

Financial Literacy among College Students

B Ashok¹, Risika Satnalika², Rishabh Mishra³

¹Assoc.Professor, Xavier Institute of Management and Entrepreneurship, Bangalore, India

^{2,3}Management Student, Xavier Institute of Management and Entrepreneurship, Bangalore, India

Keywords

Budgeting,
financial literacy,
college students
Balance.

Abstract

Balance is the key element in the success of any aspect of life. And similar balance is needed in terms of savings and expenditure. When it comes to the financial aspect of our lives and this balance of savings and expenditure is maintained by “BUDGETING”. Effective financial management strategies are essential for people belonging to every sector but especially for college students. This paper thus aims to analyse the current financial literacy among students and establish the importance of budgeting.

1. Motivation

There was a natural curiosity to research the topic on “Spending habits of college students”, as there are reports that some students are indulging in speculative transactions in both crypto and stock markets. Hence the need to check that these students were knowledgeable about these financial instruments.

2.Literature review on Financial literacy of college students

The word literacy has perhaps evolved beyond its conventional meaning in contemporary times. It is not just understood as one’s ability to read and write, but perhaps a measure of one’s learning or mastery of a thing, an art or a discipline.

A financial literate is therefore not necessarily a graduate or a teacher of finance, but one who is able to make the best use out of money. There are several definitions for financial literacy. Garman and Gappinger, in 2008 defined financial literacy as “knowledge of facts, concepts, principles, and technological tools that are fundamental to being smart about money”(1). However, Mason and Wilson in the year 2000 defined financial literacy as a “meaning-making process” in which individuals use a combination of skills, resources, and contextual knowledge to process information and make decisions with knowledge of the financial consequences of that decision. (2)Financial literacy was defined in the UK by Noctor, Stoney and Stradling in 1992 as ‘the ability to make informed judgments and to take effective decisions regarding the use and management of money (3).

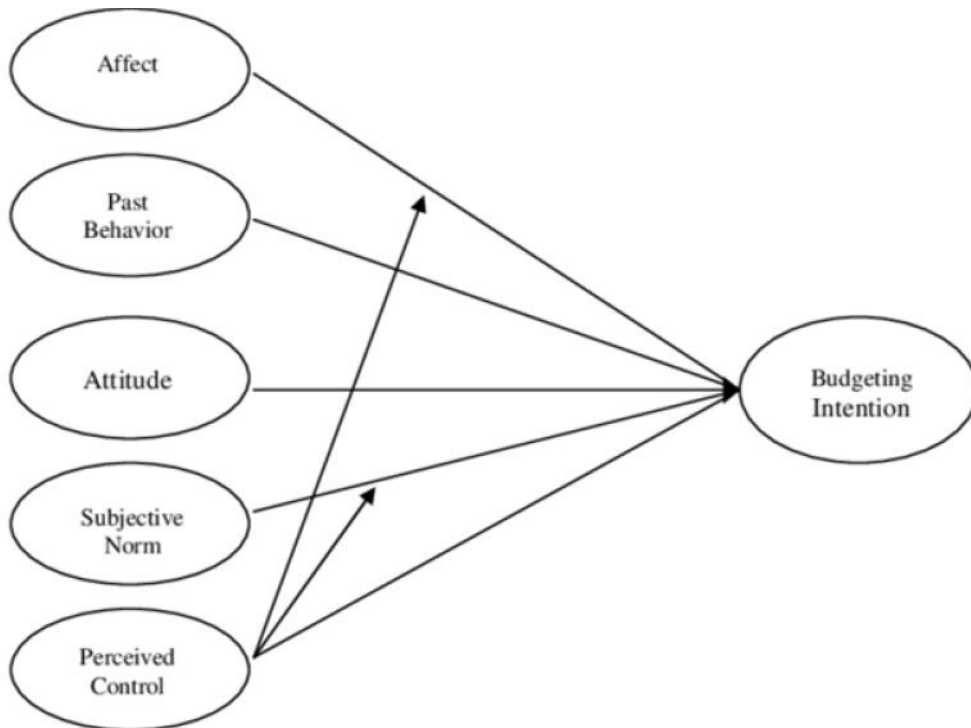
This definition was operationalised by Schagen and Lines in 1996 proposing that a financially literate person would enjoy a range of abilities and attitudes comprising: an understanding of the key concepts central to money management, a working knowledge of financial institutions, systems and services, a range of “analytical and synthetical skills, both general and specific, and attitudes which allow effective and responsible management of financial affairs. The importance of financial literacy has been on the rising with the deregulation of the financial markets and the easier access to credit as financial institutions compete strongly with each other for market share, the rapid growth in development and marketing of financial products, and the government’s encouragement for people to take more responsibility for their retirement incomes.(4)

