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News from NASFAA

***Economics Moves To Big Leagues,
But Helping Students Learn Is Another Matter***

Washington, D.C. (August 2007) – Since 1969 the Department of Education has been administering nationwide tests in reading, mathematics, science, history, civics, geography, and the arts. But for the first time, high school seniors across the country were subjected to an economics assessment test last year to ascertain how well they understood basic economic forces – including personal finance – in their lives. The good news is that students did better than expected. The bad news is that an anomaly in the results casts doubts on the best way to teach it.

The National Assessment of Educational Progress (NAEP) categorizes students into one of three achievement levels for its assessment exams: basic, proficient, and advanced. Of the 11,000 seniors that took the economics assessment exam, nearly 80 percent scored at or above the basic level, 42 percent at or above the proficient level, and 3 percent at the advanced level.

How good is that? Compared to the results of other assessment exams taken by high school seniors, it's incredible. Only 13 percent of high school seniors performed at the proficient level in a history assessment test administered last year compared to the 42 percent in economics.

Students were tested on three different levels of economic theory: the **market economy**, which focused on **individual economic** decisions; the **national economy**, which focused on national economic policy; and international economy, which focused on global trade issues.

Some of the questions focused on the economic benefits of higher education. For example:

Luisa has decided to give up her full-time job to go back to school. Identify one potential economic risk and one potential economic benefit that Luisa might have considered in making her decision.

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Correct Answer: Luisa runs the risk of putting herself in a tighter economic situation, with less available income for the time being. However, going back to school to get a degree may mean more lucrative job opportunities later.

Most students understand the economic benefits of higher education. More than 70 percent of students answered this question correctly and another 20 percent received at least partial credit. But when it comes to how finances actually work, fewer students understood simple economic consequences of everyday market forces. For example:

How will an increase in real interest rates affect the amount of money that people will borrow? Explain why this will occur.

Correct Answer: People will borrow less money when interest rates increase because it will be more expensive to do so.

Only 33 percent of the sample answered this question correctly, 34 percent gave a partially correct answer, and 32 percent answered incorrectly. Given that more students are using student loans and credit cards to subsidize their educations, and the apparent lack of financial know-how associated with personal finance, this trend indicates possible trouble for college students.

Other findings show that males scored higher than females, White and Asian/Pacific Islander students scored higher than Black and Hispanic students, and students with at least one parent with a college education scored higher than students whose parents have no college training.

An Anomaly Casts Doubts

Nearly two-thirds of the students said that they had taken an economics course in high school, a percentage that has increased steadily over the last few decades. But there's a catch, students with no economics coursework scored somewhat higher than students with business or personal finance coursework. Overall, students who took a general economics course scored higher than students who took business and personal finance courses and students with no formal economics education.

How could students with no economic coursework score higher than students who had participated in business or personal finance coursework? The "anomaly," as it was labeled by panelists, adds fuel to an already hot debate about the best way to get economic and financial literacy information into the hands of students before college.

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Several panelists on a “Financial Literacy and Education Summit” held by the Federal Reserve Bank of Chicago, in partnership with Visa USA last May raised concerns about government involvement in financial literacy campaigns. NASFAA has been very interested in financial literacy issues and has worked with Visa on its Practical Money Skills for Life curriculum.

“Any time the government gets involved it becomes political,” said former Chairman of the Federal Deposit Insurance Corporation (FDIC) William Seidman at the summit. “I don't think that government should be at the heart of this.”

Seidman proposed that the private sector take the lead in state and national financial literacy initiatives.

But other panelists felt that the federal government should play a limited role, and that most of the responsibility for financial literacy should fall on the states. Former Secretary of Education Richard Riley, who was also part of the education summit, suggested that financial literacy be incorporated into state secondary education curriculum.

The panelists did agree that the lack of economic and financial know-how is a problem and that what has been done in the past hasn't been effective. Still, many believe this latest NAEP report shows progress.

“The numbers here are pretty good, really,” said Darvin M. Winick, chairman of the bipartisan body commissioned by Congress to oversee the NAEP test's administration in an August 9 New York Times article.

Certainly more work is needed and financial literacy advocates believe there is enough room for many different players to get information into the hands of students. It's a more the merrier attitude that has focused less on effective initiatives and more on just starting initiatives. In many ways the “financial literacy movement” is still in its infancy, as it matures it will become increasingly important to measure and find the most effective ways to empower future students with the financial know-how they'll need to be successful.

By Justin Draeger, Assistant Director for Communications, NASFAA. Justin may be contacted at DraegerJ@NASFAA.org.

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The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents more than 12,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. Each year, members help more than 8 million students receive funding for postsecondary education. In addition to its member Web site at www.NASFAA.org, the Association offers a Web site with financial aid information for parents and students at www.StudentAid.org.

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[Editor: A photograph of the author is available for download at www.NASFAA.org/Subhomes/MediaCenter/JustinDraegerPhotoMediaCenter.jpg.]