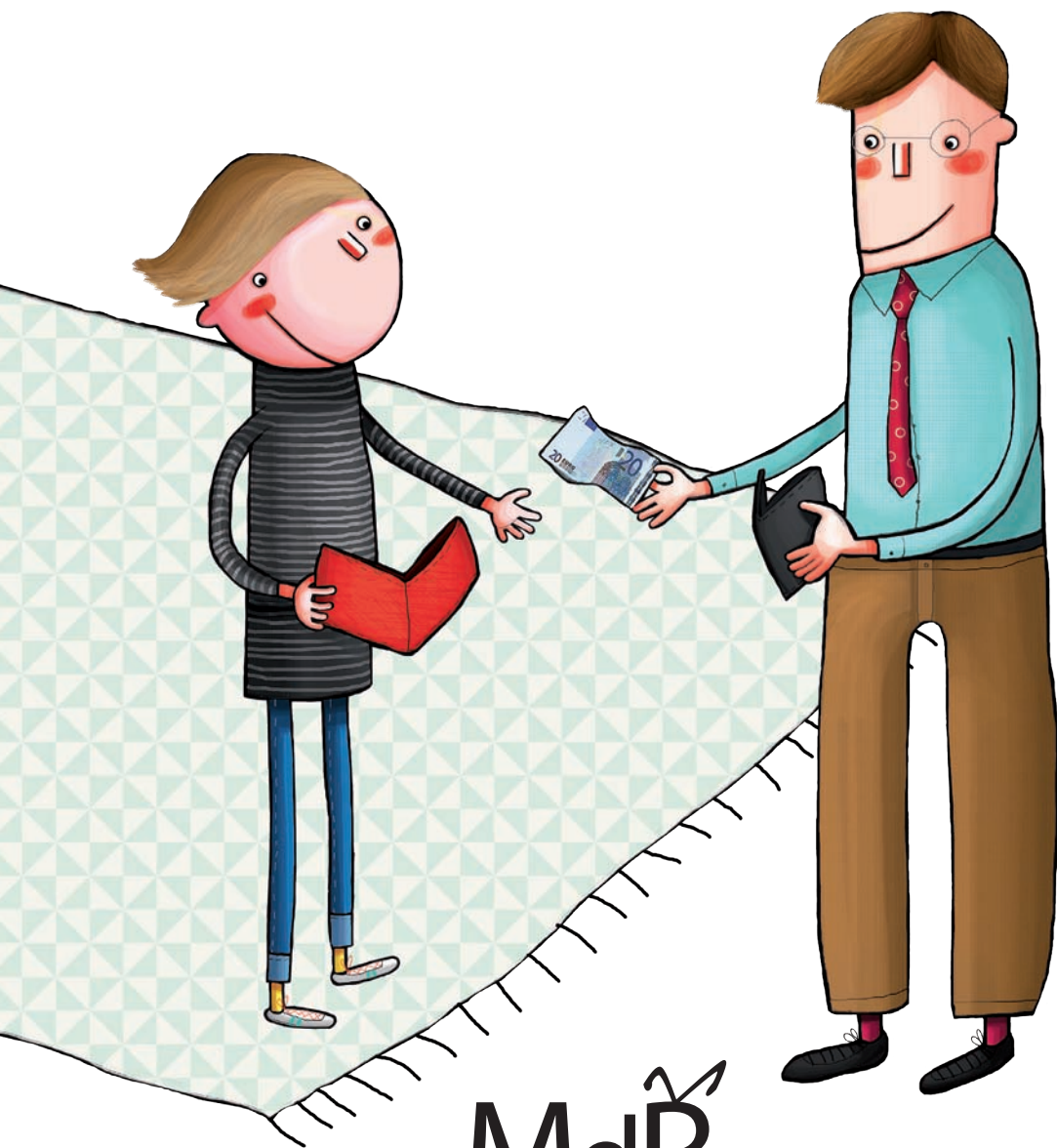


Pocket money & tips

Know it, understand it, use it



MdR
MUSEO DEL RISPARMIO
Conoscere, capire, sperimentare.

- A proper financial education
- Astute money management
- How to choose a proper educational approach?
- Preschool
- From elementary to middle school
- High school
- Why is pocket money so important?
- Some tips...
- From theory to practice

A proper financial education

Teaching children and young people that money is neither good nor bad, but a means to achieving some of our objectives, is not an easy task. However, it is an important educational phase, because it allows them to grow up consciously and manage money without over-worrying. Saving, intended as a part of planning for the future, is the conscious act of spreading expenses over a wide time horizon and difficult financial times highlight its importance in facing the tough moments of a reduction in income or redundancy.

Saving is a conscious act of spreading spending over a wide period

The duration of the recent financial crises has intensified anxieties and underlined how families have not been able to defend themselves because of an insufficient financial knowledge. Many adults over-estimate their financial abilities, and because of their poor skills young people recognise their lack of competence and poor understanding of economics.

New generations are aware that they do not know and are therefore more willing to listen to advice and information.

As well as learning the theory of money management, do they need to experience it?

Do even the very young need money?

If so, how much?

And what for?

A proper financial education can and must teach the young:

- plan ahead for needs, acquiring self-control and starting to think about the longer term;
- learn from mistakes and face the consequences of the bad management of earnings and commitments.