Lack of sound money management may result in debt for college students (Lea, Webley, &

Walker, 1995; Lunt & Livingstone, 1992; Murdy & Rush, 1995; Ranyard & Craig, 1995; Walker, 1996, for examples). (5,6,7,8). Well, budgeting can lower the likelihood of debt and is linked to one's attitude toward money. Attitudes toward a person's spending habits can be influenced by money and money management. If someone lacks trust in their capacity to keep a budget, there may be justification for not doing so. When compared, a student who felt less in control of their spending may have kept it up to ease their worry.

Without a budget (Blair Kidwell, Robert Turrise, 2004). 83 college students participated in the study have a budget intention which includes budgeting intention model, which consists of a budgeting attitude model and budget intention constructed through planned behaviour and moderation of perceived control (9). All relationships taken by the author are hypothesized in Fig.1.

Fig.1 Model of intention to maintain a financial budget.



There was a natural curiosity to research the topic on "Spending habits of college students", as there are reports that some students are indulging in speculative transactions in both crypto and stock markets. Hence the need to check that these students were knowledgeable about these financial instruments and especially the risks associated with these instruments.

What exactly does it mean to be "financially literate"? The notion has just lately been attempted to be defined by researchers. According to Mason and Wilson (2000), financial literacy is a "process of making money"(2). Individuals evaluate information and choose actions knowing the financial repercussions of their choices by combining skills, resources, and contextual knowledge. What exactly does it mean to be "financially literate"? The notion has just lately been attempted to be defined by researchers. Financial literacy, according to Mason and Wilson (2000), is a "money-making process" that involves people using a variety of skills, resources, and contextual knowledge to process information and make decisions while being aware of the financial repercussions of those choices.

Leila falahatti et al have assessed university students' financial management skills and financial education needs by analyzing their financial management skills on 11 management related items as daily expenses, debt, future needs, time, savings, use of education loan, social interaction, stress, decision making, problem solving and career planning (10). *Allen, & Jover*, described the consistencies in behavioral terms, stating that individuals who are financially literate are: knowledgeable, educated, and informed on the issues of managing money and assets, banking, investments, credit, insurance, and taxes; understand the basic concepts underlying the management of money and assets; and use that knowledge and understanding to plan and implement financial decisions enable themselves and their families to make choices that improve their financial well-being (11). *Furnham*, concludes that people who regularly save money and have savings while also having debts report

feeling more upbeat and in control of their lives than those who have debts but no savings (12). Habitual or regular savers were found to have different psychological motivations than borrowers, viewing debt either as a failure or as a normal part of daily life. *Hayhoe et. al.* reasoned that no studies were discovered that looked at the gender disparities in college students' spending habits or the connection between gender, money management, and financial stress or opinions concerning student debt were investigated (13). *Abraham Asong* looked at how financial socialization, financial knowledge, financial attitude, and socialization agents affect college students' ability to manage their finances.(14).

3. Formulation of the problem:

1. To find the reach of financial literacy among college students.
2. To ascertain if students find financial literacy important.
3. To understand the spending habits of students.
4. To understand the outlook of students on savings and debts.
5. To establish the overall scenario of financial literacy among today's college students.

4. Data collection

A total of 83 students (amongst B-School colleges) responded to the online survey and the response was collected in a form of convenience method. The survey is about the basic demographics and 10 questions that were asked based on 5-point Likert scale with 1=strongly disagree, 2= agree, 3= Neutral, 4= Disagree, 5= Strongly Disagree.

Convenience sampling from college students were taken from 7 colleges using google form questionnaires.

This data was validated by self violating questions and post-interview with the respondents.

