in adulthood can lead to a faulty understanding of financial concepts (Danes, 2013). Additionally, the lessons parents or guardians teach in combination with giving an allowance play a crucial role in developing a financially responsible adult. For example, when parents or guardians require children to save a portion of their allowance, they simulate an environment like the one they will encounter when they become working adults (Danes, 2005). This study anonymously surveys participants about their upbringing (whether or not they received an allowance, the nature of the allowance, and how well their parents educated them on finances) and current financial situations (employment, debt, income, and savings plans). The information gained from the survey will provide real-world examples of these concepts. The researcher hypothesizes the following: First, individuals who earned an allowance will be more financially capable than those who received an unearned allowance. Second, individuals who received an unearned allowance will be less financially capable than those who did not receive an allowance at all. It is unrealistic to expect adults to understand how to manage money if they have never done so before. This study seeks to demonstrate that the foundations for financially capable adults are built during childhood.

The Effects of Childhood Allowances on Adult Financial Capabilities

Allowances have been a popular ritual between parents/guardians and their children for many years. The nature of these allowances varies across cultures depending on factors such as the socioeconomic status of parents/guardians, the age of the children, and their beliefs about financial education. However, many people agree that receiving an allowance as a child is a rite of passage that, on some level, prepares an individual for the economic situations they will face in adulthood. Specifically, since this research was done at a university, this topic is highly applicable to today's college students. Student loan debt and default are at an all-time high, and many experts blame young adults' lack of financial competency for this crisis. If students were more prepared for financial responsibilities during childhood, perhaps the student debt numbers would be lower (Bidwell, 2013). This paper examines the different forms of allowances individuals received and what effects they may have on their current financial competency.

Literature Review

The majority of published research on the topic of childhood allowances and financial education has been done by Dr. Sharon Danes from the University of Minnesota. Danes describes an allowance as a specified amount of money given to children on a predetermined interval. She also classifies types of payments that adults give their children into two categories: the dole and earned money. The dole is a payment given freely. Earned money, as one would assume, is a payment given for completion of some sort of task. Danes posits that there are advantages and disadvantages to both methods (2013).

The dole method is often well-suited for very young children who are not yet old enough to understand or complete chores. It plants the concept of a monetary relationship without over-complicating it. It can also work well for families with unpredictable finances by allowing them

to change the amount they give should their financial situation change. However, this method can also create a misunderstanding regarding the origins of money. If a child does not associate the regular reception of money with an act of earning, they may believe resources are inexhaustible and fail to realize that their parents or guardians had to work to get the money in the first place (Danes, 2013).

The earning method offers a great opportunity to teach children fiscal responsibility. It also teaches them the basic economic concept of working to earn a living. They begin to associate money reception with their actions. As a result, children will feel more independent because they directly correlate financial success with their own drive and hard work. Even though the money is coming from their parents or guardians, they understand that it is a product of their effort. In the case of the dole method, children may be more dependent on their parents or guardians because they think they can only get money from free handouts (Danes, 2013). However, there are still issues with the earning method. If parents or guardians overcompensate a child for tasks, the child may misunderstand how much effort it actually takes to earn money. For that reason, it is important to accurately pay children for their tasks relative to the amount of work it requires. Another issue with the earning method is that parents or guardians often assume that simply requiring their children to earn money is enough to teach them how to manage their money. This simply is not the case. Lessons in financial competence and money management must occur in order for any type of allowance system to be effective in the long run (Danes, 2013).

Danes outlines practical ways to teach financial competence throughout the development of a child to prepare them for adulthood. She stresses the importance of scaling up the education as children get older (Danes, 2013). Other experts support this method and its merits. Giving

children an opportunity to experiment with financial situations and make mistakes in a “controlled environment” can save them from making the same mistakes with serious consequences later in adulthood (Dagher, 2016). At a preschool level, parents or guardians should begin playing games with their children that simulate real-life transactions, such as exchanging pretend money for play grocery items. They should also teach children about the concept of working and how they pay for basic necessities for the family. In the early elementary school years, parents/guardians should open a savings account for their children and explain how the banking system works. Additionally, they can begin teaching simple budgeting so children understand that they have to prioritize needs and wants. Danes also suggests that this is the optimal time to begin an allowance system, should the adults choose to do so. From this point onward, parents/guardians should continue adding depth to the lessons as children become more mature. Danes advocates that they should also require children to save a certain portion of their allowance and explain why savings are a critical part of financial stability. As children approach adulthood and are of working age, parents or guardians should help them decide if they are going to begin a real job. Once children have a job, parents or guardians must decide whether or not to continue an allowance. All of their preparation has been leading up to this point when children are ready to enter the world as working adults (Danes, 2013).

Hypotheses

Hypothesis I: Individuals who received an allowance during childhood that is earned through chores/tasks will be more financially capable than those who received an unearned allowance.

Hypothesis II: Individuals who received an unearned allowance during childhood will be less financially capable than those who did not receive an allowance at all.

Methodology

The data for this study were collected from a survey developed by the researcher. This survey was completely anonymous and distributed to students on the Dahlonega and Gainesville campuses of the University of North Georgia. The sample of students was chosen by collecting a stratified random sample. The researcher made sure to pull from a variety of disciplines and class levels to create the best possible representation of the student body. After selecting the class rosters, the researcher sent a standardized email including a survey link to all of the students within those courses asking for their participation in the study. Students had to read and agree to an informed consent prior to beginning the survey. The only restriction on responses was the requirement that respondents be at least 18 years old. The survey was sent to approximately 1000 students and received 216 responses.

