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Does the Educational Level of Parents Influence Their (Adult) Offspring's Financial Behavior?

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Abstract

The aim of this paper is to examine the influence of parents' educational levels on young adults' financial behavior. A sample of students enrolled on degree programs in Economics was considered to avoid the problem of financial illiteracy. The results obtained reveal that the educational levels of both parents influence young adults' financial behavior but in significantly different ways: a father with a university degree seems to influence his male offspring's financial behavior positively, while a mother with a university degree seems to influence her female offspring's financial behavior negatively. This evidence may lead to reflection on intervention to ensure that tomorrow's women have the same opportunities for successful financial planning as men.

Keywords: financial literacy; future financial planning; young adults; parents' educational level; gender difference

JEL: G40; G53

1. Introduction

The 17 UN Sustainable Development Goals provide institutions and citizens with a clear path to follow for improving future prospects, especially those of today's and tomorrow's youth. The young people of today will become the adults of tomorrow and will carry the knowledge, skills and attitudes they are acquiring today with them into the future. Two of the UN Sustainable Development Goals in particular caught my attention because I consider them to be highly complementary: Goal 4, Quality Education, and Goal 5, Gender Equality. Specifically, Goal 5 is to[1]:

"5.A Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws."

and Goal 4 to[2]:

"4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university."

I believe that the achievement of true gender equality is facilitated by widespread and robust high-quality education. However, looking at the more economically and socially developed countries where young people (both men and women) have access to a high level of schooling, there are still gender differences in specific areas such as the allocation of savings. I here recall the large body of literature that shows that women are more risk adverse than men (see for example Jianakoplos and Bernasek, 1998; Burton, 1995; Graham et al., 2002). I therefore ask myself whether this is also the case when comparing young men and women with the same level of education and, if so, what is the reason for this difference?

Each individual's decision-making process is conditioned by, among other things, their level of education, their experiences and, with specific reference to young people, the influence of third parties, first and foremost their parents. If we consider an audience of young male and female adults of the same age, with the same level of university education and with similar savings and investment experiences, and we observe differences in attitude between the males and females in their allocation of savings, then it is reasonable to assume that the only variable differentiating their behavior is the role of their parents.

Parents influence their children's behavior from an early age, with their well-being in mind, for example when choosing a

1 https://www.un.org/sustainabledevelopment/gender-equality/

2 https://www.un.org/sustainabledevelopment/education/

school. Furthermore, children are also often influenced 'non-deliberately' by their parents: for example, it can often be observed that many children follow in their parents' footsteps when it comes to choosing a university or a job. The influence of parents can obviously also extend to the field of the investment choices of their young adult children. For this reason, the aim of this paper is to examine how parents' levels of education influence their adult offspring's attitudes towards savings allocations; this is a topic scarcely addressed in the literature and opens up interesting perspectives for analysis to improve the relationship between young adults and money management.

2. Literature Review

People's attitudes to money, especially in the case of young people, determine their money behavior. Foxall & Yani-de-Soriano (2005) and Uzelac & Lučić (2020) among others, highlighted the strong cause and effect relationship between attitude and behavior. An individual's attitude to money depends on various factors, such as his/her childhood experiences, education, financial and social status. Thus, it varies from individual to individual and hence from generation to generation. Goldberg & Lewis (1978), Furnham (1999), and Mitchell & Mitchell (1999) studied money and measurement of attitude towards money. Money attitude has been tested for the effect of different variables such as age (Berkup, 2014; Jorgensen *et al.*, 2017), gender (Graham *et al.*, 2002), income (Tang, 2007), education (Lewis and Messy, 2012) and materialism (Tartzel, 2002). As demonstrated in many studies (see for example, Tang, 1995; Shim *et al.*, 2009), attitude to money plays an important role in determining a person's financial management and level of financial wellbeing.