5. Research methodology:

To get a better understanding of the present scenario of financial literacy in college students we performed a data collection experiment relevant to the study. Primary sources of data collection were employed to analyze the set research objectives. All 83 MBA students (52 male and 31 female), comprising PG students, and research scholars present in Bangalore City, India, during 2021–22, provided primary data using a closed-ended questionnaire. The first few questions of the questionnaire consisted of questions based on understanding the demography of the respondents consisting of questions related to age, gender, level of study, residential status, working experience, source of allowance etc which helped us understand the basic mindset and condition of the particular respondent. The next set of questions dealt with analyzing how well a respondent has an idea about financial literacy. The primary data (questionnaires) will provide good insight relevant to this research.

6. Research Design

All the validated questionnaire were visualized using Exel chart/graph, from which conclusions were made. No inferential statistic was attempted as the results were clear and evident. The population for this research was students from Xavier’s institute of management and entrepreneurship and other Management Institutions from Bangalore. From initial population size of 100 students, 83 was chosen after validation..This study considered all 83 post graduate students enrolled in finance, marketing, operations, analytics, HR in Bangalore, India.

63% of the respondents were male, whereas 37 % of them were female students. General Management (Finance, Marketing and HR) students were 67.5% of the respondents, whereas Business analytics and Operations were 12% and 20.5% respectively. The majority (78.3%) of the respondents were having income from their parents and the remaining 21.7% percent of them are self financed students. 51.8% of them earned from less than 15,000 per trimester from their pocket money, while the remaining 48.2% got 15000- 30,000.

7. Data analysis:

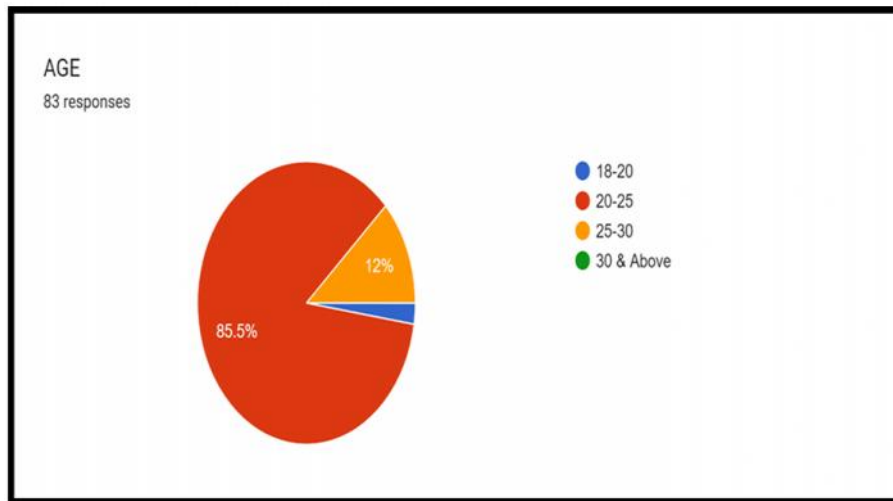


Figure -1 The graph represents that majority of respondents were between the age group of 20-25 years.

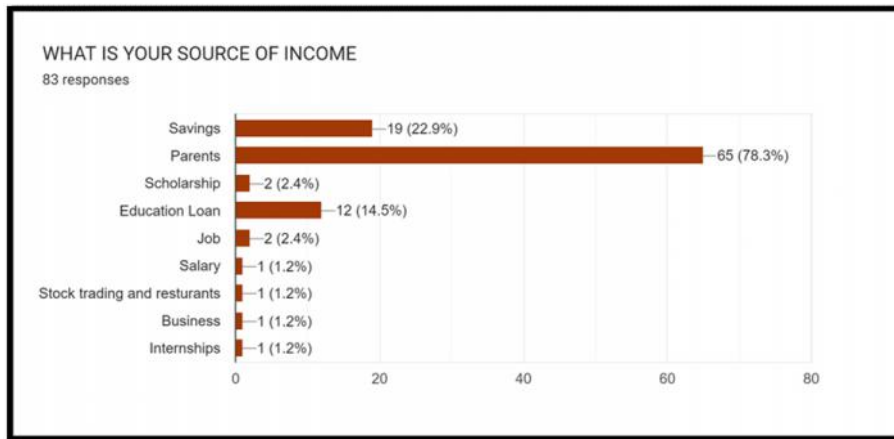


Figure 2: Source of Income (Clear Majority have parental support)

The study then proceeded to analyse what the major source of income was from the respondents which showcased that 78.3% of respondent had their major source of income as their parents while only 22.9% of people had opted for savings

and only 1% of respondents had salary of internships as their source of income which shows lack of independency and more reliability on a fixed source of income.

