FLY

Financial Literacy for Youth

MODULE 2

THE PSYCHOLOGY BEHIND FINANCIAL MANAGEMENT

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"MONEY IS NOT JUST A FINANCIAL INSTRUMENT, IT IS ALSO A PSYCHOLOGICAL INSTRUMENT. HOW WE THINK AND FEEL ABOUT MONEY AFFECTS HOW WE ACQUIRE, SPEND, AND SAVE IT."

DR. BRAD KLONTZ, FINANCIAL PSYCHOLOGIST.

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Introduction

Money is a powerful force in our lives, shaping our experiences, values, and aspirations. Yet, despite its significance, many of us struggle with managing our finances effectively. From overspending to undersaving, we often make financial decisions that contradict our own long-term interests.
Why is this the case? **What drives our financial behaviors, and how can we improve our financial decision-making?**

To answer these questions, we must turn to the field of **financial psychology**, which examines the psychological factors that influence our financial attitudes, beliefs, and behaviors. By understanding the complex interplay between our minds and money, we can gain insights into our financial habits, motivations, and goals, and make more informed choices about how we earn, spend, save, and invest our money.

In this module, we will explore the psychology behind financial management, delving into the cognitive, emotional, and social factors that shape our financial decisions. We will explore topics such as financial attitudes and beliefs, self-control and willpower, risk-taking and uncertainty, and social influence. Through this exploration, we will gain a deeper understanding of our relationship with money and discover practical strategies for improving our financial well-being. **Are you ready?**

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Context and Background

The **psychology behind financial management** refers to the study of the mental and emotional processes that influence how individuals make decisions about their money. It encompasses a broad range of topics, including ***attitudes towards money, financial beliefs and behaviors, goal-setting, decision-making, and the impact of emotions on financial decision-making.***

Research in this field has shown that individuals' financial behaviors and decision-making are influenced by a complex interplay of factors, including their upbringing, social and cultural background, personal values and beliefs, cognitive biases, and emotional responses to financial situations.

For example, individuals who grew up in households where money was scarce may develop a scarcity mindset, leading them to hoard money and avoid spending, even when it is in their best interest to do so. Similarly, individuals who have a high need for social status may be more likely to overspend on luxury goods to signal their social status to others.

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Financial management is not just about acquiring wealth, but also about managing it effectively. To do this, **individuals need to understand their own psychological biases and develop strategies to overcome them**, such as setting realistic financial goals, creating a budget, and automating savings. By understanding the psychology behind financial management, individuals can make more informed and effective financial decisions, leading to greater financial security and wellbeing.

Behavioral Financial Biases

Common Influences and Biases That May Affect Decision-Making

Financial biases refer to the various cognitive biases that influence our financial decision-making and behaviors. These biases are often rooted in our emotions, experiences, and social conditioning, and can impact our financial habits and outcomes.

Take a look on the next page at some common behavioral biases and mental shortcuts that might affect a person's ability to make logical financial decisions. **Can you relate to any of these?**

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Behavioral Financial Biases

- **Confirmation bias:** The tendency to seek out information that confirms our pre-existing beliefs about money and to ignore information that contradicts those beliefs.
- **Anchoring bias:** The tendency to rely too heavily on the first piece of information we receive when making a financial decision, even if it's irrelevant or inaccurate.
- **Loss aversion bias:** The tendency to place greater emphasis on avoiding losses than on achieving gains, which can lead to overly conservative investment and spending habits.
- **Herding bias:** The tendency to follow the crowd and make financial decisions based on the actions of others, rather than on our own independent research and analysis.
- **Sunk cost fallacy:** The tendency to continue investing in a project or financial decision even when it no longer makes sense, simply because we have already invested time, money, or resources into it.

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The psychology behind financial management for young people is a complex and multifaceted topic, influenced by a variety of cognitive, emotional, and social factors. By understanding these factors and developing the skills to manage them effectively, young people can set themselves up for a lifetime of financial success and security.