The survey began with a set of basic background questions such as gender, age range, ethnicity, family structure growing up, and family income range growing up. The next section asked whether or not respondents received an allowance and the nature of that allowance (earned or unearned and how their parents or guardians controlled it). It also asked respondents how well they believed their parents or guardians prepared them for handling financial responsibilities. After that, the survey focused mostly on the respondents' current financial situations. The main variables used to determine financial competency were whether or not respondents knew their credit score and what it was if they did, whether or not respondents had paid late or defaulted on a loan, if they had a budget and how well they adhered to it, if they had an emergency or incidental fund, if they had a retirement savings plan, and how well they believed they understood banking concepts.

Since none of the individual variables discussed in the survey adequately capture an individual's financial competency, the researcher created a construct to combine all pertinent variables and provide a numeric metric for comparing respondents. The following values were assigned to each variable. These values were combined into one formula to create the final construct value.

Table 1:

Value Assignments for Construct	
Budget	Yes: 1 No: 0
Budget Adherence	None/not well at all: 0 Slightly well: 0.5 Moderately well: 1 Very well: 1.5 Extremely well: 2
Retirement Savings	Yes: 1 No: 0
Emergency/Incidental Fund	Yes: 1 No: 0
Credit Score	No answer/I don't know: 0 598 or lower: 0.25 598-699: 0.5 700 or higher: 1
Late Payment	Yes: -1 No: 0
Default	Yes: -2 No: 0
Understand Banking	None/not well at all: 0 Slightly well: 0.5 Moderately well: 1 Very well: 1.5 Extremely well: 2

These numerical weight assignments were decided on by the researcher and statistical advisor in order to create a reasonably weighted construct value. For example, late payments and defaults were given negative weights so that they only affected those who answered yes. However, a late payment was not weighted as heavily as a default. In the case of the credit score

question, the researcher decided to give at least some positive weight to respondents simply for knowing their credit score, even if it was a bad score. Lastly, for the budget-related questions, the researcher decided to weight the existence of a budget and the adherence to it separately. While the fact that an individual simply has a budget is positive, it is more positive if they actually adhere to it.

Data Summary

Table 2:

Number of Respondents in Each Allowance Category	
No allowance	154
Earned allowance	49
Unearned allowance	13
Total respondents	216

Table 3:

Descriptive Statistics: Respondent Answer Percentages		
Allowance	Yes	71.3%
	No	28.7%
Earned/Unearned	Earned	79.0% of allowance recipients
	Unearned	21.0% of allowance recipients
Parental Financial Prep	Not well at all	4.6%
	Slightly well	11.6%
	Moderately well	29.6%
	Very well	38.9%
	Extremely well	15.3%
Retirement Savings	Yes	20.8%
	No	79.2%
Emergency Fund	Yes	50.5%
	No	49.5%
Budget	Yes	24.1%
	No	75.9%
Budget Adherence	Not well at all	1.9% of those who have a budget

	Slightly well Moderately well Very well Extremely well	5.8% of those who have a budget 46.2% of those who have a budget 38.5% of those who have a budget 7.7% of those who have a budget
Understanding of Banking	Not well at all Slightly well Moderately well Very well Extremely well	4.2% 12.5% 50.0% 22.7% 10.6%
Finance/Accounting Major	Yes No	6.5% 93.5%
Credit Score	598 or lower 599-699 700 or higher Blank/I don't know	0.05% 17.1% 21.8% 60.6%
Late Payment	Yes No	8.8% 91.2%
Default	Yes No	2.3% 97.7%

Table 4:

Respondents' Answers to Chi Squared Analyzed Variables		
	Emergency Fund (Yes)	Understand Banking
No allowance	49.34%	Moderately well- 50.98% Extremely well- 10.46% Very well- 20.92%
Earned allowance	59.18%	Moderately well- 51.02% Extremely well- 12.24% Very well- 28.57%
Unearned allowance	30.77%	Moderately well- 38.46% Extremely well- 7.69% Very well- 15.38%

Data Analysis

The data collected in this study were analyzed using two methods. Individual variable relationships were analyzed using chi squared tests. The construct value relationships were analyzed using t-tests. Initially, the researcher planned to just analyze the construct value relationships. However, some individual variable relationships, emergency funds and understanding of banking, stood out as being clearly supportive of the hypotheses; therefore this analysis will focus in on those, as well as the construct values.

Hypothesis I. The results indicated that respondents who earned an allowance were more likely to have an emergency or incidental fund than those who received an unearned allowance. 59.18% of allowance earners had an emergency fund as opposed to only 30.77% of unearned allowance recipients. The chi squared test for independence suggested that there is a relationship between these two factors, at a significance level of 0.10.

