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ASSESSMENT OF FINANCIAL LITERACY LEVELS – A CASE OF FINANCIAL ATTITUDE, BEHAVIOUR AND PARENTAL INFLUENCE AMONG POSTGRADUATE STUDENTS

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Interest in exploring the issues of personal finance, particularly money management has tremendously increased in recent years due to the society's awareness on its importance. Money management skill is a vital element in disciplining the students to achieve a quality life as working adults because students spending habit in campus influence the way they manage money throughout their lives. Financial literacy is imperative to enable students manage their finances and take advantage of investment opportunities. It is against this background that this study assesses the financial literacy of management students.

Key Terms: Personal Finance, Financial literacy

Introduction and Purpose

Categorized as one of the developed countries, India has been ranked at 23rd among 28 countries in financial literacy survey because percentage of society's knowledge on issues such as budgeting, saving, investing and insuring were minimal. Individuals, families, organizations and even counties encounter financial challenges one way (or) another. Financial planning and management in the area of cash management is imperative to the success (or) failure of individuals in achieving their ambitions in life.

College and university students are at a decisive time in their lives as they move from financial dependence to financial independence. For a majority of students, the first year of college is viewed as an important transitional stage in which parental supervision and oversight are reduced and students begin to achieve some degree of financial autonomy. When they go to college, many students are confronted with financial responsibilities such as paying bills, creating a budget, and using credit for the first time in their lives. How well they cope with these challenges depends on the financial knowledge and behaviors they acquired prior to arriving at college (Lyons, Scherpf, & Roberts, 2006). Studies show that people who are more financially literate tend to be better at retirement planning, accumulating wealth, and avoiding debt. In fact, people who develop financial plans tend to be 10 to 15 percent wealthier than those who do not (Palmer, 2008). Finally, a financially literate electorate is more able to understand macroeconomic

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problems and make informed decisions related to fiscal and monetary policies than an electorate that has not undergone financial education (Levin, 2012).

Purpose of the Research

A current national concern is the financial literacy of college students. College students are not receiving the financial knowledge necessary to be successful in today's fast paced economy. Due to an increasingly complex and volatile marketplace college students need greater knowledge about their personal finances and the economy. The financial decisions made early in life create habits difficult to beak that affect student's ability to become financially knowledge though trial and error. Yet this knowledge may not be sufficient for them to become smart consumes in financial market. There are so many books, seminars and institutions that provide information on basic financial management catering to those who want to improve their financial standing. In fact financial institutions are actively promoting their range of services but those who read on the subject matter or seeking for professional advice are normally professionals, semi professionals or those who are familiar with money management. There are no programs or seminars targeting those of children and young adults. As a consequence, the familiarity level on finance among these young groups is very limited except for what they learned though experience, family or even peers.

Various studies and surveys show that financial education has become increasingly important all over the world .In India RBI, NCAER, IRDA, PFRDA are the organization involved in the increasing financial literacy and the mechanism states that one of the top distribution channels for financial education should be classroom. People should be educated on financial matters as early as possible in their lives.

Keeping all these points, this research had three purposes a) to investigate personal financial literacy (Knowledge, attitude and behavior) of a sample of post graduate management students.b) to examine influences of parents and educators on the level of financial literacy of post graduate management students. c) to examine how students financial knowledge and attitude correlated with their financial behavior.

Theoretical Framework

The theoretical framework used for the research is adopted from the family resource management model and system theory. These two models are used to understand the financial management practices of the post graduate management students. Deacon and Firebaugh (1981) developed the family resource management theory as a management process with a systems orientation where management is "the process of using resources to achieve goals" (Goldsmith 2005). The four stages in the family resource management model, as developed by Deacon and Firebaugh explains how people make financial decisions and develop financial behaviors. The stages are inputs, outputs and feedback loop (Figure 1.1). For this the researcher examined only the inputs and throughputs sections of the model and added the environmental influences of parents, schools, media and peers (Figure 1.2). The outputs and feedback sections of the model were beyond the scope of this study.