Several studies have demonstrated a positive relationship between financial behavior and financial knowledge (e.g. Chen and Volpe, 1998; Lusardi and Mitchell, 2007; Robb and Woodyard, 2011). However, improvement in financial knowledge does not automatically generate improvement in financial behavior (e.g. Jones, 2005; Borden et al., 2008); thus knowledge is an important but insufficient component for explaining financial decision making (Johnson and Sherraden, 2007). Huston (2010) included 'other influences' such as self-control and family financial behavior, in addition to financial knowledge. Specifically, parents engaged in preparing young adults for their financial future (Danes and Haberman, 2007) may play a very important role in influencing young adults' financial decisions (Shim et al., 2013). Parents' influence on their offspring's decision-making has been analyzed in different fields, such as children's cognitive and social behaviors (Cabrera et al., 2011) or family vacation decisions (Cheng et al., 2019).

The literature highlights gender differences in the interaction between parents and young adults regarding financial matters. Barbosa et al. (2016) concluded that women are more open with their parents about financial matters. Loibl and Hira (2006) found that women may feel more comfortable than men in contacting family and their social environment (friends, coworkers) about personal finance. These results suggest that women may benefit more from parental interaction to develop responsible financial behavior than men. In addition, women are expected to exhibit fewer responsible financial behaviors than men; however, the size of this gap varies across levels of financial knowledge.

Studies of money attitude among university students indicate that males and females understand money differently. Recently Pahlevan-Sharif *et al.* (2020) have confirmed that males and females have different beliefs about money, as emerged in a series of past studies such as those by Dowling *et al.* (2009) and Haque & Zulfiqar (2016). More specifically, Ardila et al. (2005) analyzed the influence of parents' educational levels on the development of children's executive functions, while Pappas and Kounenou (2011) explored the influence of parents' educational levels on their young adult offspring's career-related decision making. To my knowledge, this stream of research does not make any reference at all to young adults' financial behavior, and the aim of this paper is to fill this gap. While Bowen (2002) and Lusardi et al. (2010) have demonstrated a strong link between young adults' financial knowledge and parents' financial sophistication, they did not consider parents' influence on their offspring's financial behavior. The main goal of this research is to analize the relationship between young adults' financial behavior and their parents' educational levels.

3. Data And Summary Statistics

3.1 Data

Data were collected using an online questionnaire administered between the 1st and 30th May 2021 to 300 students enrolled on degree programs in Economics at a private university located in the north of Italy. A total of 282 questionnaires were collected and analyzed. Since the respondents' financial knowledge is high and of a similar level, it was possible to observe the impact of 'other variables' on financial behavior. Moreover, these respondents represent a real world sample of young adult investors because they indicated money allocation decisions actually made.

3.2 Summary Statistics

The questionnaire consisted of two sections. In the first, information was collected on respondents' attitudes towards money, savings and financial investments; the second section was dedicated to socio-demographic information on the respondent and his/her family composition. Table 1 lists and describes the variables used in the analysis.

Table 1. Description of variables

Variable	Description
Dependent variable	
Financial behavior	Ranges from 0 to 7. The higher the score, the greater the propensity of the student to allocate his/her money to more complex investment products.
Independent variables	
Independent	The variable assumes a value of 1 if the individual has mainly independent sources of income and 0 if, on the other hand, he/she depends financially on family remittances.
Gender	Dummy variable: 1 if the respondent is female; 0 if the respondent is male
Age	The age of the respondent.
Expend attitude	Dummy variable: a score of 2 is assigned if the individual tends not to save, 1 if he/she presents an equilibrium and 0 if the respondent saves.
Expend control	This variable aims to indicate whether the respondent habitually reviews balances of income and expenses. It assumes a value equal to 2 in the case of a regular habit, 1 in the case of an irregular habit and 0 in the case of no habit of doing this.
Save goal	This variable aims to indicate whether the respondent has some saving goals. It assumes a value equal to 2 in the case of a positive response, 1 in the case of no well-defined saving goals and 0 in the case of no saving goals.
Economic independence aim	This variable aims to indicate whether the respondent has the aim of economic independence. It assumes a value equal to 2 in the case of a positive response, 1 in the case of no well-defined answer and 0 in the case of a negative response.
Family wealth	Dummy variable: the variable assumes a value of 0 for family wealth of up to € 40,000, 1 for level of wealth from € 40,000 to € 70,000 and 2 for wealth greater than € 70,000.
Father educational level	This assumes a value equal to 2 in the case of a university degree or higher, 1 in the case of a high school diploma and 0 otherwise.
Mother educational level	This assumes a value equal to 2 in the case of a university degree or higher, 1 in the case of a high school diploma and 0 otherwise.

