

An experiential learning approach to financial literacy education

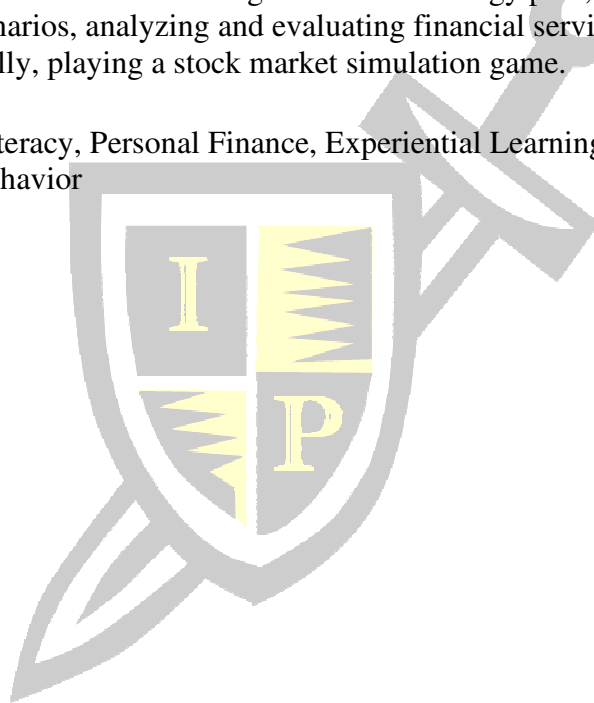
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ABSTRACT

Educating people in personal finance is of utmost importance. However, previous studies show that traditional approaches to financial education may lack experiential learning components that help students connect theory and practice. This article describes a pedagogical approach to financial literacy education taught at an international liberal arts college that is structured around four key personal finance concepts. The course is taught using traditional class lectures combined with an experiential learning approach that includes hands-on class assignments. This includes students working on a career strategy plan, developing a hypothetical budget for different scenarios, analyzing and evaluating financial services offered by the students' bank, and finally, playing a stock market simulation game.

Keywords: Financial Literacy, Personal Finance, Experiential Learning, Pedagogy in Financial Education, Financial Behavior

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INTRODUCTION

In the light of the COVID pandemic, the current high inflation (Smith, 2022), an uncertain economic outlook, and an increasingly complex society, educating people on financial literacy is of utmost importance (Clark, Lusardi, Mitchell, 2021; Popovich et al., 2020). Financial literacy for early college students is especially important since that time is a transitional stage of development for most students, during which they are beginning to become financially independent (Shim et al., 2010). At this stage of their lives, college students need to live within a budget, manage credit cards and deal with several financial services such as loans, insurance, and financial assets (Lusardi & Mitchell, 2023). In addition, several studies have shown that poor financial literacy leads to serious consequences for individuals. For instance, Cude et al. (2006) found that some college students are financially at risk and therefore, there is a need for university-wide financial education. This paper introduces a pedagogical approach to financial literacy education taught to college students at an international liberal arts college, which builds on an experiential learning approach that includes hands-on class assignments and interactions with both alumni and finance professionals. The course described in this article is structured around four fundamental personal finance concepts that affect the material well-being of a person and includes several experiential learning components.

Anderson et al. (2000), define financial literacy as “the ability to read, analyze, manage and communicate about the personal financial conditions that affect material well-being”. Becoming financially literate includes two aspects: Obtaining knowledge of key financial concepts and applying these concepts in a real-world setting (Blue et al., 2014; Huston, 2010). In particular, referring to the second aspect, Brau et al. (2019) identified successful sources of financial learning for young adults and found that experiential learning played a particularly important role in the learning process of personal finance concepts. Lewis and Williams (1994, p. 5) define experiential learning as: “In its simplest form, experiential learning means learning from experience or learning by doing. Experiential education first immerses learners in an experience and then encourages reflection about the experience to develop new skills, new attitudes, or new ways of thinking.” (Kolb, 1984; Butler and Laumer, 1992).

