

## Chapter II

### Review of Literature

This study was conducted to help those persons developing and delivering consumer knowledge curriculum understand the needs of Middlesex High School students. The study examined the consumer knowledge of different consumer issues: consumer credit, checking/savings, automobile insurance, housing rental, food purchase, and automobile purchase. Reviewing the literature on these topics was difficult due to the limited number of investigations regarding high school students and consumer issues. This chapter includes a review of previously published research on consumer issues.

#### Consumer

A consumer, according to the MIT dictionary of modern economics, is any economic agent responsible for the act of consuming final goods and services (Alhabeeb, 1996). Children, in general, may not be considered to be consumers because of their age. In reality, however, children constitute a significant power in the market, feeding the most lucrative businesses and industries (Alhabeeb, 1996).

As consumers, teens were thought to be unimportant until about 50 years ago, because they had little or no money to spend. Teenagers' spending has particularly increased during the 1980's and 1990's. According to Tootelian and Gaedeke (1992), expenditures by teenagers increased nearly 43 percent in the 1980's despite the 15.5 percent decline in the teenage population. Furthermore, in 1991 teenagers spent a total of \$82 billion, an increase of 3.8% over the \$79 billion in 1990 (Bailey, 1992; O'Neil, 1992). Such an annual increase was considerable, given the fact that the economy suffered a national economic recession, and the fact that the teenage population decreased by 300,000 persons in 1991 compared to 1990 (O'Neill, 1992; Porter, 1992). Three reasons cited for the increase of teen spending are increased allocations from parents, increased earned income, and increased spending of family income by youth (Porter, 1992).

The teen market is a profit center for businesses. Teens spend \$57 billion from their allowances and work for self-purchases, and \$36 billion from family money for

family-designated purchases (McAllister, 1994). This translates into about \$46 a week for 12-15 years olds, and about \$69 a week for 16-17 year-olds. The 1994 national survey by America's Research Group (ARG) revealed that an average teenager visits the shopping mall at least eight times a month, where nine out of ten teenagers make at least one purchase a visit, spending an average of \$33 per visit. Because of this impressive purchasing power along with an additional estimated total of \$10 billion in savings, adolescents may constitute a far more sophisticated set of buyers than is often thought (Tootelian & Gaedeke, 1992).

### Youth

Regardless of age, income, or job, every person is a consumer. Teenagers have characteristics that make them unique as consumers. They have not established their buying patterns. Unlike adults, most youth do not have to pay certain bills and taxes, therefore they have money to spend. They aren't restricted by expenditures necessary for livelihood. They are eager for new experiences. They are developing new attitudes and skills. It is essential that adolescents develop skills in money, understand the value of money, as well as the value of work, and appreciate the differential in spending capacities among themselves (Alhabeeb, 1996).

Adolescents have three major sources of income: earnings from part-time employment, family allowances, and gifts and other funds from parents and relatives. In the 1991 College for Financial Planning Survey, 43% of the high school students reported part-time jobs, 13% reported allowances, and the rest reported gifts and other sources as a major source of income (O'Neill, 1992).

Many high school students today hold a part-time job. Employment of high school students has been growing steadily since the mid-1960's (Bailey, 1992). Porter (1992) reported that adolescents comprise 10 percent of the U.S. labor force. By 1990 more than two-thirds of the employed adolescents worked at least 16 hours a week while attending school (Bailey, 1992; O'Neill, 1992). The smaller population of teens means more job availability and higher wages (Porter, 1992). The average weekly earnings in 1983 were \$32, in addition to an average allowance of \$22 a week. The estimation of adolescent earning went up in 1991 to \$85 a week (O'Neill, 1992). It is not unheard of

for a teen to earn anywhere from \$100 to \$300 a week for part-time work (Porter, 1992). More than half of all high school students work at any given time, and another quarter are looking for work (Bailey, 1992).

Teenagers are getting more money from their parents. Many affluent families are having only one or two children, which means there is more money to spend on each child (Newcomb, 1990). Many single parents and two-career families, who have less time to actually spend with their children, may try to substitute money for family time and lavish gifts on their children to make up for their absence (Silver, 1989).

### Consumer Learning

Consumer education is the process of gaining knowledge and skills to manage personal resources and to participate in social, political and economic decisions that affect individual well being and the public good (Bannister, 1996). Consumer education is a lifelong process, which should be initiated early to promote responsible consumer behavior that will continue into adulthood (Cohen, 1994).

The greatest barrier to more and better consumer education is the lack of demand and local support. Consumer education is not considered mainstream education. Many people assume that families teach this or that it is basic information everyone automatically grows up knowing. Because states and localities control U.S. public education, local support is essential if priority is to be placed on consumer education (United States Office of Consumer Affairs, 1991).

