

How Students Manage Money: Some Developmental Implications

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This study examined how first- and second-year undergraduate students managed their money, where they learned money management skills, how they rated on managing their finances, and to whom they turned when they needed financial advice. The results revealed some interesting developmental implications and suggest that campus services to assist students in managing financial resources are needed.

Introduction and Background

A major goal of the student affairs profession is the development of the total student. To accomplish this goal, colleges and universities offer a wealth of services that promote various components of personal development. At residential campuses, for example, social development is promoted through residence hall community living and programming. Counseling services promote psychological growth and emotional well-being. The physical development of students is addressed through health clinics and recreational programs. Career services focus on enhancing students' vocational development. Involvement in clubs and organizations on campus offer developmental opportunities in leadership. In fact, models of professional practice that organize the components of personal development (typically called Wellness models) have been widely adopted by student affairs practitioners (Hettler, 1980).

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One component of personal development, however, seems to have been overlooked in the scope of services offered on campus: helping students manage their financial resources. Although financial aid offices help students acquire the financial resources they need to attend college, institutions do not typically offer services that assist students with managing their personal finances. The ability to manage such resources is increasingly important as the cost of higher education continues to grow and students (and their families) are responsible for funding a greater portion of that cost (Danes & Hira, 1987).

Perhaps student affairs administrators have overlooked financial management in the array of services they offer because these skills are mentioned only tangentially in student development theory, the body of work that guides so much of professional practice. The literature on cognitive development does not address the issue of financial management at all. In the psychosocial literature, only one theory examines financial management. Chickering and Reisser (1993) noted that students' ability to manage money is one developmental task associated with achieving instrumental independence, a component of autonomy. But managing resources is only one of several tasks related to instrumental independence, and instrumental independence is only one of three components of achieving autonomy. Thus, the focus on money management skills is limited.

This limited focus is reflected in the instruments that have emerged to measure student development. Only two major instruments include measures of financial skills. Money management is one of six scales on the Developing Autonomy Inventory (DAI) (Hood & Jackson, 1986) and is measured through responses to 15 of the DAI's 90 items. In the Student Developmental Task and Lifestyle Inventory (SDTLI) (Winston, Miller, & Prince, 1987), money management is a component of one of the instrument's 11 subtasks and is measured through responses to four of the SDTLI's 140 items.

Given the limited attention that has been paid to managing finances in both theory and instrumentation, it is not surprising that research on the topic is limited. A review of the literature on financial management, consumer affairs, and financial aid reveals that the few studies conducted on managing money focus on topics like consumerism, credit, and educational debt.

In the area of consumerism, studies have examined students' knowledge of consumer issues, their behaviors as consumers, and the extent of consumer education in the curriculum. The results reveal a lack of comprehensive consumer education and limited knowledge of consumer issues among college students (Carsky, Lytton, & McLaughlin, 1984;

Garman & Bach, 1995). Other studies have focused on credit card usage among college students. Results reveal a wide variety of behaviors among students, the majority of which reflect limited understanding of credit cards and poor habits when using such cards (Armstrong & Craven, 1993). Still other research has examined students' attitudes toward, and knowledge about, educational debt. Although students have a favorable view toward educational loans, they are unaware of repayment information specific to such loans (Hira & Brinkman, 1992; Holland & Healy, 1989; Mortenson, 1989).

There is a limited body of work on college students and money management issues, but these studies examined students' attitudes about money (Anderson, Camp, Kiss, Wakita, Weyeneth, & Fitzsimmons, 1993; Heckroth, 1993), their knowledge about managing money (Danes & Hira, 1987; Ingalls, 1990), and their financial needs while in college (Jackson & Pogue, 1983). An extensive review of the literature revealed no studies on the actual fiscal management behaviors of college students.

While many agree that financial management is an essential component of education (Herrmann, 1982), studies on the particular behaviors students use to manage their finances are scarce. The present study was designed to explore this gap in the existing body of research on college student development.

Purpose of the Study

The purpose of this study was to explore how students manage their financial resources. Specifically, the following research questions were investigated:

1. How do traditional-age freshmen and sophomores manage their financial resources?
2. Do on-campus freshmen manage their resources differently than on-campus sophomores?
3. Do on-campus sophomores manage their resources differently than off-campus sophomores?
4. Do financial management behaviors reveal student development issues?

Data consisted of student records of their expenditures and income over a period of one month, reliable financial documents provided by the respondents (i.e., checkbook registers, credit card statements), and in-depth interviews with participants.

