

FINANCIAL LITERACY AT UNIVERSITY: LESS IS MORE

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Abstract

In an increasingly globalized world, where buying on credit are at the click of a button, it is essential to educate university students in the use of basic financial tools since it will help them to learn how to manage their money smartly. The main purpose in the near future is to reach financial freedom. Students in general, and those at university level in particular, are about to end their studies, getting a job and start dealing with financial issues. Due to the lack of education in personal finances, it is vital to provide them with tools so as to help them to differentiate between what is important and what's not and to show them the consequences that getting into debt will generate in their personal, professional and financial lives.

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Introduction

In order to raise awareness among students who learn Spanish for Business at Khon Kaen University, a project has been set up in which they have been asked to write down their daily income and expenses for a period of time of a month. After that, it has been analyzed what is the meaning of each outlay in terms of satisfaction, happiness, energy spent or environmental impact.

This project allows students to practice specific terms of a foreign language as well as provides them more knowledge and gives them power to make better financial decisions in their future. The key point is supporting them on how to avoid getting in debt and therefore let them embrace the importance of reaching financial freedom. Moreover, they have been given examples in which it is explained how their lives will be different depending on whether they reach financial freedom by making right decisions or, on the contrary, they take the risk of becoming financial slaves by overusing credit cards. After six months of that first test, it is repeated with the same students so as to verify if they have internalized this financially sustainable behavior.

In order to become aware of the situation, we start with a simple while powerful quote from Dave Ramsey (2001), personal finance expert, which reads as follows: “We buy things we don’t need with money we don’t have to impress people we don’t care”. This is the core of most money problems afflicting Western society, since we usually live beyond our means so as to engage in what the majority believes but without realizing that it doesn’t lead us to happiness or to self-realization but, on the contrary, it keeps us away from it. Anyway, to take part into this consumer lifestyle, the system has established credit, to supposedly give consumers the opportunity to acquire all those goods that they desire regardless of whether

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they have money at any given moment or not. Therefore, the banking system provides that money in advance, but accepting that loan may complicate our lives in the short and medium term, let alone that it is very likely that the goods we have acquired do not bring us more than an illusion of momentary happiness that will disappear as soon as the environment is conditioning us to continue consuming and pursuing happiness through new purchases and that way again and again.

Traditional teaching neither repairs in personal finance nor forms students on how to use their money wisely but, at most, it explains the operation of banks and the various financial tools from banks point of view, when what should be analyzed is precisely the consumer point of view and reflect why and for what reason people are continuously getting into debt and in which cases it could be avoided.

The project has been carried out with 4th year students from Khon Kaen University in Thailand and it begins by highlighting two concepts as antagonistic as freedom and slavery and relating them to finance. It brings about the terms financial freedom and financial slavery.

Financial Freedom is defined as living with no debts, that is to say, your balance with financial institutions is positive and it is that they owe money to you instead of the other way round. Financial slavery is just the opposite, live in debt and have a negative balance with the bank, an amount which will be generally bigger than what you can afford and therefore very difficult to be settled.

The reason to shed light on college seniors is because they are about to go into the labor market which entails receiving a payroll and therefore more money available to spend. Since the pattern of consumption that each person plays is the key aspect that will lead them to a situation or to another, we place special emphasis on prevention and via raising awareness among students, they may be able to avoid much bigger problems in their coming future.

Methodology

Once students have assimilated certain basic concepts, we continue with the activity which consists in noting down their expenses so as to see where they are and in doing so they themselves are aware of the different consequences of choosing a pattern of consumption in the present and for their future. And above all it empowers them to take responsibility of their personal finances.

During October 2014, a group of 108 Thai students have meticulously recorded every expense in which they had incurred. Every one of them began with a different monthly income, whether it was their parents assignation or something they gain for their weekend jobs or even both at once. The aim of the program is to write down on paper all their transactions in order to easily identify areas for improvement and at the same time to reinforce positive attitudes about saving money. In late September a simple template of income and expenses were given to each one of them and they were asked to complete it with every single expense throughout the month of October. The results obtained were as follows:

70 students spent their entire budget before the 25th;

28 students adjusted the total budget to the 31 days of the month;
10 students managed to save money.