The psychology behind financial management is especially important for young people who are just starting their financial journey. Early adulthood is a critical period for developing financial habits and attitudes that can shape a person's financial future. Unfortunately, many young people struggle with managing their finances effectively, often making decisions that can have long-term negative consequences.

Next, we will explore some of the factors that influence young people when making financial decisions. Lets do it!

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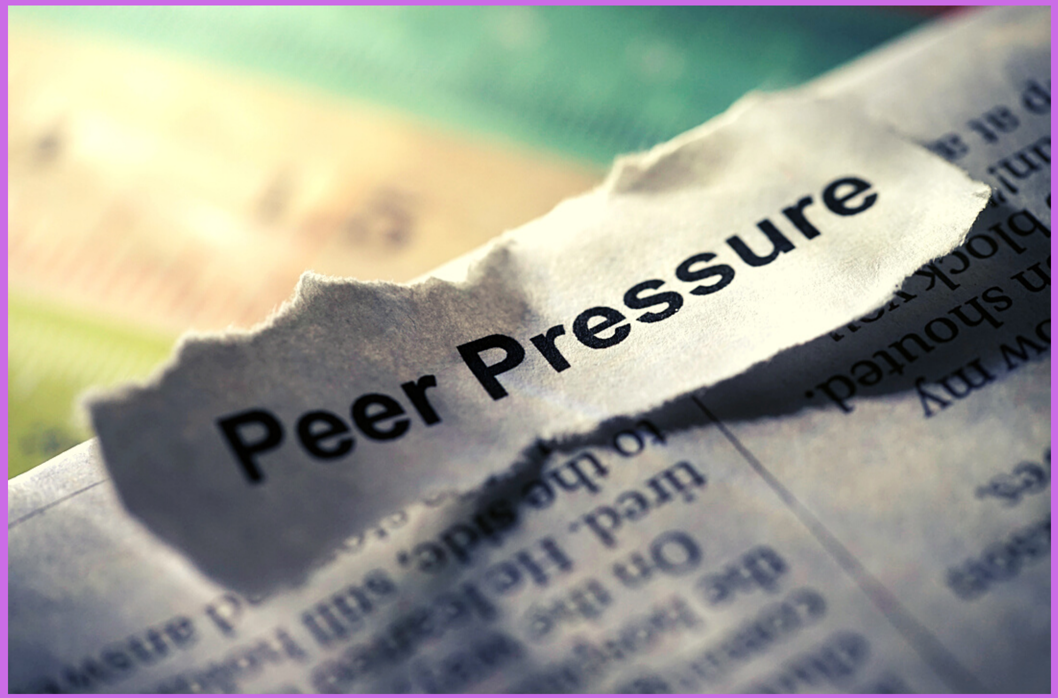
SELF-CONTROL AND WILLPOWER

Young people are often faced with competing financial demands, such as paying for college, housing, transportation, and entertainment. They may also be tempted by instant gratification purchases, such as clothes, gadgets, or vacations. Developing self-control and willpower can be difficult, but it is essential for making responsible financial decisions that align with long-term goals.

FINANCIAL ATTITUDES AND BELIEFS

Research suggests that our financial attitudes and beliefs are largely formed during our childhood and adolescent years, and can have a lasting impact on our financial behaviors in adulthood. For example, young people who grow up in households with positive financial role models, who are encouraged to save and invest, and who are taught about basic financial concepts are more likely to have positive financial attitudes and behaviors later in life.



SOCIAL INFLUENCE AND CONFORMITY

Peer pressure and social norms can have a significant impact on financial behaviors, such as spending habits, saving rates, and investment choices. Young people may feel pressure to conform to the spending habits of their peers, even if those habits are not aligned with their own financial goals. Developing the skills to resist social influence and make independent financial decisions can be critical for financial success in the long term.

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Financial Mindsets

Financial mindset refers to an individual's beliefs, attitudes, and behaviors related to money and financial management. Financial mindset can be influenced by a variety of factors, including **upbringing, cultural background, education, and life experiences.** One's financial mindset can also be influenced by cognitive biases, which we have previously discussed earlier in this module.

