

Economist: Young, old need most financial education

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Consumers need education in financial planning and financial literacy, an economist said Wednesday at an economic indicators breakfast at the University of Wisconsin-La Crosse.

And the young and the old may need the most education, said Sumit Agarwal, a financial economist in the research department at the Federal Reserve Bank of Chicago.

Research shows cognitive skills peak at about age 20, Agarwal said. The decline after that age is offset for a few decades by gaining experience with financial decisions, he said.

On average, Agarwal said, "If you're around 53, you're making your optimum decisions in consumer finance. You're paying the least amount of fees, the least amount of interest rates."

There is growing concern consumers are ill-prepared to make sound decisions in an increasingly complex financial environment, Agarwal said.

"Consumers tend to make mistakes," he said. "They tend to learn from their mistakes. But every so often, they tend to forget about these mistakes. But clearly, in the long run, they get it right."

One of the approximately 160 people at Wednesday's breakfast asked where people can go to become more financially literate.

"We're teaching sex education in high school," Agarwal said. "Why aren't we teaching financial education in high school?" Educational programs could be offered elsewhere for others, he said.

Agarwal also said people who underestimate the value of their home are less likely to default on mortgages than those who overestimate it.

T.J. Brooks, UW-L associate professor of economics, said the national slowdown in the housing market hasn't been as pronounced in this area as in other places, where home prices previously increased at a faster pace.

Many people consider the summer of 2005 the peak of the housing boom; Brooks said.

"While home price appreciation will certainly slow down here, I don't know that that necessarily means home prices will start to decline," Brooks said. "Or, if they do, not by much. Home prices will probably be fairly stagnant for awhile" in this area.

The Federal Reserve's action Tuesday to cut a key interest rate by one-half a percentage point "had a dramatic impact psychologically" on the stock market, Brooks said. Bolstering consumer confidence probably was one reason why the Federal Reserve took that action, he said.

Wednesday's event was part of a series of economic indicators breakfasts, held twice a year and sponsored by State Bank Financial of La Crosse, UW-L and the La Crosse Tribune.

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