Beyond the obvious, more than half of respondents ran out of money about a week before the end of the month, the most significant point to take into consideration is that the level of income was not decisive in the results and what more weight had was their pattern of spending.

Result and Discussion

After obtaining the results, it came the time to analyze the consequences of it in student's life. It was important to know what happened from day 25 onwards to those 70 students who were not able to fit into their monthly budget. The most common thing revealed was this:

They had to borrow more money to parents or even other partners to meet the expenses of the last days of the month. It entailed sacrificing part of next month's income to pay their debts and therefore less money available to cope with this new month. If the pattern is repeated, they would have to ask parents or friends, this time even earlier, and thus the danger of entering into a spiral of debt seemed to never ends. Fortunately, these debts remained relatively under control because creditors were close people and it meant that they weren't charged with interest. However, in real life, as discussed below, the creditors would no longer be parents but financial institutions and debts would not be limited to returning the capital requested but to repay the principal and interest that the financial institution would have established by contract.

Stay at home because they could not even spend for a bus ticket, much less on gas for the motorbike. The opportunity cost in terms of socialization is evident and feelings that it causes in young people are more negative than might seem beforehand. Needless to say that in adult life, stay at home without money could amount to stop traveling, attending meetings with friends, concerts, theater, cinema, etc.

Only eating instant noodles twice a day. This is the flagship product among students rather than their quality or taste but for its price as a bag costs about 15 baht, something like half a dollar. Those noodles are not nutritious at all and besides are advised against by various consumer organizations due to its high content of lead and monosodium glutamate (GSM). Young people don't notice the effects of a poor diet but if this behavior continues in adulthood, it will lead to various diseases such as obesity, diabetes, high blood pressure or even depression.

Education in basic Personal finances

Results, as expected, were very negative and far cry from encouraging, so the next step was undoubtedly to provide basic tools to students, so as to help them to manage their money smartly because in doing so it would be reachable for them to enjoy a comfortable life in the future. The main idea that we wanted to convey was that financial freedom is a personal decision rather than something that depends on external circumstances as one might think a

priori, for example, the level of income is not the key aspect but the way you manage such income, that is, the pattern of consumption and savings.

Since most of the students, 68%, was framed in the category of those who spent all their monthly budget before October 25, we considered appropriate to explain deeper than before the test what financial bondage means.

Another important part of this work has been carried out explaining with concrete examples how, as several studies have shown and as we have noticed as well, living a frugal life leads to save time and money. Consequently, it makes our life easier and happier.

In order to address the advantages of simplicity, some research has been done in several fields in order to demonstrate how the Less is More philosophy can be applied in daily life.

Clothing and footwear

It is not intended to be said that we should go naked and barefoot, but do we really need to buy new clothes so often? What difference really makes if society sees us repeating dress or shirt?

In regard to shoes, the art of simplicity implies to find a couple of pairs, comfortable and appropriate, since we will save money and life energy if we do a proper use of them, just until they are worn and not until they go out of fashion. Fashion, of course, is merely an invention created and taught by the same industries that sell clothes and shoes, what a coincidence! It is highly advisable and much more effective if we forget about what Industry dictates to us, taking into account that they just want our money, and as opposed we decide by ourselves what our real needs are.

Food and beverages

Countless studies confirm that we eat more than we need, which inevitably entails both economic and, especially, health consequences. The insatiable consumerism has managed to introduce into our daily diet some food which should not even be considered as such, for example: Coca-Cola and other sugary soft drinks, potato chips, ketchup and other man-made sauces, bakery products, refined sugar, etc. It is being achieved what seemed impossible a few decades ago, that contemporary diseases such as obesity are perceived as normal. Also, the excessive consumption of meat and dairy products in Western societies is contributing to the emergence of numerous cardiovascular diseases in humans, in addition to the unnecessary suffering of animals who live and die confined in small spaces and are fed with hormones and products, at best, of dubious quality. In short, if we eat healthy and in adequate quantities and not in abundance, our health, our wallets and, even more important, our planet will thank us.

Jewelry, watches, bracelets, rings and other items

Everyone decides what to wear and why but the activity here is that of reflecting for a moment the money we would save if we were to reduce what we carry in our body. Besides, it is proposed to consider the following questions:

Does carrying gold, silver or diamonds, make us happier or better human beings?

