Assessing the Role of Financial Literacy in Enhancing Personal Financial Decision-Making among Students

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Abstract

As students develop long-term financial habits, financial literacy has been increasingly recognised as an essential skill for effective personal financial management. The objective of this research is to assess the impact of financial literacy on improving personal financial decision-making of students. Efficient money management is facilitated by the basic understanding of financial concepts which includes budgeting, saving, investing and managing debt. Financially literate students tend to make informed decisions in the allocation of their resources effectively to meet short-term and long-term goals. The study emphasises the importance of incorporating thorough financial literacy programmes into the university curriculum to equip students with vital skills necessary for prudent financial handling. Personal financial management is essential for students as it lays the foundation for their financial well-being both during their academic years and beyond. The need for financial literacy education among students is further underscored by broader economic benefits such as increased savings rates, lower debt levels and improved economic stability. The research explores obstacles in acquiring financial literacy such as socio-economic limitations, lack of practical financial experience and limited access to financial education resources. The data for the analysis was collected through a questionnaire from 100 respondents using a convenience sampling technique to evaluate how financial literacy helps students make better financial decisions.

Keywords: Budgeting, Financial Literacy, Investment, Personal Financial Management, Saving

Introduction

In the contemporary world, having an adequate knowledge of finance has become essential for managing one's finances. The significance of financial literacy among students cannot be overstated, as a strong financial literacy base not only helps the students maintain their finances but also supports the expansion and stability of the economy as a whole. Furthermore, financial literacy fosters a sense of financial responsibility and discipline, encouraging students to adopt sound financial practices in early life.

Financial literacy and personal financial management are interconnected skills essential for students to

Table 1. Financial Literacy and Personal Financial Management with Outcome Chart

FINANCIAL LITERACY COMPONENT	PERSONAL FINANCIAL MANAGEMENT PRACTICE	OUTCOME
1) Budgeting	Creating and sticking to a budget.	Better control of expenses.
2) Savings	Allocating funds for savings.	Financial security and emergency fund.
3) Investing	Making informed investment decisions.	Wealth growth over time.
4) Credit management	Informed decision-making on the inclusion of debt.	Good control over lowering debt.
5) Financial planning	Setting and achieving financial goals.	Long-term financial stability.
6) Risk management	Choosing appropriate insurance.	Protection against financial loss.

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effectively deal with complex financial systems of the modern world. The benefits of investing in financial literacy education are substantial, which results in generating modern financial management skills. Becker (1975), suggests that investment in education and training enhances an individual's skills and productivity, leading to better economic outcomes. Hence, financial literacy can be perceived as an element of human capital that boosts student's capacity to make informed personal financial decisions. In addition to the above, Financial Socialisation Theory (2011) is another crucial theory proposed by Clinton G. Gudmunson and Sharon M. Danes (2011). The theory posits the role of social interactions and experiences in shaping financial behaviour and attitude wherein individuals acquire financial knowledge, skills, and behaviour through interactions with family, peers, educational institutions and media. Thus, enhancing financial literacy among students through education can hasten the process of financial socialisation and provide students with the knowledge and skills for effective personal financial management.

Technology is another essential component of personal financial management and financial literacy, as technology continues to transform financial services and education. It is crucial to understand the role of digital resources which can enhance financial literacy and further influence personal financial management among students.

Review of Literature

Raras Risia Yogasnumurthi, Isfenti Sadalia and Nisrul Irawati (2021)

The research reveals the significant relationship between financial attitude, financial knowledge and personal financial management among students through their studies**.** The study involved the collection of data through surveys, questionnaires or interviews by using a purposive sampling technique. While the study highlights the significant impact of financial attitudes and knowledge on personal financial management among college students, it does not specifically address the association between financial behaviour and practical financial skills which presents a notable gap. Understanding how financial behaviour correlates with practical financial skills among students possess in managing their finances could provide deeper insights into their overall financial literacy.