Financial education teaches younger people how to plan ahead for needs and learn from mistakes

The objective is to be self-sufficient when taking economic decisions.

How is it possible to educate youngsters to manage money so that they learn its value?

The means is pocket money.

Pocket money is an efficient and effective way for adolescents to experience responsible spending and saving¹.

Astute money management

Financial education is mainly up to families and schools

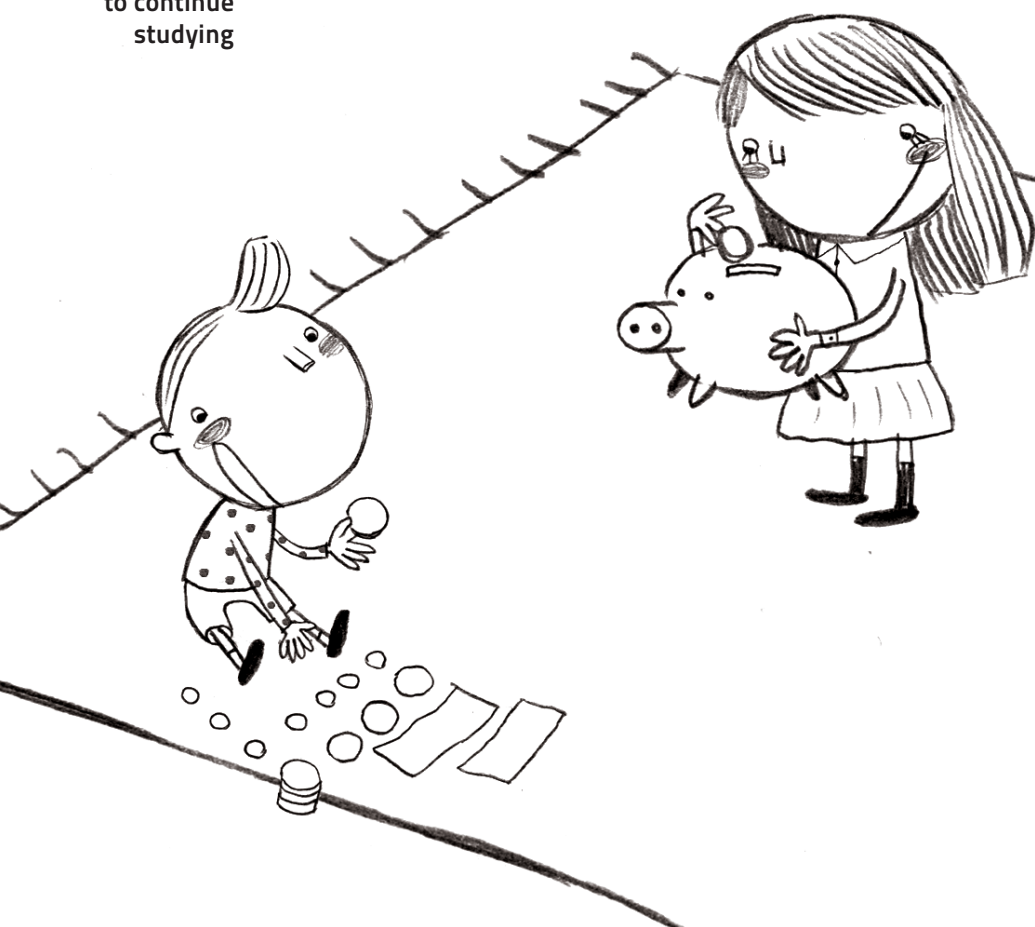
Financial education is up to:

- family (the behaviour and advice of parents can influence children's behaviour);
- school (through teaching and educational games);
- other institutions and organisations, like agencies and associations (through public information activities).

The financial crisis has touched families' everyday life and made money management a central question, also requiring the young to understand financial and economic themes, starting from when they are very young (so, even before giving them a pocket money) and through their growing years.

There is a link between financial education and the decision to continue studying

When parents teach their children the basic principles of financial education, the probability that their sons or daughters go to university rises².



How to choose a proper educational approach?

We can distinguish three main phases corresponding to the age of the children³.

Preschool

Through play, children this age manage to understand the value of money, objects and saving.