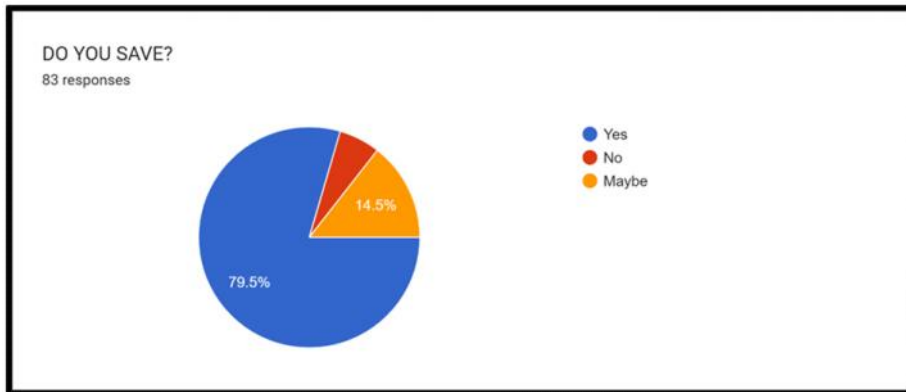


Figure 3: Overwhelming majority wants to save

The study tried to understand the mindset of students and their inclination towards savings

showed a much positive response with 79.5% students inclined towards savings.

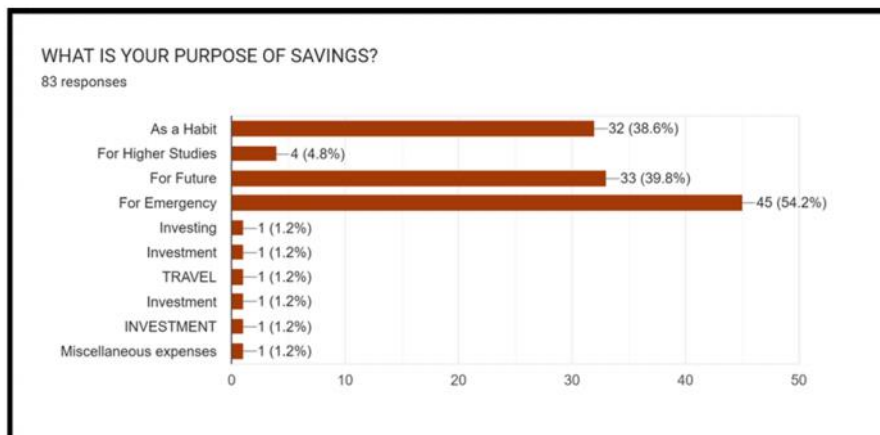


Figure 4: Almost all save either for Emergency, for future or as habit.

The purpose of savings was important to understand as that represents the amount of financial literacy they have in themselves. 54.2% of the respondents had the understanding of emergency fund and that showed their vision

towards future planning. While only 38.6% did it as a habit and only 1.2% did it for investment clearly showing the fear and lack of knowledge in that aspect.

