Dear Parent: Money is an important part of our lives. Children begin learning about money at an early age. They learn about money the way they learn about everything else—through observation and experiences. What your children learn about money will influence how they use money as an adult. Parents who plan learning experiences will help children develop competence in money management.

Sincerely,

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Oregon's Children

Letters for parents of preschoolers: Letter 4
Preschoolers and Money

We live in a world where money is essential. Children learn this at an early age by observing parents talking about and spending money. Children notice whether mom and dad argue about how money is spent, or if parents calmly plan how to spend money. Children learn from adults who try to “keep up with the Jones’s.” They also learn from adults who emphasize the cost of a gift rather than the giving.

What are you teaching your children about money? What are they learning from watching you spend money? What are they learning from what you say about money?

Children need to learn that money does not make people happy. Money is used in exchange for the goods and services we need. When used wisely, money can contribute to a good family life.

The Money World of Young Children

Most preschoolers don’t understand the difference between pennies, nickels, dimes, quarters, or dollars. Until age four they tend to call all coins “pennies.” Preschoolers may think five pennies are worth more than a nickel, because five is more than one, or that a nickel is worth more than a dime because it is bigger. Don’t think they aren’t learning because they don’t know the value of coins. By age three, children pick up attitudes about money while shopping with their parents. They see adults spending money and want to imitate them. They hear such things as, “It costs too much,” or “I don’t have the money.”

Even before age three children learn from television advertisements. Television tells them what cereals and toys they “need” and which jeans they should wear. At this age they are ready to learn where money comes from, that money is limited, and that they can’t have everything.

Parents can help children develop positive attitudes and skills in money management. Since they learn different ideas at different ages, experiences must be geared to their abilities and understanding.

Consider how the concepts you are teaching preschoolers will develop as they grow older.

Work experiences. Introduce three- or four-year-old children to the idea that money is earned by work. Tell your children where you work and what you do there.

Four- or five-year-olds can understand their parents’ work and usually have more interest in it. A visit to the workplace helps children know what you do and why you have to be away from home. (Be sure to check with your boss before your child visits you at work.)

If you are a homemaker, you work at home. Avoid telling children you don’t work. Share with them what you do and how it contributes to the family.

Sometime around the third grade (or earlier if older brothers and sisters earn money) a child may ask “what can I do to earn some money?” There are few opportunities for young children to earn money, but you may encourage a child to do extra household tasks for money. Most experts discourage rewarding all household work with money because children need to understand that each family member has responsibility for part of the household work.

If you do pay children for doing extra household work, be sure to consider their age and attention span as you choose a job for them. Pick a reasonable job, set reasonable standards, and then be sure they complete the job.

Shopping experiences. The preschooler who shops with mom or dad has many opportunities to learn about money.

Give preschoolers money at the checkout to pay for a particular item that is for them. While paying the clerk and getting the item, they see that the
money is gone. This introduces children to the idea that money is exchanged for goods.

As children get older they are ready to make choices. Five-year-olds are able to choose between two or three items. Give children money but set guidelines. If the money is for ice cream, let them select which kind of ice cream. Perhaps the money is for choosing and buying one of three toys. Children usually make this decision very slowly, so do this on a day you are not in a hurry.

When you shop, avoid letting children talk you into buying things you don't need or want. If you aren't buying an item a child saw on television, say no and stick to it. Saying no to children and explaining why is okay.

As children start school and develop more skills they will be able to buy small items themselves. If you need a loaf of bread, send your child into the store while you wait in the car. Be sure the child clearly understands what you want. At first it's best to give them the exact amount of money. If there will be change, show or tell how much change there should be. At first it will take you longer to have your child do the errand, but, be patient. Learning is slow!

Spending experiences. As children start school they are ready to spend some of their “own” money. Around age six start an allowance—a consistent amount of money given at a regular time. Children, who have older brothers and sisters receiving an allowance, will want one before age six. With younger children give the allowance close to the time money will be spent, such as a day or two before the shopping trip. As children get older, lengthen the time to a week. When they are teenagers, give allowances once a month.

When children receive an allowance they should know what it is for. An allowance usually includes money for certain items and money they are free to spend as they please.

The money for the agreed upon items teaches the costs of necessary purchases, while the money a child decides how to spend teaches decision making.

