



# Should a Financial Literacy Course be required in the General Education Program for All College Students?

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## INTRODUCTION

- Access to post-secondary education in the U.S. was limited to an elite few until after World War II and the introduction of the GI Bill which created a tremendous demand for college education.
- Following this explosive growth in tertiary education, leaders in education became concerned that the contents of the curricula were too narrowly designed, especially in the technical fields which then led to the concept of a general education core in undergraduate education.
- The purpose of this paper is to identify the changes that occurred in undergraduate education with the introduction of the general education core and identify some of the problems that have occurred in the personal finance sector, concluding with the recommendation that college graduates need to have a part of their general education core a course in basic financial literacy.

## GENERAL EDUCATION CORE REFORM

- The move towards a general education core in U.S. college education initially began in 1945 with Harvard University. The general education committee report identified a common core of humanities, social sciences, and natural sciences to provide students with a broad background on which to build a sound foundation to make wise decisions.
- With the growth in professional areas in the '60s and '70s, curricula in U.S. universities once again started emphasizing technical skills and reducing the number of courses in the general education area.
- Many educational researchers became concerned with the narrowing of the general education core in U.S. and recommended the core be expanded to include diversity issues and communication skills.
- At the same time, accreditation institutions like the AACSB mandated a minimum number of credits in the general education core for professional degrees. Most extensive revisions in the general education curriculum occurred around the mid-80s and subsequent alterations in these have been more in terms of teaching methods than the offerings themselves.

## FINANCIAL CRISES IN U.S.

- Even those with only a passing interest in finance and banking are aware of the recent crisis in American banks generally notated as the "sub-prime mortgage crisis."
- The crisis was created due to banks lending monies to potential home owners who would not have qualified for normal mortgages – hence the "sub-prime" mortgages, which enabled those with very little initial investment and insufficient incomes to obtain these loans to obtain real estate, without realizing the subsequent increases in costs that would have to be borne by them.
- Furthermore, many of the mortgage-related borrowings are used to help fund consumer spending. On the other hand, the banks presumably lent these monies thinking that the trend of rising prices in the real estate market would enable them to recoup any loans that were defaulted.
- Unfortunately the real estate market in U.S. started to stagnate and decline triggering the subsequent crisis.
- Worse yet, this is not the only crisis to affect average Americans. In the recent past, events like the RentCenter scandal, amply demonstrate that most Americans are unaware of the costs of debt but only consider the immediate cash outflow as costs, ignoring the future consequences.
- Statistics, such as the amount of debt that average Americans carry and the amounts owed by students at the time of graduating from colleges, also evidence this trend.
- The U.S. Department of Commerce, Bureau of Economic Analysis (BEA) announced in 2007 that Americans had an alarming negative savings rate for 2006. A negative savings rate means that U.S. consumers are spending more than 100% of their monthly after-tax disposable income. The annual savings rate for 2006 was negative 1 percent, versus 8% in the 1950s, and was the lowest since 1933. This decrease in savings is further evidenced by an increase in consumption. Figure 1 below presents the U.S. Personal Consumption Expenditures (PCE) & Household Debt since 1950, where PCE is a measure of the goods and services purchased by consumers. The figure demonstrates that over the years, there is a dramatic increase in U.S. total household debt, which is supposedly used to finance the dramatic increase in U.S. consumption.

## A REQUIRED FINANCIAL LITERACY COURSE FOR ALL STUDENTS

- We believe that the only means by which average Americans can avoid having financial crises in the future will be to require a basic financial literacy course in all undergraduate programs in U.S. to educate students to recognize some basics in managing their personal finances. Everyone, regardless of one's major or interest, needs the knowledge of how to deal with personal financial matters, preparing budgets, and understanding basic issues concerning borrowing and investments.
- There is increasing awareness of this need nationwide recently. However, the recommendations so far are primarily aimed at the high school or lower levels (e.g., Tribune Business News December 23, 2007, Business Wire August 8, 2007, Atlanta Inquirer April 23, 2005). On October 25, 2007, Knight Ridder Tribune Business News has a report on Oklahoma bill, which Governor Brad Henry has signed into law on May 31, 2007. This new law will require personal financial education instruction to all students in grades seven through 12, beginning in the 2008-09 school year. It further notes that seven other states have legislation similar to this.
- In our opinion grades seven through 12 maybe too early an educational stage for the students to fully absorb the financial literacy concepts since most would not be making financial decisions at this phase of their lives. Hence, they may not be able to retain the concepts covered. Although both Beckenbaugh and Weaver (2006) and Davidson (2006) recommend financial education at the college level, their emphasis is focused on investment perspective, rather than the broader financial knowledge that one needs in the daily life.

## RECOMMENDED COMPONENTS OF A FINANCIAL LITERACY COURSE

The objectives of a basic financial literacy course should include a student's ability to:

- Understand the basic concepts of budgeting and the ability to forecast sources of income and expenses
- Understand financial literacy and how to use sound financial decisions to increase standard of living and financial wealth.
- Develop a personal finance decision-making perspective based on rational choices and appropriate research.
- Evaluate sources of debt and credit, be knowledgeable of the rights and responsibilities of having outstanding debts, and have the ability to analyze the costs to ensure appropriate purchases.
- Evaluate the variety of investments and be able to plan for the future.

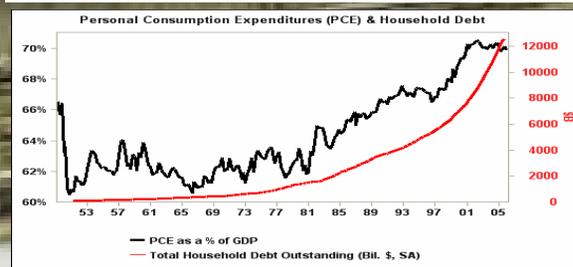
- The basic components of a financial literacy course should include some of the following aspects:
- Basics of Budgeting
  - Basic concepts of the time value concept and the importance of saving
  - Basic principles of banking services
  - Basic concepts of borrowing, including calculating the cost of debt
  - Basic principles of investing

Some limited concepts of complex transactions such as buying a home and starting and managing a small business, including using a basic accounting software program like Quicken or QuickBooks may also be components of a basic financial literacy course.

## Conclusions

- While it is important to acknowledge that all undergraduate programs, irrespective of the majors, should prepare students to be responsible citizens of society by including a general education core in humanities, social and basic sciences, it is equally important at the current time to recognize that basic financial literacy is equally as important.
- Some of the problems that have occurred in recent times in U.S. economy, such as the increased amount of debt that average Americans carry as also the sub-prime crisis clearly indicate that graduating students from U.S. universities need some background in financial literacy to avoid such problems in the future.
- Some components of a required basic financial literacy course as part of the general education core are identified in this paper.

Figure 1: Personal Consumption Expenditures (PCE) & Household Debt



## For further information

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