Mohammad Ridwan, Gugum Mukdas Sudarjha and Gunardi A. (2017)

The research highlights the level of financial literacy among undergraduate students to investigate the factors influencing financial literacy in their study**.** The data was collected through the use of a questionnaire, descriptive analysis and multinominal logit tests. The study highlights the current low levels of financial literacy among students and identifies various influencing factors. However, it does not specifically address how structured and ongoing regular financial education could impact literacy levels and practical financial skills.

Sulaeman Rahman Nidar and Sandi Bestari (2012)

The research aims to assess the personal financial literacy level among Padjadjaran University students and the factors influencing their financial knowledge through their study**.** The data was collected through a questionnaire among 400 students. The findings of the research revealed the various factors influencing personal financial literacy. Though the existing research acknowledges the importance of financial education there is limited research related to identifying various methods and strategies that enhance students financial literacy and personal financial skills.

Dan Yates and Chris Ward (2011)

The research investigates the transfer of financial knowledge from high school to college to adulthood to analyse the effectiveness of financial education at different education levels in their study. The research involved analysing survey data and highlighted the need for comprehensive assessment tools and resources to improve financial literacy at all levels. Although the study has documented the overall lack of financial literacy and the need for improved education, they often do not delve deeply into the specific barriers that individuals face in managing their finances effectively.

Objectives of the Study

a) To assess the impact of financial literacy on student's financial behaviour.

b) To understand the role of financial resources in enhancing financial decision-making.

Research Methodology

The research is descriptive and the data was collected by primary sources of study and the Convenience Sampling Method. The measure of the number of individual samples used in the study was limited to 100 respondents only. Primary data was digitally collected by circulating questionnaires through Google Forms. Secondary data was collected from various research

papers and websites which provide information related to financial literacy and personal financial management. Chi-square test: A chi-square test is a test used to measure the difference between observed results with the expected results. This test is primarily used to examine whether two categorical variables are independent in influencing the test statistic. The Chi-Square test was used in this study to assess whether there is a significant association between two categorical variables.

Research Hypothesis

1) H0: There is no association between financial behaviour and practical financial skills.
   - H1: There is an association between financial behaviour and practical financial skills.
2) H0: The proportion of students experiencing financial difficulties is the same across different levels of regular financial education.
   - H2: The proportion of students experiencing financial difficulties is decreasing as the level of regular financial education increases.
3) H0: The proportion of students who find learning financial theoretical concepts in the classroom is beneficial as same as those who find combining classroom learning with practical experience is beneficial.
   - H3: The proportion of students who find combining classroom learning with practical experiences beneficial is higher than those who find learning financial concepts in the classroom beneficial.

Data Analysis and Interpretation

The above data represents insights where the study predominantly captures younger demographics, with a strong representation of students in their twenties, particularly in the field of commerce and management as in the table 1.

Hypothesis Testing Using Python 3.11

Null hypothesis (H0): There is no association between financial behaviour and practical financial skills.

If P < alpha: Reject null hypothesis – There is no association between financial behaviour and practical financial skills.

- Chi-Square Statistic: 10.4994483
- P-Value: 0.3115835
- Degree of Freedom: 9
- Alpha: 0.05
- P < alpha = 0.311 > 0.05

The Chi-Square test yielded a Chi-Square statistics of X with a corresponding p-value of Y. With a significant level set at alpha = 0.05 and degrees of freedom Z, it fails to reject the null hypothesis. Therefore, based on the data there is no statistically significant association

Table 2. Demographic Profile of the Respondents

SL.NO	STATEMENT	RESPONSES				
01	Age	Range(years)	18-20	20-30	30 and above	Total
		No. of responses.	30	70	0	100
		%	30	70	0	100
02	Gender	Male	Number	55	%	55
		Female	Number	45	%	45
03	Education	Level	UG	PG		
		No. of responses.	54	46		100
		%	**54**	**46**		**100**
04	**Field of study.**	**Streams**	**Commerce**	**Arts**	**Management**	
		No. of responses	**45**	**17**	**38**	**100**
		%	**45**	**17**	**38**	**100**

between financial behaviour and practical financial skills as in the table 2.