Several studies have shown that traditional approaches to financial education may lack experiential learning components that help students connect theory and practice. For example, the Jump\$tart Survey (2006) on financial knowledge found that those who took a traditional personal course scored no better than those who did not take the course. In addition, Frijns et al. (2013) expand on this problem and suggest that finance programs may need to include an experiential learning component to be effective. Moreover, Timura (2022) provides a conceptual experiential learning approach for a personal finance course. In addition, Krishnan & Porter (1998) explain that a diversified set of learning approaches within the same course should increase the overall level of learning. Examples include lectures, company visits, projects, scavenger hunts, and simulations. For example, Marriot et al. (2015) conducted a survey on the use of finance-related simulations at 97 UK universities and found that the implementation of such simulations in the classroom enhances the student’s learning experience through concrete experience and reflective observation.

The framework of the personal finance course illustrated in this paper is derived from Kapoor et al. (2004) and can be visualized as a cycle (see figure 1 in the appendix) that begins with how to obtain financial resources (obtaining stage), that leads to how to plan and how to invest financial resources (planning and investing stage), and that ends with how to manage

financial resources (managing stage). Each of those financial topics is first introduced in lectures that cover the fundamentals of personal finance such as interest rates, inflation, asset allocation, etc. In the second step, discussions about current economic and financial events are included in the class that are related to the topic discussed. Students learn how certain events impact their own personal finances and thus, they can link the foundational knowledge obtained in class to their own real-life situation. In addition, these discussions engage students in reflecting on their own personal situation. According to Denton (2011), reflection is a crucial feature of experiential learning, and its purpose is to strengthen the connection between what the student has experienced and what the student has learned from this experience. In the final step, using an experiential learning approach, students apply what has been learned and discussed in class in real-world hands-on assignments. The specific learning outcomes of this course are summarized in Table 1.

The in-class hands-on assignments ask students to work on a career strategy plan, develop a hypothetical budget, analyze and evaluate the financial services offered by the students' bank, and finally, play a stock market simulation game. Moreover, the experiential learning component of the course includes a 1-hour workshop with career services of the university, a meeting with alumni and finance professionals, and a data collection exercise in order to compare consumer prices in different locations. Table 2 summarizes the structure of the course including the four distinctive experiential learning assignments.

In order to embed experiential learning into this course, the semester of this personal finance course is structured around different phases of the life ("life events") of a person as suggested by Amagir et al. (2018). As can be seen in Figure 2, the semester reflects a simplified version of the life cycle of a person starting from the time graduating college. Throughout the semester, personal finance concepts are covered and include experiential learning components that are related to these important "life events".

The rest of this paper is structured in the following way. Section II provides details about the experiential learning components included in each of the four major financial concepts, section III describes the assessment and evaluation of the course, and finally, section IV concludes and briefly discusses possible future research of this experiential learning approach.

THE FOUR STAGES IN PERSONAL FINANCE: AN EXPERIENTIAL LEARNING APPROACH

Obtaining financial resources - Career strategy plan, and alumni and professional Engagement

The first important "life event" is applying for the first job at the end of the students' studies in college. To prepare for this key event, the personal finance course includes key concepts on how to obtain financial resources in the first place. This requires a strategic career plan for the time during and after college and includes four main aspects students need to work on. First, students need to develop their own resume in order to understand what educational as well as professional experience they have obtained and what skills they have acquired so far. For that purpose, a short 1-hour workshop by the career services of the university on resumes, cover letters, LinkedIn, etc. is offered to the students. After learning from the career services, students reflect on their resume and make necessary changes. The next step in the process is to research career fields that fit well with the student's abilities and interests. An important aspect for the

students is to understand their main interests and to research the knowledge and skills necessary for a specific career path. The third step involves identifying the student's skills gap. According to Antonucci & Ovidio (2012), a skills gap analysis is a tool to evaluate the difference between the actual and a future state. In particular, a skills gap analysis is used to understand the skills that an individual needs for a specific job in the future, but that the individual has not acquired yet. Finally, in the last step, students need to develop an action plan on how to close the skills gap during their time in college.

Another way to enhance this career development assignment is to organize meetings between the students, alumni and other young professionals. This allows students to gain knowledge on what is necessary to obtain jobs and helps them validate their action plan and hear firsthand what is important for career development. Finally, both the meetings with alumni and with young professionals are an excellent opportunity to network which can create meaningful and strong relationships (Van Doren & Corrigan, 2008). An example of a skills gap analysis and a career action plan can be found in the appendix at the end of this paper.

