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Assessment of Rural Household Financial Literacy in Tamilnadu

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ABSTRACT

Financial literacy skill is a vital element in the discipline to achieve a quality of life as rural household India. It is an effective way to managing the money. Each person has own spending, savings, investment and borrowings which will involve financial problems. Financial literacy is one of the ways for solving the financial problems. This paper investigates the relationship between financial literacy and socio-demographic variables. Data were randomly collected from 92 rural household respondent in Tamilnadu province. The research found that age, gender, and level of the study were positively related to financial literacy. Even though income were not significantly correlated with financial literacy. Moreover, financial illiteracy also affect money management skill, saving long term goal, investment skill and retirement plan for the future.

Keywords: Financial literacy, socio-demographic variables, Rural household, TamilNadu.

1. INTRODUCTION

Financial literacy is a challenge in rural household people and remote population in India also it plays a key role in an economic prospect. In India, many poor people do not have a bank account and only a few of them understood the concept of financial literacy. Poverty reduction and financial literacy have been economic development initiatives of the central government of India. Economic growth of India was high and one of the fastest growing economies in the world, still financial literacy is low comparing the other countries. In master card survey (2013) report shows that overall financial literacy index rate India was 59 points lower comparing other countries.

Financial knowledge means the ability to deal with everyday financial matters and make the right choice in spending, borrowing, budgeting, savings and investment decisions. Financial literacy is an ability to make an informed choice and to take effective action regarding the money (Basu 2005:2). Financial

literacy is the ability to understand money and how to manage it, so that person can make better financial decisions (US Department of Treasury). Low and moderate income families lack the basic knowledge to save, many families spend beyond their means few of them save enough for contingencies (Elizabeth bell and Robert I.lerman 2005).

Financial literacy makes assessing individuals financial position reasonable, understanding economic situation and being low stressful and worried financial issue (Harsha Jariwala & Dr. Mahendra Sharma 2011)

Scope for the Study

Unfortunately, more research studies report shows that the level of personal financial knowledge in the developing countries was substantially below the level that would be desirable. There was look as if to be a serious lack of understanding concepts like investing in home mortgages. Because of the low level of financial literacy in our society, there are some efforts need to enhance financial literacy. Financial literacy being recognizance as important to our society, it is reasonable to inquire about the financial literacy among rural household India.

2. REVIEW OF LITERATURE

A large number of studies attempt to exhibit how certain factors have an effect of financial literacy. Several of these studied focus on common financial literacy and other studies focus specifically on knowledge related to investing, borrowing, money management and another factor of personal finance.

According to Andrew C. worthington (2006): Was study found that the financial literacy was highest for persons aged between 50 to 60 years, professionals, business people, farm owners and college /university graduates. As well as financial literacy were lowest for the unemployed persons, females, and those who no-English speaking background with a low level of education.

Bruce Ian Carlin and David T. Robinson (2010): The study explores how financial education changes savings, investment and consumer behavior. They measure the effect of a financial literacy program for students, they were asked to create house hold budget for theses roles. The students who got experienced training were better making cost benefit and trade off decisions. It was very important the students who have attended training program showed the greater up enchanting of decision support that were offered by the park. This were showed that decision support and financial literacy training were complements not substitute.

Annamaria Lusardi (2011): The delved into that the majority of Americans do not plan for predictable events such as a children's college education or retirement. Also, she found that people not perform make provisions for unexpected events and emergencies. Moreover, the population carrying a large portion of the debt. More than one of five Americans have used alternative borrowing methods. Also, the study found that majority of Americans lack in basic numeracy, inflation, risk diversification and the relationship between asset price and interest rate.

Annamaria Lusardi et. al., (2009): Examined that financial literacy was low among young individuals. Only one-third of young adult's posse's basic knowledge of inflation ,interest rate, and risk diversification.

Financial literacy were strongly related to family sophistication and socio-demographic characteristics. Furthermore, the college educated male parents have stocks and retirement savings more likely to know about risk diversification than female parents with less than high school educated those parents were not wealthy.

