4 Simple Ways to Teach Kids How to Manage Money From An Early Age

By Kara Studzinski

Kids these days, right? It's interesting that of all the things taught in school, personal finance is never a topic. Sure, Microeconomics is important, but isn't learning how to budget in everyday life just as essential? Parents are responsible for instilling good values, morals and ethics in their children, and things like making good financial decisions are often overlooked. This being the case, it's no wonder that more people between the ages of 20 and 24 declare bankruptcy than graduate from college.

Good money habits start at home. From an early age it is important to show your kids the difference between a "want" and a "need". It is also important to lead by example. Your children notice your spending habits whether you are aware of it or not, and pick up on those same ways of thinking about money. Kids see you spending. They don't see you saving, investing or budgeting.

1) Chores are a good way to teach your kids the value of working for money. Paying them for the work they are asked to do around the house lets them see how money and work are connected. A child who learns this early on is far less likely to rely on parental figures later on in life financially, and also nurtures the entrepreneurial side in them.

2) Lending your child a small amount of money, and charging them interest on it until it is paid back in full, and then comparing with them how much more they actually paid back is a great exercise in debt management.

3) It is important that kids realize that each decision they make has a consequence. Teaching them opportunity costs (things like "if you buy this with your money, you won't have money to buy that") is a good way to jump start this lesson.

4) Have your child set a simple financial goal. Something like saving a certain amount to buy a toy they want, would suffice. Just make sure that the toy isn't so expensive that it takes months to save for. These opportunity costs are a great way to show how in order to get something that you want, you must give up other things (i.e. money).

Teaching children from an early age how borrowing money works is another huge part of a person's future financial success. Learning how to value money is a different exercise then learning how debt works. The average household has credit card debt of

$15,611. Since credit cards were invented in the 1950's and are a relatively new thing, it's hard to justify the bad spending habits of our parents, on their parents. It is important to show kids how borrowing money works, so when the time comes that they apply for their own credit cards or student loans, they have less of a chance of ruining their financial future.

Perhaps the most important thing to remember as a parent is that kids need to learn by trial and error. If the stove is hot, they won't know what hot feels like unless you let them touch it. That's when they learn not to play with the fire. The same goes for finances. It is important to show your children the way, but not using a method that micromanages and gets in the way of your ultimate goal – showing them how to make good financial decisions. All in all, it seems that taking the time to teach your children about personal finance is one of the greatest investments that a parent can make, with the highest return on interest.

Kara Studzinski writes at ValuePenguin.com, a personal finance research and analysis website. She covers the story behind the numbers on topics ranging from lifestyle decisions to consumer finance.