"Because My Parents Say So"- Children’s monetary decision making

Noi Keng Koh a *, Chwee Beng Lee b

*National Institute of Education, 1 Nanyang Walk, Singapore 637616, Singapore

Abstract

The aim of this research is to understand children’s monetary decision making. Using a qualitative approach, we interviewed 136 primary five students randomly selected from 6 primary schools in Singapore. In this brief report, we highlight several themes that emerged from our analysis which explains students’ decision making processes when money is concerned. We also found that parents are the main or only guidance to the students in understanding personal financial management. Such findings may have implications for subsequent instructional interventions to improve students’ financial literacy.

© 2010 Published by Elsevier Ltd. Open access under CC BY-NC-ND license.

Keywords: Financial literacy; monetary decision making; children

1. Introduction

In line with the notion of a knowledge economy that rewards individuals who are highly adaptive and creative, and who can assume epistemic agency and learn intentionally (Bereiter & Scardamalia, 2006), students are required to be actively involved in the construction of knowledge and the evaluation of the choices they make (Osana, Tucker & Bennet, 2003). In its recent initiatives, the Ministry of Education, Singapore announced a new framework to enhance the development of 21st century competencies in Singapore students. Such a framework seeks to better prepare our students to thrive in a fast-changing and highly-connected world. This new framework suggests 21st Century competencies and student outcomes. One of the desirable outcomes is responsible decision making and the ability to make sound decisions is an important life skill.

In this paper, we describe our preliminary findings on examining how children make monetary decisions. We focused on children’s monetary decision making for practical and theoretical importance. It is of practical importance to provide insights to the way we design programs to enhance or develop children’s decision making processes since this has been an important issue in the recent years. Meanwhile, it is of theoretical importance as it adds to our knowledge of how children exercise logical reasoning when making monetary decisions.
2. Literature Review

Jonassen (2004, 2007) discussed a typology for types of problems. According to him, there are 11 kinds of problems that vary according to their structuredness, complexity, and dynamicity. One of the problem types is decision-making, which is an everyday part of children’s lives (Jonassen, 2000). Children make decisions about their daily expenses, time allocation (for example, whether to do homework or to play), and social situations (for example, what kind of friends to make). When making a decision, children must compare and contrast the advantages and disadvantages of alternative solutions, and to justify these solutions. In such a problem situation, problem solvers need to identify the most relevant criteria. The decision-making process can be very complex because the problem solvers need to consider factors such as time, cost and to name another factor. According to normative theory, people seem to follow a linear process of decision making from listing all the possible solutions, to evaluating the solutions, to choosing the best solution, to devising the plan based on their evaluation, and finally to the evaluation of the consequences (Osana, Tucker & Bennet, 2003). However, everyday problem solving is most of the time complex and multidimensional, and may be chaotically complex (Sinnott, 1989). The reliance of normative theory to explain everyday problem solving may oversimplify the complexity of such problems.

3. Method

This study was conducted using a semi-structured focus group interview process to elicit information from the children. Among the 136 fifth grade students from 6 primary schools whom we interviewed, 8 students from a particular primary school were further selected for one-to-one interviews on a recent monetary decision they had made to provide in-depth understanding of their thought processes. During the interviews, students were given approximately 10-15 minutes to think of a significant recent monetary decision. Paper and pencils were provided to the students to draw diagrams representing their decision making processes. They were then asked to explain the process to the interviewer. This method has been shown to be effective when children can use drawings to represent their ideas of concepts, such as evaporation (McGuiganm, Qualter, & Schilling, 1993; Rennie & Jarvis, 1995). These drawings were coded and analyzed together with the interview transcripts using the principles of grounded approach. Two coders coded the first three transcripts independently for emerging categories or themes. The rest of the transcripts were thereafter coded by a single coder whose work was checked by the other coder. Following the open coding process, axial coding helped to reduce and reassign codes. Several themes emerged as critical points for discussion which were agreed upon by the researchers.

4. Findings

4.1. Spending involves decision making processes

Our analysis seems to suggest that when it comes to spending, there is a certain level of decision making processes involved. In such processes, students’ reasoning or justification skills were often activated. Once the student decided to purchase an item, factors such as the source of the money will be considered. If the price was within the amount of the student’s pocket money or collected savings, and if they had the liberty to use the money, the purchase is then most likely determined by their own spending habits. Students will either restrict themselves to buying what they need, indulge in impulsive purchases, or plan for the purchases. These decisions involved students’ reasoning and justification. For instance, when asked about their decision to make a purchase, one student said: “Maybe sometimes when I make a wrong decision, and I am tempted to do it [make the decision] again. So the next time I’d be more careful about the money I spend and what [I] choose to buy.” When probed deeper on the decision making process, the same student was able to explain to the interviewer the criteria he used to make
purchases. First, he compared the different brands. Then, he evaluated the choices against the available money that he had, before he finally made the purchase.

More complex decision making was involved when the price for the intended purchase was above a certain threshold that was considered “expensive”. This was especially true when the students’ own money was involved. It was apparent that when such a situation arose, students would seek for more assistance, such as seeking advice from their parents and friends, or by making price comparisons between various shops.