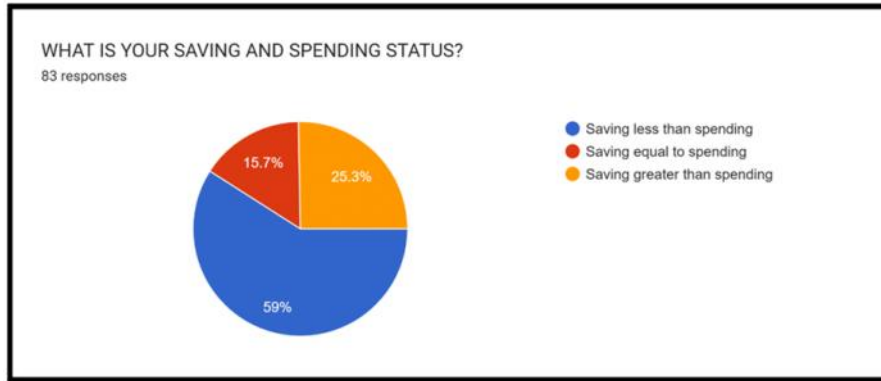


Figure 5: For majority, Savings are lesser than spending

The saving spending status helped us understand that even though students are inclined towards

savings but they are not able to manage their expenditure with respect to savings.

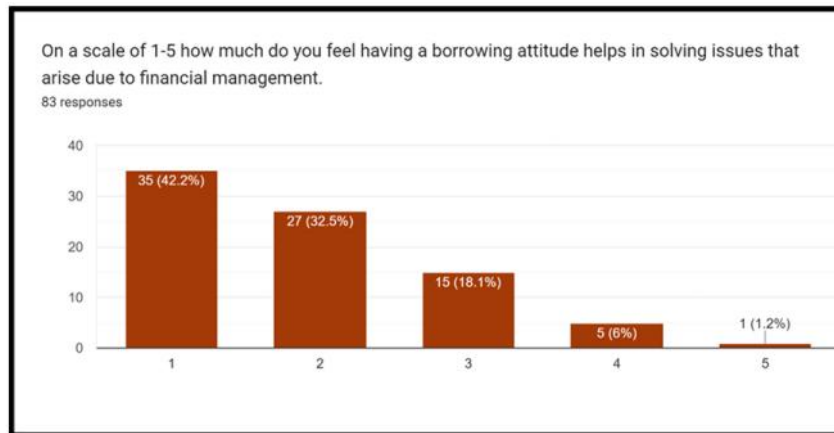


Figure 6: Respondents view that Borrowing helps in financial management

The ease of having a reliable source of income in times of difficulty often leads to a careless attitude towards finances since the fear of being stuck is not there and with the study we

understood that 42.2% of the respondents feel borrowing is an easier alternative while solving problems.

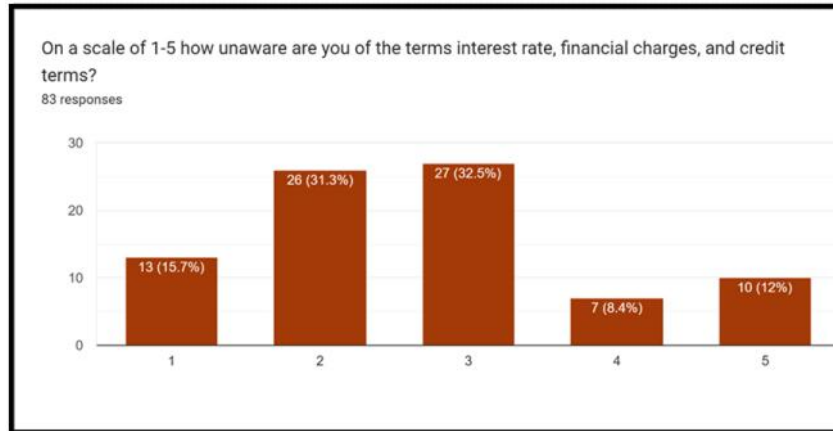


Figure 7: Vast majority are less aware of major credit metrics

Understanding of terms involved in financial literacy is one of the key indications of the status of financial knowledge and according to the study

12% people are highly unaware of any financial literacy terms and only 32.5% people have a basic idea of the terms.

