Main abstract:

Recent research shows state-mandated financial education in schools has some effects on young adults' behaviors broadly, but studies still need to hone deeper into the wide heterogeneity in financial education implementation and contexts. The Consumer Financial Protection Bureau seeks to understand "[w]hat methods for delivering school-based financial education are effective and efficient in a variety of conditions?"

Prior studies explored heterogeneities in teacher training, course content, and number of years states implemented mandates. Way and Holden (2009) documented that teachers lack enough training to teach personal finance, and Roberts and Joyce (2016) noted that course content may mismatch students' interest. For example, a student in their focus groups remarked that "a lot of assignments are related to mortgages; right now, I am interested in student loans." In assessing effects of financial education mandates on young adults' credit outcomes, Urban et al. (2018) found larger effects among students exposed to the mandate when it was in its third year of implementation than when it was in its first or second year of implementation.

This study addresses state-mandated financial education when states also require standardized testing of students in personal finance concepts. How states decide to institute this is unclear. Generally, testing is one tool used to hold educators accountable for covering a given subject's core concepts according to that subject's content standards. Hence, we may see greater impacts of the mandates among states requiring testing when content is added to the curriculum.

This paper tests if requiring standardized testing on personal finance topics enhances the effectiveness of state-mandated financial education on young adults' banking status and payday borrowing. Since states vary financial education across multiple dimensions, this paper also examines if this testing requirement has stronger effects in states where financial education is required as an embedded course. This is given the premise that testing will signal quality and adherence only when educators are expected to teach personal finance in addition to their core course content. This signal is irrelevant for standalone courses because they solely teach personal finance content.

The primary research question concerns the impact of state-mandated financial education on two examples of financial behaviors where previous studies found associations or effects: banking status and payday borrowing. These two outcomes are examined because the information is available in public-use datasets and allows the author to concentrate on exploring policy mechanisms. This paper estimates standard models accounting for graduating class, economic year, and policy environment to identify the effect of an individual graduating from high school in a state requiring high school personal finance instruction and testing on that cohort's propensities to have bank accounts and borrow payday loans. Overall, mandates increase bank account ownership and reduce payday borrowing within a 5-year period. However, standardized testing requirements do not enhance these effects generally or specifically by course format.

Financial education mandates operate under the jurisdiction of education policy; it is critical to understand if the mechanisms typically employed to hold educators accountable and improve student outcomes in core subjects also improve student outcomes in personal finance. Results suggests that standardized testing requirements may not be enough for effectively and efficiently delivering financial education. Hence, policymakers may weigh its usefulness in ensuring personal finance instruction.

References:

Roberts, Helen, and Joy Joyce. 2016. "Expanding High School Financial Literacy in Chicago: Sustaining Growth." Presentation presented at the 55th Annual Financial Literacy and Economic Education Conference, Phoenix, AZ, October 7.

Urban, Carly, Maximilian Schmeiser, J. Michael Collins, and Alexandra Brown. 2018. “The Effects of High School Personal Financial Education Policies on Financial Behavior.” *Economics of Education Review* (In Press).

Way, Wendy L., and Karen C. Holden. 2009. “Teachers’ Background and Capacity to Teach Personal Finance: Results of a National Study.” *Journal of Financial Counseling and Planning* 20 (2): 64-78.

Manuscript’s abstract:

Recent research shows state-mandated financial education in schools has some effects on young adults’ behaviors broadly, but studies still need to hone deeper into the wide heterogeneity in financial education implementation and contexts. This study contributes to the emerging policy discourse concerning effective and efficient methods for delivering school-based financial education through examining standardized testing policies in financial education. In this study, I employ pooled waves of the FDIC’s National Unbanked and Underbanked Survey and the National Financial Capability Study to examine if standardized testing requirements in personal finance enhance effectiveness of state-mandated financial education. I find that standardized testing requirements do not enhance mandate effectiveness for banking status or payday borrowing. These findings suggest that policymakers may weigh the usefulness of standardized testing requirements in ensuring personal finance instruction.