By understanding their financial mindset, individuals can identify areas where they may need to make changes in their approach to financial management. It's important to note that **financial mindset is not static and can be changed over time**.

With effort and education, individuals can develop a more positive and empowering financial mindset. **Developing a positive financial mindset can help individuals make better financial decisions, reduce financial stress, and improve their overall quality of life.**

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THERE ARE VARIOUS MINDSETS THAT PEOPLE CAN HAVE ABOUT MONEY. HERE ARE SOME EXAMPLES:

Scarcity mindset: This mindset is characterized by the belief that there is never enough money to go around. People with a scarcity mindset may feel anxious about money and focus on just getting by. They may be more likely to hoard money and avoid taking risks.

Abundance mindset: This mindset is characterized by the belief that there is always enough money to go around. People with an abundance mindset may feel more confident about money and focus on achieving financial goals. They may be more likely to invest in themselves and take calculated risks.

Money avoidance mindset: This mindset is characterized by the belief that money is bad or that pursuing money can lead to negative consequences. People with a money avoidance mindset may avoid dealing with money or making financial decisions.

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Money worship mindset: This mindset is characterized by the belief that money is the most important thing in life. People with a money worship mindset may focus on accumulating wealth at the expense of other areas of life, such as relationships or personal well-being.

Growth mindset: This is the belief that one's financial situation can improve with effort and education, leading to a sense of empowerment and motivation to take action to improve one's financial situation.

Money status mindset: This mindset is characterized by the belief that money is a measure of social status or success. People with a money status mindset may use money to signal their status or to compare themselves to others.

Fixed mindset: This is the belief that one's financial situation is predetermined and cannot be changed, leading to a sense of helplessness and resignation about money. People with a fixed mindset may not take action to improve their financial situation.

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ACTIVITIES MODULE 2

THE PSYCHOLOGY BEHIND FINANCIAL MANAGEMENT

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MODULE 2

ACTIVITY 1: MONEY SCRIPT EXERCISE

Learning Objectives

1. To allow participants to gain a better understanding of how their beliefs and attitudes can impact their financial decisions;
2. To increase self-awareness;
3. To challenge limiting beliefs and improve financial decision-making.

Duration

45 min

Level

- ☑ Beginner
- ☐ Intermediate
- ☐ Advanced

Materials /Resources

- A flipchart paper with the 6 sentences to be filled in
- Pens and colorful markers
- Paper and sticky notes

Learn more: THE PSYCHOLOGY OF MONEY (BY MORGAN HOUSEL)

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Activity 1: Money script

Description

Start by explaining to the participants what a money script is: Money scripts are the beliefs and attitudes that individuals have about money, often formed in childhood or early adulthood, which can shape our financial behaviors and decision-making throughout our lives. These scripts are often deeply ingrained and may be influenced by a variety of factors, including family background, cultural values, and personal experiences. Some common money scripts include beliefs such as "money is the root of all evil," "money can buy happiness," or "there will never be enough money." These scripts can impact an individual's financial behaviors in a variety of ways, such as influencing their spending habits, their ability to save money, and their willingness to take on debt.

To conduct the exercise, ask the participants to reflect on their own attitudes and beliefs about money and complete the following sentence stems:

1. Money is...
2. Rich people are...
3. Poor people are...
4. I feel about money...
5. The most important thing about money is...
6. I handle money by...

Once they have completed the sentence stems, have them reflect on their answers and consider how their beliefs and attitudes may be impacting their financial behaviors. Encourage them to think critically about any limiting or negative beliefs they may hold and work to reframe them in a more positive and empowering way. This can help young people develop a better understanding of their financial psychology and make more informed and effective financial decisions in the future.

Debriefing questions

01

How did it feel to explore your money script? Was it easy or difficult to identify your money script?

02

How do you think your money script influences your financial behaviors? Have you noticed any patterns in your spending, saving, or investing habits that reflect your money script?

03

How do you think your money script was shaped by your personal experiences and background?