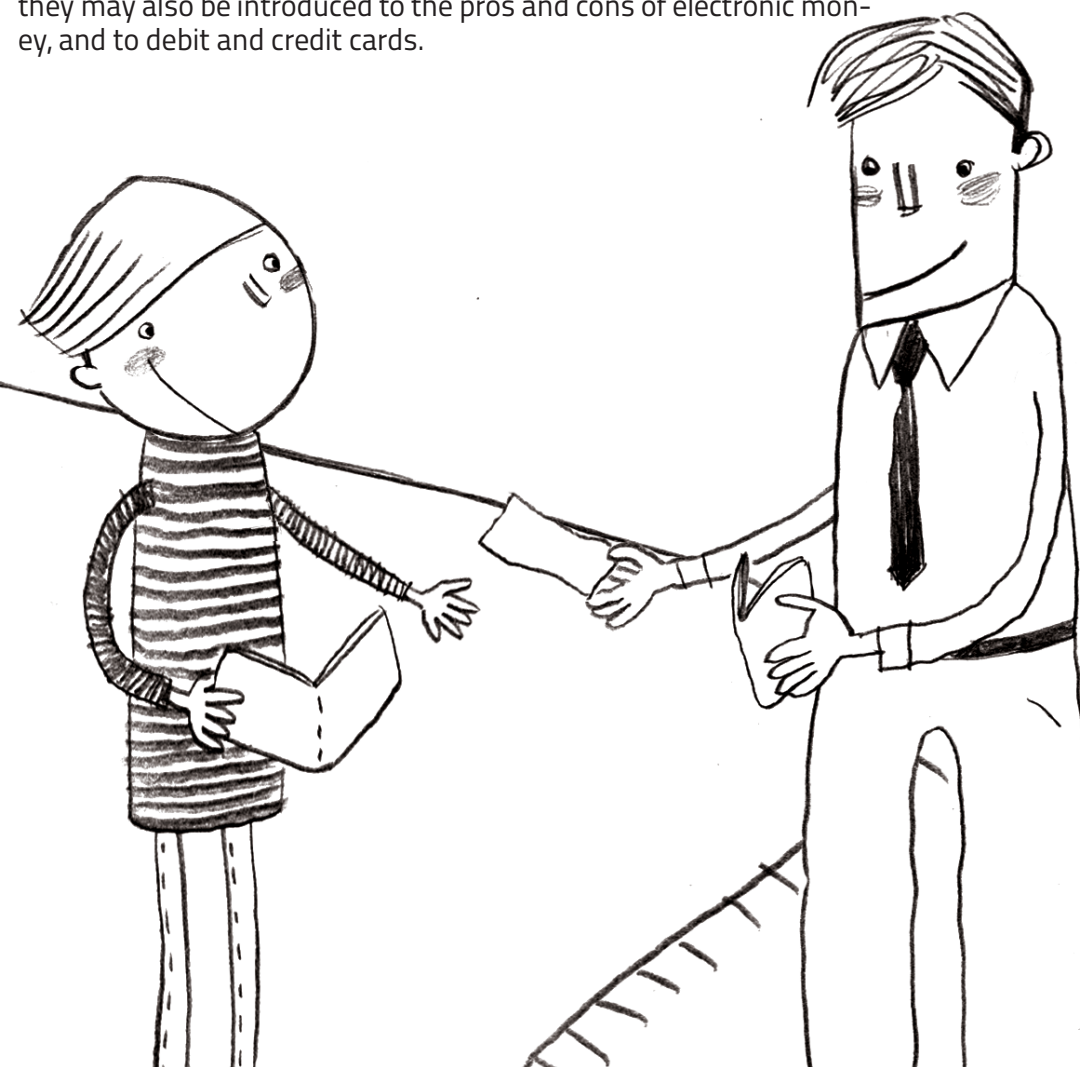
From elementary to middle school

With their first pocket money, children start to gain confidence in using cash and managing their needs.

High school

Thanks to monthly pocket money, adolescents gain autonomy in economic decisions over a longer time horizon. During this period, they may also be introduced to the pros and cons of electronic money, and to debit and credit cards.

A proper education can be approached in three stages



Preschool

In kindergarten, children do not have direct access to money but they are introduced to concepts like "lots" and "little".

This is often the age they understand that you can exchange money for objects (for example, when they go to the supermarket with their parents).



They understand that there are limitations to what they can obtain with money: if you tell them that a ride on the merry-go-round costs a coin, they will realise that the rides are over when the coins are finished.

Also, they are able to distinguish between wishes and needs.

At this age, the objectives of financial education are to convey:

1. the meaning of the amounts of money;
2. the economic value of the objects;
3. the first principles of saving.

These objectives can be achieved through very simple games.

1) You can start by teaching the youngest how to recognise coins, helping classify them according to their shape and explaining the concept of equivalence (five 10 cent coins make 50 cents, two 50 cent coins make 1 euro, and so on); it might be also useful to give them a transparent piggy bank in order to let them see that money grows and stays there, or to "play the cashier" (parents are the customer and children are the cashier, and then swap roles).

2) When children ask for something, parents have the duty to explain to them how much it costs. You can do it with a drawing: trace an outline of the object they want and, inside that, the coins corresponding to the purchase price. Children put the money in the piggy bank as they receive it, colouring a coin of the drawing each time they put one in the piggy bank, until they reach the total.

3) It is very important to instil in children, starting from preschool, habits that will serve them in life, like saving. Parents must teach their children the importance of saving, for example helping them identify a target amount and rewarding them when they have saved the agreed sum of the money they have already been given: in this way, the promise of a "bonus" will encourage saving⁴.

A financial education allows the young to understand the significance of money

Know your coins

Discover the price of what you want

Put something aside

From elementary to middle school

After having taught its value, in what ways can children be given money so that they can start learning how to manage it?

Through pocket money⁵!



At this age, the educational objective is to estimate:

1. short-term needs in well-defined areas;
2. the value of the amount of money available.

The instrument to reach this objective could be a weekly pocket money.

Starting primary school is the best time to take the first steps into the world of money: children develop a sense of quantities and can make small calculations.

With pocket money they start to become familiar with the use of cash and handle their needs.