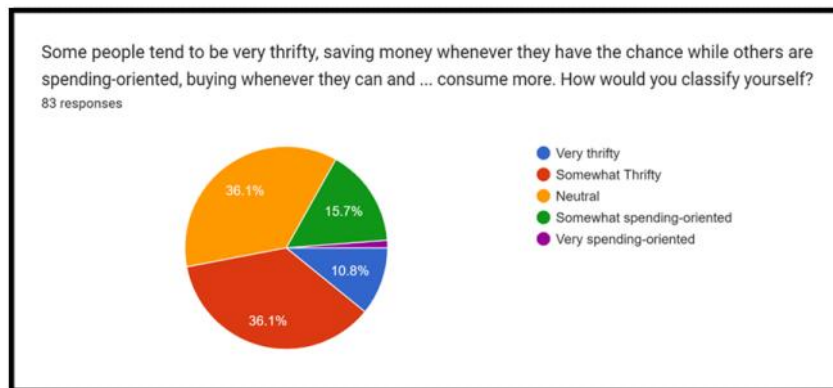


Figure 8: Vast majority are neither thrifty or miserly

Understanding oneself is the toughest challenge and we tried to make the respondents to an analysis on themselves which further revealed that the percentage of students being neutral towards spending and being somewhat thrifty is at an

equal percentage of 36.1% which shows that even though a good majority of people know the balance but there is yet a major chunk of people who are struggling to understand the same.

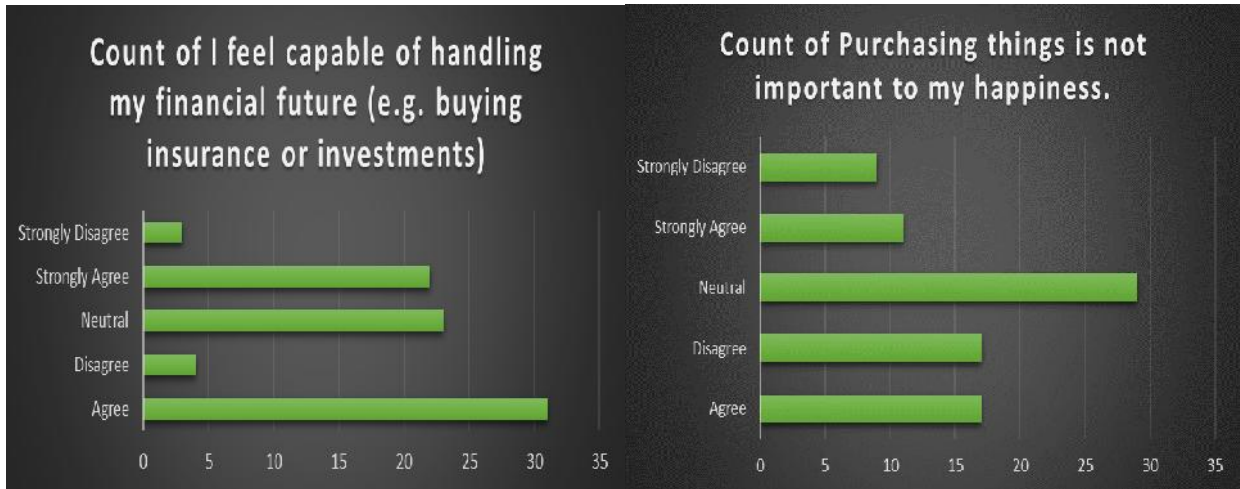


Figure 9: For many, Purchasing is not making them happy and are confident of handling their future
 The above graph represents our study of understanding the control they have on themselves regarding financial decisions thus showing their need of knowledge on financial literacy

