International Journal of Economic Research

ISSN : 0972-9380

available at http: www.serialsjournals.com

Volume 14 • Number 16 (Part 3) • 2017

Financial Literacy Among Educated Urban Youth: Issues and Challenges (An Empirical Study Among the Educated Youth in Delhi NCR)

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ABSTRACT

When we talk about financial inclusion in India, we generally talk about the supply side of the problem more than its demand side. Although supply side management of the same is a big challenge, financial literacy also needs to boost up so that private contributors make relevant contributions in the process of financial inclusion. Illiteracy is termed as one of the major detriment to financial inclusion but it remains to be seen whether education in India has contributed significantly in this regard. Financial literacy is importantly achieved by the individuals through one or more of these: employer-based, school-based, credit counseling, or community-based. And even though children are under the financial umbrella of their parents, teaching financial literacy to children may have important long-run effects. The present paper brings out the latent dimensions of financial literacy among the undergraduate students belonging to middle and upper classand contributes to the limited evidence. The study entails various dimensions of financial literacy in terms of knowledge and financial attitude and brings out the demographic influences on the same.The study revealed that there are four latent dimensions of financial literacy among the study group that are, knowledge about interest; knowledge about inflation; knowledge about risk and returns and financial planning. Gender did not show any significant association with financial literacy but the household income of the respondents showed some association with their knowledge about risk and return. Regression analysis reveals that there exists a linear relationship between financial planning and other latent dimensions of financial literacy among the study group.

Keywords: Financial literacy, financial decision, EFA, ANOVA, Regression Analysis. JEL Classification: D03, D11, D12, D14

1. CONCEPTUAL BACKGROUND

It is true that financial inclusion is about ensuring that a range of appropriate financial services are available to every individual but the other important aspect is that the individuals understand and access those services. The latter is about the demand side of financial inclusion. Giventhe increased complexity of financial products coupled with an ongoing shift in commitment for providing social security from Government and financial institutions to individuals themselves, it becomes imperative that financial literacy be provided to all. Financial literacy is the process by which investors improve their understanding about financial markets, financial products their concepts and risks involved and also their availability so that they make informed choices for the future with the present money resources available with them.

Financial literacy has been considered as a matter of concern among the adults who are already earning. But it is equally rather more important to develop the concept among the youth who are about to join the stream of earners in near future. Lower literacy rates are considered as a detriment to financial inclusion. At the same time, it is assumed that education would make individuals financially literate. But if we look at the report by MasterCard's Index for financial literacy, 2011, India was among the bottom 16 countries in the Asia Pacific region and it was Japan who fared worse than India. It is interesting to note here that otherwise, the literacy rate of Japan is quite high that is presently about 99%. This wide discrepancy suggests that being literate may not necessarily bring in financial literacy.

1.1. Financial literacy defined

In most simple terms, financial literacy may be defined as the possession of knowledge and understanding of financial matters.

The working definition of OECD INFI 2012, states "Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing".As defined by CRISIL, Financial literacy may be defined as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. It is the first step to financial empowerment.

The present paper is an attempt to understand the various dimensions of financial literacy among the educated youth in the area under study.The participants of the survey are those who have completed their twelve years in school and have spent almost three years in their college. For the purpose, a survey questionnaire was designed on the basis of the constructs used by CRISIL and OECD,and was administered on a sample of the above mentioned target group to assess theirprimary financial knowledge. The time period of data collection wasduring the months of April-June 2015.