Leora F. klapper et. al., (2012): The paper demonstrates that the importance of financial literacy and it's on behavior. The paper studied both the financial consequences and real consequences of financial literacy. The authors found that in Russia only 41% of respondent understand interest compounding and 46% answer about inflation. Moreover individuals with higher financial literacy more likely to report having greater availability of unspent income and higher spending capacity.

Annamaria Lusardi (2008): The paper shows that financial illiteracy was widespread among the US population and particularly specific demographic group such as a those who with low education, women, African –Americans and Hispanic. Most importantly half of older workers do not know which type of pension they have and a large majority of workers know about the rules governing social security benefit. Low financial literacy and lack of information affect ability to save and secure a comfortable retirement. Ignorance of financial concepts was linked to lack of retirement planning and wealth.

Lusardi and S. Mitchell (2011): A new international research found that financial illiteracy was widespread in Germany, Netherland, Sweden, Japan, Italy, Newzeland, and the US but in Russia was changing rapidly. Across those countries shows that older population are less informed than average. Also, the study found that women are less financially literate than men. More educated people are more financially literate. Moreover, financial knowledgeable persons are likely to plan for retirement. Approximately all over the world financial literacy were critical to retirement security.

Ravikumar et. al., (2013): The study were conducted financial literacy among 200 jasmine farmer in Tamilnadu province. The study revealed that age, education, income, relationship with the bank, bank visit and bank account and size of landholding were positively correlated to financial literacy. The farmers with higher income, higher educational status and maintain long years of relationship with the bank have higher financial literacy. The farmers those who received financial management training program had higher financial literacy.

Michale E. Hanna et. al., (2010): Studies explore that financial literacy of 278 students in several schools of the metropolitan university. The evaluation were completed in terms of the student's overall knowledge of personal financial matters and their knowledge in selected areas of personal finance. The research explored that the level of financial literacy were low in all of the schools studied but that there were significant differences in the level of financial literacy between the students in the various schools.

Carlo de Bassa (2013): The study demonstrate of financial literacy and financial behavior of 4500 young adults. The information showed that most of the young adults lack basic financial knowledge. Furthermore, Financial literacy were low among certain demographic groups, for example women, minorities, and lower income or less educated people. However, a high level of education were not a guaranteed of financial Literacy. Also, the result shows that the respondents who displayed higher financial literacy have better financial outcomes likely less use of high-cost borrowing methods and they are more likely to plan for emergencies as well as plan for retirement.

Objective of the Study

1. To analyze the relationship between financial literacy and socio-demographic variables among rural household.

3. HYPOTHESIS OF THE STUDY

H1: There is significant relationship between age and financial literacy

H2: There is significant relationship between education and financial literacy

H3: There is significant relationship between occupation and financial literacy

H4: There is significant relationship between income and financial literacy

4. METHOD

Sample and Procedure

The main objective of the study analyzed relationship between financial literacy and demographic-economic factors among the rural household population. Chi-square test was undertaken to meet this objective of the study. This model explicit how independent variables significantly relationship with financial literacy. The sample size of 92 respondents was randomly selected from the state of Tamilnadu in India.

The sampling was done using stratified multi stage sampling technique to ensure that socio-demographic considered were represented in the population. A survey methodology was adopted with the design of Multiple choice questionnaires to capture the relevant information from the respondent.

To measure the financial literacy level, Annamari Lusardi questionnaire was used in order to measure financial literacy of the rural household population. The question was asked to test respondent knowledge on basic financial concepts such as simple interest, compound interest, inflation, Time discounting, Money value and Risk diversification. This questionnaire considered the most important financial knowledge factors in the measurement of financial literacy. Multiple choice questions were used in the questionnaire so that the score represents 1 for the correct answer and 0 indicates for the wrong answer. Based on the total score obtained the respondent segregate based on the level of knowledge on financial literacy with score low of 1 to 2, 3 to 4 as medium and 5 to 6 as high.

