

# **Financial Literacy Among Young Adults**

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## **I. Abstract**

Youth today is the future of the world tomorrow and in this context, financial literacy is extremely important among today's young adults because proper financial literacy education is necessary to instill financial confidence in them and allow them to explore upcoming endless possibilities. The paper aims to explore and measure the level of financial literacy among young adults and factors such as education, family influences, marital status, employment status, and gender affecting the same. The study employs an online questionnaire designed to cover key aspects of young adults' personal financial awareness and factors mentioned affecting it. The findings of the study are that young adults are significantly financially literate and are capable of making effective financial decisions. They were found to have better knowledge in respect of almost all the indicators like gender, educational status, marital status, etc, in terms of prevalence rates. Financial literacy is becoming increasingly important as world economies strive to improve the financial well-being of their people. It equips individuals to make sound financial choices that will improve their financial well-being.

## **II. Keywords**

Financial literacy, Young Adults, Educational Status, Gender, Family Characteristics

## **III. Introduction**

In the past few years, financial markets have grown rapidly. People are getting a wide range of investment opportunities not only in their respective countries but all around the world, in a variety of firms, goods, services, etc. Financial firms are also providing many new and attractive products and offers to their customers. In this demanding financial environment, wrong financial decisions made in the early stages of life can be very costly. As people enter the workforce at a young age, their lack of financial literacy could prevent them from making adequate financial decisions such as preparing for retirement, their children's education or

even buying a house. Young people often have high amounts of loans, credit card debt, low savings, high expenditure, etc., and such early complications can hinder young people's ability to make better financial decisions in life.

Financial literacy provides a favorable environment for making better financial decisions but what are the factors that indicate the level of financial literacy among them? There are many factors that can affect the financial literacy of an individual but very few studies are available which can explain the factors that influence the level of financial literacy among young adults. More extensive studies are required to explore the factors that impact financial literacy among young adults. Also, due to a shortage of resources, only a selected segment of the population is surveyed which involves undergraduate, graduate, and postgraduates belonging to the age group of 18-30 years.

Due to a lack of financial literacy and being inexperienced in financial markets, people are at high risk of making poor financial decisions which can have a costly and ever-lasting impact on their lives. Despite being financially active, most young adults are ill-equipped to deal with ever-increasing financial responsibility. They display very low levels of financial literacy, especially among certain demographic subgroups, such as women and the unemployed. Therefore, there is a need for financial literacy, as many are transitioning to a stage of financial independence, they are going to make major important financial decisions for the first time in their lives which can have an ever-lasting impact on their future.

In order to examine how well-equipped young adults are to make their financial decisions, we investigate the factors affecting financial literacy by surveying undergraduate, graduate, and postgraduate people between the age group of 18-30 years. The survey contains a variety of questions that provide information on financial knowledge and how factors like marital status, employment status, family characteristics, education, and gender affect the same.

The study has two purposes. First, it aims to analyze the level of financial literacy among youth based on previous studies and research, to provide evidence of personal financial literacy among them. Second, to measure how various factors

like gender, marital status, employment status, education, and family characteristics are related to financial literacy among young adults and why some are relatively more knowledgeable than others. The analysis may help us identify factors that determine the level of financial literacy among young adults. It also examines how an individual's knowledge influences his/her opinions and decisions on personal financial issues.

Many studies show that although young adults are actively making their financial decisions, they are ill-equipped to make effective financial decisions. This is due to a variety of factors which are examined in this paper. While financial literacy has been shown to improve with education, even those with a high level of education have very low financial literacy. One of the major reasons for such deficient financial behavior of people is that they have a lack of knowledge about financial concepts and tools required to make upstanding financial decisions. In order to aid younger consumers, researchers are exploring how financially literate young adults are by understanding the factors that contribute to their financial knowledge. This can help the policymakers to design effective strategies targeted at the young population like proper training to provide financial knowledge can develop the financial confidence among young people to make effective financial decisions in life.

Furthermore, this paper looks closely at the relationship between financial literacy and factors such as marital status, employment status, gender, education, and family characteristics affecting the level of financial literacy. This paper contributes to the literature in two ways. First, it reports new data on financial behavior among young adults, with a special focus on their level of financial literacy based on some factors like their educational qualification, educational status, marital status, gender, and family characteristics. Second, the paper documents subjective evaluations of financial knowledge among youth and their strong association with financial decision-making.

The remainder of the paper is organized as follows. Section IV contains a literature review. Section V discusses methodology. Section VI presents data

analysis and conclusions. Section VII provides the references. Section VIII contains the annexure.

## **IV. Review of Literature**

Since youth have a long life ahead of them, the decisions they make will have a long-term impact on them, making it critical for them to gain a thorough understanding of the financial environment in order to avoid making poor financial product choices. As a result, financial literacy is extremely important. This paper aims to understand the impact of various factors on financial literacy among youth, as knowing what factors lead to or detract from financial literacy acquisition among youth will aid in the development of policy initiatives targeted at youth to improve their financial well-being. Financial literacy is described as the ability to make informed financial decisions based on one's knowledge of financial concepts.