2. REVIEW OF LITERATURE

Mitchell et al, (2007) found in their study that financial illiteracy is widespread in developed as well as developing countries of the world.Lusardi, Mitchell et al., found that women over 50 years of age in the 2004 and 2008 Health and Retirement study have shown significantly lower financial literacy than men. Similarly, evidence from Australia shows that women aged 70 years or over have significantly lower mean financial literacy scores than men of the same group, as well as women on average (ANZ Banking Group, 2008). These insights are echoed byqualitative studies such as those undertaken indicate that older women

valuefinancial independence but worry about their ability to retain it as they age.In the United States, low levels of financial knowledge among women have been found in surveys covering younger groups of the population (Lusardi, Mitchell et al., 2009a; Lusardi and Tufano, 2009). Using a sample of 924 US college students, Chen and Volpe (2002) found that male college students performed better than their female counterparts on general financial knowledge, savings and borrowing, and insurance and questions related to investment. In Canada, a 2008 survey on financial knowledge of youth showed that young Canadian women were less likely to stick to their budgets, save and bear sole responsibility for their day-to-day expenses as compared to their male counterparts in the same group. Although they were more likely to own majority financial products such as checking and savings accounts and student loans, they were also found to be more likely to hold credit card debt and report their inability to cover all their expenses in some months (Financial Consumer Agency of Canada, 2008).J. Agnew and L. R. Szykman 2005 found that financialknowledge measures tend to be higher for more-educatedconsumers and lower for lower-incomeconsumers.The study also revealed that,respondents of higher income group had comparatively weaker understanding related to interest and interest rates.D. Moore 2003 suggested that the literature on financial literacy education lacks a strongtheoretical framework. Most studies rely on a "black box"model such that information or counseling is the input andthe expected outcome is a measurable effect on knowledgeand/or behavior. In general, theories of behavioural changein the area of financial education are derived from the healthliterature. All these approaches emphasize that behaviorchange results from a combination of social norms, attitudesand intentions and knowledge gains alone are not sufficient for determining the same. Themodel of behaviour change that underlies this study is basedlargely on Ajzen's Theory of Planned Behavior, 1985.

3. OBJECTIVES OF THE STUDY

The basic purpose of the present study is to find out how prepared our youth is to make financial decisions and how well have we prepared them for the same. The study focuses on the financial literacy levels for the purpose. Further, the present paper makes an attempt to achieve the following concrete objectives as well:

- To study the various dimensions of the financial literacy among the educated youth.
- To study the level of financial literacy among the educated youth in the study area.
- To understand the demographic influences on the various dimensions of financial literacy.
- To develop a regression model for financial planning

4. HYPOTHESIS

The following null hypothesis was used for the purpose.

1. **H0 :** There is no significant influence of demographic variables on the level of financial literacy among the sample under study
2. **H0:** There is no linear relationship between financial planning and the dimensions of financial literacy among the study group

5. RESEARCH METHODOLOGY

A standard set of questions was designed by Lusardi and Mitchell (2008, 2011b, c) to assess the financial knowledge regarding the knowledge of interest, inflation and diversifying risks andthis has been in numerous surveys all over the world. This concept has been used to design the tool in the present study with principles of simplicity and brevity keeping in view its applicability in Indian context. The survey questionnaire was administered among about two hundred students from Delhi NCR during April to July 2015 and the data was then processed and analysed using the SPSS software and the various dimensions of financial literacy were studied. For the purpose,Exploratory Factor Analysis (EFA) was done using SPSS 16 to find the various dimensions of financial literacyamong the study group and thedemographic influences on their levels of financial literacy usingstudent's t-test and ANOVA. Regression analysis was also performed to study the influence of important dimensions on the financial planning approach of the target group.

The value of KMO lies between 0 and 1. Kaiser (1974) suggested accepting values greater than .5. According to Hutcheson and Sofroniou, (1999) KMO values within .5 are .7 are mediocre, .7 and .8 are good, .8 and .9 are great and above .9 it is superb.Barlett's test checks that R matrix is not identity matrix that will lead zero correlation coefficients. For the present data set the Barlett's test has come out to be very highly significant ($p<.001$). Hence factor analysis is recommended to use.

When the check was performed on the data, the KMO came out to be 0.614 (Table 1) and accordingly the researchers proceeded for EFA.