Planning financial resources - A personal budgeting game

The next stage in the framework is the planning stage which is related to becoming financially independent after graduating college. For that purpose, students in the personal finance course are assigned a personal budgeting game in which they learn to create budgets with different scenarios which will help them understand the various expenses one faces in life and the consequences of overspending (Bell, 2023; Lucas & Howard, 2023). For instance, Harper et al. (2023) found that a budgeting intervention given to college students had a positive impact on financial self-efficacy. Moreover, Lucas & Howard (2023) find that use of a budget has a significant and economically relevant impact on consumer spending. In particular, post-budget spending is lower than pre-budget spending. Thus, it is an important tool to curb overspending and should be an essential part of any personal finance course.

First, in a lecture, the basics and fundamental pieces of a budget are taught to the students including the impact of overspending on their future personal finances. This includes discussions about how much money to dedicate to everyday consumption (groceries, entertainment, etc.), short-term savings for lump sum payments and emergencies, and finally long-term savings (investments). In addition, students learn about the important financial concept of inflation and its impact on budgeting.

Afterward, students are required to create a hypothetical budget. As a starting point, students work on a budget for someone who has just graduated college, found a job, and lives by themselves. The same income is assigned to each student and each student has to create a monthly spending plan with that income in mind using preassigned spending categories such as for rent, food, entertainment, clothing, transportation, utilities, and others. In this assignment, students need to research real prices for the different categories in the budget. Furthermore, they need to decide how much to allocate to the different categories. In addition, after being introduced to the theoretical concepts of car loans and mortgages (see section 2.4), students need to incorporate the monthly loan payment as well as any other expense related to the purchase of a car and house into the budget. Each budget will include fixed and variable expenses, savings that are allocated to infrequent expenses and to an emergency account, and finally, investments that go into an investment account that generates an annual return of 7% (see section 2.3). This helps

students to reflect on the impact of specific decisions on their budget and will help them understand ways to reduce their own spending and make wise personal finance choices.

In the second step of this budget game, students need to obtain a financial statement at the time of retirement for the hypothetical budget created in step 1. Although this assignment is very simplified, its purpose is to learn how much wealth has been accumulated through the investment account, the emergency account, and the purchase of the house. Furthermore, students learn how future wealth is impacted by the choices made in the budget. This can be shown by reducing some of the expenses and increasing the amount in the investment account. In addition, students learn the basics of investments, and they learn how to calculate future wealth assuming a given rate of return. Furthermore, they will learn the concept of depreciation with regard to the purchase of the car in step 1.

An important aspect of budgeting is the understanding of the cost of living in different locations. Understanding the average salaries and expenses in different locations is also relevant when assessing job offers, in particular, those in large metropolitan cities with a high cost of living. Students need to reflect on this and understand the cost of different items and how that affects the monthly budget. For that purpose, students need to choose two different locations and collect consumer prices for each of the two locations, and compile the collected data into a spreadsheet. The purpose of this assignment is for students to learn about the cost of living in two different locations and its impact on the personal budget of a potential job seeker.

Investing financial resources - A stock market trading simulation

In phase three students learn how to invest their savings in stocks, bonds, real estate and other asset classes in order to have a higher retirement income. This is related to the important life event of retirement. Using virtual trading simulation software, students learn about different types of asset classes, and the concept of asset allocation and diversification in the financial market. This allows students to be exposed to financial security trading without the risk of incurring real losses. In class, students first need to learn about the theoretical concepts related to investing and learn about the features of each of those main asset classes.

However, in a classroom, it is not feasible to let students invest real money in financial securities. Consequently, it is recommended to let students learn about investing using a virtual stock trading platform (see i.e.: Kam, K., 2022; Marriot et al., 2015). This allows students to gain valuable experience by applying what learned in class, by making mistakes, and to learn from those mistakes. One way to make this experience more fun for the students is to create a competition that lasts throughout the full semester. Each student will receive a certain amount of virtual money and can then decide how to invest this money. At the end of the semester, the student with the highest return wins the competition and will be awarded a small prize.

Finally, inviting finance professionals to the class in order for students to obtain valuable advice on how to invest their money in the long run is another interesting way to incorporate experiential learning into the classroom. Topics discussed may include how the current macroeconomic environment affects investing in the capital markets, how to efficiently diversify the portfolio, the different costs and risks involved when investing, etc. The experience of playing this stock market simulation game coupled with the meetings with professionals help students better reflect on the choices they made when allocating financial securities in their virtual portfolio and how to make wiser financial decisions in the future.