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ACTIVITY 2: MONEY MINDSET MAPPING

MODULE 2

Learning Objectives

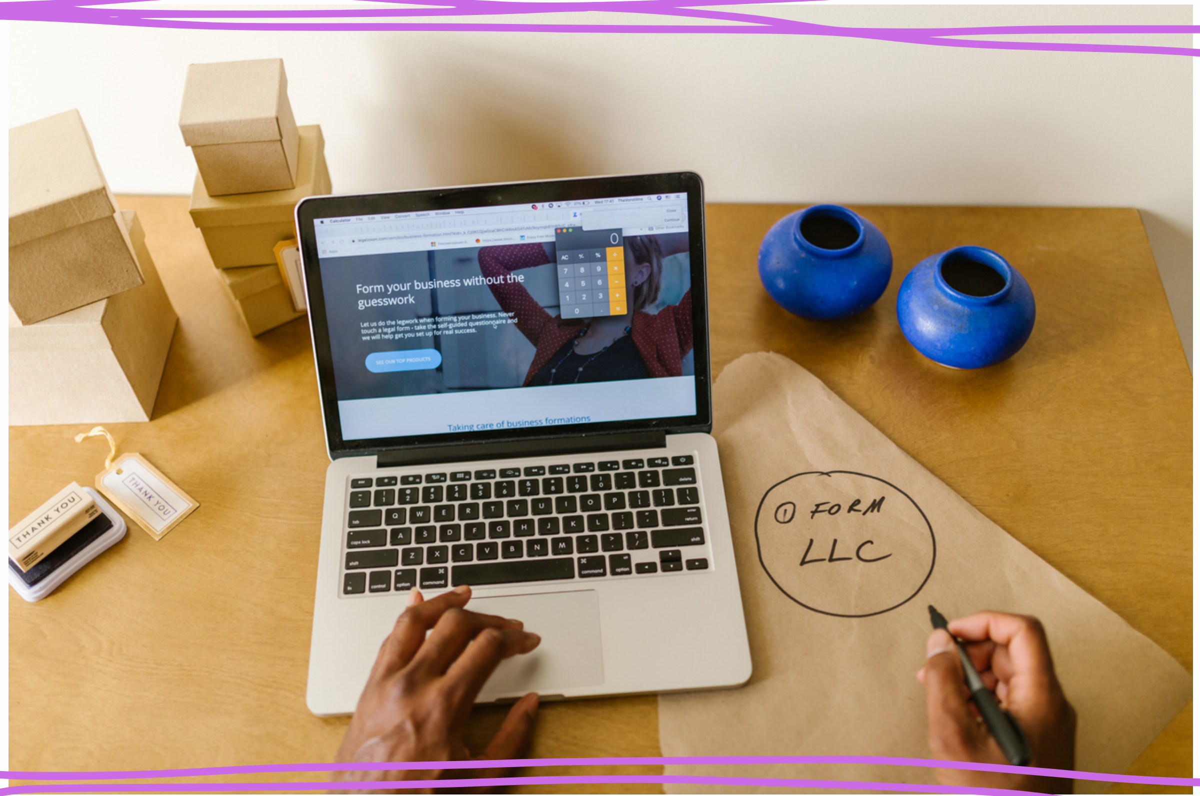
1. To explore the relationship between mindset and financial behavior;
2. To identify strategies for developing a positive and empowering relationship with money;

Duration

1 hour

Level

- ☐ Beginner
- ☑ Intermediate
- ☐ Advanced



Materials /Resources

- Large sheets of paper or a whiteboard
- Markers
- Sticky notes

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Activity 2: Money Mindset Mapping

Descriptions

Begin by explaining to the participants the concept of money mindset and how it can impact financial behavior: Money mindset refers to a set of beliefs and attitudes that individuals hold about money, wealth, and financial success. These beliefs are often deeply ingrained and can shape our financial behaviors and decision-making throughout our lives. A positive money mindset can help individuals feel confident and empowered in their financial decision-making, while a negative money mindset can lead to feelings of scarcity, anxiety, and even self-sabotage

Divide participants into small groups and provide each group with a large sheet of paper or a whiteboard and markers. Ask each group to create a mind map or visual representation of different mindsets that people can have about money, such as scarcity mindset, abundance mindset, growth mindset, fixed mindset, etc. Encourage them to include both positive and negative mindsets.

