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ISU adds class on financial literacy; students like idea

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Ames, Ia. - A new financial literacy course has sparked debate over whether Iowa State University should require students to take the class before graduating.

The three-credit course called Student Financial Survival, to be offered for the first time this spring, will teach how student loan debt translates into payments after graduation and how much salary students expect to make in their chosen careers.

But university officials are wrestling with two issues: Whether the course has valuable academic elements, and growing concern over students and their finances on the other.

"My ultimate dream is that there would be some sort of course work that would be a requirement of students - a financial literacy component before you could graduate," said Roberta Johnson, director of student financial aid at ISU.

As college costs have increased, so has debt among college students. Students graduate from public universities with about \$25,000 in debt, according to the most recent data. At Iowa State, students typically graduate with more than \$30,000 in loans, according to a report last year from the Iowa Board of Regents.

About 5.3 percent of those who attended college in Iowa and started paying on federal education loans in 2005 defaulted.

In addition, information released last week shows that students have an average balance on university-branded credit cards of more than \$1,000.

Neither the University of Iowa nor University of Northern Iowa requires a financial literacy course. Sharon Burns, the executive director of the Association for Financial Counseling and Planning Education, said that nationwide, she has not heard of any campuses that have made such a course mandatory.

Faculty debate academic merits

But Johnson's idea is generating controversy at Iowa State.

"Students are consumers," said Maurice MacDonald, an ISU professor and chairman of human development and family studies, the department where the new financial aid literacy class will be held. "And there's some argument that they choose, (rather) than be required to do things."

Advocates for a required course note that 1,541 ISU students who took an online financial literacy quiz averaged a score of 53.7 percent.

ISU Associate Provost David Holger said the sticking point to

Test your own financial literacy

1. If you have caused an accident, which type of automobile insurance would cover damage to your own car?

- a) Term
- b) Collision
- c) Comprehensive
- d) Liability

2. Matt and Eric are young men. Each has a good credit history. They work at the same company and make approximately the same salary. Matt has borrowed \$6,000 to take a foreign vacation. Eric has borrowed \$6,000 to buy a car. Who is likely to pay the lowest finance charge?

- a) Matt will pay less because people who travel overseas are better risks.
- b) They will both pay the same because they have almost identical financial backgrounds.
- c) Eric will pay less because the car is collateral for the loan.
- d) They will both pay the same because the rate is set by law.

3. If you went to college and earned a four-year degree, how much more money could you expect to earn than if you only had a high school diploma?

- a) A little more; about 20 percent more.
- b) A lot more; about 70 percent more.
- c) About 10 times as much.
- d) No more; I would make about the same either way.

4. Many savings programs are protected by the federal government against loss. Which of the following is not?

- a) A bond issued by one of the 50 states
- b) A U.S. Treasury bond
- c) A U.S. Savings bond
- d) A certificate of deposit at the bank

5. If each of the following people had the same amount of take-home pay, who would need the greatest amount of life insurance?

- a) A young single woman with two young children.
- b) A young single woman without children.
- c) An elderly retired man, with a wife who is also retired.
- d) A young married man without children.

6. Which of the following instruments is not typically associated with spending?

- a) Cash
- b) Credit card
- c) Debit card

requiring a financial literacy course is deciding whether it has valuable academic elements.

Undergraduates at ISU are required to take two English proficiency courses, three credits in U.S. diversity, three credits in international perspectives and a half-credit course on how to use the library.

Johnson said that the value of the library course diminishes upon graduation, whereas a financial literacy course's usefulness increases.

Holger said the required library course has a clear academic benefit.

"I think the financial responsibility is sort of not quite as clear," he said. "It's something that certainly people would agree (that) a person benefits from. ... Is that something that directly improves the academic experience isn't as clear."

The new financial literacy class at ISU aims to be about practical knowledge, said Doug Borkowski, the director of ISU's financial counseling clinic and instructor for the course.

Borkowski said he is targeting to enroll 70 students in the class for spring semester, and have 350 students enrolled for fall of 2008.

Part of the class will involve asking students to break into small groups and work to figure out how the amount of money they borrow for college translates into loan payments upon graduation.

He will also talk to students about factoring in how much they borrow with how much salary their major could produce if they land a job in that field. "There's a difference how much a person can borrow depending on the major," he said.

Another class assignment will ask students to track their spending and identify "wants" vs. "needs," he said.

Do such courses really help students?

Studies on the effectiveness of financial literacy courses taken in college and high school are murky.