Managing financial resources – A comparative bank analysis

Finally, a fourth important aspect of financial literacy relates to saving and borrowing money. In particular, this includes understanding the different financial services a bank can provide (Kapoor et al., 2004). But how can one teach this aspect of personal finance by including hands-on experience in the classroom?

First, students are introduced to different types of financial service providers and the services they offer, in particular, with an emphasis on the different types of credit such as credit cards, personal loans, car loans, and mortgages. For example, in this section, students learn about the difference between credit card debt and car loans or mortgages. Second, an exercise in which they need to collect information about their own bank is assigned to the students. This includes describing the bank, its products, and services, as well as the terms and conditions of those services, such as fees, interest rates on savings accounts, mortgages and other loans, certain requirements, etc. Also, students need to collect data on fees and other expenses when dealing with their bank such as credit card fees, ATM fees, checking account fees, etc. In addition, to doing research on their own bank, students are encouraged to meet with a bank employee to ask questions that will help them complement their findings and write an in-depth report about the bank. If students do not have a relationship with a bank, they may write a report about any local traditional bank. Finally, students will choose a challenger bank (online or fintech bank) and write a comparative analysis between the latter, and the traditional bank analyzed in the first part of the assignment. The purpose of this assignment is for students to reflect on the cost and user-friendliness of their current financial service provider and also to reflect on the differences between traditional and new fintech banks and learn about new ways on how to manage money. This helps students make wiser and more efficient personal finance decisions when dealing with financial service providers.

PEDAGOGICAL SUGGESTIONS AND CHALLENGES

The structure of the course is based on the Personal Finance textbook by Kapoor et al. (2004) and focuses on four main areas of personal finance that are relevant for college students. In addition to traditional class lectures and discussion sessions, this course includes four experiential learning assignments. For each of these assignments, some additional resources may be needed.

First, regarding the career strategy assignment, one of the challenges involved is coordinating different parties to participate in the course. It would be advisable to closely collaborate with the career services of the university. For example, someone from career services could do a short workshop on resumes, cover letters, LinkedIn, etc. This requires some preparation ahead of the course to organize such a workshop. In addition, it may be great to help students connect with alumni and invite one to class who could speak about their experience post-graduation.

Second, regarding the monthly budget plan, one challenge is that several expenses do not occur every month but more infrequently. In order to incorporate them into this assignment, one advice would be to divide the budget into different categories including short-term savings reserved for both infrequent and unexpected expenses, long-term savings for investments, and the rest for monthly expenses that occur on a regular basis. Another suggestion would be to

incorporate aspects of the investing stage into this assignment in order to make students understand the importance of starting early with long-term savings.

Third for the virtual portfolio simulation, one challenge is the short time frame of the semester which makes it difficult to assess the outcome of any investment decision. Rather than focusing on the overall portfolio return, students' portfolios should be evaluated on the decisions they have made and the explanation behind each decision. Students should learn how to create a diversified portfolio including understanding different asset classes and the implications of including them in their portfolio. Also, students can observe the volatility of certain assets and securities which helps them better understand their riskiness.

Finally, the bank comparison assignment includes the challenge of making students actually obtain real data from their bank. It is important that students meet with a contact person at their bank to learn firsthand about their different services and their costs. In Europe, challenger banks like Revolut are becoming more important and it is important that students understand the differences between a traditional retail bank and an online fintech bank. Depending on the location of the university, this part of the assignment may need to be adapted to the local market. If challenger banks do not play an important role, it may be advisable to compare traditional banks with online banks or with credit unions.

COURSE EVALUATIONS

The described pedagogical approach to this personal finance course has been taught for the last three years at a liberal arts college. The experience with this course has provided evidence that the experiential learning components incorporated in such a course are a fun way for students to learn about personal finance. In particular, students often have difficulties in grasping the main concepts and relating them to their own situation and, according to the comments in the course evaluations, the experiential learning assignments have helped them to improve their understanding of key financial concepts. As can be seen in Table 3, 87.5% of 40 students who filled out the course evaluation form during the last three years strongly agreed or agreed with the statement that the course assignments helped them with understanding of the course content.

