

FINANCIAL LITERACY BRIEFING 2: ASSESSING FINANCIAL LITERACY

SUMMARY

Assessment is important for teaching and learning in all areas of the curriculum. How else can teachers and students clarify what progress is being made and what to aim for in the future? But assessment tends to have a lower profile 'non-core' areas of the curriculum, such as financial literacy. One line of work being followed at the University of Birmingham is the development and evaluation of some assessment items which can be used in schools to assess financial literacy.

BACKGROUND

Financial Literacy remains in the political spotlight in the UK, not least through the role of the All Party Parliamentary Group on Financial Education for Young People (<http://www.pfeg.org/policy-campaigning/pfeg-and-parliament>). The designation of PSHE in England has been changed to incorporate financial education in the 'E' for Economic element: (<http://www.education.gov.uk/schools/teachingandlearning/curriculum/b00223087/pshe>). The Welsh Assembly has more detailed guidance for financial literacy in Wales (<http://wales.gov.uk/topics/educationandskills/publications/guidance/financialeducation/?lang=en>). Education Scotland provides guidance for Scottish schools at: <http://www.educationscotland.gov.uk/learningteachingandassessment/learningacrossthecurriculum/responsibilityofall/numeracy/financialeducation/index.asp>). Available assessments for financial literacy are on the increase. The next PISA assessment includes a section on financial literacy, but countries can choose whether or not to include this part of the assessment. The UK has chosen not to take part. The OECD's page on PISA and financial literacy can be found at: (<http://www.oecd.org/finance/financial-education/oecdphisafinancialliteracyassessment.htm>).

EXAMPLES OF ASSESSMENT QUESTIONS

The questions often found in existing assessments tend to concentrate on (mathematical) financial calculations and knowledge of financial products. The following examples exemplify this pattern:

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, would you be able to buy more than, exactly the same as or less than today with the money in this account?

(NLSY 2004; Lusardi et al. 2010, p. 361)

Suppose you had \$100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow: more than \$102, exactly \$102 or less than \$102?

(NLSY 2004; Lusardi et al. 2010, p. 361)

Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

(NLSY 2004; Lusardi et al. 2010, p. 361)

Imagine you have only equity funds and stock market prices fall. Are you . . . ?

- i. Better off*
- ii. Less well off*
- iii. As well off as before*
- iv. Do not know*

(Monticone 2010)

Compute the cost of a good that sells at half price; to find the value of an account balance after two years of an annual interest rate of 10%.

Japelli (2010)

ASSESSING A BROADER RANGE OF OUTCOMES IN FINANCIAL LITERACY

Through a project funded by the University of Birmingham we have developed some exemplar assessment items which aim to test a wider range of outcomes in financial literacy. These questions aim to assess students' understanding of the behaviour of governments and banks as well as individuals. The rationale for this broader conception of financial literacy is outlined in Briefing 1. We are grateful for advice received from colleagues in schools in the UK as well as academics from Germany, Switzerland and the US. Here are some exemplar questions in the form of multiple choice questions (we have also developed similar questions in 'open response' style:.

1	Susan and Rajvinder work for the same company and earn the same amount in a year. Susan spends only three-quarters of what Rajvinder spends during the year. Which of the following is most likely to be true?	Tick the correct option
A	Rajvinder saves much more than Susan during this year.	
B	Susan has to pay much more income tax than Rajvinder.	
C	Rajvinder owns a lot of shares but Susan does not.	
D	Susan expects her income to be much higher than Rajvinder's next year.	

2	In one year a government spends £100bn and receives £90bn in tax revenue. This means that	Tick the correct option
A	The government has a total debt of £10bn.	
B	The government will have to pay £10bn next year to people who lent money.	
C	The country must be in a recession.	
D	If interest rates stay the same, the government will have to pay more interest on the debt next year.	

3	Which of the following is the most accurate statement about the National Debt in the UK?	Tick the correct option
A	For most years since 1950 the UK has had no national debt.	
B	The UK has had a national debt every year since 1900.	
C	The UK national debt is now roughly four times the size it was before the 2008 financial crisis.	
D	The UK national debt has never been a higher proportion of annual national income as it is now.	

4	A government wants to reduce the size of its national debt. It is thinking about scrapping a plan to build 500 new schools. Which of the following is most likely to encourage the government to make this decision?	Tick the correct option
A	The birth rate is rising.	
B	Interest rates are lower than inflation.	
C	Unemployment in the construction industry is high.	
D	None of a, b. or c	

5	Both adults in a family are out of work and they have four children below the age of 16. They rent their home. The family has a bank debt of £20,000 and they are finding it difficult to keep up with the repayment of their loan. The family receives welfare payments through unemployment benefits and child benefit. Which of these events is most likely to increase their total debts in the long term?	Tick the correct option
A	A fall in interest rates in the whole country.	
B	Borrowing from a local money lender to pay off part of the debt.	
C	An increase in the level of welfare payments which the family receives.	
D	An increase in the rate of inflation.	

We are grateful to each of the schools and the teachers who have helped in our development work in financial literacy

Anyone interested in receiving a full set of the questions should contact Lily Ilic at the School of Education, University of Birmingham, UK, email lilic@bham.ac.uk.

If you are interested in trialling these questions please let us know. We will be pleased to analyse answers from your students and to provide feedback on their answers.

REFERENCES

- Lusardi, A., Mitchell, O.S. and Curto, V. (2010) Financial Literacy among the Young. *Journal of Consumer Affairs*, 44, 2, pp. 358-380.
- Monticone, C. (2010) How Much Does Wealth Matter in the Acquisition of Financial Literacy? *Journal of Consumer Affairs*, 44, 2, 403-422.
- Japelli, T. (2010). Economic Literacy: An international comparison. *The Economic Journal*, 120, 548, pp. F429-F451.