

IMPLICATIONS

**Implementing a Lens
of Perceived Financial
Literacy and Self-efficacy:
Implications for Family
& Consumer Science
Extension Educators**

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Abstract

Family and Consumer Science (FCS) Extension agents are uniquely poised to deliver needed financial literacy content for all ages in local communities. However, there is little research on the financial literacy perceptions and self-efficacy of FCS agents who may provide this content. This literature review summarizes current research on self-efficacy and perceived financial literacy and seeks to determine if there is value in pursuing similar studies regarding FCS educators.

Perceived financial literacy and self-efficacy: Implications for Family and Consumer Science Extension educators

Among researchers, there is agreement that financial literacy is a skill that the general population needs. Today's consumer must navigate a startling number of financial decisions and choices within a lifetime. Traditional financial products and services have continued to evolve with the advent of new technologies, giving way to more – and more complex – product and service choices for the consumer (Lind et al., 2020). Credit options abound in a wide range of rates and terms. Company-provided pensions are being discontinued in favor of defined benefit plans that are at the consumers' discretion. While flexibility can be a positive, the sheer number of choices can lead some consumers to shut down and avoid making choices at all. Consumers who lack the ability to compare and select the best offer may pay much more than necessary.

Financial literacy research is still young, gathering steam in the early- to mid-2000s. Some early financial literacy research lacked a theoretical foundation (Lusardi & Mitchell, 2014; Collins & Holden, 2014). Recently, studies have begun to look at financial literacy through the lens of Bandura's theory of self-efficacy. Other studies have delved into perceived and objective financial literacy and whether perceptions enhance financial literacy skills or possibly create overconfidence.

Objective

Much of available financial literacy research focuses on the learner's financial literacy efforts, regardless of age. Few studies focus on the educator. It appears little research has been done to find out about the self-efficacy and perceptions of educators, in particular the Family and Consumer Science (FCS) Extension educator. Therefore, the following research question could be posed: Would there be value in a study that looks into what FCS Extension agents think they know (versus what they actually know) and their self-efficacy, to see if it influences their likelihood of offering financial literacy programming? It could be hypothesized that a study exploring FCS agents' preparedness to teach financial education would illuminate how to better prepare them to provide this valuable programming in their communities.

Background Section 1: The Need for Financial Literacy

Researchers studying financial literacy and financial capability appear to agree that there is a general need for financial education (LeBaron et al., 2018; Lusardi & Mitchell, 2014; Hensley et al., 2017, etc.). On an individual consumer level, those benefiting from more financial literacy are more likely to amass wealth through retirement planning and other savings options (Lusardi & Mitchell, 2014). Those with less financial literacy are more likely to have larger debt loads and use more costly forms of borrowing (Lusardi & Mitchell, 2014). Harvey (2019) found that financial education mandates reduced likelihood and frequency of payday loan borrowing in particular, among the more costly alternative financial ser-

vices. Lusardi & Mitchell (2014) summarized related findings over a decade of amassed research that confirm an overall lack of financial literacy in U.S. respondents.

However, there is great disparity around when, how, and if financial literacy should be included in education in the United States, as evidenced by some states that have financial literacy education requirements and some that do not (Pickler et al., 2022). Even where there are requirements, there is great variance on how much financial literacy is taught – whether it is a standalone class or incorporated into other studies (Pickler et al., 2022).

There also appears to be some disagreement over whose role or responsibility it is to teach the subject matter. Is it the role of the education system to teach it? Mandating financial education in schools does not necessarily equate to providing related teacher training (Hensley et al., 2017; Lusardi & Mitchell, 2014; Compen et al., 2019). Thus, mandates may fall short of the goal.

Should it be taught by parents at home? Today's parents may not feel equipped to adequately teach their children financial principles (Jorgensen et al., 2019). In that study, parents and grandparents regretted that they did not provide financial lessons earlier in their child's life. A different qualitative study found that across generations family members wished they had received more opportunities to learn at home (LeBaron et al., 2018).

Should it be taught by government and non-profit groups? With Extension's research-based education focus and agents positioned in local communities, Family and Consumer Sciences Extension may be uniquely poised to help meet this need locally.