Research shows that states with consumer education have lower bankruptcy rates than those who do not (Mandell, 1998). States with high numbers of adults declaring personal bankruptcy also have high numbers of 12<sup>th</sup> graders who are illiterate when it comes to personal finance. A recent survey by the Jump\$tart Coalition for Personal Financial Literacy found that the mean score on the personal finance survey was 56% in states where the rate of personal bankruptcy filings was very high (above one and a half percent of households) (Mandell, 1998). Conversely, in states where the bankruptcy rate was very low (below one half of one percent of households), mean survey scores were 70% (Mandell, 1998). According to Lewis Mandell, Ph.D., an economist and Dean of Business at Marquette University, "The results show that financial literacy, while by no

means the sole cause, appears to be an important factor affecting the number of bankruptcy filings. If a state has a high rate of personal bankruptcy, it probably does little to insure that its citizens are well educated in personal finance.”

The lack of adequate teacher training in this field stems directly from the low demand for consumer education. Without trained consumer educators, this subject matter can not be taught in schools. Bringing consumer education to the schools is more likely to be successful if it is integrated with literacy of life skills (United States Office of Consumer Affairs,1991). Consumer education might be better received by communities and their boards of education if it were to be renamed “life skills” or “consumer literacy” (United States Office of Consumer Affairs,1991).

Throughout the history of consumer education in the schools, strategies for incorporating these concepts into the curriculum have been diverse (National Institute for Consumer Education (NICE). In a 1993 publication, *Consumer Education in the States: A Blueprint for Action*, The National Institute for Consumer Education describes the approaches (Bannister, 1996):

- *Separate Course.* Creating a separate course has the advantage of a unified approach to consumer education, and can give the subject a status equal to other areas of study. Unless the course is required however, only a limited number of students will benefit. The major disadvantage to this approach is that school schedules are already overcrowded and a new subject increase time pressures. The lack of trained consumer teachers is another obstacle to the separate course approach.
- *Integrate Concept into Existing Courses.* In many schools, consumer education concepts are “infused” into other courses such as economics, math, business education or life management. Practical from a scheduling viewpoint, this approach can strengthen existing courses with real-life consumer issues and motivate student learning. A disadvantage of the curriculum infusion method is that consumer concepts that do not fit into the assigned courses are neglected or omitted entirely. The problem of

duplicate coverage of consumer concepts can also occur, causing students to exclaim, “We already had that.”

- *Multidisciplinary Teaching Team.* Still another approach is the use of a team of teachers from various disciplines who are scheduled at the same class hour to teach a group of students. Each teacher brings new perspectives and knowledge to the program. The students, part of a larger group, rotate from teacher to teacher. A major disadvantage to this approach is the extensive teacher coordination time and the complex task of scheduling both students and teachers.

The structure of American schools has changed very little over the last century and does not relate well to today’s society (United States Office of Consumer Affairs, 1991). Another hindrance in the integration of consumer skills into the curriculum is that graduation and college entrance requirements are based on courses taken, not on skills learned. Educators want students to learn the skills adulthood requires, while business leaders describe their employee’s needs in terms of competencies, e.g., the ability to work with people, the schools are concerned only with courses taken (United States Office of Consumer Affairs, 1991).

Consumer education has not kept up with the rapid changes in the marketplace. Students have not yet reached a desirable level of knowledge and skill in managing personal financial resources (Bannister, 1996). Schools could not be held responsible for all life skills training. The community, businesses and family need to get involved in developing a consumer-literate population (Roundtable, 1992).

Moschis, Moore, and Smith (1984) examined the impact of television, family, school, and peers on the acquisition of specific consumer skills that contribute to the adolescent’s competency and proficiency as a consumer in the marketplace. Peers were the most significant source of acquisition of consumer-related skills while family and school was not significantly related to any of the consumer skills for adolescents.

Financial management literature focuses upon the knowledge, attitudes, and practices of adult; little effort is spent on the process in which youth learn about financial issues nor the context in which that learning primarily occurs (Danes, 1994). Children

learn about finances through observation, participation, and through intentional instruction by parents and other adults to which they are exposed. Ward, Wackman, and Wartella (1977) suggest that parents often expect their children to learn through observation. However, the financial learning process is not entirely random because there is a considerable amount of intentional teaching required as well (Danes, 1994). Positive reinforcement efforts are far and above more effective in teaching children about money than negative reinforcement. Negative reinforcement might constrain the development of financial knowledge (Danes, 1994).

### Consumer Knowledge

Consumer knowledge is a relevant and significant consumer construct that influences how consumers gather and organize information, and ultimately, what products they buy and how they use them (Cordell, 1997). High-knowledge consumers rely more on objective information, whereas low-knowledge consumers use more subjective information and recommendations (Cordell, 1997). Higher-knowledge subjects gain more accurate knowledge than lower-knowledge subjects according to Huffman and Houston (1993). High-knowledge consumers are capable of more extensive processing of information and thus are better able to articulate evaluations of products. Consumers have a weapon at their disposal –*Scientia potestas est*—“Knowledge is power!” (Cordell, 1997).

Our economic system is based on the premise that the marketplace works best when consumers have choices and that given choices, consumers have the motivation and ability to select the best choice for their needs. It assumes that consumers have the knowledge and skills to effectively make these choices.

