A study on financial literacy among college students

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Abstract---Financial literacy is increasingly important as it has become essential that individuals acquire the skills to be able to survive in modern society and cope with the increasing diversity and complexity of financial products and services available. Financial literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money. It enables individuals to improve their overall wellbeing and to plan for their future security. The main objective of the study is to analyse the level of financial literacy among the college students. Both the primary and secondary data has been used in this study. Knowledge on money management, savings, investments, and credit has been considered to measure the financial literacy level and students current and past manners related to same dimensions is used to measure financial behavior using questionnaire. In this study, the results were analyzed based on gender and qualification. Significant relationships were found between financial literacy and student characteristics.

Keywords---financial literacy, college students, student characteristics.

Introduction

Financial literacy is the ability to make informed judgements and exercise to make a gateway regarding the use and management of money and therefore a combination of a person’s skills, knowledge, attitudes and in the long run their behaviour in relation to money. Financial literacy skills enable solitary to navigate
the financial world, make informed decisions about their money and minimize their chances of being delude on financial matters.

Post global financial crisis, Financial Literacy and Financial Inclusion has become a subject of substantial interest among policy makers, researchers and other stakeholders. This heightened interest reflects a better understanding of the importance of financial inclusion for economic as well as social development. Across the nations, both economically rich and poor, it is being increasingly confessed that access to financial services has a crucial role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. More over financial literacy is rapidly being recognized as a core skill, essential for consumers operating in an increasingly complex financial landscape. The people should need to know proper plans for long-term investments for their future position in case of emergency needs. On the other hand, students should have to grasp a strong financial literacy about personal finance and to take decision on investment when they started to earn themselves. Knowledge on financial matters is the understanding of interest calculations, relationship between inflation and return, inflation and prices, risk and return, and the role of diversification in risk reduction. The financial behaviour appraises how the individual deals with money. It includes prompt payment fair and reasonable payment) of bills, framing the proper planned budgets and monitoring it, continuous saving habits etc. Financial attitude influences the behaviour of the individual. Financial attitude is the opinion of the individual about the belief in planning, their propensity to save and consume. So, the combination of financial knowledge, attitude and behaviour determines the level of financial literacy of an individual. Additionally, they must manage their own medical and life insurance needs. In these days the younger generation, especially the students are lacking in their financial decisions.

They love spending rather than saving. By keeping the future in mind the students should develop the habit of saving and they should be aware about the various financial services and facilities provided by banks, which will influence them to make sound decisions and to plan the safe and better future and the ability to make informed judgments and to take effective decisions regarding the use and management of money or it is the ability to manage personal finance. Students should be aware about the various financial services and facilities provided by banks and financial bodies which will influence them to make sound decisions and to plan the safe and better future with a financial back up by not being dependent on anyone. The ultimate goal is empowerment of people to take action by themselves that is in their self-interest.

**Review of Literature**

Lusardi & Mitchell, (2011) in analyzing the impact of socioeconomic traits like education level and measures of affluence like income and wealth on financial literacy. It has been previously found that individual mortals having greater education levels have higher access to financial knowledge and are, consequently, more financially literate. Financial literacy was strongly related to socio demographic characteristics and family financial sophistication. Specifically, a college educated male whose parents had stocks and retiral assets was about 45
percentage points more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy (Lusardi, Mitchell and Curto 2010).

Responsibility of money management lies with parents. Parents are the source of financial information. They are assured about their financial future. Their parents are successful in money management and they take them to be their role models in pivotal upon financial matters, Canadian Institute of Chartered Accountants CICA Youth Financial Literacy Study 2011. Financial literacy has become a matter of deep concern all over the world. The problem of financial illiteracy is not confined to developing or underdeveloped nations but rather is pervasive throughout. In an international project measuring financial literacy across eight countries, Lusardi and Mitchell (2011) found low financial literacy even in well-developed financial markets. Financial literacy has become a matter of deep concern all over the world. The problem of financial illiteracy is not confined to developing or underdeveloped nations but rather is pervasive throughout.

In an international project measuring financial literacy across eight countries, Lusardi and Mitchell (2011) found low financial literacy even in well-developed financial markets. Financial literacy has become a matter of deep concern all over the world. Surveying financial literacy among college students, researchers found out in a study that women generally have less knowledge about personal finance topics. It was observed that women generally have less ardour, lower confidence and less preparedness to learn about personal finance matter than men do. One more study aims to scrutinizing the gap between financial literacy and saving/investment behaviour among the working women. The findings of the study shows that women have expressed high degree of awareness. (Hira & Mugenda, 2000).