In instances where the parents objected to the purchase, the students may seek alternate solutions, such as saving up to make the purchase on their own. An interesting phenomenon was that some students anticipated their parents’ objections prior to their asking for permission, and thus they had decided not to seek any consent before buying the item. For instance, when we asked a particular student about why she did not seek advice before making the decision, she mentioned: “Because my parents won’t allow me. I didn’t tell anybody because I know that if I ask them they will say, ‘Don’t buy, [don’t] want it. This is not good!’”

It was interesting to note that none of students interviewed reflected any active search of information, for example on the internet or beyond their familiar circles, in their decision making process.

4.2. Learning from experience

We also found that students learned from their own monetary decision-making, especially when the learning experience was a negative one. Triggered by the “pinch effect” of regret, some students became more aware of their own decision making processes after making a purchase. When asked about their learning experience on making the purchase, one student remarked: “Always think twice before you buy the thing. Because if you just buy like that, then after a while you don’t like it already, then one time if you really need the money, you would have used it on something that now you don’t want already. But what you really need to buy now, you have no money for it.” In another case, one student commented that: “It taught me that I should not buy that particular thing if I can’t use it often.”

4.3. Varying levels of self-awareness

Our analysis also revealed that students had varying levels of self-awareness. This self-awareness was important as it helped the students to understand their responsibilities in terms of using money earned by their parents for making their own purchases. As a consequence, students who had more self-awareness were observed to be those who were able to carefully consider and control their spending. For instance, one particular student said: “I don’t spend too much on my own things; maybe I will spend about like $5 or so, because I don’t need things that are so expensive now since I’m so young.” Another student was even able to take to consideration the current state of the economy by saying: “Because of recession…some parents, they lose their jobs… so cannot spend money willfully.”

A few students had also demonstrated the ability to self-reflect on their past purchases and to learn from advice given by their parents. For instance, one student told the interviewer that her mother had taught her about saving, and as a result, she had started to evaluate her own spending. There was also another student who acknowledged that he would likely only learn a lesson if he had to make a decision on a sufficiently expensive item.

The evidence we gathered suggests that depending upon the students’ level of self-awareness gained, their subsequent monetary decisions may change as a consequence.

4.4. Parents as the most influential factor

Parents were undeniably the most influential factor in the children’s monetary decision making process. Parents were perceived as the role models, financial supporters, or advisors in their children’s spending and saving processes. For instance, one student described the advice given by her parent and the rationale for choosing to buy a cheaper item and thereby saving the money to be able to buy more later. Interestingly, some students disagreed with the way that their parents handled money, and this had created more awareness in the way they managed their own
savings. In one such case, one student described her dilemma on managing her piggy bank savings. When asked to provide her reason for not asking her parents to keep the piggy bank on her behalf, she mentioned: “My mother will spend it later… she will use it to buy lottery tickets.”

Being financially dependent, parents became the main financial support of the children. Depending upon the family circumstances and culture, parents may either provide full or partial support for purchase of the more expensive items requested by their children.

The advisory role of parents was mostly in the form of granting or approval to purchase an item. Students whose parents had strong influence on them would seek their parents’ permission before making a purchase. In the process of granting permission, the parents engaged in dialogue with their children, and if they disagreed with the purchase, may advise the child accordingly. For instance, one student said: “Sometimes I go to my siblings or parents to ask if I should buy it because it might not be worth it, or if it’s too expensive.” Meanwhile, another student said: “I saw my favorite series [of comic books] in the bookstore, so I went back home… and asked my parents if I could buy it. As it was cheaper due to a discount, they agreed.”

Another method used by parents to guide their children in making monetary decisions was to reward them upon achieving desired outcomes. According to the students, some parents would encourage their children to work for the items they desired to purchase. For instance, one student mentioned that if he obtained good results in his school examinations, his mother would allow him to buy whatever things he desired.

5. Conclusion

From the qualitative analysis, parents are currently found to be the main or the only guidance to the students in understanding of personal financial management. In such a situation, the additional role that schools can play might prove of significant effect as students spend most of their weekday time at school. It was also evident that when it came to spending, more complex decision making is involved. This was especially true when students had to use their own savings to make a purchase. If the price of the item was above a certain threshold and perceived to be expensive, reasoning and justification skills such as setting of criteria or making comparison may be activated. Some students also learned from their past experiences, especially the negative spending experiences, and subsequently made adjustments to their spending and saving habits accordingly. Hence, it is proposed that important financial literacy concepts such as understanding the value and worth of money, as well as making sound judgment on differentiating between needs and wants, could be embedded into financial education to prepare individuals for day-to-day decision making.

The preliminary analysis reported in this study could provide some insights to the monetary decision making of children. This may have implications for subsequent instructional interventions to improve students’ monetary decision making. As most spending and saving habits are developed at an early age, good financial education is still seen as the best way to develop this important life skill (Breitbard, 2003; Mandell, 2007; Stanger, 1997).

References