Table 5:

		Emergency Fund		
		No	Yes	Total
Earned/Unearned	Count			
	Total %			
	Col %			
	Row %			
	Earned	20	29	49
		32.26	46.77	79.03
		68.97	87.88	
		40.82	59.18	
	Unearned	9	4	13
		14.52	6.45	20.97
	31.03	12.12		
	69.23	30.77		
Total	29	33	62	
	46.77	53.23		

Tests			
N	DF	-LogLike	RSquare (U)
62	1	1.6888902	0.0394
Test	ChiSquare	Prob>ChiSq	
Likelihood Ratio	3.378	0.0661	
Pearson	3.332	0.0679	

Additionally, results indicated that allowance earners understood banking (by their own estimation) better than those who received an unearned allowance. The percentages for the

higher levels of understanding were overall higher for earned than unearned allowance recipients. The chi squared test for independence also suggested that these relationships were significant at a level of 0.10.

Table 6:

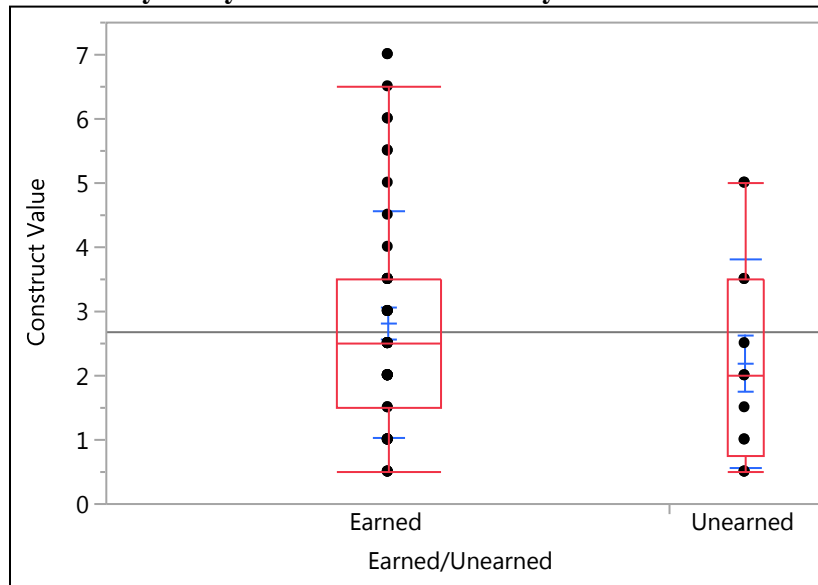
		Understand Banking					
Count	Extremely well	Modera tely well	Not well at all	Slightly well	Very well	Total	
Total %							
Col %							
Row %							
Earned/Unearned	Earned	6	25	1	3	14	49
		9.68	40.32	1.61	4.84	22.58	79.03
		85.71	83.33	100.00	37.50	87.50	
		12.24	51.02	2.04	6.12	28.57	
Unearned	Unearned	1	5	0	5	2	13
		1.61	8.06	0.00	8.06	3.23	20.97
		14.29	16.67	0.00	62.50	12.50	
		7.69	38.46	0.00	38.46	15.38	
Total	Total	7	30	1	8	16	62
		11.29	48.39	1.61	12.90	25.81	

Tests			
N	DF	-LogLike	RSquare (U)
62	4	4.1303166	0.0521

Test	ChiSquare	Prob>ChiSq
Likelihood Ratio	8.261	0.0825
Pearson	9.808	0.0438

Table 8 illustrates the distributions and t-test run to compare earned versus unearned allowance recipients and their construct values. This t test was performed to determine if those with unearned allowances had significantly lower construct values than those whose allowance was earned. Since the hypothesis suggests that those who received an unearned allowance will have lower levels of understanding, the statistic of importance is the probability $< t$. That value is 0.1229 and therefore not significant. However, the t ratio value is a negative number (-1.19519), which indicates that the data are trending in the right direction and consistent with the hypothesis, despite being insignificant.

Table 7:
Oneway Analysis of Construct Value By Earned/Unearned



Missing Rows 154

Means and Std Deviations

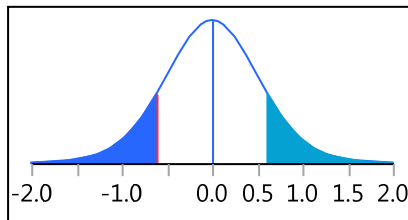
Level	Number	Mean	Std Dev	Std Err Mean	Lower 95%	Upper 95%
Earned	49	2.80612	1.76132	0.25162	2.3002	3.3120
Unearned	13	2.19231	1.61424	0.44771	1.2168	3.1678

t Test

Unearned-Earned

Assuming unequal variances

Difference	-0.6138	t Ratio	-1.19519
Std Err Dif	0.5136	DF	20.2721
Upper CL Dif	0.4566	Prob > t	0.2458
Lower CL Dif	-1.6842	Prob > t	0.8771
Confidence	0.95	Prob < t	0.1229



Hypothesis II. The results indicated that respondents who did not receive an allowance at all were more likely to have an emergency/incidental fund than those who received an unearned allowance. 49.34% of respondents who did not receive an allowance had an emergency fund as opposed to only 30.77% of unearned allowance recipients. However, the chi

squared test for independence did not detect a significant relationship, although data were trending in the predicted direction.