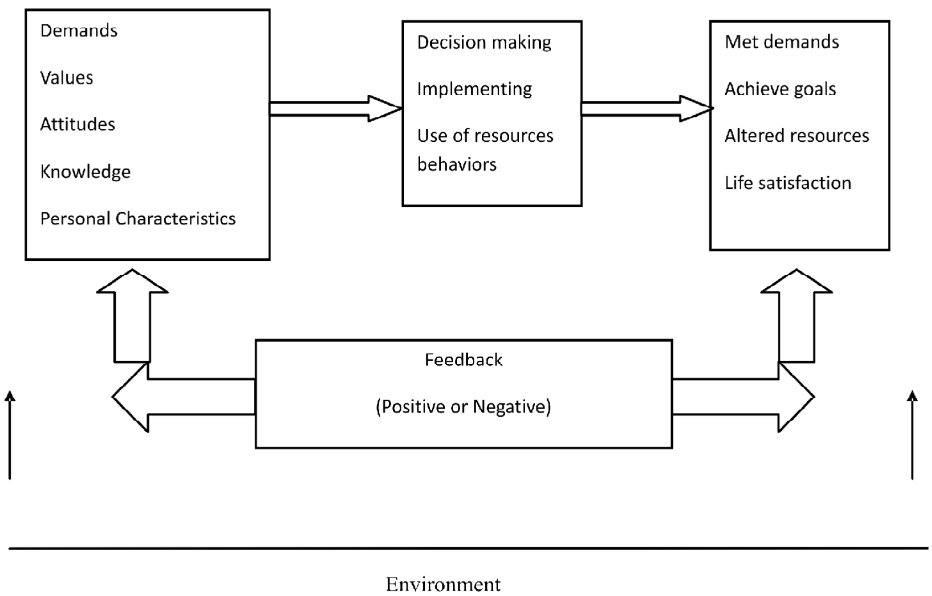

Figure 1.1: Source: Goldsmith 2005

Environment Influences

Social learning theory illustrates how the environmental factors influence university students in shaping them into who they are today. The financial attitudes and values the students have about money come from their environment. As the students learn over the years though social interaction they begin to understand and form their values, knowledge and attitudes about finance. Family, friends, school and media all shape college students knowledge and attitudes over time. This study combines social learning theory and family resource management theory in a way that considers environmental influences that shape where a person currently is with regard to their knowledge, attitudes and personal characteristics. (Figure 1.2).

The focus of this study is the personal financial knowledge, attitudes and behaviors of post graduate management students along with key environmental influences of family, school, peers and media that help shape current status. These

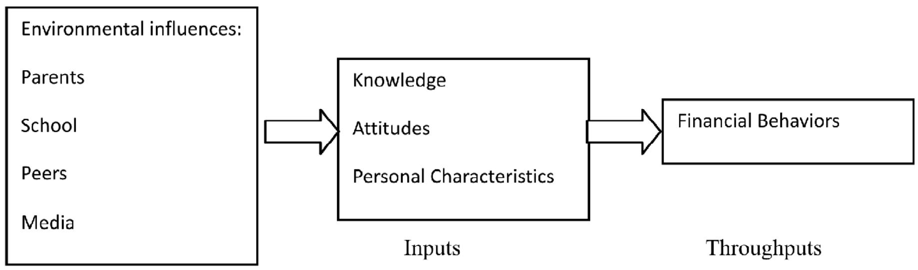

Figure 1.2: Source: Goldsmith 2005

environmental influences are focused on for this study because of the great influence they have on student's personal financial knowledge, attitudes and behaviors. Parents tend to have greater influence on students at a younger age while peer influence as the students becomes older and especially after becoming a college student.

Financial Literacy

Financial literacy refers to *the ability to make informed judgments and to take effective decisions regarding the use and management of money.*

Financial literacy refers to a basic level of knowledge and the tools to manage one's financial affairs and decisions. Lewis Anthes defined financial literacy as" the ability, manage, and communicate about the personal financial conditions that affect material well-being."

Financial Literacy among Students

Hartford Financial Services Group (2007) finds that a majority are concerned about meeting their financial obligations and felt unprepared to meet future financial challenges. Helman and Paladino (2004) suggest that following graduation, college students realize that they are earning on a constant basis and prefer to spend rather than save. A National Council on Economic Education study (2005) find that 53 per cent of students entering college fail a basic quiz on economics and personal finance in the United States. Avard *et al*. (2005) examine college freshmen's basic knowledge of financial issues and conclude that recent high school graduates lack an understanding of everyday financial matters. More importantly, a study by James *et al*. (2002) finds that a lack of financial understanding occurs even when college students have taken business courses stressing the significance of managing and maximizing other peoples' wealth.

Schagen and Lines (1996) identify students in higher education and not living at home as one of the groups susceptible to difficulties with debt and were least confident in dealing with financial affairs. Chen and Volpe (1998) analyze personal finance literacy among 924 students in 14 colleges. Their conclusion was that knowledge of personal finance among US college students was generally poor with the overall mean correct answer score of 53% and none of the mean scores for general financial knowledge, saving, borrowing, insurance or investments was above 65%. Mae (2009) reveals the need to provide undergraduate students with education on personal financial management.

The 'National Employability Report: MBA Graduates 2012' has submitted an annual report in which the financial literacy of MBA student's were analyzed. The report indicates that early and informal financial literacy is an important ingredient for learn ability for those whoso will take up formal education in finance later.

Understanding financial literacy among young people is thus of critical importance for policymakers in several areas; it can aid those who wish to devise effective financial education programs targeted at young people.

Implications for Financial Behavior

Previous research has also found that financial literacy can have important implications for financial behaviour. People with low financial literacy are more likely to have problems with debt (Lusardi and Tufano 2009), less likely to participate in the stock market (Van Rooij *et al.* 2007), less likely to choose mutual funds with lower fees (Hastings and Tejeda-Ashton 2008), less likely to accumulate wealth and manage wealth effectively (Hilgert 2003, Stango and Zinman 2007) and less likely to plan for retirement (Lusardi and Mitchell, 2007). Chen and Volpe (1998) reveal that students with less financial knowledge have more negative opinions about finances and make more incorrect financial decisions. Davidson (2006) therefore reveal the need to provide comprehensive training on financial matters to students from high schools, colleges and universities.