Methodology

This was a qualitative study that sought to examine a limited number of participants who were nested in an identified context (Gall, Borg, & Gall, 1996). The sample size was small, enabling the researchers to explore the issue of financial management behavior in depth. The particular techniques used to collect data were typical of qualitative work and elicited information that could be used to examine the research questions posed in the study (Miles & Huberman, 1994; Stage, 1992).

A stratified purposeful sample of 17 traditional-age (18-20 years old) freshmen and sophomore students was chosen for the study. The participants lived on and off campus at the time of the study, and were enrolled on a full-time basis during the fall 1996 semester at a large, public research university located in the mid-Atlantic region.

The sample consisted of three groups of students. The first two groups included five freshmen and six sophomores randomly selected from a list of students living in five residence halls on campus. Participants in both groups had limited financial management obligations since they did not have to pay rent, utilities, and related living costs while residing on campus. Additionally, it was assumed the freshmen had more limited financial management skills than the sophomores since they had been in college only three months at the time of the study.

The third group consisted of six sophomores who had lived on campus as freshmen in 1995/96 but had moved to an off-campus apartment complex in 1996/97. A flyer was posted at the apartment complex to recruit these participants, and the first six who responded and met the selection criteria were included in the sample. The off-campus sophomores had a similar degree of financial management experience as their on-campus sophomore counterparts, but had greater financial obligations than the on-campus participants as they were required to pay rent, utilities and other costs associated with off-campus living.

All respondents received a \$50 incentive payment for full participation in the study. Full participation included attending a pre-study information session, maintaining logs of all expenses and income for a 1-month period, providing copies of checkbook registers and credit card statements for that month, and participating in an in-depth interview at the conclusion of the data collection period.

At the pre-study information sessions, participants were provided with a supply of log sheets on which to record all expenditures and income for the period under study (October 21-November 18, 1996). They also received instructions on completing the log sheets and were assured of

the confidentiality of their responses. During the course of the data collection period, participants were called weekly to ensure that they were logging information daily and to respond to any questions they had.

At the end of the month, respondents participated in substantive interviews that focused on three topics: how they were financing their education, where they learned their financial management skills, and to whom they turned when they had questions about money matters. Copies of logs, checkbook registers, and credit card statements were collected at the time of the interview. Interviews are advantageous in qualitative studies such as this one in that they allow researchers to examine the topic under study in greater depth (Manning, 1992). In this case, researchers were able to gain a fuller understanding of the participants' experiences with money management through the interview process.

Data Analysis

The data collected were analyzed for two purposes: to understand the items on which students spent money (analysis of logs, checkbook registers, and credit card statements), and to understand how and why students made the financial decisions they did during the period under study (analysis of interview transcripts).

To understand how students spent and earned funds, the log sheets were carefully scrutinized to identify major categories and subcategories of expenditures and major sources of income. This process of condensing and transforming data is central to qualitative research (Miles & Huberman, 1994; Stage, 1992). Once categories were identified, each expenditure was assigned to a major category (e.g., food) and a subcategory within that category (e.g., fast food vs. meal plan expenditures). All reports of income were assigned to a source, (e.g., job, gift). Checkbook registers and credit card statements were used to verify the accuracy of the logs and the methods of payment students used to make purchases (i.e., cash, check, credit card).

The frequency of expenditures, the total amount expended, the average number of expenditures, and the average amount spent per expenditure were calculated for each subcategory and category for each of the three groups of participants. A ratio between monthly income and expenses, and the frequency with which students used cash, checks, and credit cards were also calculated.

Transcripts of the interviews were analyzed to identify repeated words, phrases, and ideas (Gall, Borg, & Gall, 1996; Miles & Huberman, 1994), which were then grouped to create themes about financial management

behaviors (e.g., financial skills). Participants were assigned to positions within those themes based on their comments (e.g., well-developed vs. under-developed financial skills).

The results of the document analysis and interview transcripts were combined to develop a profile of the financial management behaviors of each of the three groups (Miles & Huberman, 1994; Stage, 1992). Similarities and differences among the groups were examined to explore how their financial management behaviors reflected developmental issues.

Results

The data revealed five major categories of expenditures: food, entertainment, transportation, bills, and miscellaneous. The food category included five subcategories, the entertainment category included three subcategories, while the transportation, bills, and miscellaneous categories reflected two, four, and five subcategories, respectively. Four sources of income were also identified: allowance, gifts, jobs, and refunds. The results are summarized in Table 1. For example, the on-campus freshmen spent a total of \$2,554 and had a total income of \$502 during the period under study. Overall, two of the three groups (on-campus freshmen and off-campus sophomores) spent more than their income during the period under study.