Null Hypothesis (H0): The proportion of students experiencing financial difficulties is the same across different levels of regular financial education.

If P < alpha: Reject null hypothesis – The proportion of students experiencing financial difficulties is the same across different levels of regular financial education.

- Chi-Square Statistics: 73.22711244
- P-Value: 8.69009
- Degree of freedom: 3
- Alpha: 0.05
- P < alpha = 8.69009 < 0.05

The Chi-Square test yielded a Chi-Square statistics of X with a corresponding P-value of Y. With a significant level set at alpha = 0.05 and degrees of freedom Z, it rejects the null hypothesis.

Null Hypothesis (H0): The proportion of students who find learning financial theoretical concepts in the classroom is beneficial as same as those who find combining classroom learning with practical experiences is beneficial.

If P < alpha: Reject null hypothesis – The proportion of students who find learning financial theoretical concepts in the classroom beneficial is the same as those who find combining classroom learning with practical experiences beneficial.

- Chi-Square Statistics: 41.23444733
- P-Value: 1.3502191
- Degree of freedom: 1
- Alpha 0.05
- P < alpha = 1.3502191 < 0.05

Conclusion of Analysis

The Chi-Square test yielded a Chi-Square Statistics of X with a corresponding P-value of Y. With a significant level set at alpha = 0.05 and degrees of freedom Z, it rejects the null hypothesis.

Graphical Representation of the Data

The data reveals that lack of education is the primary barrier to effective personal financial management, followed by lack of resources/tools, lack of time and procrastination as mentioned in the figure 1.