Background Section 2: Impact of Perceived Vs. Objective Financial Literacy

The objective financial literacy of respondents is typically measured by judging the number of "correct" responses given to a series of questions that demonstrate the subject matter,

as in Lusardi & Mitchell (2014). Interestingly, other researchers have begun to explore perceived financial literacy, and those instruments also gather responses to scaled questions that measure subjective financial literacy, as in Henegar & Mauldin (2015). Subjective financial literacy refers to a person's confidence level with finances; it evaluates the person's perceived knowledge, or his or her self-assessed financial knowledge (Ouachani et al., 2020).

By comparing the two measures (objective and perceived), researchers can determine how much the subject knows versus how much that subject thinks he or she knows, or the "illusion" of knowing. This comparison has led to some interesting research questions such as whether perceptions about financial literacy actually enhance financial literacy skills or possibly create overconfidence.

Studies by Balasubramnian & Sargent (2020a and 2020b) and Henegar & Mauldin (2015) differed in their findings depending on the income of the household of those studied. Henegar & Mauldin (2015) explored the relationship between financial literacy and savings behavior in low- to moderate-income households. They found that perceived knowledge was a strong indicator of savings behavior in low- to moderate-income households.

However, Balasubramnian & Sargent (2020a and 2020b) found that as income level increases, perceptions were skewed, with the greater financial freedom allowing for poorer financial decisions to be made. The authors referred to the gap between objective and perceived financial literacy as "blind spots." Their research supports their hypothesis that those with "blind spots" will make weaker financial choices than those without, and found that those with "blind spots" appear to be more likely to have greater education and income (Balasubramnian & Sargent, 2020a and 2020b).

Perceived financial literacy may be at least as important as objective financial literacy, and possibly more so (Lind et al., 2020; Allgood & Walstad, 2016). There may be a distinction between perception of financial knowledge and perception of financial ability, such as predicting the stock market (Allgood & Walstad, 2016). In one study, subjective financial knowledge, which the authors equated to confidence, was a stronger predictor than objective knowledge, which they equated to competence (Lind et al., 2020). Both measures suggest consumers will engage in sound financial practices. Thus,

financial literacy educators should focus on boosting both measures and how it affects financial decisions, behaviors, and wellbeing (Lind et al., 2020, Allgood & Walstad, 2016).

Several of the studies found a difference in perceived versus objective knowledge by gender (Tenney et al., 2021; Balasubramanian & Sargent, 2020a; LaBorde et al., 2013). They report males tend to perceive themselves more financially literate, while females tend to hold lower perceptions.

Background Section 3: Impact of Self-Efficacy on Financial Literacy

While early studies of financial literacy were lacking in theoretical foundation, more recent studies have begun to look at financial literacy through the lens of the theory of self-efficacy, by Canadian American psychologist Albert Bandura. Self-efficacy revolves around an individual's belief in his or her ability to affect situations (Fish & Jumper, 2021; Shim et al., 2019; Rothwell & Wu, 2019). Shim et al. (2019) define **financial self-efficacy** as a person's self-beliefs about his or her ability to manage personal finances. Self-efficacy is more specific than just confidence or self-esteem; it involves both belief in personal capabilities and that a person can reach specific attainments (Odle, 2019).

Bandura's theory revolves around four sources of efficacy: mastery experiences, vicarious experiences, social persuasion, and physiological (Odle, 2019, Mu'izzuddin et al., 2017). Mastery experiences involve achievements or successes a person has reached. Mu'izzuddin et al. (2017) suggest that the motivational construct of self-efficacy theory – in particular, successfully managing finances, using credit cards less, and controlling debt – can predict the level of individual financial literacy.

Vicarious experiences, or modeling, are those where one feels success is more achievable after observing peers succeed. Social or verbal persuasion happens when the belief of others leads to one's own belief in success. Finally, physiological conditions can affect belief. Stress, in particular, can reduce self-efficacy for individuals in terms of financial literacy

(Mu'izzuddin et al., 2017).

A few studies have looked at the impact of financial self-efficacy on the consumer. Shim et al. (2019) used self-efficacy to measure student loan repayment stress. They found that those with greater self-efficacy perceived less difficulty in paying off their loans. In conjunction, they also studied problem-solving orientations. While negative problem-solving orientations do impact perceived difficulty, financial self-efficacy impacted perceived loan repayment stress more significantly (Shim et al., 2019). Therefore, confidence in ability equated to less difficulty.