Table 8:

Emergency Fund				
Count	No	Yes	Total	
Total %				
Col %				
Row %				
None/Unearned	None	77	75	152
		46.67	45.45	92.12
		89.53	94.94	
		50.66	49.34	
Unearned	Unearned	9	4	13
		5.45	2.42	7.88
		10.47	5.06	
		69.23	30.77	
Total		86	79	165
		52.12	47.88	

Tests			
N	DF	-LogLike	RSquare (U)
165	1	0.85139919	0.0075

Test	ChiSquare	Prob>ChiSq
Likelihood Ratio	1.703	0.1919
Pearson	1.655	0.1982

Additionally, results indicated that those who did not receive an allowance understood banking (by their own estimation) better than those who received an unearned allowance. The percentages for the higher levels of understanding were overall higher for no allowance than unearned allowance recipients. However, the chi squared test for independence did not detect a significant relationship.

Table 9:

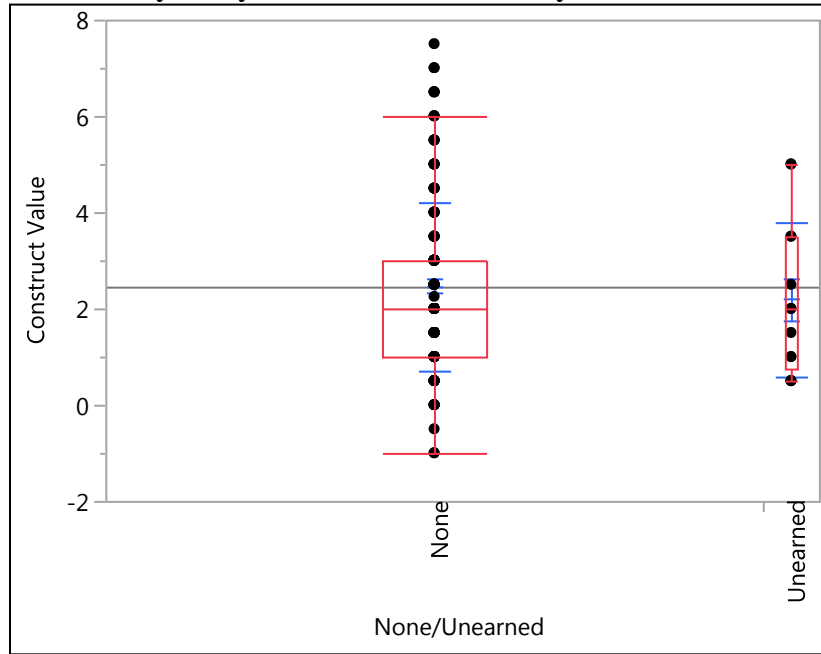
		Understand Banking					
Count	Extremely well	Modera tely well	Not well at all	Slightly well	Very well	Total	
Total %							
Col %							
Row %							
None/Unearned							
None	16	78	8	19	32	153	
	9.64	46.99	4.82	11.45	19.28	92.17	
	94.12	93.98	100.00	79.17	94.12		
	10.46	50.98	5.23	12.42	20.92		
Unearned	1	5	0	5	2	13	
	0.60	3.01	0.00	3.01	1.20	7.83	
	5.88	6.02	0.00	20.83	5.88		
	7.69	38.46	0.00	38.46	15.38		
Total	17	83	8	24	34	166	
	10.24	50.00	4.82	14.46	20.48		

Tests				
N	DF	-LogLike	RSquare (U)	
166	4	3.0039532	0.0136	
Test	ChiSquare	Prob>ChiSq		
Likelihood Ratio	6.008	0.1986		
Pearson	6.945	0.1388		

Warning: 20% of cells have expected count less than 5, ChiSquare suspect.

Table 11 illustrates the distributions and t-test run to compare unearned allowance recipients versus those who did not receive an allowance and their construct values. This t test was performed to determine if those who received an unearned allowance had significantly lower construct values than those who did not receive an allowance at all. Since the hypothesis suggests that those with unearned allowances will have lower levels of understanding, the statistic of importance is the probability $< t$. That value is 0.2801 and therefore not significant. However, the t ratio value is a negative number (-0.59631), which indicates that the data are trending in the right direction and consistent with the hypothesis, despite being nonsignificant.

Table 10:
Oneway Analysis of Construct Value By None/Unearned



Means and Std Deviations

Level	Number	Mean	Std Dev	Std Err Mean	Lower 95%	Upper 95%
None	153	2.47222	1.74519	0.14109	2.1935	2.7510
Unearned	13	2.19231	1.61424	0.44771	1.2168	3.1678

t Test

Unearned-None

Assuming unequal variances

Difference	-0.2799	t Ratio	-0.59631
Std Err Dif	0.4694	DF	14.49056
Upper CL Dif	0.7237	Prob > t	0.5602
Lower CL Dif	-1.2835	Prob > t	0.7199
Confidence	0.95	Prob < t	0.2801

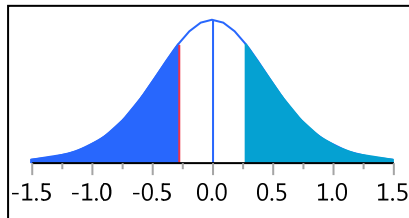


Table 11:

Significance Levels of Chi Squared Tests		
	Emergency Fund	Understand Banking
Hypothesis I	0.10	0.10
Hypothesis II	Not significant	Not significant

Table 12:

Significance Levels of Construct Value T-Tests	
Hypothesis I	Not significant
Hypothesis II	Not significant

Additional Finds. In the process of collecting data, several other outcomes outside the scope of the hypotheses were discovered. As the literature review mentions, Danes believes that parental financial education must be a part of a child's upbringing, whether an allowance system is in place or not (Danes, 2005). The following analysis explores the relationship between parental financial preparations and the two variables discussed in earlier analyses: emergency/incidental funds and understanding of banking.