CONCLUSION AND FUTURE RESEARCH

To conclude, this article introduced an experiential learning approach for a personal finance course that for the last three years has been successfully taught to college students at a liberal arts college. In this course, students learn personal finance concepts by learning the foundational knowledge in lectures and class discussions, by working on hands-on assignments, and by hearing first-hand from alumni and finance professionals. This will allow students to gain practical knowledge of key personal finance concepts. Finally, the students reflect on their different experiences to develop new personal finance skills needed in their lives. Nevertheless, more empirical research may be needed to assess the effectiveness of such experiential learning approaches compared to more traditional approaches to teaching personal finance and its impact on both the student's understanding of key personal finance concepts as well as on their attitudes and behaviors regarding key financial decisions.

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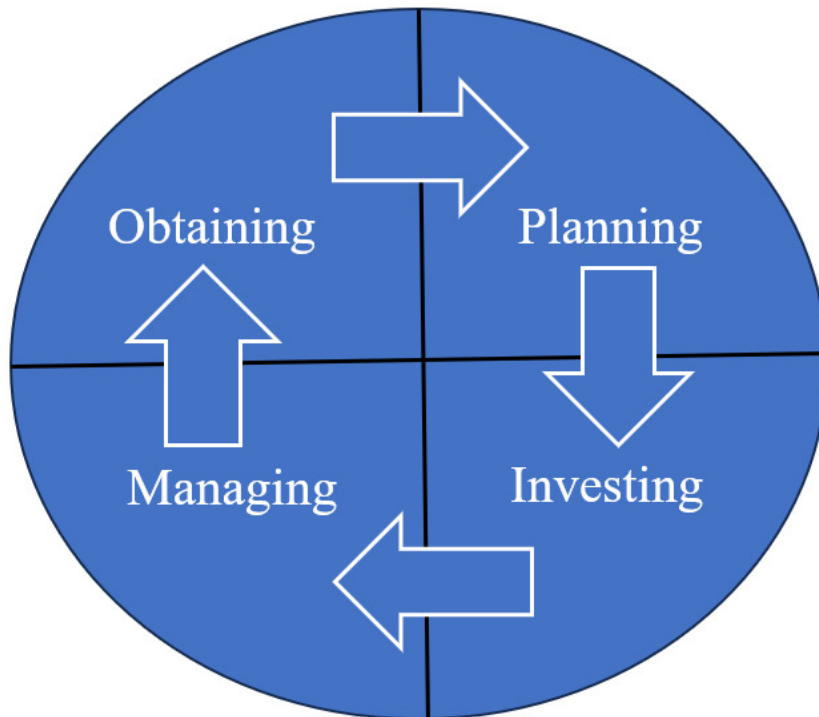
Appendix A:

Figure 1 - Framework of a Personal Finance Course: This figure illustrates the framework of this personal finance course. It is based on the structure of the textbook in Personal Finance by Kapoor et al. (2004) and can be visualized as a cycle that begins with how to obtain financial resources (obtaining stage), that leads to how to plan and how to invest financial resources (planning and investing stage), and that ends with how to manage financial resources (managing stage).

Appendix B

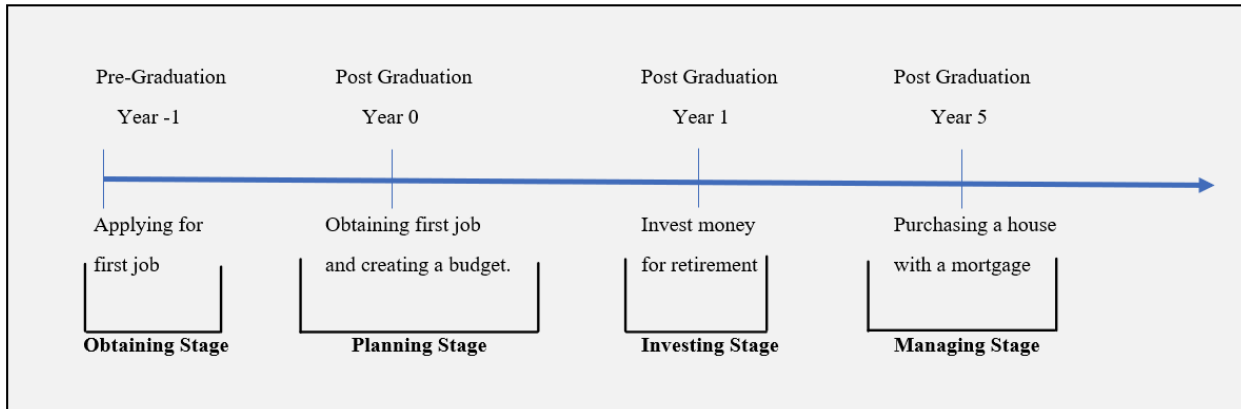
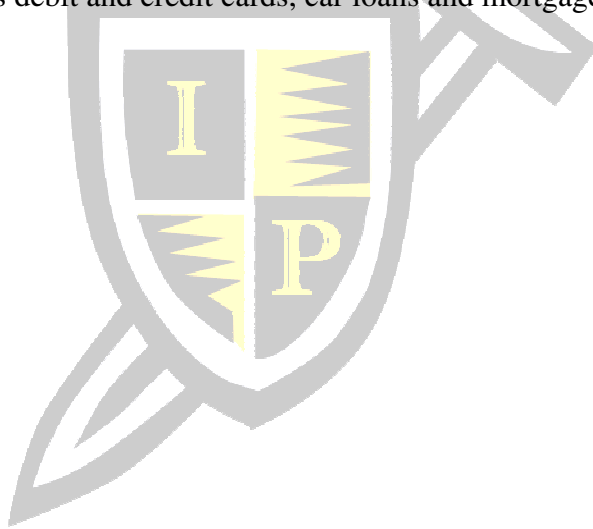