One national study published in 2001 in the Journal of Public Economics surveyed those in their middle age, and showed that those who took a financial management class in high school tended in middle age to save more than others.

"That was the single most encouraging piece of evidence," said Lew Mandell, a professor of finance and managerial economics at the State University of New York at Buffalo. "But nobody has been able to replicate it."

Mandell said few surveys have been done at the college level regarding the effectiveness of financial literacy courses.

He has studied a sample of students who graduated since 2001 from a high school that taught a voluntary course in personal financial management. Those who took the class showed no difference in their performance on a financial literacy test from those who did not. Also, researchers found that those who took the course were no more likely to be more savings-oriented than those who did not.

"Kids will study, cram for the final, they'll pass the course and six months later they won't remember a thing about it," said Mandell, who added that younger students may not be motivated to retain

d) Certificate of deposit

7. Which of the following credit card users is likely to pay the greatest dollar amount in finance charges per year, if they all charge the same amount per year on their cards?

a) Vera, who always pays off her credit card bill in full shortly after she receives it.

b) Jessica, who only pays the minimum amount each month.

c) Megan, who pays at least the minimum amount each month and more, when she has the money.

d) Erin, who generally pays off her credit card in full but, occasionally, will pay the minimum when she is short of cash.

8. Which of the following statements is true?

a) Your bad loan payment record with one bank will not be considered if you apply to another bank for a loan.

b) If you missed a payment more than two years ago, it cannot be considered in a loan decision.

c) Banks and other lenders share the credit history of their borrowers with each other and are likely to know of any loan payments that you have missed.

d) People have so many loans it is very unlikely that one bank will know your history with another bank.

9. Doug must borrow \$12,000 to complete his college education. Which of the following would not be likely to reduce the finance charge rate?

a) If his parents took out an additional mortgage on their house for the loan.

b) If the loan was insured by the federal government.

c) If he went to a state college rather than a private college.

d) If his parents co-signed the loan.

10. If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?

a) Sales tax may be charged on the interest that you earn.

b) You cannot earn interest until you pass your 18th birthday.

c) Earnings from savings account interest may not be taxed.

d) Income tax may be charged on the interest if your income is high enough.

11. Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of high inflation that last several years?

a) Young couples with no children who both work.

b) Young working couples with children.

c) Older, working couples saving for retirement.

the knowledge because they are not yet making financial decisions.

The advantage of moving financial literacy courses to the college level is that it becomes less theoretical, he said.

"I don't think anyone has shown it to be very effective; it doesn't mean it can't be," Mandell said. "It doesn't mean it isn't possible to discover ways of doing it more effectively."

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d) Older people living on fixed retirement income.

12. Which of the following is true about sales taxes?

- a) You don't have to pay the tax if your income is very low.
- b) It makes things more expensive for you to buy.
- c) The national sales tax percentage rate is 6 percent.
- d) The federal government will deduct it from your paycheck.

13. Lindsay has saved \$12,000 for her college expenses by working part-time. Her plan is to start college next year and she needs all of the money she saved. Which of the following is the safest place for her college money?

- a) Corporate bonds
- b) A bank savings account
- c) Locked in her closet at home
- d) Stocks

14. Which of the following types of investment would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?

- a) A twenty-five year corporate bond
- b) A house financed with a fixed-rate mortgage
- c) A 10-year bond issued by a corporation
- d) A certificate of deposit at a bank

15. Under which of the following circumstances would it be financially beneficial to you to borrow money to buy something now and repay it with future income?

- a) When some clothes you like go on sale.
- b) When the interest on the loan is greater than the interest you get on your savings.
- c) When you need to buy a car to get a much better paying job.
- d) When you really need a week vacation.

16. Which of the following statements best describes your right to check your credit history for accuracy?

- a) All credit records are the property of the U.S. Government and access is only available to the FBI and Lenders.
- b) You can only check your record for free if you are turned down for credit based on a credit report.
- c) Your credit record can be checked once a year for free.
- d) You cannot see your credit record.

17. Your take home pay from your job is less than the total amount you earn. Which of the following best describes what is taken out of your total pay?

- a) Federal income tax, social security and Medicare contributions
- b) Federal income tax, sales tax, and

social security contribution
c) Social security and Medicare contributions
d) Federal income tax, property tax, and Medicare and social security contributions

18. Retirement income paid by a company is called:

- a) Rents and profits
- b) Social Security
- c) 401k
- d) Pension

19. Many people put aside money to take care of unexpected expenses. If John and Jenny have money put aside for emergencies, in which of the following forms would it be of LEAST benefit to them if they needed it right away?