Table 1
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		*.614*
Bartlett's Test of Sphericity	Approx. Chi-Square	138.178
	df	28
	Sig.	.000

Exploratory Factor Analysis: To explore the latent dimensions in the study area, 23 items from the study by CRISIL, OECD and standard set of questions designed by Lusardi and Mitchell (2008, 2011b, c) to assess the financial knowledge regarding the knowledge of interest, inflation and diversifying risks,were taken for the present study. Factor analysis was undertaken in three different steps. 1st the items were dropped through anti-image correlation and variables with values less than .5 were dropped. In the second step items were droppedthrough communality iteratively. At the end, the communalities of all the factors was found to be above 0.5 and the extraction method used for the purpose was Principal Component Analysis (table 2).With the EFA performed, the researchers found four latent dimensions of financial literacy among the respondents in the study area (table 3). The final matrix comprising of four factors emerged witheigen values 1 or more explaining 67.095of total variance (table 3). Using the Principal component analysis as the extraction method and Varimax and Kaiser Normalization the rotation converged into five iterations and four components with two items each were extracted (table 4).Thetable 5 indicates the various dimensions extracted.

Table 2
Communalities

	Initial	*Extraction*
v1	1.000	.526
v3	1.000	.690
v9	1.000	.605
v10	1.000	.722
v16	1.000	.793
v17	1.000	.621
v19	1.000	.716
v20	1.000	.694

Extraction Method: Principal Component Analysis.

Table 3
Total Variance Explained

Component	*Initial Eigenvalues*			*Extraction Sums of Squared Loadings*			*Rotation Sums of Squared Loadings*		
	Total	*% of Variance*	*Cumulative %*	*Total*	*% of Variance*	*Cumulative %*	*Total*	*% of Variance*	*Cumulative %*
1	2.003	25.040	25.040	2.003	25.040	25.040	1.580	19.755	19.755
2	1.252	15.647	40.687	1.252	15.647	40.687	1.304	16.294	36.049
3	1.072	13.403	54.090	1.072	13.403	54.090	1.297	16.214	52.264
4	1.040	13.005	67.095	1.040	13.005	67.095	1.187	14.832	67.095
5	.792	9.899	76.994						
6	.689	8.619	85.613						
7	.666	8.330	93.943						
8	.485	6.057	100.000						

Extraction Method: Principal Component Analysis.

Table 4
Rotated Component Matrix[a]

	Component			
	1	2	3	4
v20	.825			
v19	.821			
v3		.818		
v1		.703		
v10			.838	
v9			.704	
v16				.861
v17				.636

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 5 iterations.

Table 5
The four dimensions extracted

S.No.	*Component*	*Dimensions*
1.	Component 1: Knowledge about Inflation	1. Inflation and interest rates 2. Inflation and rise in prices
2.	Component 2: Knowledge about Interest	1. Earning interest using simple interest 2. Earning interest using compound interest
3.	Component 3: Knowledge about risk and return	1. Buying funds that counter inflation 2. Planning for rainy days early on
4.	Component 4: Financial Planning	1. Buying insurance plan early on 2. Planning for future and emergency situations

6. RESULTS AND DISCUSSIONS

6.1. Dimensions of financial literacy

The descriptive study indicates that the dimension of financial planning has come out to be the strongest for the study group which shows the positive attitude of these towards financial planning. At the same time, it is also found that knowledge regarding interest is another major dimension of financial literacy followed by the dimension of knowledge regarding risk and return and inflation (table 6).

Table 6
Descriptive Statistics

	N	*Mean*	*Std. Deviation*
finplanning	200	3.9350	.82716
inflation	200	3.5400	.87161
interest	200	3.8275	.86326
risknreturn	200	3.6725	.75787
Valid N (listwise)	200		

6.2. Demographic association

It is very typical of the target group undertaken that on studying the demographic association it was found that gender does not have any association with the various dimensions proving the null hypothesis. This means that the financial literacy is not found to vary with gender. This is in contrast to the studies conducted by Chen and Volpe (2002) who found that male college students performed better than their female counterparts on general financial knowledge and a study by Lusardi, Mitchell et al.(2004, 2008), who found that women over 50 years of age showed significantly lower financial literacy than men. This came out to besoprobably because the target population in the present study is the youth pursuing similar undergraduate professional programmes (table 7).