Moore and Stephens (1975) explained variations in adolescent consumer learning and examined the influence of plausible factors on the socialization outcome. Older adolescents had acquired complex consumer learning skills and negative attitudes toward advertising to a significantly greater degree than younger adolescents. This study revealed that friends and siblings were rated the highest as sources of influence on buying while media communication about consumption was minimal. Older adolescents were

found to spend more and seek out more sources of advice prior to purchasing compared to younger adolescents.

The results of a 1990 survey conducted by the National Coalition for Consumer Education, *The Status of Consumer Education in United States Schools, Grades K-12*, was cited as revealing one key to the roots of teen-age consumer illiteracy. Only 31 states have consumer education guidelines and only 14 states have actual programs called consumer education (United States Office of Consumer Affairs, 1991).

In the spring of 1991, the Consumer Federation of America (CFA) and American Express sponsored a nationwide test of consumer knowledge of high school seniors. The 52-question multiple choice test represents the most detailed examination of the consumer knowledge of high school seniors ever conducted (United States Office of Consumer Affairs, 1991). The test was limited to six key areas of consumption—consumer credit, checking and savings, automobile insurance, housing rental, food purchase and automobile purchase. The test found that the students were not well prepared for the world of consumption. The average score for the entire test was only 42%, and on none of the six subjects did the students score above 50%. (Brobeck, 1993).

There is a relationship between life experience and consumer knowledge. People gain consumer experience by establishing checking accounts, obtaining credit cards, renting an apartment and possibly purchasing a car. Teenagers have varying degrees of experience with the above activities. A higher level of earning and a regular source of income seems to support a higher level of knowledge by children about money topics and a greater propensity to save (Ward, Wackman, & Wartella, 1977; Danes, 1994).

The high school seniors scored much lower (mean of 42% correctly) than a sample of adult Americans (mean of 62% correct). Adults' higher scores could be due to more education, but also to their greater life experience in the areas tested (Brobeck, 1993). This study of high school seniors concluded that those with greater consumer experience (measured by monthly spending) had significantly higher test scores.

On questions administered both to the senior high school students and to adults tested a year earlier, the student's scores averaged 16 points lower than the adults'. These teens are about to enter the marketplace and their low scores are a concern. They will be developing marketplace habits that they very likely will continue the rest of their

lives. The lowest scores were those of non-college bound students, most of whom were from low income and/or minority backgrounds, and who will be entering the marketplace immediately upon leaving high school (United States Office of Consumer Affairs, 1991).

A recent survey, sponsored by the Jump\$tart Coalition for Personal Financial Literacy, polled 1,532 seniors in 63 high schools on consumer knowledge. The survey tested knowledge of personal finance basics, such as taxes, retirement, insurance, credit use, inflation, and budgeting. The average number of correct answers was 57 percent –a failing score (Scoggins, 1997).

The possible cause and effect relationship between the results of the Coalition surveys and the CFA-American Express test, highlights three significant obstacles to the delivery of quality consumer education. The three obstacles are: confusion in our society about what consumer education is and therefore, low demand for it compared with the demand for “life skills” which, properly, should include consumer education; a lack of adequate teacher training in consumer education; and the delay between the emergence of an educational need in our society and the response of the education system (United States Office of Consumer Affairs, 1991).

### Theories

#### *Consumer Life Cycle (Stampfl, 1978)*

A life cycle analysis of the consumer not only classifies *what* needs to be known, but suggests *when* it needs to be known and implies *why* it needs to be known. The family life cycle as an analytical concept in consumer related research was suggested as early as 1931. Many disciplines, including sociology, marketing, and economics have utilized it in a variety of ways. The central concept of the family life cycle is that human lives progress through a series of stages and do so within a familial context. The family life cycle is typically begun at the single stage, progresses through the newly married, full nest and empty nest stages and ends with the retired, solitary survivor stage. Although serving as an excellent beginning for longitudinal analysis of the consumer, the family life cycle concept requires some modifications to accommodate the full range of consumers in modern, highly developed economics. The cycle should be expanded to



include (1) children and adolescents as consumers in their own right, (2) mature single adults and (3) single parents.

The consumer life cycle approach provides a useful analytical framework. The modifications suggest a consumer life cycle with at least thirteen stages (Stampfl, 1978). Those stages are arrayed across the top of Table 1. Since this study focuses on the knowledge of high school students, only the first three stages are provided: childhood, adolescence and early singlehood. The six variables, called consumer elements have been arrayed down the left side of Table 1. These variables cut across the conceptual and empirical boundaries of many disciplines concerned with the consumer, the familial contexts of consumption, and education. The matrix created by cross-classifying consumer life cycle stages against the identified consumer elements provides a first approximation of an answer to the central question of what needs to be known.

*Consumer characteristics* vary with age, income, experience and life cycle position and are general descriptors of consumers typically found at a particular life cycle stage.

*Typical products and services* are examples of marketplace purchases by consumers.

