Chapter 2

Financial Ability, Socialization, and Communication

In general, the terms “financial ability” and “financial literacy” encompass the domains of some of the correlated variables, including the internal and external influences integrated into the overall model of consumer behavior proposed by Hawkins, Best, and Coney (2001). Integrating the internal and external influences, this chapter illustrates a financial ability model in Figure 2.1 that depicts the links among the processes and outcomes of financial communications based on financial ability and literacy. The first part of the proposed model includes external and internal variables that contribute to the formation of financial knowledge. The second part depicts how different structures of financial knowledge facilitate financial ability and literacy. The final part depicts how financial ability and literacy influence how consumers process and use a financial communication to make financial decisions.

In the first part of Figure 2.1, variables from the external and internal influences form the backbone of the structures of financial knowledge. The internal influences include memory, perception, learning, and personality variables, whereas the external influences include socialization factors such as culture, demographics, reference groups, and education. It has been suggested that the translation of the internal and external influences into financial knowledge is influenced by different dimensions of this knowledge (Alba and Hutchinson 1987). In specific, financial knowledge is attributed to the basis of subjective knowledge, objective knowledge, and experience/familiarity (Alba and Hutchinson 1987). Variables of internal influence serve as infrastructures for acquiring objective knowledge and subjective knowledge in financial matters, whereas variables of
external influence mainly constitute the accumulation of experiences in financial matters.

Based on Figure 2.1, the structures of financial knowledge explain the relationship between financial ability and literacy. Financial ability can be a consumer’s ability to process and comprehend a financial communication. Financial literacy can be a consumer’s knowledge of financial concepts, services, and products that are stored in his or her memory. Financial ability can be a function of cognitive capacity, which is limited and innate, and of the development of financial information-processing skills, which are learned. Financial literacy can be a function of experiences with financial materials, services, and products that may be mediated by financial ability. In other words, the effect of financial literacy on consumer response to a financial communication may be mediated by financial ability. As a result, these intertwined variables influence how consumers select and process messages in a financial communication, form attitudes and behavioral intentions, and make financial decisions.

**Financial Knowledge**

Knowledge is any content that is learned, organized, represented, and stored in memory (Alba and Hutchinson 1987, 2000; Wang 2006; Wang 2009b). Thus, financial knowledge can be retrieved, used, and updated to create inherent, meaningful, and useful property of the knowledge itself and make analogy, inference, reasoning,