Table 7
ANOVA: Association withGender

		Sum of Squares	*df*	*Mean Square*	*F*	*Sig.*
Finplanning	Between Groups	.229	1	.229	.334	.564
	Within Groups	135.926	198	.686		
	Total	136.155	199			
Inflation	Between Groups	.460	1	.460	.605	.438
	Within Groups	150.720	198	.761		
	Total	151.180	199			
Interest	Between Groups	.659	1	.659	.883	.348
	Within Groups	147.640	198	.746		
	Total	148.299	199			
Risknreturn	Between Groups	.487	1	.487	.848	.358
	Within Groups	113.812	198	.575		
	Total	114.299	199			

As far as the demographic association with income group is concerned, the financial literacy is found to vary with the household income of the respondents. Further, income group to which the respondents belonged are found to have an association with the various dimensions of financial literacy importantly on the dimension of financial planning (table 8).

Table 8
ANOVA: Association with Income groups

		Sum of Squares	*df*	*Mean Square*	*F*	*Sig.*
Finplanning	Between Groups	4.986	3	1.662	2.483	.062
	Within Groups	131.169	196	.669		
	Total	136.155	199			
Inflation	Between Groups	1.923	3	.641	.842	.473
	Within Groups	149.257	196	.762		
	Total	151.180	199			
Interest	Between Groups	2.450	3	.817	1.097	.351
	Within Groups	145.849	196	.744		
	Total	148.299	199			
Risknreturn	Between Groups	5.894	3	1.965	3.552	.015
	Within Groups	108.405	196	.553		
	Total	114.299	199			

6.3. Regression Analysis

Researchers proceeded further to conduct the regression analysis taking financial planning as a dependent variable, and knowledge about risk and return, interest and inflation as independent variables.(Table 9)

The value of R square has been found to be 0.112 which indicates that around 11.2% variations in financial planning are being explained by these latent dimensions of financial literacy.

Table 11 indicates that the beta coefficients are positive and significant and therefore it can be said that there is a linear relation between the financial planning and the dependent variables and also the significant value of F (=8.231) (Table 10) rejects the null hypothesis that there is no linear relationship between financial planning and the dimensions of financial literacy.

Table 9
Model Summary between Financial Planning and other latent dimensions

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.334a	.112	.098	.78555

a. Predictors: (Constant), risknreturn, interest, inflation

Table 10
ANOVAb

Model		*Sum of Squares*	*Df*	*Mean Square*	*F*	*Sig.*
1	Regression	15.204	3	5.068	8.213	.000a
	Residual	120.951	196	.617		
	Total	136.155	199			

a. Predictors: (Constant), risknreturn, interest, inflation
b. Dependent Variable: finplanning

Table 11
Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	2.074	.392		5.296	.000
	Inflation	.075	.065	.079	1.149	.252
	Interest	.223	.065	.232	3.427	.001
	Risknreturn	.203	.075	.186	2.706	.007

7. DISCUSSION

The four latent dimensions of financial literacy as determined from the study suggest the aspects or dimensions of financial literacy among the study group. There is definitely a need to develop ways in which financial literacy of the educated youth can be improved that would not only increase their knowledge but would develop their right attitude towards financial planning. Understanding the challenges in developing financial literacy among the masses is in itself a challenge and without this the herculean task cannot be accomplished. Leaving the educated and literate out of the ambit of financial literacy programme would probably not be the right approach unless and until special training is provided to the students in this regard. Financial literacy is not just about knowing but is also about implementing and having the right attitude towards the financial planning. As far as gender is concerned, there may not be significant difference in knowledge but is likely to be in financial behaviour and attitude in the long run. Study by 'Financial Consumer Agency of Canada, (2008).The study revealed respondents belonging to higher household income possess significantly higher level of financial literacy.

Further, the regression analysis results show that financial planning approach of the respondents is based more upon the inflation and risk and return and explains just about 9.8% of the influence indicating influence of other independent variables on financial planning. There is a need to understand this gap in terms of financial planning which should be more dependent upon the financial factors rather than other socio-cultural factors.

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