Once the groups have created their mind maps, ask them to discuss and reflect on how each mindset might influence financial behavior. For example, a scarcity mindset might lead to hoarding or overspending, while an abundance mindset might encourage more intentional spending and saving habits.

Next, ask the groups to consider strategies for developing a positive money mindset. Encourage them to brainstorm specific actions or behaviors that can help cultivate a more positive and empowering relationship with money. Finally, have each group share their mind maps and strategies with the larger group. Encourage discussion and reflection on the various mindsets and strategies, and how they can be applied to personal financial behaviors.

Debriefing questions

01

How did it feel to explore the different money mindsets? Were there any surprises or insights?

02

What strategies did your group come up with for developing a positive money mindset? Which strategies do you think would be most effective for you personally?

03

Are there any challenges or obstacles to developing a positive money mindset? How can you overcome them?

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ACTIVITY 3: MONEY MEMORY LANE

Learning Objectives

1. To teach young people about the role of money in their lives;
2. To help young people become more aware of their financial history and how it has shaped their attitudes and behaviors;
3. To give young people the space to reflect on their emotions and beliefs, so that they can begin to identify and shift negative money mindsets that may be holding them back from achieving their financial goals.

Duration

1 hour 20 min

Level

- ☐ Beginner
- ☑ Intermediate
- ☐ Advanced

Materials /Resources

- Flipchart papers
- Colorful markers and pens
- Sticky notes

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Activity 3: Money Memory Lane

Descriptions

Let the participants know that you are about to go all together down the memory lane. In order to do so, ask participants to create a timeline of their financial life, starting from their earliest memories of money and continuing to the present day. They should include significant financial events, such as receiving an allowance, buying their first car, or getting a job. Participants can use pictures, drawings, or written descriptions to illustrate each event.

Once participants have created their timelines, have them reflect on the emotions and attitudes associated with each event. For example, they may feel proud of themselves for saving up to buy a new bike, or embarrassed about going into debt. Encourage participants to think about how their emotions and attitudes have influenced their financial behaviors over time and note them down next to each event.

Finally, have participants identify any negative money mindsets that they would like to shift, such as a belief that they are "bad with money" or that they will never be able to save enough. Have them brainstorm strategies for shifting these mindsets, such as seeking out positive financial role models, practicing gratitude for what they have, or setting small, achievable financial goals.

Debriefing questions

01

How did creating a timeline of your financial life make you feel? Were there any surprises or unexpected emotions that came up?

02

Did you notice any patterns or trends in your financial history? For example, did you tend to overspend during certain periods or save more during others?

03

How have your attitudes and beliefs about money evolved over time? Have there been any significant shifts in your money mindset?

04

Were there any events or experiences that had a particularly strong impact on your financial behavior? If so, how did they influence your financial decisions?

05

Based on your timeline, what are some positive financial habits that you have developed? What are some areas where you would like to improve?

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ACTIVITY 4: EMOTIONAL SPENDING