Talking with parents, they can understand:

1. what expenses occur during the week, distinguishing fundamental needs from superfluous ones (like sweets, another toy car or a Barbie), and how to use pocket money responsibly when you really want something;
2. how much their desires are important, learning to subdivide, order, renounce and take decisions in a conscious way, and learning from mistakes (like spending the whole allowance the same day they get it). In this phase it is important to let the child be free to make mistakes and reflect on the consequences. Preventing mistakes will not help them gain experience.

Learn to distinguish between needs and desires

Learn to give up on some things and take sensible decisions

How much pocket money?

Obviously, there is no right answer: it depends on the income of the parents, the size of the family and the age of the child.

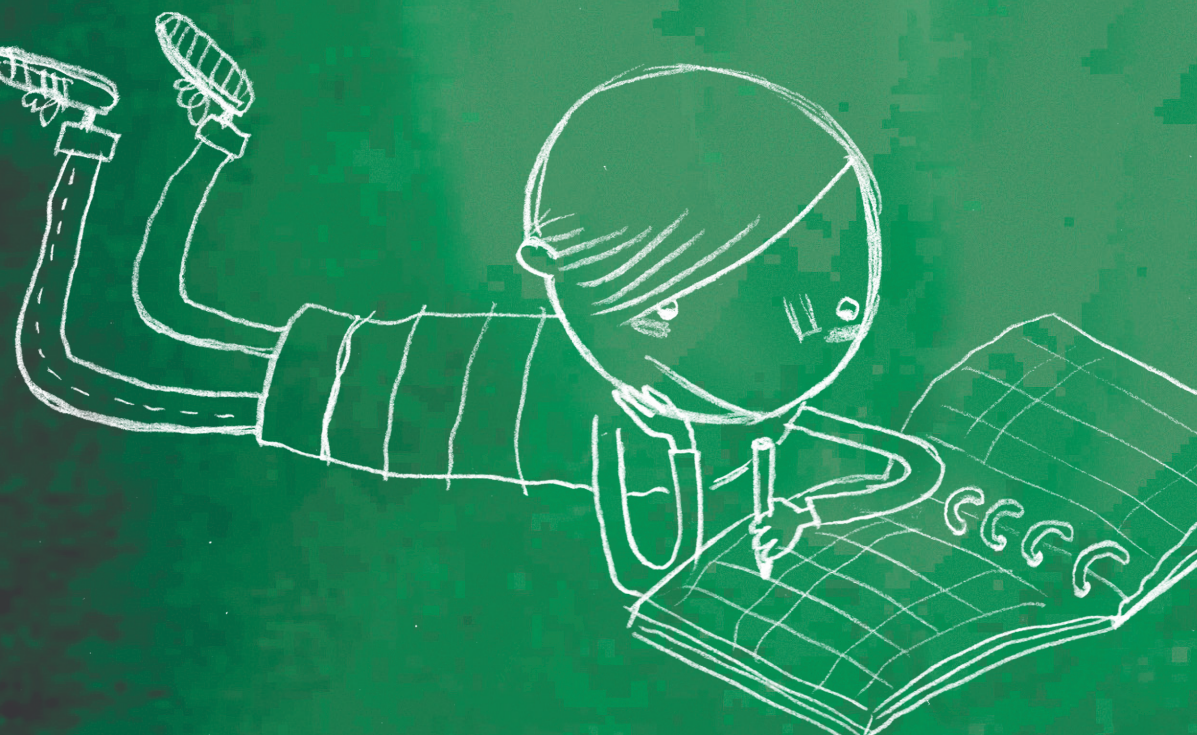
The idea is to give children enough so they can do some of the things they want, but not so much to avoid to make some difficult choices: in this way, they realise what it means to take tough decisions similar to those they will have to take as adults⁶.

For example, you could give 30 cents for each year of age⁷ – so, for example, a 10-year-old child gets 3 euros a week – if pocket money is only intended to buy superfluous things (like toys or sweets), obviously more if it is also to be used for necessary expenses (like books or clothes).

There is no set rule for how much pocket money should be: use common sense

High School

Today's society treats them as consumers: at this age teenagers are almost forced by their friends and companions, and advertising, to follow the fashions and fads of the moment. Going to high school is a test of whether they are able to handle expenses and saving on their own since they spend a lot of time away and have the chance to manage their money independently.



In order that young people have a healthy relationship with finance and understand their limits, parents have to become a model also regarding economic matters, by:

- keeping them informed about past mistakes and the lessons learned;
- explaining the notions of long-term saving and investment.

It is essential that parents clarify their financial responsibilities over their children.

At this age, the educational objective consists in teaching how to create and manage a budget over a longer term and in complete autonomy.

The instrument to achieve this is monthly pocket money, or an allowance.

Convincing a teenager to plan is a great challenge: that is why the weekly pocket money becomes a monthly allowance. Young people have to practice. By helping them create their own budget, they can learn to plan their expenses, and at the end of the month they will be able to check how far their spending decisions have met their actual needs. Parents can help them set priorities, but it would be better to let them act in autonomy and only intervene to correct macroscopic errors: in fact, mistakes are a part of the learning process, that would be hindered by unnecessary outside help.

Should the monthly allowance be equivalent to the weekly pocket money? Absolutely not!

Always bearing in mind the background, it should increase in parallel with the age.

Teens spend more time away, so they will have more demands on their finances.