If the answer is no, does it make any sense to spend that much on it?

Even while they are studying they will not be struggling with all the financial issues, it was worth explain them how life in adulthood would be if they decide to apply the Less is More approach. For that reason, we introduced housing and cars to state in a more than theoretical way:

Size of the house in which to live

Generally, the smaller it is, the lower the price we have to pay for it. Besides, it goes without saying that it costs much less to furnish it and its maintenance: taxes, home insurance, electricity (less air-conditioning and heating devices and much easier to cool and heat the room).

In regard to housework, savings in time and money are obvious, unless you hire someone to do it for you (which would increase even more our spending).

Size and range of the car

Needless to say, with some exceptions, a smaller and modest car will generate less spending than a large and brand car: lower price, lower fuel consumption, repairs, taxes, car insurance.

Another point to consider would be asking what use we want to give the car. If for example, it is only to go from home to work or take the kids to school, it is clear that, other than to show off in front of colleagues or the other parents at the school gate, we don't need a 4x4. The additional expense that it entails could be saved and spent on other more profitable pursuits.

Similarly, we should highlight that using an off-road car in the city generates more traffic jam and air pollution than an ordinary car. Therefore, the damage we may cause to our fellow citizens and the planet is tremendous. Supposing that all of us would decide to buy an off-road car for going to work or taking the kids to school, traffic and pollution would be unbearable. In short, is there any advantage to anyone?

Financial slavery

We start from a situation where a person has a monthly income of 1000 euros and expenses for 1100 euros, that is, he or she spends 100 euros more than it earns. This situation is possible today thanks to, or because of, credit cards, which are a payment instrument that the bank or financial institution offers to the user so that he can buy what he wants even though he may not have sufficient cash in that moment. In short, what they do is to lend you money so you do not have to deprive of buying whatever you want. So, in addition to spending more than you would if you did not have that card, you assume the obligation to repay the amount drawn plus interest, bank fees and other associated expenses. It means that those 100 extra euros than the person is spending each month, are not actually 100 euros but a higher amount after applying the corresponding interest rate and incorporating the various partners expenses. According to a 2014 report from the Organization of Consumers and Users (OCU), in only one year we will be paying between 20% and 27% more depending on the bank.

The data is worrying and hence arises the need to alert college students about the danger of using credit as they are about to enter the labor market and thereby receive a payroll, open a new bank account and, of course, be flattered by their bank with a credit card.

Now let's get in the situation of a person whose monthly salary is 5,000 euros but, moved by the consumerist whirlpool and blinded by a false sense of wealth, it leads a lifestyle well beyond his means and has a monthly expenditure of 6200 euros. In this case, as shown, keeping the consumption pattern of spending more than what one earns, a higher wage not only not solve the debt problem but makes it worse. And, unlike the person above, his behavior leads to worse situations because now not only he is paying interest on credit card but to deal with the monthly difference has had to resort to personal loans and put as collateral the car and even the home. This in practice means that their economic situation is actually very fragile because any change for the worse in their work and therefore in revenue would generate catastrophic consequences for this person as surely for his family. In this case, the debt becomes a mere slave of his job and lives every day with the anguish of knowing that he could not afford any unforeseen because its financial situation, far from what might seem from the outside, is inconsistent.

Both examples, although mostly the second, lead to what financial intelligence expert, Robert Kiyosaki, defined as the rat race, that is, according to him, the situation in which your expenses tend to grow at the same rate that your profits. The more you earn, the more you spend and for some reason, money is always short for those who are running this race. Let's take the example of a newly married couple who borrows money to buy his house. Subsequently one or both are promoted and increases its income. With the arrival of children, and even without them, they decide to buy a new home or making renovations to expand the current so they request another loan. And it leads them to work harder and is more than likely that they will have to take overtime to meet the commitments they are acquiring. As they work hard and believe that they deserve it, they ask for a new loan to buy a larger, more comfortable and more beautiful car. Thus, it is necessary to work more and more, making indiscriminate use of credit cards and borrowing money that set the young couple in the rat race for the next 30 years.

