Chapter 42
Racial Differences in Financial Socialization and Financial Behaviors of U.S. College Students

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ABSTRACT
This chapter focuses on the effect of race on financial socialization and financial behavior of college students. Data (N = 13,845) were collected from current college students age 18 and over via an online survey throughout the United States during spring and fall of 2008. Results from means comparisons showed significant differences on the financial socialization between Black and White college students. Logistic regression results suggest important relationship exist between race and financial behaviors. Black students were less likely to save and more likely to engage in risky credit card behavior than White students after controlling for the effects of all other variables.

INTRODUCTION
The capacity to manage personal finances has become increasingly important, particularly for college students. Students are now leaving schools without the ability to make critical financial decisions affecting their future lives and thus, are in danger of beginning a downward financial spiral of debt. This is debt that they will not easily repay while in college or even after they have gained fulltime employment in the workplace (Henry, Weber, & Yarbrough, 2001; Grable & Joo, 2006). Henry et al. (2001) revealed that 68% of college students rarely budgeted or did not budget at all.
In a follow up study, Joo et al. (2003) found that only half of the students paid their credit card bills in full each month and 40% did not know the annual percentage rate of their credit cards. Some researchers concluded that Black students with low income were more likely to engage in responsible financial management behaviors than their White counterparts (e.g., Perry & Morris, 2005). Lyons’ (2004) study showed racial differences with students who are having difficulty making credit card payments were more likely to be Black, and/or Hispanic. Her study also found that Black students were also significantly more likely to have credit card balances of $1000 or more and not to pay their balances in full each month. Grable and Joo (2006) found that racial differences between Black and White students on financial behaviors; Where Blacks held more credit card debt than others and credit card debt was positively related to negative financial behaviors. Researchers have also speculated that White and Black families save differently and that these differences have important implications for wealth inequality (Brimmer, 1988; Parcel, 1982). Burlew, Banks, McAdoo, and Azibo (1992) suggested that a common goal among Blacks is to have a standard of living comparable to their peers, both Whites and Blacks. This goal might lead to a lower emphasis on savings (Yao, Gutter, & Hanna, 2005).

An analysis of the 2004 Survey of Consumer Finances showed that Black households were significantly less likely to have spent less than their income when compared to Whites. Based on an analysis of the 2004 Survey of Consumer Finances, with 41% of Black households, and 60% of White households reporting that they spent less than they had in income (Bucks, Kenrickell, & Moore, 2006), and Black families saw a 24.1 percent decline in their median net worth from 2004 to 2007 (Bucks et al., 2009). Also Black households were significantly more likely than White households to have missed or been late on a loan payment (40% versus 18%). Controlling for income and other factors, Black households had higher predicted delinquency rates than White households (Bucks et al. 2009). What is less well known is how financial socialization differs based on racial background. Thus, the current study aims exposure to potential differences in financial socialization between Black and White college students and the effects that these differences may have on financial behaviors (budgeting, saving, and risky credit card usage). This research is important, in that it is vital for Blacks and Whites to gain financial knowledge. A few papers examine the link between knowledge and behavior and authors found strong links between knowledge and behavior (e.g., Borden, Lee, Serido, & Collins, 2008; Hilgert, Hogarth, & Beverly, 2003; Robb, 2011). Both Black and White college students will eventually be responsible for their own finances. If Blacks are missing out on early positive financial socialization opportunities, they may be negatively affected later in life by financial issues, in which they have little knowledge or tools to resolve. By finding out whether or not individuals are socialized differently in the financial realm, we can determine next steps in closing this potential race gap.

THEORETICAL FRAMEWORK

Socialization is often viewed as a social process by which norms, attitudes, motivations, and behaviors are transmitted from specific sources (commonly known as socialization agents) to the learner (Brim, 1966; Hira, 1997; McLeod & O’Keefe, 1972; McNeal, 1987; Moschis, 1981). Children who emulate their parents’ behavior through observations provide a good example of social learning (Bandura, 1977; Grossbart, Carlson, & Walsh, 1991; Maccoby, 1992; Mascarenhas & Higby, 1993; Moschis & Churchill, 1978). Based on social learning theory, consumer socialization research suggests that a great deal of consumer behavior, such as spending behavior among adults,