Indicatively, parents could give 2 euros for each year of age⁸; so, for example, a 15-year-old gets 30 euros a month if, again, the money is only intended for the purchase of unessential things, or more if it is also for the purchase of necessary goods.

Obviously, these suggestions are indicative only and depend on the economic conditions of the family.

Parents are a model also regarding money management

A monthly allowance teaches young people to plan spending independently

Why is pocket money so important?

There are so many reasons⁹!

Having your own money to handle makes you more independent and more adult

Having money to manage is a sign of trust from parents: it makes children more independent and helps them grow up and become responsible. Running out of money makes them think twice before buying and distinguish between necessary and unessential things.

With pocket money you understand the benefit of saving money. In the beginning children tend to spend all the money immediately, but then they realise that saving is a way to buy something later that they could not have afforded earlier.

There is a correlation between adult debt and managing pocket money when younger: the habit of saving suggests planning for the future.

A habit of good money management generates a money saving skill that prevents unsustainable expenses when older and allows to have enough money for a peaceful retirement¹⁰.

Pocket money and allowances are an opportunity for useful discussions on the use of money

Pocket money provides an opportunity to talk about the use of money: in families where the children have an allowance and the managing of the budget is shared, parent-child conflicts are reduced; in other families, these conflicts are increased.

Talking about money sparks young people's interest in exploring financial matters, maybe opening a path that could begin with the search for online courses and materials.

Only if you have money can you choose to donate to charity: if even the youngest children learn to divide their pocket money between personal spending, saving and solidarity, they can learn to be generous in actions rather than words.

Some tips...

ALLOWANCES SHOULD BE GIVEN ON SPECIFIC CONDITIONS

Nothing is free, especially money! Even if some people believe the opposite¹¹, pocket money has to be earned, for example by helping with the household chores: if they want to encourage their children to save (and studies suggest that a conditioned allowance could be one way¹²), parents have to teach that earning money is not easy.

NO BAILOUTS

Once it is decided what is up to parents and what is up to their children (better just non-essential), if the children are not able to set priorities, they will run out of money and learn the lesson¹³. Only in exceptional cases should an advance be given¹⁴.

Parents should correct their children's mistakes only in exceptional circumstances

POCKET MONEY MUST BE CONTINUOUS

Because an allowance is an educational tool. If children do not do their chores, parents must take away other things (more valuable to them than money: for example, a toy from a child or the smartphone from a teenager), otherwise they could choose not to do any more chores when they have enough money¹⁵.

RIGIDITY AND USE

Pocket money loses its educational effectiveness if parents state a weekly or monthly amount, but then augment it with frequent little gifts, or weaken when the children spend all the allowance and then pay for those things that the children should have paid for.

It is a mistake to "top-up" the allowance

DEADLINES

In an age when payment by instalment and credit cards (the "never-never") make every expense seem possible, children need to learn to spend no more than they have: so, with few exceptions, parents must respect deadlines when giving pocket money (even because that is what happens in real life with a full-time job).

INTEGRATING STRATEGIES

Children should feel free to manage their own money, but parents must control their expenses, to check they are not used to buy harmful products (like alcohol and cigarettes), and advise them how to use money. If teenagers are taught how to use money, they will be more prepared to save when adult¹⁶.

It is a good idea to tell younger children fairy-tales and stories that explain the value of money

BEYOND POCKET MONEY (CHILDREN)

"Financial dialogue" with younger children can also be based on the use of fables (a prime example is Aesop's "The Ants and the Grasshopper"), that are a way to discuss the value of money and teach important lessons: richness might reward courage and loyalty, but it can create greed and selfishness.

BEYOND POCKET MONEY (ADOLESCENTS)

Parents should encourage their sons to work as early as possible¹⁷: they could start at 15 or 16, maybe part-time in the summer holidays, and get a real job at 18, so they can study and work at the same time (and get a taste of the world of work).