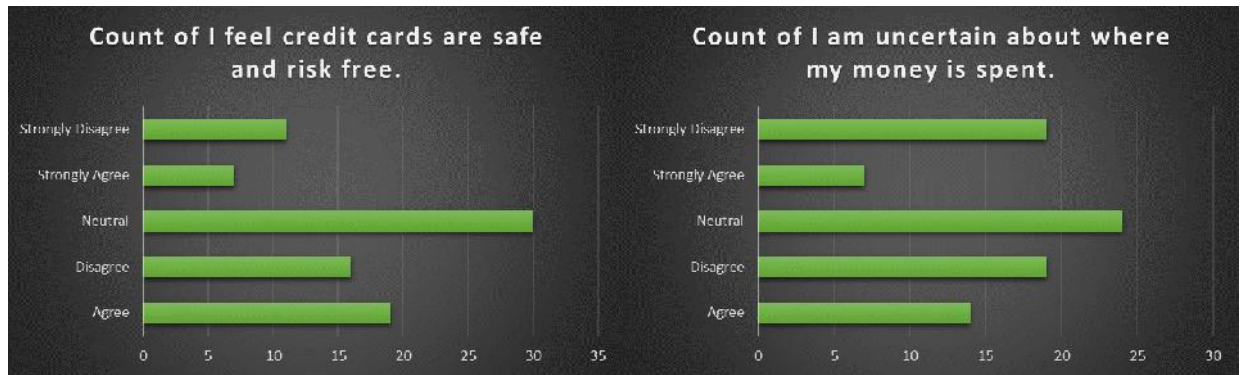


Figure 10: For majority, credit cards are safe
 The graphs represent the understanding of finances by the respondents where majority of respondent disagreed to them being uncertain about their expenditure thus showing a positive understanding of control of finances.

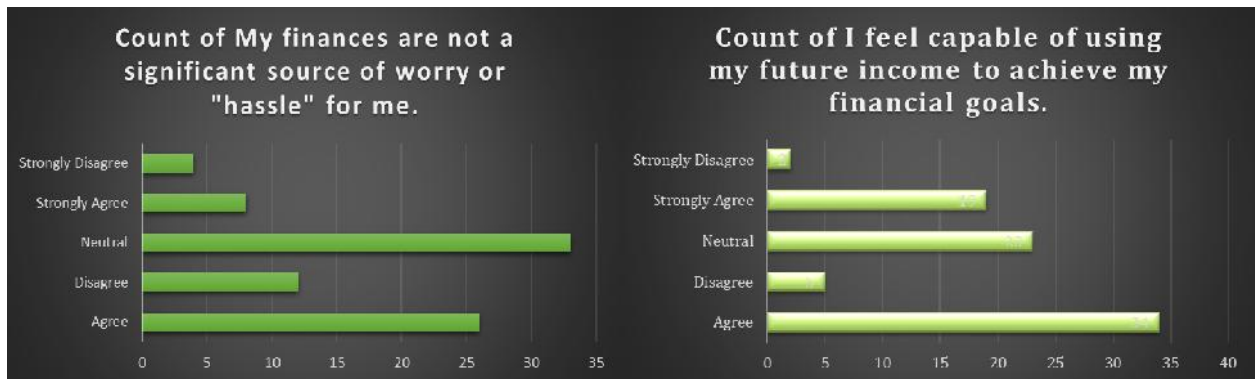


Figure 11: For many Finance is not a source of worry and confident of meeting financial goals

The study showcased how concerned students were with terms of financial security and how confident they feel was the need of financial literacy. Majority of respondents and a neutral

outlook on money being a worry for them in the future however majority of them also were confident to be cable of using income to achieve financial goals thus showing financial literacy.

RATE THE FOLLOWING ITEMS

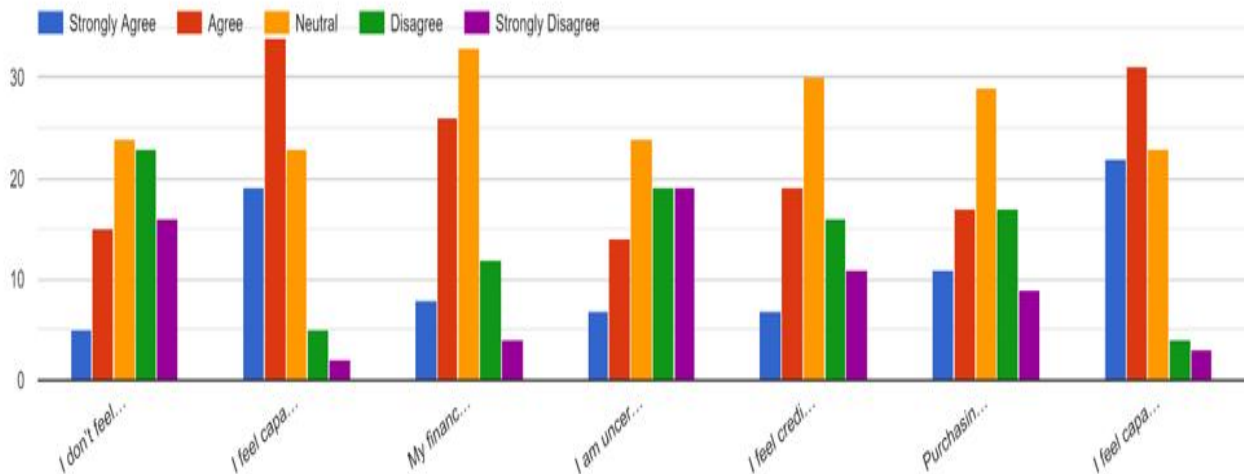


Figure 12: The graph in one glance explains the status of financial literacy among students spread across different aspects and degrees.