*Marketplace concepts and knowledge* include those terms and ideas fundamental to understanding of the marketplace and how it functions and appropriate to the cognitive level of the consumer in question. *Marketplace skills* are those abilities required to physically function in the marketplace or to apply one's understanding of the appropriate concepts in the marketplace. *Typical marketplace problems* illustrate the relationship of consumer problems to other major consumer elements and such exogenous elements as applicable consumer protection laws, enforcement of laws and the market context in which the consumer is functioning. *Level of resources* is a consumer element which describes time, human energy, and income constraints typically operating at various consumer life-cycles stages. The interdisciplinary, longitudinal approach is helpful in answering the central question of "what needs to be known".

#### *Experience Factor (Marshall & Magruder, 1960)*

The experience factor is supported by the idea that the more experience that children have with money, the more they will be able to grasp economic meaning. Marshall & Magruder (1960) found that children's knowledge of money is directly

Table 1  
Consumer Elements at Life Cycle Stages

<b>Consumer Element</b>	<b>Childhood</b>	<b>Adolescence</b>	<b>Early Singlehood</b>
Consumer Characteristics	All needs provided by parents Little or no understanding of marketplace Marketplace limited to that of parents Limited cognitive ability Limited and unorganized product knowledge	Basic needs provided by parents Luxuries increasingly provided through part-time work Tastes and preference evolving Susceptible to peer pressure to conform Limited product knowledge Limited understanding of marketplace Marketplace not solely limited to that of parents	Values and priorities Unclear Experimentation in life style and associated consumption Highly mobile Few financial burdens Few assets Recreation oriented Fashion opinion leaders Marketplace not limited by parents or legal restrictions due to age Wide product knowledge but little depth
Typical Product & Services	Toys Clothes Sweet treats Games Comic books	Music Bicycles Some personal care products Toys Clothes Sporting goods	First car Basic home furnishings Home electronic equipment Vacations Sport equipment Education Personal care products First use of credit Groceries
Marketplace Concepts and Knowledge	Money Store Needs, wants Decisions Private property Price Ownership Purchase transaction Products Advertising Consumer Salesmen or clerk	Money management Consumer information Price/quality relationship Economic competition Rationality Saving Earning Product assortment Comparison shopping Brands Labels Store types Impulse buying Consumer rights	Sales tax Income tax Budget Inflation Costs of business operation Deceptive practices Credit Interest on savings Contract terminology Owning versus renting Marginal utility Consumer protection laws Unit pricing-open dating Universal product code

Table 1 (cont.)

Consumer Elements at Life Cycle Stages cont.

<b>Consumer Element</b>	<b>Childhood</b>	<b>Adolescence</b>	<b>Early Singlehood</b>
Marketplace Skills	Choosing from many alternatives Transactional sequence Ordering of wants	Simple consumer information gathering Simple price/quality analysis Simple comparison shopping Currency system mastered Simple decision making process Weights and measures conversion Safe usage of products	Simple problem solving Priority setting Using consumer reference material Simple complaint resolution Dealing with discrimination Complex comparison shopping Tax schedule completion Simple budgeting Credit management Computational skills Balancing a checkbook
Typical Marketplace Problems	Underdeveloped cognitive defense to commercials Wanting everything Inability to articulate questions or get usable explanations from parent or teachers	Identifying significant product differences Weak understanding of value of money Weak understanding of own tastes and preferences Shoplifting temptations Illicit markets (drugs, etc.)	Mail order frauds Determining most economical place to shop Tenant/landlord disputes Lack of experience in dealing with sellers Choosing first apartment Simple bargaining (cars, etc) High mobility results in unfamiliarity with local marketplace Lack of credit rating Insurance terminology
Level of Resources(time , income, human energy)	Money limited by parents Consumption time unlimited Shopping energy limited by attention span only	Some product experience Some discretionary income (allowance, gifts, part time jobs) Consumption time nearly unlimited Shopping energy at high level	Income rising Consumption time plentiful Shopping energy high

related to the extensiveness of their experience with money. Experience is important because it allows the child to see the relevance to his or her own life, making concepts not only more understandable but also demonstrating usefulness. It appeals to common sense that experience makes things “real” for children.

## Consumer Issues

### Consumer Credit

Consumer credit is a business transaction widely used by individuals, families, retailers, financial institutions, and many others involved with distributing goods and services to the ultimate consumer (Jeries, 1988). It is the financial device through which many Americans acquire what they want, when they want it, and pay for it out of future earnings (Jeries, 1988). It makes the obtaining of consumer goods and services more convenient because payments can be budgeted according to one’s income.

Consumer credit is non-business debt used by consumers in which goods, services, or money are received with payment to be made in the future (Garman & Forgue, 1997). Students might find borrowing rational. The “buy now, pay later” philosophy makes it possible for the consumer to have the immediate consumption of goods and services and raise their level of living and satisfaction (Chang, Fan, & Hanna, 1992). Graduating high school students are the individuals who will be leaving their parents’ homes to set up new households. The need exists for these new independent graduates to purchase more consumption goods and services. As their purchasing power (income plus available credit) increases, the potential for credit over-extension also increases (Askim & Camp, 1994). Peters (1987) found that debt was part of the lifestyle of youth and that male adolescents incurred more debt than did female adolescents.