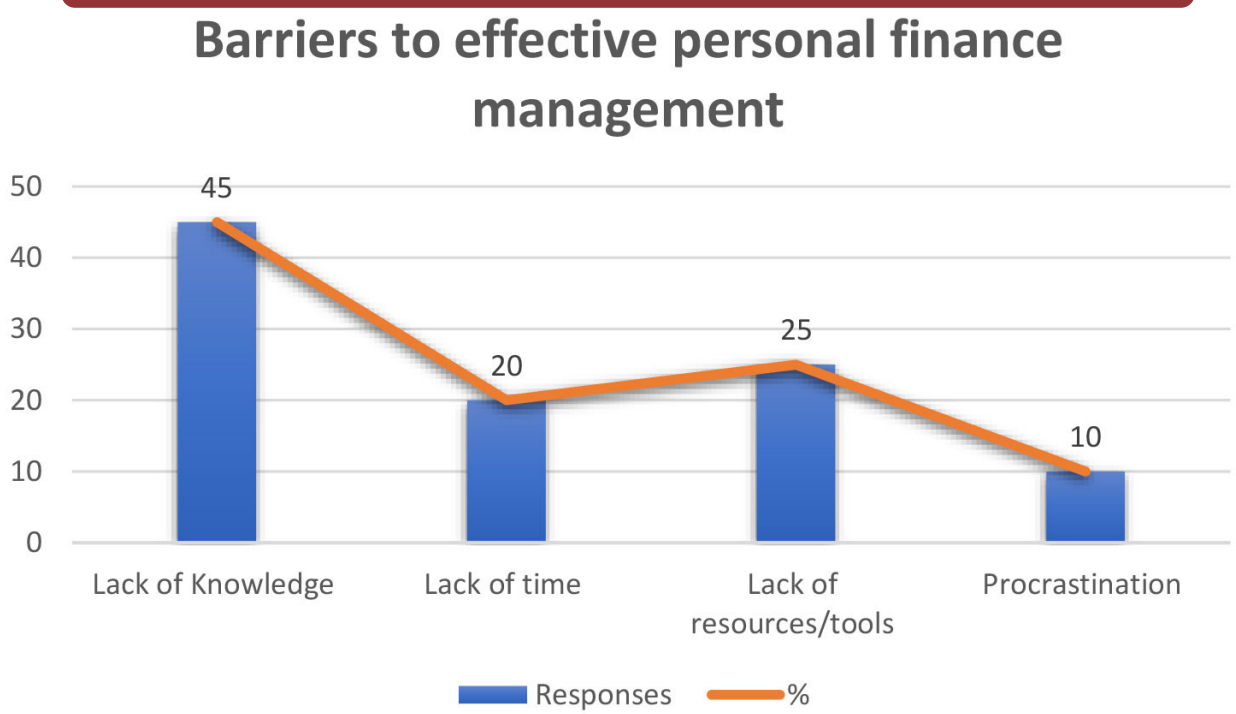
Findings

- From the analysis based on the data collected with reference to the first objective, the P-value (0.3115835) is greater than the significance level (0.05), due to which the null hypothesis is rejected. Therefore, based on the data there is no statistically significant association between financial behaviour and practical financial skills.
- Based on the analysis of information in relation to the second objective, the P-value (8.69009) is significantly less than the significance level (0.05) due to which the null hypothesis is rejected. Therefore, based on the data, there is a statistically significant association between financial education and financial difficulties as in table 3.
- The analysis with reference to the third objective reveals that the P-value (1.3502191) is significantly less than the significance level (0.05), due to which the null hypothesis is rejected. Therefore, based on the data, there is a statistically significant association in the proportion of students who find combining classroom learning with practical

Table 3. Association Between Practical Financial Skills and Financial Behaviour Among Students

Response Type	Budgeting	Savings and Investment	Debt Management	Risk Management	Total
Essential for financial competence.	4	10	4	2	20
Critical for long-term financial success.	9	40	3	3	55
Promoting responsible financial behaviour.	3	8	1	3	15
Building resilience against financial adversities.	3	4	1	2	10
Total	19	62	9	10	100

Figure 1. Barriers to effective personal finance management.



experiences beneficial is higher than those who find learning theoretical concepts in the classroom beneficial as in table 4.

- The data discloses that lack of education is the primary barrier to effective personal financial management.
- The study highlights the importance of the level of significance and practical financial skills among students, wherein there is no association between the level of significance and practical financial skills.

Table 4. Impact of Regular Financial Education on Student's Financial Literacy and Management Skills

Gaining regular financial education	Experienced financial difficulties	Total
Never	Yes	30
	No	-
	Maybe	-
Rarely	Yes	3
	No	10
	Maybe	-
Occasionally	Yes	5
	No	20
	Maybe	-
Frequently	Yes	-
	No	32
	Maybe	-
Total		100

Table 5. Effective Approaches for Gaining Financial Expertise

Beneficial Approach	Responses	Experiences Financial Difficulty	Responses	Total
Learning theoretical financial concepts in the classroom.	36	Yes	30	36
		No	6	
Combining classroom learning with practical experiences.	64	Yes	10	64
		No	54	
Total				100

Table 6. Barriers to Effective Personal Financial Management

Barriers to effective personal finance management	Responses	%
Lack of Knowledge	45	45
Lack of time	20	20
Lack of resources/tools	25	25
Procrastination	10	10
Total	100	100

- The study reveals savings and investments are crucial for financial competence which indicates a strong emphasis on student's financial behaviour.
- The study enlightens the positive role of regular financial education which enhances financial literacy and personal finance management levels among students to increase necessary knowledge and skills.
- The study identified the importance of combining classroom learning with practical financial experience to gain financial expertise, which makes students more capable of managing their finances effectively.
- The study highlights the barriers to effective personal finance management among students which include lack of knowledge, lack of resources, tools and time as in table 5.

Conclusion

The research highlights the importance of financial literacy and personal finance management among students which enhances their financial well-being to foster a financially literate student population. Educational institutes can contribute to promoting responsible financial behaviour among students to navigate the complexities of the financial world. The development of good saving habits is another critical aspect of financial management, which provides safety for future opportunities regarding the time value of money which emphasises that a rupee earned today is valued more than a rupee earned in the future. By understanding the time value of money, students can better appreciate the importance of saving and earning early. In conclusion, effective personal finance management equips students with the necessary skills and habits to make sound financial decisions which shall benefit students in the long run.

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