1. Introduction to economic literacy/education

The aim will be to explain the concept of economic literacy. What economic literacy is and why economic education for young people is important. It means the knowledge and skills needed to make important financial decisions. It is a body of knowledge that allows people to understand finance. Financial literacy affects everything from day-to-day long-term financial decisions and these implications for both individuals and society. Today, young people have significant shortcomings in their understanding of basic economic concepts. Even though the economy is at the centre of public debate on everything from healthcare, travelling, education, and arts, young people don't understand why economic knowledge is useful for their daily life, or why they pay taxes, and insurance.

Nowadays, in times of crisis, deficits, public debt, and the like are rising, but they do not understand how this will affect them. By introducing economic literacy, we want to make young people more aware of the impact of economic development on their daily lives. Having the knowledge and confidence to engage in conversation about the economy is an essential skill for life. By giving more people the knowledge and confidence to engage with economic debates, announcements, and ideas, economic literacy could play a role in changing the diversity of our democratic institutions and bringing new minds, imaginations, and experiences into economics.

Education in these topics also involves learning how money works, setting, and achieving financial goals, becoming aware of unethical financial practices, managing financial challenges that throw your way, and achieving individual financial well-being.

Keywords/topics:
Introduction, public good, economics, economy, education, literacy, participation.

1. Economic/financial literacy (economic education)
2. Economics vs. economy
3. Does financial literacy matter?

Basic concepts

- Financial literacy, economic literacy, economics, economy

Educational materials: info cards

I. Introduction

Even before the financial crisis, specialists realised the importance of financial education. Financial education can be profitable for society, as well as for the nation's competitiveness, diminishing financial exclusion risks, increasing knowledgeable behaviour, and contributing to increased liquidity for the financial markets.

Drop a rock into a lake or pond – the ripples extend outward with wider and wider effects. So, it is also with financial education. Well-informed, well-educated consumers can create economic ripples. They make better financial decisions for themselves and their families, increasing their economic security and well-being. They can obtain better jobs and earn more money. They contribute to vital, thriving communities, further fostering community economic development. Being financially literate is not only important to individuals, but also to communities and societies.

Financial education can be defined as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.”

Financial education goes beyond the provision of financial information and advice, which should be regulated, as is already often the case, in particular for the protection of financial clients (i.e. consumers in the contractual relationship).

Economic literate young people:

- can describe the roles of various public and private economic situations,
- understand the basics of income and its distribution, interest, rates, inflation, unemployment, investment, and risk,
- can identify and evaluate the benefits and costs of alternative public policies, and assess who enjoys the benefits and who bears the costs,
- understand the values of entrepreneurialism and the roles of small and large businesses in the state economy.

II. Economic or financial literacy (economic education)

Literacy is commonly perceived as being able to read and write and that is an incredibly important skill for anyone’s success. But there are many variations in literacy that enable individuals and societies to progress and grow. One area of utmost importance is economic literacy.

Literacy is best addressed when a person is young when they are usually eager to learn.

Literacy in business, finance, marketing, management, and a multitude of other areas is important, but a basic understanding of economics is foundational to understanding most decisions regarding the allocation of scarce resources.

By talking about economic literacy, we are not trying to replace financial literacy. Economic literacy doesn’t explicitly seek to help you understand how to manage your personal finance. But it does illuminate where your choices fit into the bigger picture, creates awareness of your money’s impact in broader society, and gives you information to help you identify how you can invest in your future.

Economic literacy is the ability to identify economic problems, alternatives, costs, and benefits, analyse the incentives at work in the economic situation, examine the consequences of changes in economic conditions and public policies, collect and organise economic evidence, and weigh costs against benefits.

Financial literacy is the possession of the set of skills and knowledge that allows an individual to make informed and effective decisions with all their financial resources.

The European Commission used a simple way to explain what financial literacy means: “Financial literacy means the knowledge and skills needed to make important financial decisions.”