Children under age six typically spend money on candy, gum, ice cream, small toys, books, paints and crayons, Sunday school giving, or gifts for others. In comparison, spending practices broaden between ages six and nine. Their increasing interests now include spending for magazines, club dues, bus fare, school lunches, movies, and short-term savings for something special.

You may say, “I don’t want my child spending money on candy and gum” or “I don’t want my child spending money on certain movies.” If there are restrictions on what your children can purchase, discuss it ahead of time. Perhaps you let them buy some candy and gum but limit it to a certain amount. Perhaps you reserve the right to say no to certain movies. Be sure you permit children to make some choices because decision making is important.

When you let children make choices, they will sometimes make what appears to be a bad decision. Before you decide if a purchase was a bad buy, discuss the decision with your child. Perhaps it was a good buy from the child’s viewpoint. If it was a poor choice, help the child understand why. Poor choices are also part of learning.

As children develop skills in making choices and show interest in additional responsibility increase the amount of the allowance.

Perhaps you cannot afford to give your children allowances. Since you are buying items for them, let them help in the selection decisions. For example, let them select and purchase some of their school clothes. The opportunity to make and live with decisions is an important money management experience.

Using money as a reward for good behavior, a payment for good grades, or a punishment for bad behavior is not considered a good practice. This puts a price on things that should not have a monetary value.

Giving and sharing experiences. Four-, five-, or six-year-olds can learn about sharing and giving. They can give to a church collection or purchase small gifts on special occasions for family members and friends. They may also be ready to make cards or small gifts which teach another aspect of giving as well as teaching that time and work can be substituted for money.

Young children sometimes receive gifts of money on birthdays and holidays. Discuss with them how this money might be used. If it is a large amount of money, you might allow some for spending and put the rest into savings for the child’s later use.

When your children receive gifts, teach them to show their appreciation. Writing thank you notes is an important learning experience for all children and delights the person who gave the gift.
Saving experiences. Very young children cannot understand saving money because they do not understand time. By the time they are five or six, they understand saving for something they can buy in a few weeks. Let young children save coins in a glass jar or clear container so they can see the coins and can count them periodically. This creates more interest in savings than a container such as a piggy bank where they can’t see the money and can’t get it out.

It’s important for children to understand it takes a long time to save for expensive items, for example, a bicycle. Parents often agree to add money if a child saves a certain amount toward a bike or other expensive items.

Your Family Money Matters

Children need to learn that there is never enough money to buy everything they want. Children also need to know that not all families have the same amount of money.

You may not want to share all of your financial information with your children, but you should share some of it. Sharing this information and decisions with children tends to make them more cooperative in working toward family goals.

Children who are aware that hot water costs money may be more interested in water conservation than those who think hot water is free from the faucet. The child who knows how much electricity costs may remember to turn off lights more often than the child who thinks electricity is free.

If family spending must be cut back because of unemployment, major illness, or divorce, children will also be affected. They need to know there is less money and that some things may be different. Include children in discussions about the changes that will be made.

Avoid telling your children that “nothing is wrong.” When children are not told why things are different they often make up reasons. Some think the decrease in allowances and in things they can buy or do is because they have been bad or because they are unloved. It’s important to tell your children the truth about money to build trust between children and parents.

How About You?

Children learn by observing and imitating you. What are your attitudes about money? The way that money was used in your parents’ home has influenced the feelings and attitudes you have about it now. A husband and wife raised in different families are likely to have very different feelings about saving and spending. Communicating about money increases understanding and prevents serious arguments.

Along with your feelings about money, discuss your goals. Distinguish between short-term, intermediate, and long-term goals as well as his, her, children’s, and family goals.

How much money is needed to reach these goals? What will it take besides money to reach them?

How well are you managing the family money? Some common financial mistakes often made by young families are:

- over-commitment of income to installment debt
- lack of plans for education expenses and continued job training
- emphasis on current needs and failure to anticipate future changes
- lack of sufficient insurance
- failure to investigate housing alternatives
- lack of emergency funds and savings

Are you making any of these mistakes? If so, now is the time to have a family meeting to discuss finances. An important part of money management is communicating about money and goals among all family members. In addition, it’s an important part of your child’s education.

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