Analysis of the interview transcripts revealed two themes: financial relationships with family (good, fair, poor), and financial skills (well-developed, under-developed). In the interviews, participants described their financial relationships with their parents. Those who described their parents as discussing financial issues with them and challenging them to be financially responsible were determined to have "good" financial relationships with their families. Participants who discussed whether they had sufficient funds to survive, but who were not challenged to be fiscally responsible by their parents, were determined to have "fair" financial relationships with their families. Those with "poor" financial relationships were not able to have financial conversations with family members. Of the 17 participants, 7 (41%) reported having good financial relationships with their families, 7 (41%) had fair relationships, and 3 (18%) had poor relationships.

Comments offered by respondents that reflected they had long-term financial goals and understood complex financial issues led to their assignment to the "well-developed" category of financial skills. Respondents who did not express long-term financial goals and did not understand complex financial issues (e.g., ATM surcharges, credit card interest

Table 1

Total Frequency and Amount of Expenditures and Income By
Category, Group, and Type of Transaction (N=17)

Category Group	Freq. Total	Amount Total	# Trans. in Cash	# Trans. by Check	# Trans. by Credit
On-Campus Freshmen					
Expenses					
Food	358	\$ 1,145	354	4	0
Entertain.	28	151	26	2	0
Trans.	9	99	8	1	0
Bills	5	507	1	4	0
Misc.	37	652	30	6	1
Subtotal	437	\$ 2,554	419	17	1
Income					
Allowance	3	\$ 328			
Gifts	4	32			
Jobs	5	50			
Refunds	4	92			
Subtotal	1	\$ 502			
On-Campus Sophomores					
Expenses					
Food	337	\$ 957	335	1	1
Entertain.	25	218	23	2	0
Trans.	10	144	8	0	2
Bills	6	606	1	5	0
Misc.	52	2,288	42	9	1
Subtotal	430	\$ 4,213	409	17	4
Income					
Allowance	7	\$ 1,375			
Gifts	10	216			
Job	10	428			
Refunds	1	3,326			
Subtotal	28	\$ 5,345			
Off-Campus Sophomores					
Expenses					
Food	168	\$ 875	161	11	0
Entertain.	14	333	12	2	0
Trans.	10	268	5	0	5
Bills	22	2,988	5	17	0
Misc.	23	351	15	7	1
Subtotal	237	\$ 4,815	198	37	6
Income					
Allowance	12	\$ 1,583			
Gifts	2	95			
Job	11	693			
Refunds	11	816			
Subtotal	36	\$ 3,187			

rates) were assigned to the "under-developed" skills and knowledge category. Nine participants (53%) were rated as having well-developed financial skills while the remaining 8 (47%) reported under-developed skills.

Discussion and Implications

The results reveal some interesting insights into the developmental tasks with which the participants were dealing, particularly in the area of autonomy. Autonomy can be conceptualized as the movement from dependence through independence to interdependence, and consists of three elements. The first, emotional independence, is addressed as students move away from reliance on parents and family and the constant reassurance that such sources of support provide. As students grow more emotionally independent, evidence of instrumental independence emerges. Instrumental independence suggests that students are able to manage their lives and use the resources available to them to resolve problems and achieve goals. Once emotional and instrumental independence have been achieved, students begin to recognize their relationship with a larger society, what they need from that society and what they contribute to it. Achieving this sense of interdependence is the third component of autonomy (Chickering & Reisser, 1993).

In the present study, the on-campus freshmen spent more on food and entertainment than the other two groups, suggesting that first-year students actively pursue social activities as they attempt to identify a peer group and adjust to campus life. Likewise, this group reported high phone bills that, since they lived on campus where monthly service charges are included in room rates, reflected only long-distance calls. They also reported the highest gas bills, and interviews revealed they traveled home more frequently than members of the other two groups. Finally, this group spent five times more than their income during the period under study. Collectively, these data suggest that the freshmen participants were highly engaged in behaviors associated with developing autonomy. Retaining ties with home while struggling to establish a peer group at college are typical of the challenges students confront in the early stages of developing emotional independence. The fact that their expenses far exceeded their income suggests that they were not managing their financial lives very successfully, and that instrumental independence was still a major challenge they needed to address.