Our economy is sometimes referred to as a “credit economy”. Although most users of credit are adult consumers, teens are extended credit and encouraged to use it. Some use their parents’ credit accounts and others have accounts of their own. Several retailers in affluent areas, such as Dallas, report that junior high students have checking accounts and senior high schoolers have credit cards (McAllister, 1994). High school students receive credit card offers in the mail (McEldowney, 1994). Eighteen year olds are being offered pre-approved credit from major companies and a job is not a pre-

requisite for approval (Rabon, 1991). Teenagers need to understand the role of credit in the marketplace.

Danes (1994) found that parents believed credit issues were appropriate only for older adolescents, i.e., over the age of 18, with some parents believing their children should be in their early 20s before experiencing some credit activities. At least ten percent of American teenagers, however, use their parent's credit cards (Dolan & Knight, 1995). Students have plenty of access to credit cards, but may not be learning much about credit management (Askim & Camp, 1994; Dolan and Knight, 1995). If credit management is a learned skill, then it also is a skill that can be taught (Askim & Camp, 1994). Money management develops positively with experience, reinforcement, and observation of others (Dolan & Knight, 1995). However in our society, discussion of money is generally even more taboo than discussion of sex. Thus, there is little open discussions concerning money management.

Credit education often misses consumers who need it the most. Disadvantaged consumers find themselves targets for fraud, bad deals, and temptations that lead to mismanagement (Schurchardt, Glade, Torees, & Walt, 1992). Disadvantaged consumers are often victims of legitimate, but bad deals (Schurchardt, Glade, Torees, & Walt, 1992).

Anyone with a pulse is a potential credit card holder. Outstanding credit card debt has doubled in the past five years to \$500 billion, while the amount of debt households must now service has grown to its highest share of income in 20 years (Vogelstein, 1997). Americans can get credit cards from their union, grocery store, online services and many more. They receive roughly 20 credit card offers a year (Vogelstein, 1997).

Agencies that provide financial counseling to consumers indicate that they are seeing a marked increase in the number of young clients—who have large debts (McEldowney, 1994). Most do not understand how to determine the true cost of credit or how much they really owe. It is recommended that only 12- 15% (including auto payment) of a consumer's income should be budgeted towards credit (Virginia Cooperative Extension, 1998). Many people take out cash advances--which generally have higher interest rates than the rates for goods and services-- to pay off credit card debts.

If so many adults lack a basic understanding of how to use credit wisely, how can society expect that their children will do any better? (McEldowney, 1994). Students make minimum payments, expecting that they will be able to wipe out their debt at some future time when they are employed at higher salaries. They rely on their parents to step in and help. With credit so easily available, students apply for more cards and use that additional credit to help them make ends meet. Getting a credit card is no more difficult than subscribing to a magazine or signing up for a record club—it no longer marks a special step toward adulthood (McEldowney, 1994).

The challenge for educators is to present information about credit terminology, and rights and responsibilities in a way that will be interesting to adolescents and in a way that they will retain the knowledge. According to a survey of parents by Danes (1994), establishing a credit history was for children older than 18. Issues of asset building and children developing their own financial credibility were perceived by parents as concerns primarily for the later teen years. However, it is clear that for many teens the later teen years is too late.

Students need to have knowledge of the basic concepts of credit, interest costs and the reasons for them. There are advantages and disadvantages of using credit. Teens also need to know what creditors look for when granting credit, different types and terms of credit, wise use of credit and how to protect credit cards. One of the most important facts that teenagers need to know is that a source of income is necessary before he or she can use credit. If the students are not educated today about responsible credit use, the adults of tomorrow will be starting out with the very real danger of heavy debts and a bad credit history (McEldowney, 1994).

The overall score for consumer credit on the CFA national test was 39% (Brobeck, 1993). Knowledge of the significance of a co-signer for a loan (72%) and how installment loans are repaid (64%) was fairly high. There was a poor understanding of the costs of credit. Few appeared to understand an annual percentage rate. Only 18% said this was the best indicator of the cost of credit while 42% said that the interest rate was the best indicator. There was a moderate to poor understanding of payments and debts. Only 14% were aware that when a credit card is lost or stolen, a consumer's legal

obligation is to pay only \$50 of unauthorized charges. Half believe that one must pay all charges until the theft is reported.

### Checking and Savings Accounts

Teens earn more than \$95 billion a year, and they spend all but \$15 billion of it (Smolinsky, 1994). “Despite their incredible spending power and active use of financial services, most U.S. teens are ‘consumer illiterate’,” says Franny Van Nevel, associate director of CUNA Mutual Insurance Group’s Member Education Department (Smolinsky, 1994). Thousands of young women and men graduate from American schools each year without gaining basic money management skills (Bannister, 1996). According to industry statistics, only four percent of all Americans have a high level of proficiency with consumer banking transactions (Morrall, 1996). Financial institutions have found they can effectively use financial education to serve their communities as well as build a loyal and well-informed customer base.