Redefining concepts

Students should see the bank as it really is, a business sale. This is neither good nor bad, but it is vital to be aware that financial institutions are not fulfilling a social function but its objective, commendable and respectable, is the same as any private company, that is, to maximize profits. In the case of banks, the product that is traded with is the money, which is bought at 1% to subsequently sell it at 5%. In our power as consumers is saving on our own and manage our money at zero cost or buy it to the bank at a very high price. It is equally important to clarify certain concepts so that its application does not lead to mistakes. This is the case of verbs provide and sell whose meaning, according to the Oxford Advanced Learner's Dictionary, is reproduced below:

Lend: to give something to somebody or allow them to use something that belongs to you, which they have to return to you later.

Sell: give or hand over (something) in exchange for money.

After reading carefully both concepts and analyzing in detail every single word, students come to the conclusion that saying that a bank lends money is not quite right, or at least incomplete, since properly speaking we should say unambiguously that what a bank does is to sell a product, that is, the money they have previously purchased at a lower price. Once analyzed in class the term financial bondage, is time to explain the opposite, financial freedom, so college students continue to assimilate concepts and get an idea of the implications of choosing one option or the other.

Financial freedom

We start from the same case in which a person has a monthly salary of 1000 euros but, unlike who was into debt, he only spends 900 euros per month, so he has 100 euros each month dedicated to savings. His situation will be comfortable because he has control over his finances and even though the income does not increase, he has clearly identified which expenses are necessary and which are not and has decided to adjust to that salary following the basic golden rule of financial intelligence which consists in saving at least 10% of what has entered. The attitude that this person is having takes him to live better, more relaxed and more aware of the fact that he is making the right choices about his purchases and not being influenced by marketing campaigns department stores or by the siren song of his bank, who always encourages us to step up our expenditures without reflecting. Fortunately this person knows the difference between lend and sell and sees no need of purchasing money to the bank.

Now let's suppose the case of a person who earns 5,000 euros a month. As has training in finance and is financially intelligent, she or he decides to have an expenditure of 3,500 euros per month. The remains 1,500 euros are dedicated this time to two purposes. First, to save 1,000 euros and second to invest 500 euros, thus, its revenue will continue to grow each month and also can afford risking a part to invest. This second part is obviously optional but the most important is that the savings continues to grow. In the case of this person, who have relatively high incomes, at least above average, he has chosen that wants to take advantage of that situation and not become a slave of it, so he may increase his level of spending and allows genuine luxuries as they could be traveling anywhere in the world. In doing so, he is definitely choosing financial freedom, and it will make him live more relaxed and without fear about an economic crisis or about losing his job because if such thing happens, he has enough savings to spend time without incomes while reinventing himself and designing his new strategy. This is what is known as a financial cushion.

All these analysis of results and subsequent explanations about the terms slavery and freedom associated with finance, took place during the months of November and December 2014, with theoretical explanations, debates, reflections, viewing excerpts of films related to financial education as is the case of the audiobook "*The Richest man in Babylon*" (Clason, 1926).

After returning from classless period of late December and early January, we did the same test related to income and expenses during the month of March 2015. This time the students already had previous experience on how to do it and they also have several months of study and reflection in class. The results obtained from the same 108 students were as follow:

15 students spent their entire budget before the 25th;

37 students adjusted the total budget to the 31 days of the month;
56 students managed to save.

It can be seen that the differences in behavior between October 2014 and March 2015 were spectacular. Let's note again that students level of income hardly changed, so what really led to this dramatic change in the results was the attitude and decisions of each one of them.

Conclusion

In just a few months of financial education lessons in the Faculty of Humanities and Social Sciences at Khon Kaen University, it was determined that the percentage of students who spent all his money before the 25th of the month dropped from 64.81% to 13.89%. In contrast, the percentage of those students who managed to save themselves improved from 9.26% in October 2014 to 51.85% in March 2014.

Although we are aware that this is only a test with a certain number of students, the impact it has had leads us to believe that an education in which students are formed in personal finance will be very beneficial to the community as a whole.

However, due to the influence that consumerism and financial institutions have in our society, it is necessary to suggest students to further training and learning, even more after finishing his studies.

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