8. Conclusion:

In conclusion, this research examines the level of financial literacy among university students in XIME, Bangalore and the findings reveal that students have a low level of financial knowledge. Although care must be taken not to generalize the results beyond this college, the findings indicate the need for financial literacy education. Hence there is a need for students to be informed or educated about various products used by them as credit cards, UPI, Insurance and perhaps some Insurance products.

9. Limitations and Scope for Future work:

A much larger and distributed sample size could have given more convincing results. Perhaps this could be attempted. Many students indulge in trading of very risky instruments as Crypto,

derivatives etc which could be looked from behaviour finance point of view.

References

- 1) Garman, E. T., & Gappinger, A. J. (2008). Delivering financial literacy instruction to adults. Greenwood Village, USA: Heartland Institute of Financial Education.
- 2) MASON, C.L.J. and WILSON, R.M.S., 2000. Conceptualising financial literacy. Occasional Paper, 2000:7. Loughborough: Business School, Loughborough University
- 3) Noctor, M., Stoney, S., & Stradling, R. (1992). *Financial literacy: A discussion of concepts and competences of financial literacy and opportunities for its introduction into young people's learning*. Report prepared for the National Westminster Bank, National Foundation for Education Research, London.

- 4) Schagen, S. and Lines, A. (1996) Financial Literacy in Adult Life: A Report to the Natwest Group Charitable Trust. NFER, 36-45.
- 5) Stephen E.G.Lea1 Paul Webley Catherine M.Walker, Psychological factors in consumer debt: Money management, economic socialization, and credit use, Journal of Economic Psychology, Volume 16, Issue 4, December 1995, Pages 681-701
- 6) Lunt, P. K., & Livingstone, S. M. (1992). Mass consumption and personal identity: Everyday economic experience. Maidenhead, Berkshire, UK: Open University Press.
- 7) Murdy S & Rush C (1995). College students and credit cards. Credit World. 83(5), 13-15.
- 8) Rob Ranyard, Gill Craig, Evaluating and budgeting with installment credit: An interview study, Journal of Economic Psychology, Volume 16, Issue 3, September 1995, Pages 449-467
- 9) Blair Kidwell, Robert Turrisi, An examination of college student money management tendencies, Journal of Economic Psychology 25 (2004) 601–616
- 10) Leila Falahati, Laily Paim et al, Assessment of university students' financial management skills and educational needs, African Journal of Business Management Vol. 5(15), pp. 6085-6091, 4 August, 2011
- 11) Allen, J.A., & Jover, M.A. (1997). Credit card behavior of university students: Ethnic differences. Consumer Interests Annual, 43, 162-170
- 12) Furnham, A. (1999). The saving and spending habits of young people. Journal of economic Psychology, 20(6), 677-697.
- 13) Hayhoe, C. R., Leach, L. J., Turner, P. R., Bruin, M. J., & Lawrence, F. C. (2000). Differences in spending habits and credit use of college students. Journal of Consumer Affairs, 34(1), 113-133
- 14) Abraham Ansong. Level of knowledge in personal finance by university freshmen business students. African Journal of Business Management Vol. 5(22), pp. 9600-9606, 30 September, 2011 (5).

Access this Article in Online	
	Website: www.ijarm.com
	Subject: Finance
Quick Response Code	
DOI: 10.22192/ijamr.2023.10.02.012	

How to cite this article:

B Ashok, Risika Satnalika, Rishabh Mishra. (2023). Financial Literacy among College Students. Int. J. Adv. Multidiscip. Res. 10(2): 105-114.
DOI: <http://dx.doi.org/10.22192/ijamr.2023.10.02.012>