"Despite the expeditious growth of interest in and funding for financial literacy and financial education programs, it remains the case that the field of financial literacy has a major impediment to overcome: the lack of a widely disseminated measure of financial literacy, developed through rigorous psychometric analyses”. Huston (2010) “A lack of financial literacy can hamper the ability of individuals to make well-informed financial decisions. For people who exhibit problems with financial decision making, financial advice has the potential to serve as a substitute for financial knowledge and capability”. Michael (2009)

The different dimensions of financial literacy and education in India i.e. financial education, its relevance, determinants and, role of regulatory authorities in India. The study concludes that the strategy for improving financial well-being of individuals in India should be focusing the young investors (Danes & Hira, 1987). Deerajen Ramaswamy, Savila Thapermall, S. Anoop Dowlut and Mootoogananen Ramen (2013) evidenced that the awareness level of financial literacy among management students at the University of Mauritius is at a satisfactory level. It was also found that there is no significant associations were obtained between age group, gender and program of study and level of knowledge and skills of financial literacy, the level of importance they attach to financial literacy, their perceptions on theories of financial literacy.
In Malaysia, the government attempted to enhance financial literacy and capability of the nation by integrating Economic Transformation Program (ETP) into school curriculums. In addition, credit counseling and debt management agency (AKPK) are available for those who need financial advices (Bank Negara Malaysia, 2013). The exposure to financial management is very limited and that students face problems in their college life. Therefore, it is necessary to improve the financial literacy of individuals particularly for final year students who will join workforce so that they have positive financial management attitudes. (Chen & Vlope 1998). Lusardi and Tufano (2009) find that those individuals with poor financial literacy as it relates to debt are more likely to engage in high-cost transactions (higher interest rates and fees), than those with good financial literacy.

**Objective of the Study**

The following objective have been framed to understand the financial literacy among the youth, especially the college students. The major objectives are:

- To understand about the financial literacy among college students in Chennai

**Analysis and Discussions**

**Descriptive Statistics**

The study has made use of a Structured Questionnaire and it has been administered to the college students within the age group of 18 – 25. 106 responses have been collected and the following methods were used for analysing the study. The descriptive statistics is as follows: In the study there are 57 responses in the age group of 18-25 and 49 responses in the age group of 22-25, 71 male responses and 35 female responses, 54 respondents studying UG and 52 respondents studying PG, 98 respondents have a savings account and only 8 respondents do not have a savings account, 82 respondents have a debit card and 24 respondents do not have a debit card, 74 respondents use a mobile app to access the account and 32 respondents do not have the mobile app and finally 65 respondents use UPI for payments and 41 do not use UPI for payments.

**Cross Tabulation**

The cross tabulation has been used to find out the percentages of male and female who are certain about their feeling about their capability to manage with money and knowledge about their financial knowledge and the results are interpreted below.

*I can decide independently before spending the money on anything*

<table>
<thead>
<tr>
<th>Gender</th>
<th>Strongly disagree</th>
<th>disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>16.9%</td>
<td>6.5%</td>
<td>9.1%</td>
<td>11.7%</td>
<td>7.8%</td>
<td>51.9%</td>
</tr>
</tbody>
</table>
From the table it can be understood that 29.9% of the total respondents strongly disagree with the statement that they can decide dependently before spending the money on anything, 13.0% of the total respondents disagree, 18.2% are neutral about the statement, 23.4% agree, and 15.6% of them strongly agree with the statement.

An attempt was made to find out the association between the gender and decide independently before spending the money on anything using Chi square analysis. From the analysis, it has been found that p value (0.991) > 0.05, thus confirming the null hypothesis that there is no difference among the gender in deciding independently before spending the money on anything.

**I will ask my parents for permission for larger amounts**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Strongly disagree</th>
<th>disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>9.1%</td>
<td>10.4%</td>
<td>7.8%</td>
<td>16.9%</td>
<td>7.8%</td>
<td>51.9%</td>
</tr>
<tr>
<td>Female</td>
<td>1.3%</td>
<td>5.2%</td>
<td>10.4%</td>
<td>14.3%</td>
<td>16.9%</td>
<td>48.1%</td>
</tr>
</tbody>
</table>

From the table it can be understood that 10.4% of the total respondents strongly disagree with the statement that I will ask my parents for permission for larger amounts, 15.6% of the total respondents disagree, 18.2% are neutral about the statement, 31.2% agree, and 24.7% of them strongly agree with the statement.

An attempt was made to find out the association between the gender and decide independently before spending the money on anything using Chi square analysis. From the analysis, it has been found that p value (0.067) > 0.05, thus confirming the null hypothesis that there is no difference among the gender in asking parents for permission for larger amounts.

**I will decide on my own if the amount involved is small**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>5.2%</td>
<td>2.6%</td>
<td>16.9%</td>
<td>10.4%</td>
<td>16.9%</td>
<td>51.9%</td>
</tr>
<tr>
<td>Female</td>
<td>3.9%</td>
<td>9.1%</td>
<td>14.3%</td>
<td>16.9%</td>
<td>3.9%</td>
<td>48.1%</td>
</tr>
</tbody>
</table>

From above table, it can be understood that 9.1% of the total respondents strongly disagree with the statement that I will decide on my own if the amount involved is small, 11.7% of the total respondents disagree, 31.2% are neutral about the statement, 27.3% agree, and 20.8% of them strongly agree with the statement.