It is also important to focus on the components of economic literacy and determine which are the least and most critical to financial success and sustainability. Economic literacy in the context of managing personal or business involves three basic components (Ministry of Finance of the Czech Republic, 2010):

- **Money literacy** – the competence necessary to manage cash and non-cash money and accompanying transactions, the competence to handle management tools designed around these transactions (e.g. current account, payment instructions, etc.).
- **Price literacy** – the competence necessary for understanding prices and the methods by which they are determined, the competence in understanding inflation, and the factors that influence them. This includes understanding the time value of money, the difference between nominal and real interest rates, and understanding the prices of financial instruments and services in the form of fees and interest rates.
- **Budget literacy** – the competencies required to manage one's own budget, the ability to set financial goals and decide on the allocation of financial resources, the ability to manage a budget, work with revenues and expenditures, the ability to handle different accidental situations from the financial point of view, etc. In addition to the general competencies, budget literacy also included two specialised components that require orientation on the market of financial products and services: the ability to compare individual financial products and services and to choose the most appropriate product or service according to a particular situation. This includes management of financial assets (e.g., deposit, investment, and insurance) and management of financial liabilities (e.g., loans or leasing).

The following competencies go "hand in hand" with financial literacy:

- *information literacy* – the ability to find, use and evaluate only required and relevant information,
- *numeric literacy* – the ability to use mathematical tools to solve numerical tasks in financial decision-making,
- *legal literacy* – orientation in the legal system, the conclusion of various contracts, an overview of rights and duties, and possibilities of assisting.

III. Economics vs. economy

Economy and economics are related to each but have significant differences between them. Economy refers to a geographical area's country's economic condition, status, and activities. Economics is a subject concerned with the efficient utilisation of available resources.

The economy is defined as the sum of all arrangements for the production, distribution, purchase, consumption, and exchange of goods and services, as well as employment, in a society or nation. There are three types of economies:

- **Capitalist Economy**: in a capitalist economy (or free market economy), all production factors are owned and controlled by private individuals for profit. The foundation of the capitalist economy is private property, and the profit motive drives it.
- **Socialist Economy**: the factors of production in a socialist economy are collectively owned and controlled by the community, as indicated by the State.

In this economy, a central planning authority decides how resources are distributed among members of the community.
- **Mixed Economy**: a mixed economy is a combination of a capitalist and a socialist economy, in which both markets and the government decide how resources are allocated. A mixed economy contains a system that has characteristics of both a controlled economy and a market economy, and thus the public and private sectors coexist in this type of economy.

According to the Cambridge dictionary economy is *"the system of trade and industry by which the wealth of a country is made and used."*

Economics is an organised body of knowledge that studies the behaviour and activities of an individual, firm, or nation that are related to maximising the satisfaction of wants or advancing welfare and economic growth through optimum production, distribution, consumption, and exchange of scarce resources that have alternative uses. There are two branches of economics:
- **Microeconomics** – the branch of economics that studies the behaviour and actions of individual economics agents, such as persons, households, businesses, and industries. It analyses specific aspects of the economy.
- **Macroeconomics** – the branch of economics that studies broad economic issues such as economic growth, unemployment, trade balance, poverty, the standard of living, inflation, and so on. It analyses the entire economy.

Look at the table given below for economy and economic differences:

Basis for comparison	**Economics**	**Economy**
Meaning	Economics is the science and art of decision-making, regarding the use of scarce resources, under the conditions of scarcity, to attain maximum satisfaction.	When a country or a geographical region is defined in the context of its economic activities, it is known as an economy or economic system.
What is it?	Theory and Principle	Practical Application of Economics
Determines	How do human beings make decisions when resources are scarce?	How are resources allocated among different members of society?
Focuses on	The way in which economic agents behave and interact and how the economy work	The way in which a country's economic affairs are organised and conducted.

Are economy and economics the same thing?

The terms, economy, and economics are related to each but have significant differences between them. The economy is defined as a social domain that stresses the importance of practices, and discourses associated with the production, use, and management of resources and economics focuses on the actions and interplays of economic agents. It considers how choice is made by individuals, families, firms,

governments, and nations, concerning the allocation of limited resources, to fulfil their unending wants, in such a way that maximum satisfaction can be derived.
According to the Cambridge dictionary, economics is *"the scientific study of the system by which a country's wealth is made and used"*.

IV. Does financial (economic) literacy matter?

We think economic literacy is about having the knowledge, skills, and confidence to understand and evaluate the many ways of thinking about the economy, develop independent ideas about how it could be organised, and be able to understand and use common economic topics and vocabulary to help you participate in economic conversations.