Knowing that the future depends on the children of today, Geneva State Bank in Geneva, Nebraska offers an educational program in area schools to teach good savings and financial habits early (Morrall, 1996). The students make deposits to their own accounts, write checks and they receive a written receipt for their records.

Teenagers may join the Status 1 club of the Connecticut Credit Union League, which offers checking accounts, ATM cards, and credit cards (with parental approval for members under 18). “The suggested limit is \$100, but some parents allow their children to go up to \$300,” according to Nancy Brickman, a service representative to Financial Plus Credit Union in West Des Moines (Arndorfer, 1995). Cohen (1994) found that establishing an independent checking account will help adolescents establish financial responsibility and eventual personal financial independence. “The 13-to-19 year old market has \$106 billion of spending power a year” says Terri Atkinson, a membership development specialist for the Connecticut Credit Union League (Arndorfer, 1995). “Financial institutes should be tapping into that.” Youth credit union branches are used to educate the young in financial management, establish a future client base, develop future credit union leaders and can lead to good public relations (Smolinsky, 1994).

Saving money has not been a priority for Americans, whether they are teens or adults. In 1994, Americans saved only 4.1 percent of their disposable income, compared to 1970 when they saved 8 percent, according to the U.S. Department of Commerce (Increase future deposits, 1997). It is recommended to save at least 2-10% of a consumer's income after taxes (Virginia Cooperative Extension, 1998). Americans' meager savings will have to stretch even further in the future since the baby boomers are aging and Social Security is expected to run out of funds by 2030 (Increase future deposits, 1997).

Children who earn money may be more goal oriented and be better at saving for a future purchase (Doss, 1990). A regular savings account at a local savings institution may help children to develop appropriate savings practices (Cohen, 1994). What a consumer, whether it be a child or an adult, would want to look for in a savings account are the type of account, minimum balance, annual percentage yield, when the interest is paid, maintenance fee, free withdrawals, withdrawal charge, and ATM charges.

The national survey of high school seniors, given by the CFA and American Express found that 56% were able to compute the monthly cost of a checking account. But only 38% knew that the way to avoid regular checking fees is to "keep a minimum balance in the account at all times." And only 21% of the students understood that the payee as well as the payer is usually charged a fee when a check bounces (Brobeck, 1993).

A poor understanding of the costs and yield of saving accounts was found. Out of the respondents to the 1991 survey, 36% identified interest rate as the most important factor in shopping for an account while 28% said type of institution, and 22% said method of compounding. Only 22% of the teens were aware that a certificate of deposit usually pays a higher interest rate than does a money market account, passbook savings account, or NOW account (Brobeck, 1993).

### Automobile Insurance

Much of the U.S. insurance industry's negative image has resulted from the general public's lack of understanding of insurance (Nappi & Crepas, 1994). Auto insurance is a method of pooling the risks of many drivers so that no individual has to



bear the entire cost of an accident (Bartlett, 1996). Accident claims are paid from the combined premiums of all people in the pool (Bartlett, 1996).

Despite the importance of insurance in American society, this area of study is virtually ignored in many high schools today (Nappi, & Crepas, 1994). Before leaving high school, students should have acquired not only knowledge and skills to enhance their capacity to perceive and think clearly about insurance issues, but also the ability to put insurance concepts and principles into practice.

Parents surveyed by Danes (1994) thought children should know about car insurance beginning in preteen years. Students need to know how insurance works, the different types and terms, and the costs and benefits of having insurance.

There are various coverages available: bodily injury liability, property damage liability, medical payment coverage, uninsured/underinsured motorist protection, collision, and comprehensive physical damage coverage. Insurance companies try to distribute costs as fairly as possible, by grouping similar risks and charging each group premiums appropriate for its risk of loss (Bartlett, 1996). Some of the factors that will influence a consumer's auto insurance are: sex, age, marital status, and driving record. It is recommended that only 2-3% of a consumer's income should be budgeted towards auto insurance (Virginia Cooperative Extension, 1998).

A demographic transformation in the United States is about to occur. There will be noticeable change in population size, age distribution, gender mix, and ethnic mix, and all of these elements will have significant implications for private passenger automobile insurers in the years ahead (Gustavson & Trieschmann, 1997). During the next 15 years, many of the children of the baby boomers will be entering their teenage years. According to Gustavson and Trieschmann (1997), the total potential driving population (those age 15 and over) is expected to grow by 14 percent by 2010. Virginia alone has a projected population growth increase of 1 million people, which is a 14.9 percent increase by 2010. Growth of almost 26 percent is expected for persons age 15 to 19 over the next 15 years (Gustavson & Trieschmann, 1997). In Virginia, the number of 15 to 19 year-olds will increase by 2.08 percent by the year 2010.