The on-campus sophomores spent more on personal amusement items (in the entertainment category) than participants in other groups, suggesting that they had adjusted to campus life, identified a peer group, hence spent less on food and general entertainment but more on items to amuse

themselves. This group spent less than freshmen on gas, but more than their off-campus sophomore counterparts, and reported going home more frequently than the off-campus group. This group was the only one that spent less than its income, but the sources of income were different than those of the freshmen. The on-campus sophomores received more in the way of allowance and also earned more from jobs than their freshmen counterparts. Again, the data reflect how the participants were dealing with the tasks associated with autonomy. These participants seemed to have made some gains with respect to emotional independence, as less money was spent on socializing with others and visiting family. Issues of instrumental independence were being addressed to a greater extent if money management is a measure of that element of autonomy. It is reasonable to suggest that on-campus sophomores, who had a year's experience managing funds, realized what it costs to be in school and renegotiated allowances with parents and assumed more work responsibilities to cover such costs. The fact that they did live within their means denotes a significant departure from the freshmen and implies a greater degree of instrumental independence.

The off-campus sophomores reported the highest amount of bills, which might be expected since they paid rent, utilities, and other costs associated with off-campus living. They spent less on food in general, but more on groceries than the other two groups. They also spent less on entertainment, less on gas, and reported less frequent trips to their parents' homes, suggesting that they cooked and entertained at their apartments, and that their transition from family support to peer support was more fully developed. However, the off-campus participants spent more than they earned during the month. They also reported the highest amount of allowance, though they also earned the most from jobs. These results suggest that off-campus students seemed to have successfully achieved emotional independence, as local associations with peers were more extensive than continuing attachments to family. In terms of instrumental independence, however, the data suggest that participants assumed new financial responsibilities but didn't manage their funds to live within their means. This suggests that instrumental independence may be achieved incrementally: as students assume more financial obligations they need to learn new skills before instrumental independence can be achieved. The data seem to confirm the notion that students recycle through some developmental tasks as they face more complex issues (Chickering & Reisser, 1993).

There were two other interesting findings in the study. The first relates to the dichotomy between how students managed their money and how they described their money management skills. While 41% of the participants were rated as having good family financial relations, and 53% were rated as having well-developed financial skills and knowledge,

the majority of participants (11 of 17) were in groups where expenditures exceeded income during the period under study. That is, their behaviors were not consistent with their descriptions of those behaviors. This suggests a difference between perceived and real financial management skills. Such differences between perception and reality may not be uncommon among students and are consistent with the developmental notion that students can understand issues intellectually but not necessarily behave in ways that reflect that understanding. In the case of financial management skills, however, this dichotomy may significantly influence a student's ability to stay in school. Students who don't manage money well may not have sufficient resources to remain enrolled.

The second finding was revealed through the interviews. When asked where they turned for financial advice, participants were quite adamant that they do not discuss financial matters with their friends. Regardless of the strength of their financial relationships with their families, friends are not considered good sources of financial advice. This is particularly important for students who have limited or poor financial relationships with their families. If they cannot or do not seek financial advice from families, and will not seek such advice from friends, they seem to have no recourse when they run into financial difficulties.

These findings suggest some significant implications for future practice and research. In terms of practice, the results suggest that campus services to provide assistance with financial management issues seem warranted. These services might take the form of individual financial counseling for students or financial management tips for parents. At a minimum, campuses may wish to provide students and their families with information about the monthly costs associated with college life so that amounts needed from savings and summer employment to support a full year of college can be reasonably calculated. Moreover, any services offered may need to be provided by professionals, rather than peers, as the respondents in this study would not seek advice about managing money from peers.

As the relative paucity of current literature suggests, there is also clearly a need for further research on the subject of student financial management skills. Future studies might wish to examine the behaviors of upper-division students, or compare students' spending habits at different types of institutions. More in-depth analysis of where students learn financial management skills would also seem relevant.

Limitations and Conclusion

The present study was not without some limitations, especially in terms of the sample. First, all of the participants were volunteers, who may

have differed in some significant way than non-volunteers. Second, the sample size was clearly a limitation, though a small sample is not unusual in the type of qualitative research conducted for this study (Miles & Huberman, 1994; Stage, 1992).

Despite these limitations, however, the present study provided a reasonable methodology to study the budgetary behaviors of students, and suggested that financial management is an area in which students need some additional support. The results also suggested that studying students' money management behaviors is a reasonable way to examine developmental issues they confront as they move through higher education. Finally, the study offered some insights into future directions the student affairs profession might wish to take. If promoting the holistic development of students is a fundamental premise of student affairs professional practice, the results of this limited study would suggest that there may be a gap in the scope of those services that future research should examine.

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