Learning Objectives

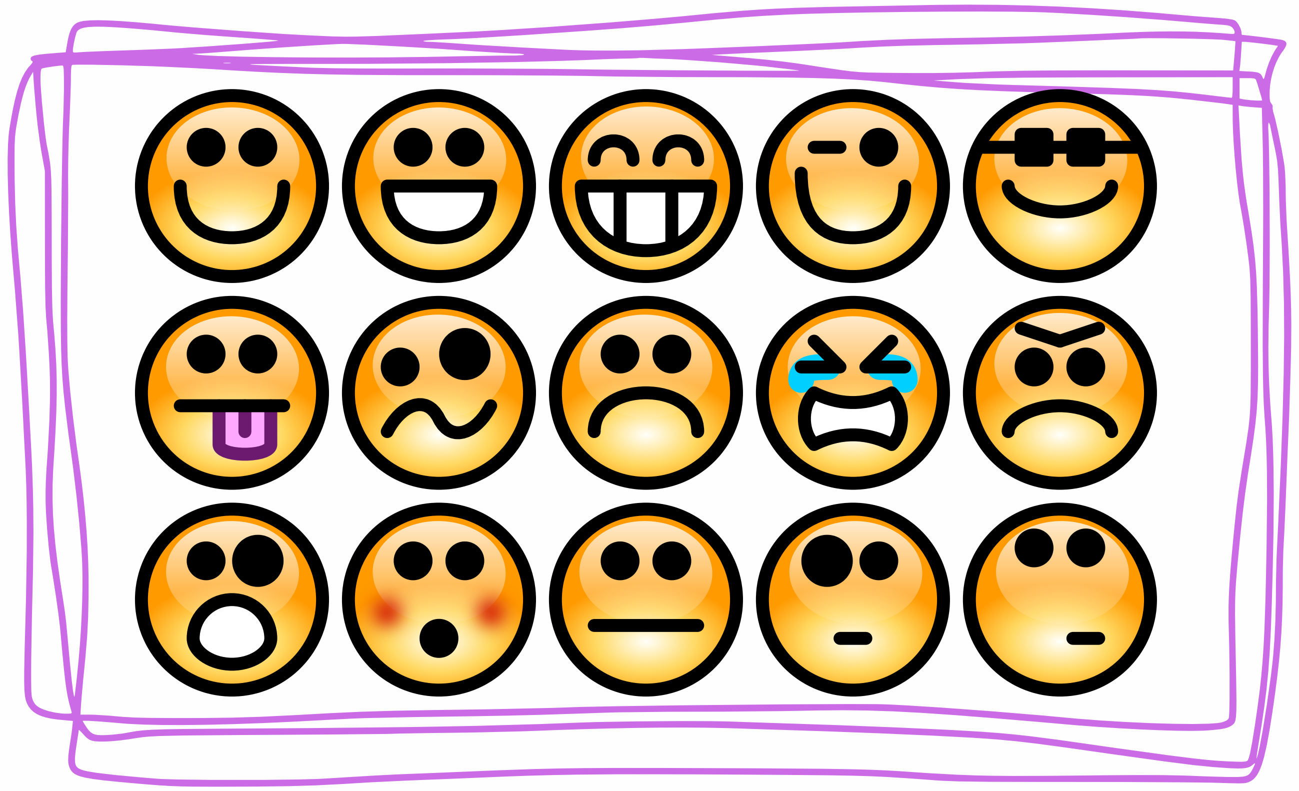
1. To help young people learn about how emotions can influence financial management:
2. To help young people develop strategies to make mindful spending choices.

Duration

1 hour

Level

- ☐ Beginner
- ☑ Intermediate
- ☐ Advanced



Materials /Resources

- Pens and markers, A4 paper
- Empty index cards
- Cards with emotions (e.g. happy, sad, stressed, anxious, bored, excited)

Learn more: What Is Emotional Spending? | Kati Morton

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Activity 4: Emotional Spending

Description

Begin by introducing the concept of emotional spending and how it can affect financial decisions: Emotional spending refers to the act of spending money as a way to cope with or fulfill emotional needs or desires, rather than as a means of meeting practical needs or achieving financial goals. It is a type of impulsive behavior that can lead to financial problems if not managed properly. Emotional spending can be triggered by a range of emotions, such as happiness, sadness, stress, boredom, and even jealousy. The key is to recognize when emotional spending is taking place and to develop healthy strategies for managing these emotions that do not involve spending money unnecessarily.

Divide participants into small groups and distribute the materials. Give each group a different card with an emotion written on it and ask them to brainstorm spending categories that might be associated with that emotion. For example, if the emotion is "happy," spending categories might include: food, entertainment, clothing, technology etc.