- a) Stocks
- b) Savings account
- c) Invested in a down payment on the house
- d) Checking account

20. Justin just found a job with a take-home pay of \$2,000 per month. He must pay \$800 for rent and \$200 for groceries each month. He also spends \$200 per month on transportation. If he budgets \$100 each month for clothing, \$150 for restaurants and \$250 for everything else, how long will it take him to accumulate savings of \$900.

- a) 1 month
- b) 2 months
- c) 3 months
- d) 4 months

21. Many young people receive health insurance benefits through their parents. Which of the following statements is true about health insurance coverage?

- a) Young people don't need health insurance because they are so healthy.
- b) You continue to be covered by your parents' insurance as long as you live at home, regardless of your age.
- c) You are covered by your parents' insurance until you marry, regardless of your age.
- d) If your parents become unemployed, your insurance coverage may stop, regardless of your age.

22. Mike and Dave work together in the finance department of the same company and earn the same pay. Mike spends his free time taking work-related classes to improve his computer skills; while Dave spends his free time socializing with friends and working out at a fitness center. After five years, what is likely to be true?

- a) Mike will make more money because he is more valuable to his company.
- b) Mike and Dave will continue to make the same money.
- c) Dave will make more because he is

more social.

d) Dave will make more because Mike is likely to be laid off.

23. If your credit card is stolen and the thief runs up a total debt of \$1,000, but you notify the issuer of the card as soon as you discover it is missing, what is the maximum amount that you can be forced to pay according to Federal law?

- a) nothing
- b) \$50
- c) \$500
- d) \$1000

24. Which of the following statements is NOT correct about most ATM (Automated Teller Machine) cards?

- a) You can get cash anywhere in the world with no fee.
- b) You must have a bank account to have an ATM Card.
- c) You can generally get cash 24 hours-a-day.
- d) You can generally obtain information concerning your bank balance at an ATM machine.

25. Mark has a good job on the production line of a factory in his home town. During the past year or two, the state in which Mark lives has been raising taxes on its businesses to the point where they are much higher than in neighboring states. What effect is this likely to have on Mark's job?

- a) Mark's company may consider moving to a lower-tax state, threatening Mark's job.
- b) He is likely to get a large raise to offset the effect of higher taxes.
- c) Higher business taxes will cause more businesses to move into Mark's state, raising wages.
- d) Higher business taxes can't have any effect on Mark's job.

26. Kelly and Pete just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following tends to have the highest growth over periods of time as long as 18 years?

- a) A U.S. Govt. savings bond
- b) A savings account
- c) A checking account
- d) Stocks

27. Karen has just applied for a credit card. She is an 18-year-old high school graduate with few valuable possessions and no credit history. If Karen is granted a credit card, which of the following is the most likely way that the credit card company will reduce ITS risk?

- a) It will charge Karen twice the finance charge rate it charges older cardholders.
- b) It will start Karen out with a small line of credit to see how she handles the

account.

- c) It will make Karen's parents pledge their home to repay Karen's credit card debt.
- d) It will require Karen to have both parents co-sign for the card.

28. Maria worked her way through college earning \$20,000 per year. After graduation, her first job pays \$40,000. The total dollar amount Maria will have to pay in Federal Income taxes in her new job will:

- a) Stay the same as when she was in college.
- b) Be lower than when she was in college.
- c) Double, at least, from when she was in college.
- d) Go up a little from when she was in college.

29. Which of the following best describes the primary sources of income for most people age 20-35?

- a) Profits from business
- b) Rents
- c) Dividends and interest
- d) Salaries, wages, tips

30. If you are behind on your debt payments and go to a responsible credit counseling service such as the Consumer Credit Counseling Services, what help can they give you?

- a) They can work with those who loaned you money to set up a payment schedule that you can meet.
- b) They can force those who loaned you money to forgive all your debts.
- c) They can cancel and cut up all of your credit cards without your permission.
- d) They can get the federal government to apply your income taxes to pay off your debts

Answers: 1) b; 2) c; 3) b; 4) a; 5) a; 6) d; 7) b; 8) c; 9) c; 10) d; 11) d; 12) b; 13) b; 14) b; 15) c; 16) c; 17) a; 18) d; 19) c; 20) c; 21) d; 22) a; 23) b; 24) a; 25) a; 26) d; 27) b; 28) c; 29) d; 30) a

SOURCE: A sampling of questions from a quiz given by the JumpStart Coalition for Personal Financial Literacy