Economic literacy is not about learning advanced theory. It is about having a language to understand and shape your world. By learning more about how the economy works, you can understand and evaluate how the economy can influence your life, so you can be aware and confident when deciding on your economic options. With greater confidence that we can understand how the economy works, and with the tools to inform ourselves, we can all contribute more to the world around us. Ultimately, we are more likely to put forward our views about the future, start new economic discussions, and contribute our questions and views to existing debates.

Economic literacy is an important part of media and political literacy. We all need to be able to grasp the meaning of statistics and the key topics we hear about in the press and critically engage with economic arguments and opinions from the media, politicians, or people in our day-to-day lives, evaluating their validity, values, and assumptions. Economic literacy involves gaining new vocabulary and information literacy skills to access and assess the economic statements and narratives made by politicians, economists, and the media, so we can vote confidently.

Economic literacy offers powerful citizenship knowledge and skills. People we've worked with often describe learning about economics as an opportunity to understand "how the world works", revealing just how much economic institutions and forces play a role in our lives. Understanding more about how the economy works reveal the multiple ways you can achieve economic well-being for yourself and others, whether on a personal level, in your community, nationally or globally, through democratic debate, individual choice, and all the forms of action in between

10 arguments why economic literacy is important for everyone

1. **Diversity, social mobility, and social capital** – by not giving all young people exposure to and awareness of the subject, we are limiting the second biggest social mobility level via an undergraduate subject choice to a tiny proportion of the population. Exposure to and awareness of economics as a subject for every young person of school age is key to giving a broader range of people access to opportunities to shape the economy and to see economics as a subject choice and future career.
2. **Financial health** – economy affects you and the language to understand economic discussion helps you take ownership over the economic decision you face. The more we understand economics, the better informed our daily and lifetime financial decisions can be. It's important to be able to budget, open a bank account, understand a mortgage, and realise the importance of starting a pension. All these decisions take place within a bigger economic context.
3. **Improving economics**– by increasing dialogue between economists and citizens, economic literacy can improve expert understanding of the economy. Citizens hold a

lot of useful economic information and insight, which we are currently missing out on when institutions make decisions about how to manage the economy.

4. **Mental health, confidence, and our sense of agency** – today's fluctuating economy is a source of worry. Economic literacy is an important foundation for being able to make sense of the world, increasing our sense of agency and confidence in our future. When we speak to young people, we find that they experience high anxiety when asked to think about the national economy. Many times, the national economy is a strong source of stress and worry. Even at school, when being encouraged to think badly about their lives, the next generation is sharing worries about the cost of living and housing, what jobs there might be for them, and even about the pensions of family members. There is a strong link between worry about personal financial choices and a confused perception of the nation's financial position.
5. **Ownership of our collective future** – economic literacy would give people a language and the confidence to participate in conversations about emerging economic trends and more actively shape their future. The next generation faces great challenges ranging from rapidly changing job markets to environmental collapse, inequality and poverty, financial instability, antibiotic resistance, and caring for our elderly. Economic responses to future issues are generally made behind closed doors in boardrooms and government departments informed by an economics profession that over-represents older white men. The economic conversation is often full of jargon, increasing the barrier to entry.
6. **Improving the effectiveness of economic policy** – the Governor of the Bank of England Mark Carney said recently "Our policies work better when people understand them." The effectiveness of many economic policies is influenced by how people react to them and that's why economics is so interested in incentives. If there are policies we understand and support we are more likely to change our behaviour (whether that's putting more money away for retirement or spending our money on stuff that's produced locally). And if we don't support a policy, it is good to know why and to have an open debate.
7. **Social cohesion and public debate** – we believe that by making economic language more widely accessible through education and improved communication, we can improve our shared debate on the economy, promoting inclusive respectful, and reasoned conversation which can reduce political polarisation and increase social cohesion.
8. **Making informed democratic choices** – economic literacy is a prerequisite for individuals to be able to make independent informed judgments about which political parties best represent their interests and values at elections.
9. **Building trustworthy and legitimate institutions** – economic literacy is a crucial part of rebuilding trust between citizens, economists, and economic institutions because it provides a shared language that facilitates dialogue and debate.
10. **Sparkling our collective economic curiosity** – it is fun, it gets us talking and it makes us think.

Who is a "financially educated" person?

Personal financial education means different things to different people. For some it is quite broad, encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others it focuses quite narrowly on basic money management – budgeting, saving, investing, and insuring. Still, others include a set of consumer skills within a financial education framework. Financial education includes all these topics.

Resources:

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