A 16-year-old driver will have a premium rate 35 to 50 percent higher than a driver over age 30 (Gustavson & Trieschmann, 1997). The teen also is assigned one

point for having been licensed less than three years. Insurers clearly believe that teens are a high-risk group. Statistics tell the insurers that they are right. Since 1980, the ratio of the percent of accidents involving teenagers to the percent of teenage drivers as a whole has risen from 1.71 to 2.59, representing more than a 51 percent increase in accident involvement (Gustavson & Trieschmann, 1997). On this basis, it appears that the teens of 1993 are far worse drivers than their older siblings of the 1980's.

The average score on the CFA and American Express national survey on auto insurance was 40% (Brobeck, 1993). There was a moderate understanding of coverages. Only 45% knew the meaning of liability coverage and 47% the meaning of comprehensive coverage. Regarding costs, there was a very poor awareness (18%) of the extent to which rates vary.

### Housing Rental

People will always need a place to live. The American dream of a single-family home is ideal for some, but there are millions of people who, for a variety of reasons, choose to live in rental apartments (White, 1992). "Eighty-five percent of all households under the age of 25 are renters," says Regis Sheehan, an economist with the National Apartment Association (White, 1992).

Every year, over 40 million Americans move into a new house or apartment" (Bjorklun, 1991). Many of these are recent graduates from high school who have left home to go to work or attend a post-secondary educational institute. It was estimated that 2,441,055 students graduated from high school in 1992 and over one million students (48%) went to college in the fall (Levine & Havighurst, 1989). Although many live in housing available on campus, many others found living quarters in rooming houses and apartments off campus. Combining this group with the over one million high school graduates who do not go on to college but enter the work force, a very large number of young people each year will rent rooms or apartments and encounter rental agreements (Bjorklun, 1991).

It is useful to think of the age period from 15 through 24, as a stage of life that is a transition between early adolescence and adulthood (Levine & Havighurst, 1989). One of the facets of that transition is moving away from home to residences of their own. It is

suggested that only 33-35% of income should be budgeted towards housing, including utilities and supplies (Virginia Cooperative Extension, 1998).

One way that schools can help with this aspect of the transition is to provide young people with an understanding of the landlord-tenant relationship and the laws that govern it (Bjorklun, 1991). Most people—and especially most young people—don't know how to save themselves from legal hassles when they rent or how to protect their rights (Daly & Bloom, 1982). All renters need to know about leases, premises, rent, and evictions.

The average housing rental score of high school senior across the nation was 44% (Brobeck, 1993). There was a low understanding of tenant obligations. There were 44% who were aware that tenants usually pay separately for the phone, as opposed to items such as major building repairs and property tax. Only 33% understood that tenants who sign a lease, but do not move in, are obligated to pay all rents during the period of the lease. The students surveyed had a better understanding of a landlord's obligations and rights.

### Food Purchase

Because of the increasing number of working two-parent families and single-parent households, the number of adolescents who do food shopping either for themselves or their families is increasing (Porter, 1992; McCullum & Achterberg, 1997). A recent survey by Teenage Research Unlimited revealed that as many as 90% of teenagers (both boys and girls) shop for their families (Blumenthal, 1990) spending \$47.7 billion on groceries and household products. Teenagers receive an additional 19.2 billion dollars from their parents for family shopping (McNeal, 1992). It is recommended that 18-25% of a consumer's income is to be budgeted for food (Virginia Cooperative Extension, 1998).

Family and Consumer Science programs, from either a school or an extension office, are often the prime providers of food purchasing education. Comparison-shopping is an important way to save money. Teen consumers should be able to recognize misleading and fraudulent advertising tactics.

The knowledge to make intelligent decisions is necessary because the market system is complex. There are thousands of different items available in a supermarket and more are being added each month. The consumer purchases collectively determine which products will stay on the market and which ones will be taken off.

Price, taste, brand name, the media, as well as parental and peer influence are only some of the factors influencing adolescents' food purchasing decision (Blumenthal, 1990; McCullum & Achterberg, 1997). Food labels were found to be at least somewhat important when selecting food items (McCullum & Achterberg, 1997). Most adolescents understand that what they eat today affects their health in the future. Adolescents' food purchasing habits may have an immediate as well as long-term impact on their behavior, which in turn may affect their health (National Research Council, 1989).

A Minnesota EFNEP research study cited several areas of concern with teen grocery shoppers. Schools located in lower socio-economic areas have a higher percentage of teen grocery shoppers. Most of these youngsters do not have a driver's license, so they shop at the store that is within walking distance. Often that turns out to be a convenience store that has a smaller volume and higher prices than most supermarkets. If teens are responsible for preparing the food as well as shopping for it, they shop quickly without reading labels or comparing prices ("Who's Doing", 1991).

High school seniors scored 44% on the food purchase division of the consumer knowledge test (Brobeck, 1993). There was poor to good understanding of cost factors. Only 27% identified "no frills" grocery stores as the type of store with the lowest food prices, but 47% understood the usefulness of unit pricing and 62% knew that national brands at the regular price are the most expensive brands. Only 22% knew how ingredients are listed on a label. Forty-four percent thought that this listing is by nutritional importance rather than by weight.