Figure 2 - Time Line with Important “Life Events: This figure shows the structure of the semester of the personal finance course. It begins with the obtaining stage in which students learn about career strategies relevant to obtaining their first job after college. Next, students are introduced to how to construct a personal budget and financial statement which is important to become financially independent. Third, , students are taught how to efficiently invest their money for retirement. Finally, students learn about different financial services and products offered by banks such as debit and credit cards, car loans and mortgages.



Appendix C

1. Learn about financial aspects to career planning including developing and evaluating your own career strategy plan. (Obtaining financial resources)
 2. Develop networking skills including interacting with recent graduates and young professionals. (Obtaining financial resources)
 3. Demonstrate basic personal finance concepts and apply those concepts to real world applications. (all)
 4. Learn how to construct a budget and a personal financial statement and analyze your own spending behavior (Planning financial resources)
 5. Develop an understanding of the cost of living between different locations. (Planning financial resources)
 6. Develop fundamental knowledge on how to invest financial resources and simulate, analyze, and evaluate investing in financial securities using a stock market simulation game. (Investing Financial Resources)
 7. Understand different financial services that traditional banks offer such as debit and credit cards, car loans, home mortgages, their cost structure and their differences with fintech banks and apply the learnt to your own financial situation (Managing Financial Resources)
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Table 1 - Learning Outcomes for the Personal Finance Course: This table shows the specific learning outcomes for the personal finance course described in this article. The learning outcomes are derived from the four main concepts taught in the course and reflect the experiential learning components embedded in the course.

Appendix D:

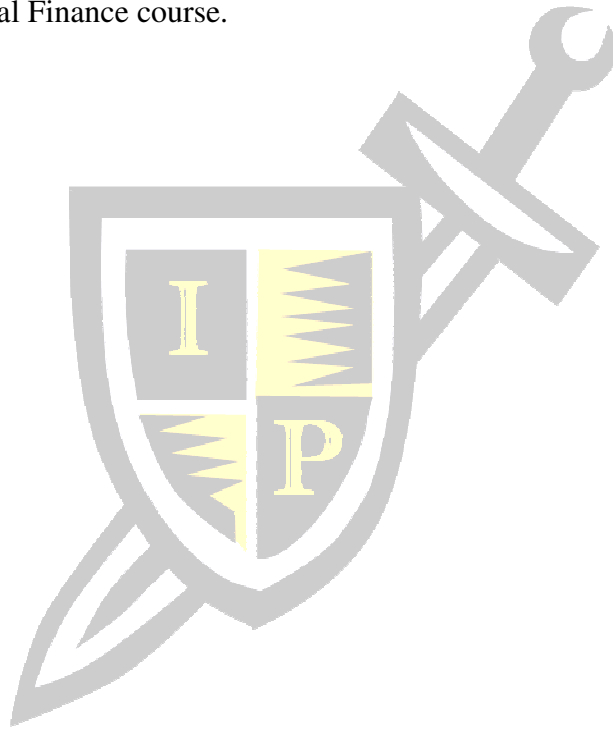
Personal Finance Concepts	Experiential Learning Assignment	Description
Obtaining Stage	Career Strategy Plan and Alumni & Professionals Engagement	This involves developing a career strategy plan including teaching students how to create a resume, how to find jobs that match the interest and skills of the students, and how to close a skills gap in order to be competitive when going to the job market. Furthermore, a 1- hour workshop on career readiness by the career services of the university is offered to the students. Finally, students meet with alumni and young professionals to obtain career advice.
Planning Stage	Budget Game and Cost of Living Comparison	This involves learning how to budget income and expenses, and to understand how to responsibly spend their money. In addition, students collect consumer prices from different locations in order to learn first-hand about the differences in the cost of living of different locations.
Investing Stage	Stock Simulation Game	This includes learning first-hand how to invest savings in stocks, bonds, and real estate in order to have a higher retirement income. Furthermore, it includes professional investors sharing their knowledge and experiences with regard to investing in the capital market.
Managing Stage	Comparative Bank Analysis	This includes understanding the different services a students' bank can provide and the different costs of those services. Here students learn about credit cards, car loans, mortgages, etc. Finally, it involves understanding the differences both in terms of user friendliness and costs between traditional and online or fintech banks.