The results indicated that respondents who claimed their parents/guardians prepared them better for financial responsibilities (by their own estimation) were more likely to have an emergency fund than those who claimed their parents/guardians did not prepare them well. Furthermore, the chi squared test for independence indicated that the relationship was significant at a level of 0.10.

Table 13:

		Emergency Fund		
		No	Yes	Total
Count				
Total %				
Col %				
Row %				
Parental Finance Prep	Extremely well	13	20	33
		6.05	9.30	15.35
		12.26	18.35	
		39.39	60.61	
	Moderately well	40	24	64
		18.60	11.16	29.77
		37.74	22.02	
		62.50	37.50	
	Not well at all	6	4	10
		2.79	1.86	4.65
		5.66	3.67	
		60.00	40.00	
	Slightly well	13	11	24
		6.05	5.12	11.16
		12.26	10.09	
		54.17	45.83	
	Very well	34	50	84
		15.81	23.26	39.07
		32.08	45.87	
		40.48	59.52	
Total	106	109	215	
	49.30	50.70		
Tests				
	N	DF	-LogLike	RSquare (U)
	215	4	4.5664813	0.0306
Test	ChiSquare	Prob> ChiSq		
Likelihood Ratio	9.133	0.0579		
Pearson	9.059	0.0596		

Additionally, results indicated that respondents who claimed their parents/guardians prepared them better for financial responsibilities (by their own estimation) were more likely to have a better understanding of banking concepts than those who claimed their parents/guardians did not prepare them well. The chi squared test for independence indicated that this relationship was also significant at a level of 0.10.

Table 14:

Understand Banking						
Count	Extremely well	Moderately well	Not well at all	Slightly well	Very well	Total
Total %						
Col %						
Row %						
Extremely well	7	11	0	2	13	33
	3.24	5.09	0.00	0.93	6.02	15.28
	30.43	10.19	0.00	7.41	26.53	
	21.21	33.33	0.00	6.06	39.39	
Moderately well	4	34	4	12	10	64
	1.85	15.74	1.85	5.56	4.63	29.63
	17.39	31.48	44.44	44.44	20.41	
	6.25	53.13	6.25	18.75	15.63	
Not well at all	1	5	1	1	2	10
	0.46	2.31	0.46	0.46	0.93	4.63
	4.35	4.63	11.11	3.70	4.08	
	10.00	50.00	10.00	10.00	20.00	
Slightly well	2	11	1	6	5	25
	0.93	5.09	0.46	2.78	2.31	11.57
	8.70	10.19	11.11	22.22	10.20	
	8.00	44.00	4.00	24.00	20.00	
Very well	9	47	3	6	19	84
	4.17	21.76	1.39	2.78	8.80	38.89
	39.13	43.52	33.33	22.22	38.78	
	10.71	55.95	3.57	7.14	22.62	
Total	23	108	9	27	49	216
	10.65	50.00	4.17	12.50	22.69	

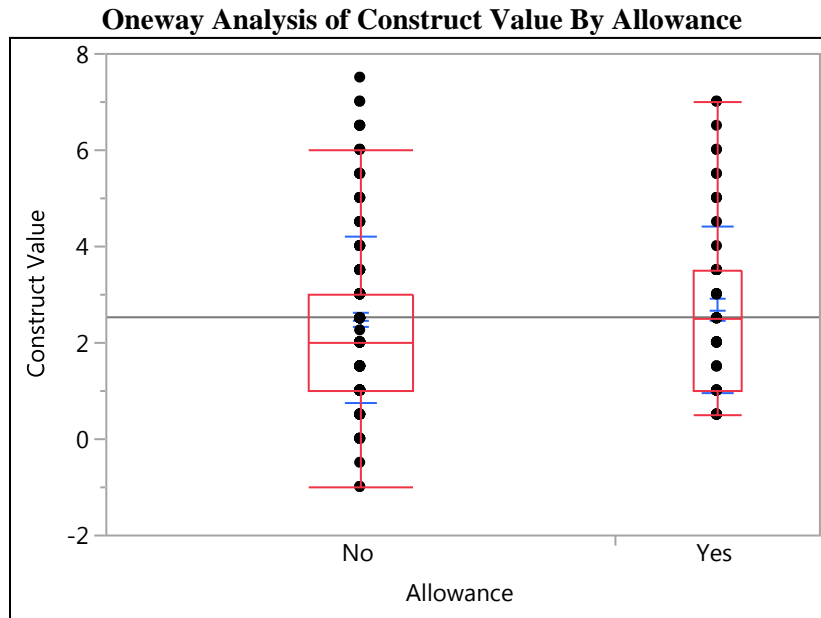
Tests				
	N	DF	-LogLike	RSquare (U)
	216	16	11.849425	0.0418

Test	ChiSquare	Prob>ChiSq
Likelihood Ratio	23.699	0.0963
Pearson	23.752	0.0951

Warning: 20% of cells have expected count less than 5, ChiSquare suspect.