5. FINDINGS AND DISCUSSION

Table 1 shows that information about the respondents' background. The age distribution of respondents comprised equally were 41-50 (28.3%) and above 50 years of age was 24(26.1%) was the maximum. Gender of the respondents also distributed equally. only 44% of respondents were completed schoolings. Similarly, the percentage of respondents who receive income less than one lakh was 41.3%. Mean while the highest 44.6% of respondents who received an annual income between 1lakh to 3 lakh. The total of respondents 17% were employed in the organized sector and remaining 82% of respondent were an unorganized sector.

Table 1
Demographic and socio-economic Status of the respondent

<i>Item</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Age</i>		
20-30	20	21.7
31-40	22	23.9
41-50	26	28.3
Above 50	24	26.1
<i>Gender</i>		
Male	46	50
Female	46	50
<i>Education</i>		
Elementary	24	26.1
Senior Secondary	44	47.1
Graduation and above	24	26.1
<i>Income</i>		
>1 lakh	38	41.3
1 lakh – 3 lakh	41	44.6
Above 3 lakh	13	14.1
<i>Occupation</i>		
Organized sector	16	17
Unorganized Sector	76	82
<i>Financial literacy</i>		
Low level	43	46.7
Moderate Level	43	46.7
High level	6	6.5

The Relationship between Financial Literacy and Socio-demographic Profile of the Respondents

There is a relationship between the socio-demographic profile of the respondents and their knowledge on financial literacy were tested. Using a chi-square test to find out whether there is a significant relationship between these variables.

Table 2
Relationship between financial literacy and socio-demographic profile of the respondents

<i>Variable</i>	<i>Number of Respondents</i>	χ^2	<i>sig</i>	<i>H1</i>
Age	92	9.832	0.041*	Accepted
Gender	92	13.153	0.001**	Accepted
Education	92	27.210	0.001**	Accepted
Occupation	92	8.406	0.014*	Accepted
Income	92	9.098	0.059	Rejected

*Significant at 5% level; ** Significant at 1% level; χ^2 -chi-square value; Sig-significance. H1-Alternate Hypothesis.

Financial literacy is strongly related to socio-demographic characteristics and family sophistication (Annamaria Lusardi et. all, 2009). Financial knowledge of the respondent with age carry out the difference in the association. The chi-square value computed for the respondents (9.832) was found to be a significant relationship between age and financial knowledge of the respondent.

Similarly, women had very low level of financial literacy comparing the men (Annamaria Lusardi and Olivia S. Mitchell (2008). From the above table inferred that the hypothesis (H1) was accepted (0.001) implying that there is a significant relationship between gender and financial literacy of respondent. The education and occupation attainment is measured to be an imperative socio-demographic variable as it would influence the ability to make a decision. The person who holds high educational degrees has higher financial literacy level than others (Mandel, 2008; Agnew et. al., 2013). From the above table found that the accepted alternate hypothesis ($p=0.001$ and $p=0.014$) which shows that level of education and occupation have a relationship with financial literacy. A Higher level of education has higher level of financial knowledge. Inversely income has no relationship between financial literacy. From that table found value 0.059, it shows that rejecting of alternate hypothesis there is no difference between income and financial literacy.

6. CONCLUSION

The findings of this research show that socio-demographic variables are highly positively related towards the financial literacy. A finding shows that the age above 50 years is low in financial knowledge because of low awareness of financial literacy as compared to the younger age group people. The female was the one who manages the entire family, the female financial knowledge also lows compared to male. There is no exposure for female compared to male.

Also, less participating in household financial decision making and property holding, male dominating society is one of the reasons for the low level of financial literacy in India. Culture is playing very important role in getting financial knowledge. However, female financial knowledge is low compared to the men (Hung, A., J. Yoong and E. Brown 2012). Education level who studied elementary and secondary level low level in financial literacy compared to those who have completed the graduation level.

A Higher level of education leads to good in financial literacy (Zamih R 2013). Moreover, income level does not significantly related to financial literacy. But it was mostly influenced to financial literacy. The lower level income persons are those who go for daily labors and farmers mostly, these people who are not or less participating in financial markets. This evidence supports of the Annamaria Lusardi and Mitchell 2007.

This study result reveals that Low level of financial literacy leads to poor in financial behavior such as money management, investment and borrowing skill of rural household individuals

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