Notes

- ¹ Numerous studies have shown how children who received an allowance developed a better understanding in economics: Bucciol A., Veronesi M., "Teaching children to save: what is the best strategy for lifetime savings?", NETSPAR Discussion Paper 10/2013-051, and Fornero E., Rossi M., Sansone D., "Four bright coins shining at me. Financial education in childhood, financial confidence in adulthood", CERP Working Paper 162/16, 2016 (the relationship between allowance and saving); Lewis A., Scott A., "The economic awareness, knowledge and pocket money practices of a sample of UK adolescents: a study of economic socialization and economic psychology", in *Children's social and economics education*, 2000, 4, 34-46 (the relationship between allowance and financial knowledge); Pliner P., Freedman J., Abramovitch R., Darke P., "Children as consumers: in the laboratory and beyond", in Lunt P., Furnham A. (edited by), "Economic socialisation. The economic beliefs and behaviours of young people", Edward Elgar Publishing, 1996 (the relationship between allowance and ability in consumption and borrowing). page 3
- ² Oggero N., Rossi M., "Does financial literacy of parents matter for the educational outcome of children?", CERP Working Paper 164/16, 2016 page 4
- ³ With particular reference to "Den Umgang mit Geld lernen – von Kindesbeinen an", Erste Bank der oesterreichischen Sparkassen AG, 2015 page 5
- ⁴ Torabi F., "The right way to give kids an allowance", <http://time.com/money/3956339/give-allowance-kids>, 2015 page 7
- ⁵ For numerous contributions on the topic, visit the web page <http://www.moneysense.ca/save/budgeting/how-to-explain-basic-budgeting-to-kids/> page 8
- ⁶ Lieber R., "You're doing allowance wrong", http://www.slate.com/articles/business/moneybox/2015/02/kids_allowances_you_re_doing_it_completely_wrong.html, 2015 page 9
- ⁷ In the paper "Den Umgang mit Geld lernen – von Kindesbeinen an", cit., there is a sum comprised of 30 or 50 cents, without specifying use. The writer believes that the utility of pocket money diminishes with its increase if the allowance is spent only on secondary goods. page 9
- ⁸ Also in "Den Umgang mit Geld lernen – von Kindesbeinen an", cit., the proposed sum is from 2 to 3,60 Euros. page 11
- ⁹ In this sense: "Simple steps to raising a money-smart child. From toddlers to teens", National Endowment for Financial Education (NEFE), 2001; "Building blocks to help youth achieve financial capability. A new model and recommendations", Consumer Financial Protection Bureau (CFPB), 2016; Rinaldi E., "Educazione Finanziaria: una nuova generazione di risparmiatori. Indagine sui preadolescenti italiani" (Financial education: a new generation of savers. A survey of pre-adolescent children), research report for Junior Achievement Italia, 2010 page 12
- ¹⁰ Fornero E., Rossi M., Sansone D., "Four bright coins shining at me. Financial education in childhood, financial confidence in adulthood", cit. page 12
- ¹¹ For an example, go to web page <http://www.bethkobliner.com/tag/allowance> page 13
- ¹² Brown S., Taylor K., "Early influences on saving behaviour: analysis of British panel data", in *Journal of banking & finance*, 2016, 62, 1-14 page 13
- ¹³ Torabi F., "The right way to give kids an allowance", cit. page 13
- ¹⁴ The indication was based on the web page <http://www.feduf.it/container/famiglie/bamboccioni-no> page 13
- ¹⁵ Lieber R., "You're doing allowance wrong", cit. page 13
- ¹⁶ Bucciol A., Veronesi M., "Teaching children to save: what is the best strategy for lifetime savings?", cit. page 14
- ¹⁷ "Simple steps to raising a money-smart child. From toddlers to teens", cit. page 14

From theory to practice

Learning while playing is one of the most efficient educational methods, because of the memory it leaves in young people's minds. There follow a few games and exercises for children of all ages:

- The Ants and the Grasshopper
- How much do dreams cost?
- Find out if you are good at saving money
- Financial crossword
- The Mikebo



The Ants and the Grasshopper

One hot summer's day a cheerful grasshopper was singing on a tree, when below him a family of ants marched by struggling with their kernels of grain. In between songs the grasshopper asked the ants "Why are you working so hard? Join me in the shade and let's sing together!"

Without stopping, the ants answered "We can't! We're storing food for the winter! When the cold comes and the snow covers the ground there will be nothing to eat, only if we store enough food will we survive!"

The grasshopper replied "Summer is still long and there is time to store food before winter comes, I prefer singing! And with this sun and heat it's impossible to work!"

And all summer long the grasshopper sang and the ants continued their hard work.

And the days soon became weeks and the weeks became months.

Autumn came, the trees began to shed their leaves and the grasshopper at last came down from the bare branches.

Even the grass was yellow and bare.

One morning the grasshopper woke up in the cold, the fields were covered in frost and the ice burned the last green from the leaves. Winter had come.

The grasshopper wandered about searching for the few dried twigs that still stuck up out of the hard and frozen ground.

The snows came and the grasshopper could no longer find anything to eat: starving and shivering from the cold, he regretted the heat and songs of summer.

One evening he saw a light in the distance and he staggered through the snow towards it "Open up! Please, open up! I'm dying of hunger! Please give me something to eat!"

The window opened and an ant peeped out and said "Who's there?"

"It's me, the grasshopper, I'm hungry, cold and homeless!"

"Grasshopper, I remember you! What were you doing during the summer while we were preparing for the winter?"

"I was singing and filling the earth and skies with my music"

"Singing you say?" replied the ant "Then dance now!"

The moral of the fable is that, in all things, negligence leads to pain and trouble: there is a time for work and a time for play!

How much do dreams cost?

Compare real coins with the pictures and learn to recognise them!