Although the hypotheses of this research focus on unearned versus earned allowance recipients, the researcher decided to run the following t-test to simply compare respondents who received an allowance (regardless of whether it was earned or unearned) versus those who did not and their construct values. This t-test was performed to determine if those who received an allowance had significantly higher construct values than those who did not receive an allowance. Since this assumption claims a greater than relationship, the statistic of importance is the probability $> t$. That value is 0.2172 and therefore not significant. However, the t ratio value is a positive number (0.784404), which indicates that the data are trending in the direction the researcher assumed, despite being nonsignificant. This result is interesting, because it could support Danes belief that there may not be a right or wrong way to give an allowance. Rather, the process of money transaction between parents/guardians and their children holds value regardless of whether it is earned or unearned (Danes, 2005).

Table 15:



Means and Std Deviations

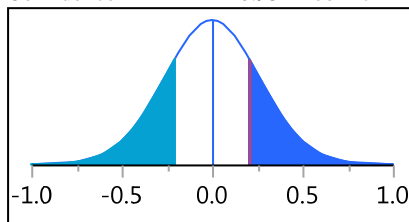
Level	Number	Mean	Std Dev	Std Err Mean	Lower 95%	Upper 95%
No	154	2.47240	1.73948	0.14017	2.1955	2.7493
Yes	62	2.67742	1.73701	0.22060	2.2363	3.1185

t Test

Yes-No

Assuming unequal variances

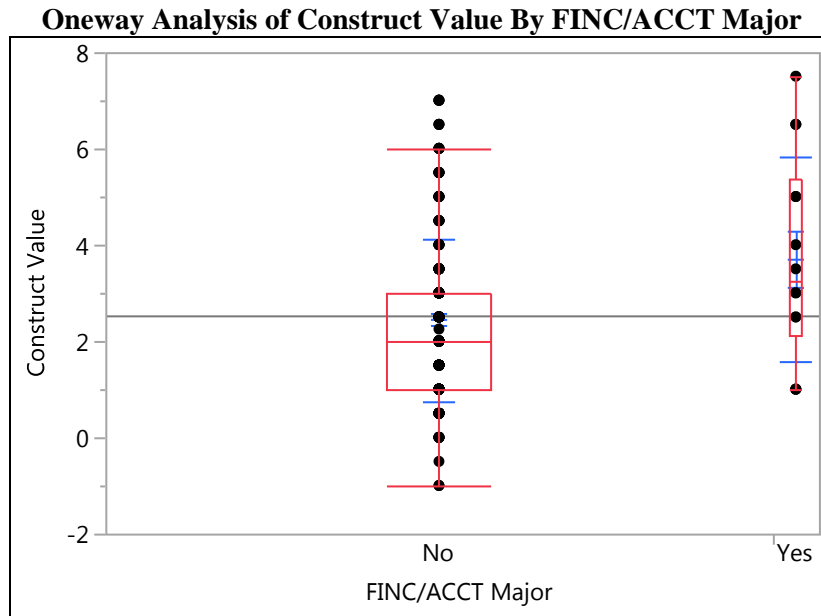
Difference	0.20502	t Ratio	0.784404
Std Err Dif	0.26137	DF	112.8653
Upper CL Dif	0.72284	Prob > t	0.4344
Lower CL Dif	-0.31280	Prob > t	0.2172
Confidence	0.95	Prob < t	0.7828



One of the additional questions asked on the survey was whether or not respondents were finance/accounting majors. The tables below illustrate the distributions and t-test run to compare finance/accounting majors versus all other majors and their construct values. This t test was performed to determine if respondents who were finance/accounting majors had significantly higher construct values than those who were not. Due to the direction of the hypothesis, the

statistic of importance is the probability $> t$. That value is 0.0238 and therefore significant at a level of 0.05. This result seems logical, since finance/accounting majors tend to have a better grasp of financial concepts than the general population.

Table 16:



Means and Std Deviations

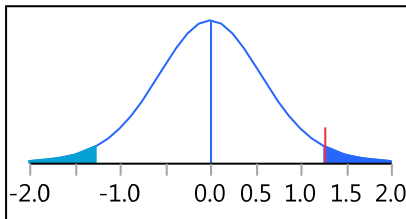
Level	Number	Mean	Std Dev	Std Err Mean	Lower 95%	Upper 95%
No	202	2.44926	1.68184	0.11833	2.2159	2.6826
Yes	14	3.71429	2.13680	0.57109	2.4805	4.9480

t Test

Yes-No

Assuming unequal variances

Difference	1.26503	t Ratio	2.169056
Std Err Dif	0.58322	DF	14.13859
Upper CL Dif	2.51475	Prob > t	0.0476
Lower CL Dif	0.01530	Prob > t	0.0238
Confidence	0.95	Prob < t	0.9762



Conclusions

The overarching theme of the conclusions is a general trend in a direction that supports both Hypothesis I and II. As the t-test results illustrate, the t ratios in every case have signs that support the hypotheses, even though many were not statistically significant for this data set. This lack of significance is most likely due to the small sample sizes. Hypotheses I (non-earners will be less financial capable than earners) is significantly supported by the chi squared tests, while Hypotheses II (those who did not receive an allowance will be more financially capable than non-earners) is not. Additionally, the t-test results indicate that Hypothesis I has a smaller P-value than Hypothesis II. Those results mean that Hypothesis I is closer to being significant than Hypothesis II. A possible explanation for these results can be found by referring back to the literature review. Danes posits that an allowance system of any kind has its merits in preparing children for financial success in adulthood (2013). That theory may be further supported by the additional findings in the t-test that simply compared the construct values of those who received an allowance to those who did not. Overall, the data found in this study suggests that an earned allowance may be more beneficial in contributing to individuals' adult financial success than an unearned allowance. However, an allowance of any kind can be helpful in preparing individuals for financial responsibility.