Once the groups have identified spending categories for their assigned emotion, have them create index cards with specific spending scenarios that match those categories. For example, a spending scenario for the "happy" emotion might be "buying a new outfit for a night out with friends." After the index cards are created, have each group share their spending scenarios with the larger group. Discuss as a group how these scenarios reflect emotional spending.

Ask the participants to reflect on their own emotional spending habits and identify any patterns they may have noticed. Encourage them to think about how they can make more mindful spending choices in the future. Finally, have participants write down one strategy they can use to manage their emotional spending on a separate index card. These could include things like setting a budget, waiting 24 hours before making a purchase, or finding free or low-cost alternatives to spending activities. End the activity by asking participants to share their strategies with the group and discuss how they might implement them in their own lives.

Debriefing questions

01

Did you find yourself identifying with any of the spending scenarios on the index cards?

02

Have you ever experienced negative consequences from emotional spending in the past? If so, can you share your experience and what you learned from it?

03

How can you use the insights gained from this activity to make more mindful spending decisions in the future?

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Activity 4: Emotional Spending

Tips for the facilitator

Here are some examples of spending scenarios that could be written on index cards for the Emotional Spending activity:

- Happy: Buy a new outfit for a night out with friends.
- Sad: Treat yourself to a fancy coffee and pastry.
- Stressed: Buy a new gadget to help manage your stress.
- Anxious: Purchase a new outfit for a job interview.
- Bored: Go to a movie theater and buy popcorn and a drink.
- Excited: Book a weekend getaway to celebrate a promotion.
- Angry: Buy an expensive piece of jewelry as a revenge purchase.
- Nostalgic: Purchase a childhood favorite candy or snack.
- Jealous: Buy a new item of clothing to keep up with friends.
- Impulsive: Buy an item that is not needed, but is on sale.

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ACTIVITY 5: MINDFUL MONEY MANAGEMENT

Learning Objectives

1. To encourage participants to explore their personal relationship with money and how their emotions can impact financial decision-making;
2. Identifying commonalities and patterns in personal experiences related to finances;
3. Developing empathy and understanding towards others' financial experiences.

Duration

40 min

Level

- ☐ Beginner
- ☑ Intermediate
- ☐ Advanced

Materials /Resources

- Flipchart papers or whiteboard, A4 paper
- Markers, pens

Debriefing questions

01

How do these emotions impact our financial decision-making? Are they helpful or harmful?

02

Were there any surprises or unexpected emotions that came up during the discussion?

03

What are some practical strategies we can use to regulate our emotions and make more informed financial decisions?

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Activity 5: Mindful Money Management

Description

Begin by asking participants to brainstorm different emotions they feel when it comes to managing money. Write these emotions on a whiteboard or flipchart. After the group has identified several emotions, have each participant select one emotion and share a personal experience related to that emotion and their finances. Encourage them to be open and honest in sharing their experience.

Once everyone has had a chance to share, ask the group to reflect on the commonalities between the different experiences. For example, are there any common themes or patterns in the emotions people shared? How do these emotions impact financial decision-making?

Next, have the group break into smaller pairs or trios. Assign each group a financial behavior or decision and ask them to discuss the emotions that may be driving that behavior or decision. For example, if the assigned behavior is overspending, what emotions might be driving that behavior? If the assigned decision is to save for retirement, what emotions might be motivating that decision?

Other examples of financial behaviors that can be used for the activity are: Procrastinating on paying bills; Avoiding checking bank account balances; Not saving for emergencies; Living paycheck to paycheck; Not negotiating salary or asking for a raise; Not tracking expenses or creating a budget; Sharing expenses unequally with a partner or roommate. Some examples of financial decisions are: Investing in the stock market; Taking out a loan for a major purchase; Investing in a small business or startup; Changing careers or starting a new job; Deciding whether to start a family.

After each group has had time to discuss, bring the group back together and have each group share their findings. Facilitate a discussion around the different emotions that may be driving various financial behaviors and decisions. Conclude the activity by encouraging participants to reflect on their own emotions when it comes to managing money. Ask them to identify any patterns or themes they noticed and think about how they can use this information to make better financial decisions in the future.

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FLY PLAYBOOK

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