Gaps in Financial Literacy Research

As per a comprehensive survey of over 63,000 Indian households to understand how India earns, spends and saves: Findings broadly confirm the fact that Indian households are in the habit of saving out of household income, and also that they are fundamentally optimistic about their financial future. Yet, for almost a quarter of households across the income spectrum, current income is insufficient for their routine and unusual expenditure, creating a need for a reserve of financial assets for them to fall back upon. The survey points to a tremendous need for enhancement of financial literacy and education of households to do better in achieving lasting financial security.

To improve financial literacy SEBI has initiated a formal education program to the schools, college students and households. All the research studies have been targeted towards households; a specific study on financial literacy of college students is not present. To fill this research gap this research study has been carried out with post graduates management students.

Research Methodology

The study was conducted among the post graduate management students in Coimbatore in the 2012-13 academic year. The sample of 300 students was drawn from the population and the researcher used stratified random sampling technique in selecting the samples. A structured questionnaire was used to obtain data from the respondents. In testing the financial literacy the study relied on a set of questions developed by OECD. The questions were based on financial knowledge of interest on savings and borrowings, returns on investments and diversification, insurance cover and time value of money.

Hypothesis Framed

1. Ho: there is significance difference in financial literacy based on age

In the study of financial literacy, students demonstrated a poor level of financial literacy, these findings is supported by Arnett (2000), Consumer and Financial Literacy (CFL) Treasury Taskforce (2004), Chen & Volpe (1998), Micomonaco (2003), Sherma (2004), and Volpe et al. (1996). The previous authors mentioned there is a positive relationship between age and financial literacy (Chen & Volpe, 1998; Micomonaco, 2003; and Voipe et al., 1996). In this research the hypothesis was framed from the past review as there is significant difference in financial literacy based on age.

2. Ho: there is no significance difference in financial attitude based on gender.

Based on the ANOVA test, there exists a difference in the level of financial attitude between male and female students. (Table 1.3)

3. Ho: there is a significance differences in family influence on gender

Based on the ANOVA test, there exists no difference in the family influence on gender (Table1.3).

4. Ho: there is no significance differences in financial knowledge, attitude and family based on education level of parents.

Based on ANOVA test, difference where found in financial knowledge based on parents educational level.

5. Ho: there exist a correlation between financial literacy with the financial knowledge and attitude.

A Correlation was found between financial literacy and financial attitude. Degree students who had higher financial attitude had higher level of financial literacy. Each variable was correlated at $p<.01$ significant level.

Discussion of Major Findings

Hypothesis	*Accepted/Rejected*	*Significant Level*
H1:there is a significant difference between financial literacy and age	Accepted	0.025
H2: there is significant difference between financial literacy and gender	Rejected	0.352
H3: there is a significance differences in family influence on gender	Rejected	0.361
H4: there exist a correlation between financial literacy with the financial knowledge and attitude.	Accepted	0.006
H5: there is no significance differences in financial knowledge, attitude and family based on education level of parents.	Rejected	0.452

Hypothesis Results:

H1: There is a significant difference in financial literacy based on age.

	Sum of squares	*Df*	*Mean square*	*F*	*Sig.*
Between Groups	4.129	5	.826	2.603	0.025
Within Groups	93.268	294	.317		
Total	97.397	299			

Based on the above table, it show that F statistics is 2.603 and the significance vale is 0.025, which is less than 0.05 at the significance level, so there is a significant difference between the financial literacy level and the respondents' age. Therefore Ho is rejected.

H2: There is significant difference between financial literacy and gender

	Sum of squares	*Df*	*Mean square*	*F*	*Sig.*
Between Groups	0.283	1	.283	.868	.352
Within Groups	97.114	298	.326		
Total	97.397	299			

Based on the above table, it show that F statistics is 0.868 and the significance vale is 0.352, which is less than 0.05 at the significance level, so there is no significant difference between the financial literacy level and the respondents' age. Therefore Ho was accepted .

Conclusion and Policy Implication

Increasing financial literacy is a way to increase empowerment and improve the quality of life. Energy, thought, and time are spent pursuing money and limiting the unnecessary waste of money. Thus, when students gain more knowledge and more positive attitudes toward money, they make better decisions, which save resources and improve their situation. It is against this background that this study sought to determine the level of financial literacy among postgraduate management students and establish the extent to which they apply the financial knowledge they have. The study reveals a low level of financial literacy among the students even though financial literacy among Indians are low. Furthermore, there is a positive relationship between financial knowledge and financial behavior. The policy implication of our study is that parents/families have been found to be an important source of financial literacy. Parents could be educated on personal finance through TV programmes, community workshops and seminars. Creating and distributing flyers and information sheets on how and where to obtain more financial knowledge can be considered. The Government should also consider introducing personal finance into the core curriculum of education institutions to improve the level of financial literacy among students.

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