Hoffman & Plotkina's (2021) study focused specifically on Bandura's mastery source of self-efficacy. They asked individuals to recall and analyze a previous personal financial experience to find out its association with financial self-efficacy. They found a successful previous performance led to a more positive view on being able to accomplish a similar task in the future. This suggests that practitioners should focus on highlighting past personal successes and accomplishments to build consumer financial self-efficacy and trigger future success.

Of the studies that focus on self-efficacy and financial literacy in educational settings, most focus on students or workshop participants and how self-efficacy manifests itself within financial literacy. Program evaluation could be improved by measuring learning gain using the change in financial literacy self-efficacy (Prevett et al., 2020). However, it may warrant further attention when self-efficacy gains are larger than knowledge gains, as this could be considered overconfidence (Lusardi et al., 2017; Skimmyhorn et al., 2016).

Rothwell & Wu (2019) suggest that tailoring financial education content to life stage and gender could be effective strategies to ensure lessons are timely and relevant. The study compared self-efficacy to perceptions using data from a Canadian survey. They measured subjective financial knowledge, objective financial knowledge, and financial self-efficacy for individuals who completed financial education as well as those who did not. While finding statistically significant evidence, they noted that financial education did not explain the variation on objective knowledge (Rothwell & Wu, 2019).

Fish & Jumper (2021) studied the self-efficacy of Family and Consumer Science schoolteachers relating to the COVID-19

modality switch to off-campus instruction. These teachers often employed project-based or hands-on learning that was challenging to replicate remotely. Data showed teacher self-efficacy increased when the school district communicated to teachers that they were doing a good job and when teachers had prior experience with online student interactions (Fish & Jumper, 2021).

There is a general lack of studies that look at the financial literacy educator in particular, rather than the student, and whether self-efficacy makes him or her a more effective teacher. Further studies of instructor self-efficacy could yield insights into whether belief in self may lead to offering more and/or better financial literacy programming.

Implications for FCS Extension Agents

Family and Consumer Sciences (FCS) agents within Cooperative Extension have delivered educational content to the individuals and families in the communities they serve for more than 100 years (Washburn et al., 2021). As such, they are in a unique position to address community needs – including financial literacy. FCS agents routinely reach the same audiences that social service providers reach; they present easily accessible, understandable, and unbiased information; and they provide programs and curricula for caregivers as well as for adults and youth.

FCS professionals regularly collaborate and engage with communities. Their unique blend of education and training allows them to address complex needs, serve in leadership roles, and work to transform communities (Franck et al., 2017). Extension agents study local community needs and determine the curriculum pieces that will result in positive outcomes with specific audiences. In this way, clientele needs direct the programming offered and potential research (Collins & Holden, 2017).

Clearly research has shown that financial literacy is a need for the general public. Therefore, ensuring that FCS agents are well-prepared to provide financial literacy education will help them make a difference in this area in their local

communities. However, no one has yet applied research in the areas of financial literacy perceptions and self-efficacy to FCS agents as financial literacy educators. Doing so would fill a gap in current research.

Summary

Multiple studies have declared the importance of financial literacy for consumers. A review of ten years' worth of amassed research reports that multiple surveys "confirm that most U.S. respondents are not financially literate" and note that "the costs of financial ignorance are substantial" (Lusardi & Mitchell, 2014, p.12&24). Collins & Holden (2014) cited a lack of theory-driven approaches generally in current evaluations of financial literacy programs. A few newer studies are just beginning to explore how self-efficacy theory may apply (Prevett et. al., 2020, Rothwell & Wu, 2019; Lusardi et al., 2017, etc.). The majority of studies currently available focus on objective financial literacy, or actual knowledge and skills, rather than subjective or perceived financial literacy (Ouachani et al., 2020).

While researchers are beginning to look into financial perceptions and self-efficacy of students or workshop participants, few have looked into the perceptions and self-efficacy of financial literacy educators. Further, there appears to be a gap in the literature addressing how this research could be applied to FCS agents as financial literacy educators. A study might investigate what FCS Extension agents think they know versus what they actually know (perceptions) and their self-efficacy in financial literacy. Studying them as educators may shed light on how prepared they feel to teach this topic and if these factors influence the likelihood of them offering financial literacy programming.

Implications might be broadened beyond Extension if the study could be replicated for other educators, such as schoolteachers or government or non-profit outreach educators. Another future implication might be to cross-apply a similar study to other areas of FCS Extension to find out how best to equip agents in any program area. Finally, equipping FCS agents to successfully teach financial literacy may have a positive impact on strengthening communities.

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