1 cent



2 cent



5 cent



10 cent



20 cent



50 cent

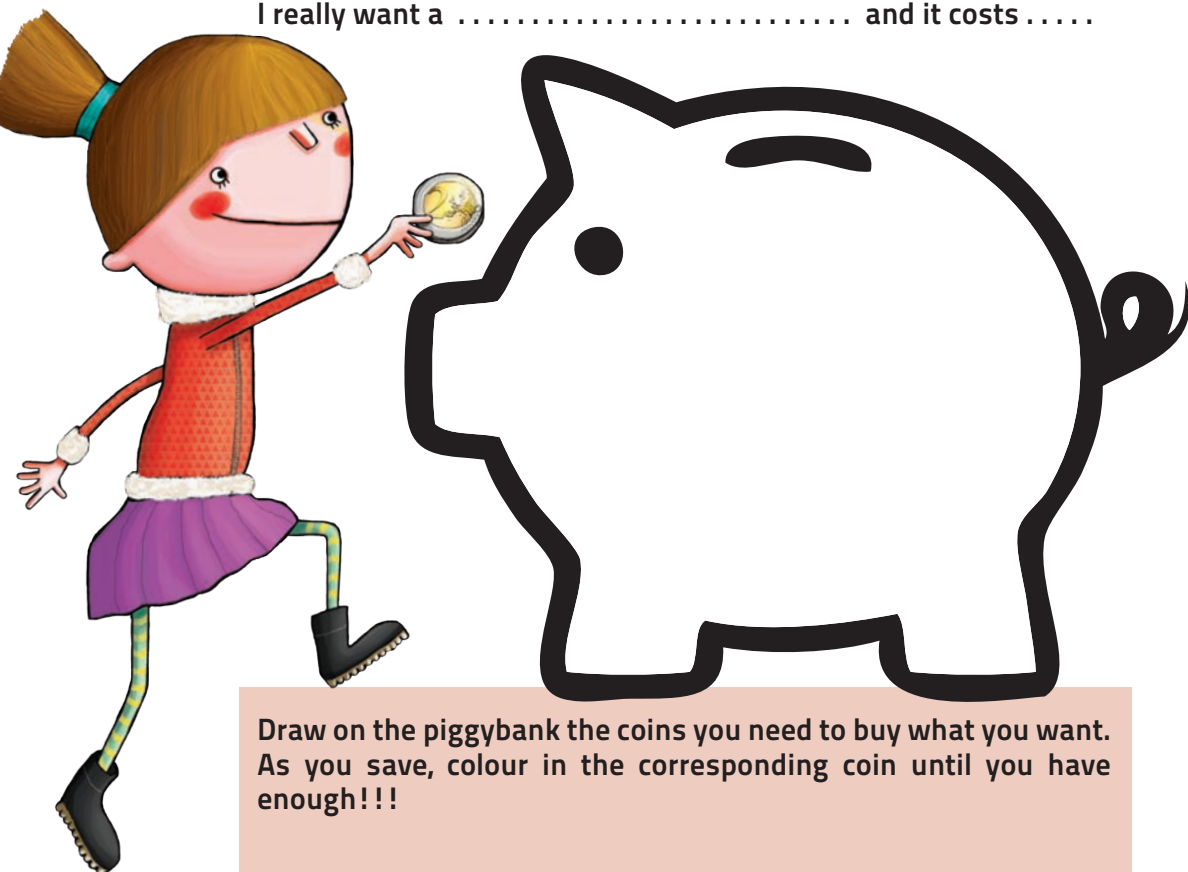


1 Euro



2 Euro

I really want a and it costs



Draw on the piggybank the coins you need to buy what you want. As you save, colour in the corresponding coin until you have enough!!!

Find out if you are good at saving money



1. WHAT DO YOU PREFER TO DO?

- a) Save the money in order to buy the toy you really want
- b) Spend everything now to buy a toy immediately because it is cheaper

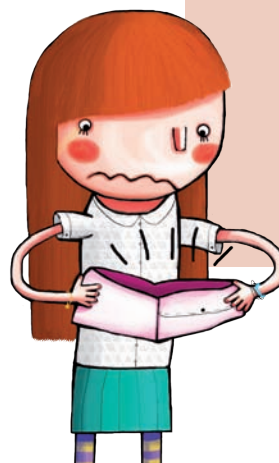
A	B
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2. HOW DO YOU USE POCKET MONEY?

- a) You spend a part, and the rest goes in savings
- b) You spend it all to buy what you want

A	B
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3. WHEN YOU FINISHED ALL YOUR MONEY...

- a) You learn from your mistakes and try to avoid too many expenses in future
- b) You don't worry about it, because you know more will come along soon or later

A	B
---	---

Result
If most of your answers are a): congratulations! You are a good saver
If most of your answers are b): be careful!
You should learn to save more.

Financial crossword



ACROSS

- 3) Pay for odd-jobs/chores
- 5) Currency used in Europe
- 7) Number of 50 cent coins needed to make 1 euro
- 8) It is used to buy things in shops
- 10) Money put aside for the future
- 11) Financial problem needing "cuts and savings"

DOWN

- 1) Where to deposit money in a bank
- 2) Metal money
- 3) Container in which to save money
- 4) Purchases/spending
- 6) Precious metal sometimes used to make coins
- 9) Insects famous for saving for the future



The Mikebo

Dear parents

In 1904 Mokoto Hani from Japan, the daughter of a samurai and the first female Japanese director of a magazine, invented the term "kakebo", whose three ideograms mean "home accounting book".

We decided to create the Museum's own kakebo, the "MIKEBO" from the names of our mascots For & Mika. It is a simple helpful book to teach children how to use their money wisely.

The idea is to help them plan their expenses monthly (OBJECTIVES) so they can reach a goal in a defined period (SCHEDULE).

In the "PLANNING" section it is necessary to indicate the MONTHLY INCOME and PLANNED EXPENSES for each month and the OBJECTIVES of saving of the month: there is also one column "R" - remainder for other expenses".

Week by week, unplanned expenses are entered in the section "OTHER EXPENSES."

At the end of the month, subtract the total "how much did you actually spend" from "R" and you will be able to understand if you stayed in budget, if not you can learn from the mistakes. The "Mikebo" is divided into 4 weeks that can be reproduced for each month.