Each respondent's financial behavior was calculated considering his/her money allocation (to a checking account, to a debit card, to financial instruments and/or to managed savings products), attributing to each method an increasing value (from 0 to 3) in accordance with the level of complexity, and then summing these values to give a total. Table 2 presents the summary statistics. 56% of respondents were female, and ages varied from a minimum of 20 to a maximum of 28.

Table 2. Summary statistics

	Mean	Median	Std.	Min	Max
Financial behavior	1.78	1	1.53	0	7
Gender	0.56	1	0.50	0	1
Age	22.08	22	1.79	20	28
Expend attitude	1.52	2	0.71	0	2
Expenditure control	1.79	2	0.53	0	2
Save goal	1.45	2	0.77	0	2
Economic independence aim	1.87	2	0.40	0	2
Family wealth	1.27	1	0.67	0	2
Father education level	1.14	1	0.61	0	2
Mother education level	1.20	1	0.60	0	2
Male + father’s degree (dummy variable)	0.12	0.33	0	0	1
Male + mother’s degree (dummy variable)	0.13	0.34	0	0	1
Female + father’s degree (dummy variable)	0.14	0.34	0	0	1
Female + mother’s degree (dummy variable)	0.15	0.36	0	0	1

Summary statistics of the respondents in the sample. The sample size is 282.

3. Empirical Results

To investigate the influence of parents’ educational levels on young adults’ financial behavior, two regressions were carried out. The first considered the impact of the father’s and mother’s educational levels on their offspring’s financial behavior, while the second analyzed parents’ educational levels compared with their offspring’s financial behavior by gender (father-son, father-daughter, mother-son, mother-daughter), using four specific dummy variables, shown in Table 2. The results obtained are reported in Table 3, in the columns headed ‘Model 1’ and ‘Model 2’, respectively.

Table 3. OLS regression results

Variable	*Model 1*	*Model 2*
Gender	-0.459**	
	(0.186)	
Age	0.0735	0.101*
	(0.050)	(0.048)
Expend attitude	0.133	0.089
	(0.116)	(0.114)
Expenditure control	0.334**	0.409***
	(0.158)	(0.158)
Save goal	0.173	0.156
	(0.130)	(0.131)
Economic independence aim	0.493***	0.419**
	(0.214)	(0.199)
Family wealth	0.331*	0.329**
	(0.150)	(0.150)
Father education level	0.441***	
	(0.169)	
Mother education level	-0.438**	
	(0.177)	
Male + father’s degree (dummy variable)		1.224***
		(0.335)
Male + mother’s degree (dummy variable)		-0.451
		(0.302)
Female + father’s degree (dummy variable)		0.108
		(0.272)
Female + mother’s degree (dummy variable)		-0.553**
		(0.223)
Constant	-1.967	-2.781**
	(1.257)	(1.182)
Observation	282	282
R2	0.1272	0.148

Robust standard errors in parentheses.
Significance at the 0.01, 0.05 and 0.10 levels is indicated by ***, **, and *, respectively.