Table 2 – Structure of the Personal Finance Course: This table describes in detail the four personal finance concepts taught in the course and the experiential learning components that are embedded in each of the four concepts. Column 3 describes in more detail the experiential learning approach taken to teach students each of the four finance concepts.

Appendix E:

The assignments (presentations, papers, projects, etc.) enhanced my understanding of the course content.		
Response Options	Frequency	Percent
Strongly Agree	21	52.5%
Agree	14	35%
Neutral	3	7.5%
Disagree	2	5%
Strongly Disagree	0	0%

Table 3 – Course Evaluations by Students: This table summarizes the results of a specific question on the course evaluation form filled out by the students who took the Personal Finance course during the last three years. The specific question asks about the quality of the assignments given during the Personal Finance course.



Appendix F:
Skills Gap Analysis - Example

Example of a Skills Gap Analysis for a Career in Wealth Management		
Skills needed	Personal skills	Skills gap
Ability to perform in a fast-paced environment and handle multiple tasks through effective prioritization.	I am a fast learner and I easily adapt to any situation. I have a high proficiency in time and work management.	I have little experience in working in a fast-moving environment and handling and prioritizing multiple tasks.
Ability to coordinate multi-functional teams to provide an exceptional client experience.	I am able to coordinate and lead other people and I possess the ability to visualize and reach goals.	-
Excellent interpersonal, communication and leadership skills.	I am able to lead other people as well as foster intercommunication. One of my personality traits is to be empathic and be able to listen to people.	I have little of experience in leading professional groups and no experience in negotiating and consulting
Ability to work under pressure while making sound and efficient decisions.	I have some experience working under pressure.	I have not been exposed to situations where I had to work under real pressure yet
Ability to analyze clients' financial data and to provide appropriate data-based advice.	I am currently acquiring financial knowledge while I am proficient in data analysis and delivering advice.	Lack of specific and in-depth knowledge on financial securities.
Accuracy, attention to detail and the ability to explain complex information clearly and simply.	I have an eye for details. I have experience writing reports, memos, and whitepapers.	I am not able to explain technical information related to wealth management
Experience in building and maintaining long term relationships in order to grow revenues for the organization.	I have acquired knowledge and skills in psychology throughout my studies and experiences.	More experience in working with clients is needed.
Proficiency in English as well as in the native language spoken by the clients to be covered for the relevant market.	I have a high proficiency level in English, Italian, and Spanish.	I need to improve my English even further and learn more languages.

Career Action Plan - Example**Example of a Career Action Plan:**

- Obtain practical experience in banking or related sector in terms of internships, attending a graduate program in finance, and eventually obtaining a full-time job in this field. The work experience will help me reduce and later eliminate my skills gap. More specifically:
 - During my working experience, I will have the responsibility to handle multiple tasks, effectively prioritize them and successfully deliver them.
 - Obtain leadership skills through on-the-job experience of managing a team.
 - Acquire key communication skills such as negotiating and consulting skills by working closely with senior employees and superiors.
 - Learn how to work under pressure through internships and job opportunities in the wealth management field.
 - Foster and improve theoretical knowledge in finance through continued education in graduate programs
 - Acquire and develop higher competencies in finance through “learning by doing”
 - Acquire language certificates for English and German within the near future.
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