### Automobile Purchase

A car is probably the second most expensive item a consumer will ever buy, the most expensive being a house (Virginia Polytechnic Institute and State University, 1977). Teenage Research Unlimited's research of 2,000 teens revealed, teen car ownership is up

nearly 13% for new vehicles and 9% for used cars when compared to 1989 levels (Porter, 1992).

There are many choices when it comes to buying car. Students need to be able to calculate what monthly payments they can handle—how much can they afford. It is recommended that only 15% of a consumer's income should be budgeted for a car loan (Bartlett, 1996).

Consumers also need to decide whether they want a new or used car. With a new car, the owner must absorb heavy depreciation costs within the first couple of years. Since a used car costs less, a buyer also may save money by paying cash and avoiding finance costs. Important benefits of buying a new vehicle include the reliability that the car's newness conveys and the warranty the car comes with (How to buy or lease a car, 1998). A used car may have been driven abusively by its previous owner, or vital maintenance may have been neglected.

One out of three new cars will be leased rather than bought this year (How to buy or lease a car, 1998). The low monthly payments and low down payments featured lure a consumer to lease a car. Consumers may want to lease a car if they need transportation immediately but lack a down payment to buy a car. Lease payments are lower than car-loan payments because you pay mostly for the amount the car depreciates during the time you have it, plus an interest charge (How to buy or lease a car, 1998). Leasing may be the least expensive way to get behind the wheel, but it may not be the cheapest way to stay there. At the end of the lease, the consumer no longer has a car.

To be successful in any purchase or lease transaction, new or used, you need good information. Manufacturers' literature, consumer reports, auto clubs, and printed price guides all have useful information when shopping for a car. Students need to look for the key areas important to buying a car: warranty, resale value, safety, fuel economy, insurance rate, maintenance cost, repair history, and where to buy the car (Virginia Polytechnic Institute and State University, 1977). The condition of the interior, the exterior, under the hood (engine, belts, battery, and etc..), and a road test of the car need to be taken into consideration (Virginia Polytechnic Institute and State University, 1977).

The average high school student score was highest in automobile purchasing at 50% (Brobeck, 1993). There was moderate to good understanding of information sources

and cost factors. Nearly half understood the meaning of a sticker price. Forty-four percent knew that a car loses its value faster in the first year. There was a poorer awareness of warranties and service contracts. Sixty-two percent understood the meaning of an “as is” contract on a used car, but only 35% knew what a new car warranty covers.

### Summary

Understanding the role of youth as consumers is important. These consumers have a considerable amount of money to spend. Teens have consumer power. However, teenagers need to learn how to make wise consumer decisions and not be victims of marketing strategies. Increasing complexity, rapid change, and global perspectives are the characteristics of the world in which today’s teens will live their adult lives (Kerka, 1993).

Consumer illiteracy imposes costs on individuals as well as society. It affects the quality of life people live every day and the bottom line of their employers. If a person is consumer illiterate then their ability to cope with the world of consumption and to make sound purchasing decisions prevents them from becoming financially independent. High school seniors, especially, are vulnerable because they are most likely to make critical purchasing decisions as they graduate from school.

The problem of consumer illiteracy does not stop when a consumer completes school, it continues to escalate with time. Approximately 15% of workers in the United States are currently experiencing stress from poor financial behaviors to the extent that it negatively impacts their productivity (Garman, Leech, & Grable, 1996). Research conducted at Virginia Tech shows that when employees have personal financial problems it affects their behavior at work. The stressed workers affect employer’s bottom lines, with productivity dropping off sharply, absenteeism, substance abuse, increases in accidents, stealing from an employer, and possibly more side effects. Employers who believe in primary prevention find it smart to make help available to all employees experiencing problems impacting job performance (Garman, et al., 1996). One of the new wellness trends is a financial health program. Once acquainted with financial education training at the worksite, 63% participants are more inclined to pursue financial education on their own (Garman, et al., 1996). In the future, employers are increasingly

likely to help their employees deal with financial problems for very good reasons—it increases job productivity, reduces costs, and makes employees happier.

As a nation, without adequate knowledge, people cannot make smart shopping decisions—decisions that reward efficient, competitive businesses (Brobeck, 1993). A child is not born with innate consumer skills, but must be taught how to function in the marketplace. Formal consumer education must begin early and be taught at the same time children are receiving informal consumer education, the information learned from various sources such as parents, friends, salespeople, advertisements, labels, magazines, government agencies, businesses, and consumer groups (Porter, 1992). It is imperative that the youthful consumers of today are educated so that the adults of tomorrow will be able to manage for a better future. Knowledge of economics, personal finance, consumer rights and responsibilities can help people function as more independent, productive and informed citizens (Kerka, 1993). Youth are an important market in today's society and are tomorrow's adult consumers.