From the analysis using Chi square, it has been found that p value (0.034) < 0.05, thus confirming the that there is significant difference among the gender in asking parents for permission for larger amounts.
**I will ask my parents’ permission before spending whatever be the amount**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>10.4%</td>
<td>13%</td>
<td>13%</td>
<td>10.4%</td>
<td>5.2%</td>
<td>51.9%</td>
</tr>
<tr>
<td>Female</td>
<td>0%</td>
<td>5.2%</td>
<td>14.3%</td>
<td>13%</td>
<td>15.6%</td>
<td>48.1%</td>
</tr>
</tbody>
</table>

From above table, it can be understood that 10.4% of the total respondents strongly disagree with the statement that they ask permission from parents for before spending, 15.6% of the total respondents disagree, 18.2% are neutral about the statement, 31.2% agree, and 24.7% of them strongly agree with the statement.

From the analysis using Chi square, it has been found that p value (0.005) < 0.05, thus confirming the that there is significant difference among the gender in asking parents’ permission before spending whatever be the amount.

**Regression**

Regression is a method which explains the relationship between the dependent variable and independent variable. The study tries to understand the relationship between the age and decision to manage the money by the respondents through the statements, a. I can decide independently before spending the money on anything, b. I will ask my parents for permission for larger amounts, c. I will decide on my own if the amount involved is small and d. I will ask my parents’ permission before spending whatever be the amount.

The following results have been obtained:

a. I can decide independently before spending the money on anything – Y
   \[ Y = 3.225 - 0.663 \times \text{Age} \]
   The p value < 0.05, indicating that the regression model statistically predicts the outcome variable and it is good fit for the data.

b. I will ask my parents for permission for larger amounts – Y1
   \[ Y1 = 1.308 + 0.499 \times \text{Age} \]
   The p value < 0.05, indicating that the regression model statistically predicts the outcome variable and it is good fit for the data.

c. I will decide on my own if the amount involved is small – Y2
   \[ Y2 = 2.202 - 0.131 \times \text{Age} \]
   The p value > 0.05, indicating that the regression model does not statistically predict the outcome variable.

d. I will ask my parents’ permission before spending whatever be the amount – Y3
   \[ Y3 = 2.301 + 0.278 \times \text{Age} \]
   The p value > 0.05, indicating that the regression model does not statistically predict the outcome variable.

**Factor Analysis**

Factor analysis has been attempted to reduce the variables into 3 factors and thereby making an attempt to understand the predominant variables. Within the
help of SPSS, 3 factors have been identified with Eigen values greater than 1. The variables which have communalities more than 0.5 have been taken for study.

KMO is the test conducted to understand the strength of the correlation, i.e., the factors explaining each other, between the variables. KMO values closer to 1.0 are considered ideal and less than 0.6 indicates that the sampling is not adequate. Bartlett’s test of Sphericity indicates the testing of null hypothesis. The analysis has shown KMO’s value to be 0.784 indicating there is correlation between the variables. Bartlett’s test of Sphericity value 0.000 < 0.05 indicating that the correlation matrix is not identical thus proving the relationship strength among the variables.

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>FACTOR LOADINGS</th>
<th>FACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before buying anything, I carefully consider whether I can afford it or not</td>
<td>.828</td>
<td>Careful Thrift</td>
</tr>
<tr>
<td>I am interested in saving money</td>
<td>.909</td>
<td></td>
</tr>
<tr>
<td>I carefully watch my own money matters</td>
<td>.851</td>
<td></td>
</tr>
<tr>
<td>Saving cash at home or in a wallet</td>
<td>.838</td>
<td></td>
</tr>
<tr>
<td>I am inclined to live for today</td>
<td>.560</td>
<td></td>
</tr>
<tr>
<td>I tend to spend money today rather than saving it for tomorrow</td>
<td>.823</td>
<td>Spend Thrift</td>
</tr>
<tr>
<td>Money is only for spending</td>
<td>.818</td>
<td></td>
</tr>
<tr>
<td>Saving the money in Savings Bank account itself</td>
<td>.590</td>
<td></td>
</tr>
<tr>
<td>Saving the money in accounts like Recurring Deposit etc</td>
<td>.663</td>
<td>Saving Thrift</td>
</tr>
<tr>
<td>Saving the money through family members by giving the money to them</td>
<td>.608</td>
<td></td>
</tr>
<tr>
<td>Investing in Shares, Bonds, etc.</td>
<td>.765</td>
<td></td>
</tr>
<tr>
<td>I have not been actively saving money</td>
<td>.750</td>
<td></td>
</tr>
</tbody>
</table>

3 factors have been identified and named thus:

a. Careful Thrift – One who considers money and money’s value significant before spending
b. Spend Thrift – One who is interested in living for present, and not much bothered about the future
c. Saving Thrift – One who is interested in saving for future and securing one’s life.

**Conclusion**

This study is directed to impart the conclusions about the levels of financial literacy among the college students and found that it ranged to moderate level of knowledge research which showed that financial literacy among Indian youths is quite low as compared to the international standards, which is matter to be concerned and makes a need for awareness about its importance in the life an individual, for his/her family and as whole for the economy. The financial decisions that people have to make vary through the course of their lives, and
thus an attempt has been made by the trust to ensure that access to financial education is readily available at all stages of life.

References