The Table 3 column ‘Model 1’ shows that female students allocate money to less complex financial products than their male colleagues. Students who belong to wealthier families save and invest money in more complex financial products; the same result is observed with reference to both the students with higher economic independence goals and those who pay more attention to their expenditures. Parents’ educational levels influence young adults’ financial behavior but in significantly different ways. In fact, the higher the father’s educational level, the more complex are the financial products underwritten by students when allocating their money; on the contrary, the higher the mother’s educational level, the less complex are the financial products underwritten to accumulate money. These results suggest a clear and strong influence of parents’ educational levels on young adults’ financial behavior.

Moreover, in addition to confirming these results, the Table 3 column ‘Model 2’ highlights the fact that male students whose fathers have university degrees seem to allocate money to more complex financial products, while female students whose mothers have university degrees seem to save money in less complex financial products.

4. Discussion

In order to better focus on the main result of the research, Figure 1 represents it in diagram form.

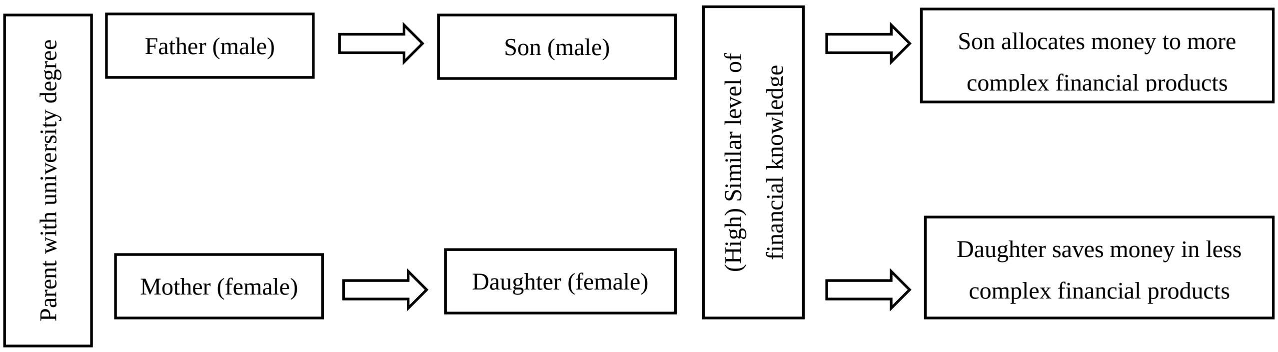

Figure 1. Influence of parents’ educational levels on young adults’ financial behavior

Since the cross-gender relationships between parents and children (father-daughter and mother-son) are not significant, it is evident that the parent of the same gender (father-son and mother-daughter) plays a very important role in the money allocation choices of young adults.

This result is extremely significant, especially taking into account two aspects: i) the young people in the survey sample are young adults, therefore adults with full decision-making capacity; ii) the young people in the survey sample are attending a university course in Economics and therefore have a very high level of specific education in the financial sector.

The results obtained have a double significance. On the one hand, this research extends and updates the existing literature on the relationship between gender and young adults’ risk profiles by considering the level of education of their parents as an influential factor, which has never been used before. On the other hand, the results open up debate on the repercussions this may have on the financial future of young women. Indeed, by maintaining an overly cautious risk profile, women may end up with significantly lower pension funding (as demonstrated in studies by Barskey et al. (1997), Graham et al. (2002) and Jianakoplos and Bernasek (1998)), and consequently women near retirement age could have substantially lower wealth levels than men (Levine and et., 2002).

4. Conclusions

Although the young adults in the examined sample present the same (high) level of financial knowledge, this paper highlights the fact that both parents’ educational levels seem to influence their financial behavior. Moreover, the results show that mothers with university degrees seem to influence their daughters’ financial behavior negatively, while on the contrary fathers with university degrees seem to influence their sons’ financial behavior positively. There is no doubt that the maternal instinct tends towards protecting one's offspring, but some influences can be negative, especially for female daughters as regards their future financial planning. It is therefore desirable for mothers with a higher level of education to reflect on and work towards enabling their daughters to express their personal level of financial risk.

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