Planning

Objectives
Time frame

Check the planned income and expenses

MONEY IN			MONEY OUT		
pocket money, presents, work etc.			toys, cell phone, TV streaming, bikesharing, videogames etc.		
DATE	ITEM	€	DATE	ITEM	€
TOTAL			TOTAL		


FINAL OBJECTIVE

€


MONEY IN		PROGRAMED EXPENSES		OBJECTIVE OF SAVING		REMAINDER FOR OTHER EXPENSES
€	-	€	-	€	=	€

Make a note of other expenses


After having established the necessary expenses write down, week by week, how you spend the money left over:




food	
fast-food, pub, ice-cream etc.	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	




clothing	
hat, bracelet, sunglasses etc.	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	



culture	
museums, theatre, music, books, cinema, etc.	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	



charity	
for the poor and orphans	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	



entertainment	
amusement park, telephone apps, etc.	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	

other	
emergencies, various	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	

how much have you actually spent?	
Week 1	
Week 2	
Week 3	
Week 4	
TOTAL	

Remainder for other expenses	-	How much have you actually spent	=
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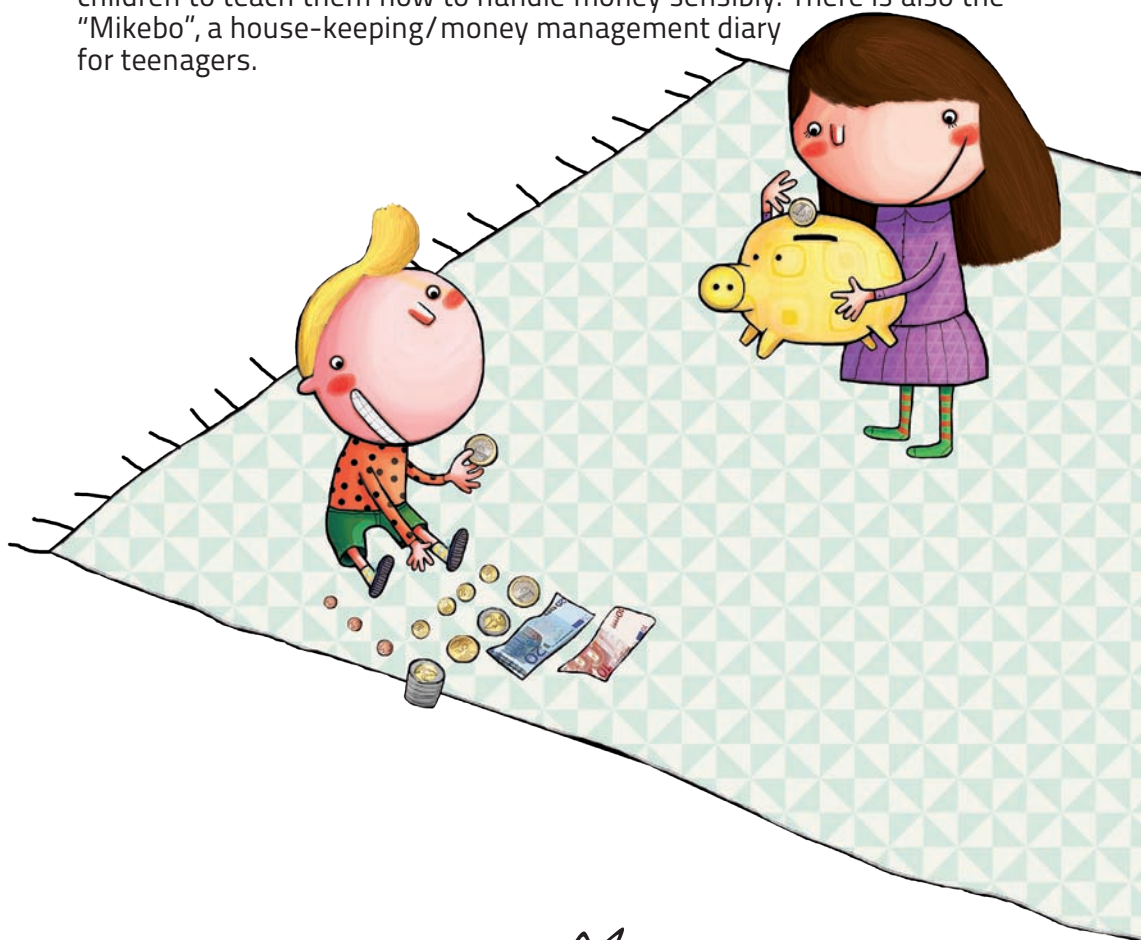
THE RESULT

If positive :-)))	Exceed expectations!
If = 0 :-)	Mission accomplished!
If negative :-)	Rom for improvement...

Why read this booklet?

Pocket money is subject of lively, often heated, colourful family discussions: is it right to children and young people to handle small sums of money so that they learn how to choose between spending and saving?

Using some expert opinions, these pages try to explain why it is important to give pocket money, and not only for financial reasons. Moving from theory to practice, parents will find some advice on how to give the allowance, and how much, together with activities to carry out with their children to teach them how to handle money sensibly. There is also the "Mikebo", a house-keeping/money management diary for teenagers.



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