The researcher pursued this study after realizing the lack of financial literacy amongst her peers. On college campuses, programs such as UNG's Money Management Center are popping up to try combatting this education gap. While there is merit to these programs, the biggest problem is that the foundations for financial education were not laid to begin with. Young adults are far behind the learning curve because they did not receive the preparation for financial responsibility earlier in life. This research seeks to demonstrate the benefits of allowances and

parent financial education in childhood. The results indicate that individuals who took part in allowance systems had overall higher construct values (levels of financial competency) than those who did not. Furthermore, those who earned their allowances scored higher than those who did not earn theirs. The researcher hopes this study will spark conversation on the topic of childhood financial lessons and lead others to understand the importance of it. Learning these capabilities during childhood can save individuals from financial hardships in adulthood.

Limitations and Concerns

The data collected for this survey were only from University of North Georgia students on the Dahlonega and Gainesville campuses. While many often view UNG as a nontraditional school with a lot of diversity, it is not diverse enough to adequately represent the greater U.S. population. Furthermore, the composition of the sample used was not identical to the population of UNG either. For example, the gender diversity in the sample did not represent the reported gender distribution at UNG. Within this study, the gender percentages were 33.8% male, 65.7% female, and 0.5% other (those who chose not to identify specifically). The University of North Georgia reports that their gender percentages are 44% male and 56% female (“Quick Facts,” 2016). Additionally, the racial diversity in the sample did not match UNG’s. Within this study, the ethnicity percentages were 92.1% white, 0.9% Asian, and 6.9% other (those who chose not to identify with any of the listed options). The University of North Georgia reports that their ethnicity percentages are 77.5% white, 4.2% black/African American, 3.2% Asian, 10.6% Hispanic, 0.2% American Indian/Alaskan native, 2.6% multiracial, 0.1% native Hawaiian/Pacific Islander, and 1.6% unknown (“Quick Facts,” 2016). Another limitation of the study was the lack of age range, since the majority of respondents were in the 18-24 range. College students in that range probably have not spent enough time as adults to fully experience all of the aspects of

financial independence. Lastly, nonresponse was definitely a limitation as well, since the survey was sent to approximately 1000 students, yet only 216 responded.

Other concerns arose when it came to interpreting responses. The qualitative questions asked in this survey are subjective and therefore difficult to take at face value. Respondents could claim to understand banking far more than they actually do. Conversely, they could be modest and underestimate their understanding. Additionally, the researcher discovered after the survey had been completed that there was a technological glitch affecting one of the questions. The question that asked respondents for their credit score was somehow programmed to not include the “I don’t know” responses. Initially, the researcher was shocked by how many respondents had left that question blank. However, after discovering the error, it is possible that all of those blanks were actually people who had selected “I don’t know.” For the purpose of the construct, this would have no effect, because the value assigned to a blank response was the same as the value for “I don’t know.”

Suggestions for Further Research

This study could easily be repeated using a much larger and more diverse sample. Since the main issues faced were the lack of age, gender, and ethnicity representation, a more comprehensive sampling method could resolve that. Another option is to administer a scenario-based exam, also known as a situational judgment test, to participants (Lievens and De Soete, 2015). This exam would consist of “what would you do” types of questions that require individuals to think critically and apply their financial knowledge. Situational judgment tests, originally developed to test soldiers’ aptitude in the military, have been used in a variety of fields with proven success (Lievens and De Soete, 2015). The survey administered in this study relies on respondents’ self-evaluations, which are not always accurate. A situational judgment test

could yield potentially more valuable and well-rounded information without the bias of individuals' inflated self-evaluations.

The researcher also believes it would be beneficial to expand the hypotheses to include the variable of parental financial education, per Danes' suggestions (Danes, 2013). The survey could be amended by asking more in-depth questions about that variable. Additionally, the study could be changed to include surveys of both parents or guardians and their adult children. By capturing data from both parties, researchers would gain a wider understanding of the situation as a whole. This area of study is affected by so many variables; therefore it is difficult to develop a foolproof method for isolating specific results. However, learning from the errors of this specific study, certain variables can be eliminated or fine-tuned to narrow the focus.

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Appendix A

Qualtrics Survey

Title of the Study: The effects of childhood allowances on adult financial capabilities

Researcher: Eavan Thomas, Finance major, elthom1156@ung.edu

Introduction:

You are being asked to take part in a research study being conducted by Eavan Thomas for an honors thesis project under the supervision of Dr. Maryna Murdock in the Department of Finance in the Mike Cottrell College of Business at the University of North Georgia. You have been invited to participate because you are a student at UNG and able to provide real-world information about personal finance.

Purpose:

The goal of this project is to obtain information regarding the connections between childhood allowances and financial education and the subsequent adulthood financial capabilities.

Procedures:

The survey will take approximately 5 minutes. During the survey you will be asked questions about your upbringing, basic financial knowledge, and current financial situation.

Risks/Benefits:

The risks associated with participation in this study are minimal. However, please be aware that there will be questions in the survey regarding your financial situation, childhood, and parents/guardians.

There are no direct benefits to you from participation, but your willingness to share your knowledge and experiences will contribute to the field of personal finance and the way we understand and approach childhood financial education.

Confidentiality:

This survey is entirely anonymous. At no point is your name or other personally identifiable information collected. Therefore confidentiality will be easily maintained.

Voluntary Participation:

Your participation in this study is voluntary. Even if you decide to participate, you may skip any questions that you do not want to answer or stop taking the survey at any time. Should you choose to stop participating, your incomplete response will be removed from the research records. Once again, this survey is completely anonymous and will never be personally identifiable.

Contacts and Questions:

If you have any questions about this research project or interview, feel free to contact Eavan Thomas at elthom1156@ung.edu or the faculty sponsor, Dr. Maryna Murdock, at maryna.murdock@ung.edu.

Research at the University of North Georgia that involves human participants is overseen by the Institutional Review Board. Questions or problems regarding your rights as a participant should be addressed to Dr. Chantelle Renaud-Grant, Chair of the Institutional Review Board, University of North Georgia, Middle Grade Education, 82 College Circle, Dahlonega, GA, (706) 867-2969,

IRBchair@ung.edu.

- I agree to participate and am 18 or older
- I do not agree to participate

Q1: How old are you?

- 18 - 24
- 25 - 34
- 35 - 44
- 45 - 54
- 55 - 64
- 65 - 74
- 75 - 84
- 85 or older

Q2: With what gender do you identify?

- Male
- Female
- Other

Q3: What is your ethnicity?

- White
- Black or African American
- American Indian or Alaska Native
- Asian
- Native Hawaiian or Pacific Islander
- Other

Q4: What year of college are you currently in?

- Freshman
- Sophomore
- Junior
- Senior

Q5: What was your family living arrangement for the majority of your childhood?

- Both parents/guardians
- Single parent/guardian
- Other

Q6: What was your family's income range during the majority of your childhood? If you aren't sure, select what you think is the closest estimate.

- Less than \$30,000
- \$30,000-\$75,000
- \$75,001-\$100,000
- More than \$100,000

Q7: Did you receive an allowance as a child?

- Yes
- No

Q8: If you received an allowance as a child, was it earned based on you completing certain chores/tasks or was it freely given without requirements?

- Earned based on chores/tasks
- Freely given

Q9: If you received an allowance as a child, did your parents/guardians require you to save a certain amount of it, or did you control how it was used?

- My parents/guardians required me to save a certain amount
- I controlled how it was used

Q10: In your opinion, how well did your parents/guardians teach you about financial responsibilities?

- Extremely well
- Very well
- Moderately well
- Slightly well
- Not well at all

Q11: Did you get a job once you were of working age (prior to being 18)?

- Yes
- No

Q12: Who paid for your first vehicle?

- My parents/guardians
- Myself
- Other
- I do not have a vehicle

Q13: Are you currently receiving any state or federal financial aid?

- Yes
- No

Q14: Are you currently receiving any merit-based scholarships other than state and federal aid?

- Yes
- No

Q15: Who is currently financing your education that is not covered by financial aid?

- Myself
- My parents/guardians
- Other

Q16: What is your current living arrangement?

- On campus
- Off campus- with roommates
- Off campus- alone
- Off campus- with family (parents/guardians, spouse, etc)

Q17: Do you have a child/dependent for whom you are financially responsible?

- Yes
- No

Q18: What is your current employment status?

- Unemployed
- Part-time
- Full-time

Q19: What is your annual gross income range?

- \$5,000 or less
- \$5,001-\$10,000
- \$10,001-\$20,000
- \$20,001-\$50,000
- \$50,001-\$80,000
- \$80,001 or more

Q20: Are you currently borrowing funds for any of the following? Select all that apply.

- Education
- Vehicle
- Housing/living

Q21: Do you have a credit card?

- Yes
- No

Q22: If you have a credit card, what is your payment plan for it?

- I pay off the entire balance each period
- I pay the minimum due
- Other

Q23: Have you ever been late paying a debt/loan payment?

- Yes
- No

Q24: Have you ever defaulted on a loan?

- Yes
- No

Q25: What is your credit score?

- 700 or higher
- 599-699
- 598 or lower
- I don't know

Q26: Do you have a savings account?

- Yes
- No

Q27: Do you have a retirement savings plan of some sort?

- Yes
- No

Q28: Do you have an emergency/incidental fund? (Money set aside only for unexpected events like car damage, medical needs, etc)

- Yes
- No

Q29: Do you have a written budget for your expenses?

- Yes
- No

Q30: If you have a budget, how well do you stick to it?

- Extremely well
- Very well
- Moderately well
- Slightly well
- Not well at all

Q31: Have you taken a personal finance class and/or attended any finance-related workshops on campus?

- Yes
- No

Q32: How well do you think you understand basic banking concepts, including credit and debit cards, spending and savings accounts, interest, and loaning money?

- Extremely well
- Very well
- Moderately well
- Slightly well
- Not well at all

Q33: Are you a College of Business student?

- Yes
- No

Q34: Are you a finance or accounting major?

- Yes
- No