### **4.1. Gender**

Due to social factors, men are more dominant in many fields than women and education is one of them where men tend to have a high degree of influence. It has been observed that although it is imperative that women should be given equal power to take financial decisions as taken by men, many Indian women are facing several cultural, financial, psychological, and physical barriers that are creating hindrances in becoming financially literate (Baluja G.,2016). Due to this, men are more financially literate in comparison to women with the same educational status. It was found that there were large differences in financial literacy between women and men. Women were less likely to respond correctly to questions, and there was a nearly 13% gap in correct response rates to the inflation and risk diversification questions. These differences between women and men were statistically significant (Lusardi A. et al., 2009). It is also observed that women generally have less enthusiasm for, lower confidence in, and less willingness to learn about personal finance topics than men do (Chen H., Volpe

R.P., 2002). Even after accounting for many sociodemographic characteristics, the difference in financial literacy between women and men remains sizable and highly statistically significant, suggesting that women could be ideal targets for financial education programs (de Bassa Scheresberg C., 2013).

#### **4.2. Family Influence**

Family plays a very important role in shaping a person's decisions. It is considered a first school for every individual because one learns everything by observing his/her family. So, family background has a huge impact on a person. The effective process of making sense of the economic world and its complex and wide-ranging economic issues starts at an early age and continues throughout the years of formal schooling over a lifetime (Walstad, 1996). Financial literacy is positively affected by family influence (Grohmann, A. et al., 2015). Financial educators and family life educators also have recognized the crucial role of parents in enhancing the financial literacy level of their children (LeBaron A.B. et al., 2017). Students who were financially influenced by their parents had higher financial knowledge, attitude, and behavior scores, and students with higher financial knowledge also had higher financial attitude and behavior scores (Jorgensen B.L., 2007). A college-educated male whose parents had stocks and retirement savings is about 50 percentage points more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy (Lusardi A. et al., 2009).

#### **4.3. Educational Status**

Education refines a person's personality. It helps the person to think broadly and innovatively. An educated person is presumed to make better decisions in life than others whether it is in the field of finance or any other in general. It builds a foundation for not only you but for your coming generations as well. Financial knowledge is more in the higher level of education (Thapa B.S., Nepal S.R., 2015). But a high level of education, however, is not a guarantee of financial literacy. Only 49% of young respondents with a college education and 60% of young respondents with postgraduate education could correctly answer three simple questions designed to assess financial literacy (de Bassa Scheresberg C., 2013).

## V. Methodology

The aim of our research is to find out the level of financial literacy among young adults and how factors like gender, marital status, employment status, etc. affect the same. In order to examine these objectives, we conducted descriptive research to present our study. To evaluate the first objective of our study, ie, to find out the level of financial literacy among young adults on the basis of previous studies and research we collected secondary data like the **NCFE-FLIS 2019 Report** contains results of the literacy survey in India, conducted during the period from June 2018 to October 2019 and 2020 Consumer Financial Literacy Survey - NFCC.

Next to evaluate our second objective ie, to measure how various factors like gender, marital status, employment status, education, and family characteristics are related to financial literacy among young adults, we collected primary data through a survey in which the data was collected with the help of a questionnaire which was circulated online through google forms. The population sample chosen for this study is the undergraduates, graduates, and postgraduates belonging to the age group of 18-30 years. The questionnaire contained a series of multiple-choice questions which focused on finding out the level of personal financial literacy of an individual by evaluating how he/she responded to different questions related to their basic financial knowledge. It also examined how different factors like gender, educational qualification, marital status, employment status, and family influence (which refers to parental influence in more particular) have an influence on the respondent. The questionnaire involved certain terms and products related to the field of finance to find out whether the respondent is aware of these terms and products or not, like unit trust, CIBIL score, etc. The questionnaire was distributed to 100 people and we received 57 responses, out of which the response of 2 participants was discarded since one of them was above 30 years of age and the other participant responded carelessly. The target population for our study was undergraduates, graduates, and postgraduates and the sample selected was people between the age group 18-30 years.

The questionnaire contains 10 multiple-choice questions and a question with 5-point Likert scale response which consists of 7 statements that help in understanding the quality of the financial decision made by the respondent in his/her daily routine. It also contained a question with 13 terms and products related to the field of finance to find out how aware the respondents are about those terms and products. The aim was to conduct the survey with 100 young adults belonging to the age group of 18-30 years and are undergraduate/graduate/postgraduate. Participants were asked to fill in the survey anonymously and 55 responses were received.

The percentage of correct responses for each question was determined after the responses were labeled. The frequency of correct responses was determined by analyzing the responses to questions relevant to each variable. It details the characteristics of sampled respondents as well as their answers to different financial literacy questions. Data was collected using a stratified sampling system.

## **VI. Data Analysis and Conclusion**

The questionnaire was distributed to a selected segment of the population which included undergraduates, graduates, and postgraduates 18-30 years of age. We received 57 responses in total, with 30 female respondents and 27 male respondents, and two of these responses were discarded due to incomplete or insufficient responses. Females made up the majority of those who responded. Females responded to the survey at a rate of 52.6 percent, compared to a low response rate of 47.4 percent among males.

The majority of respondents were undergraduates followed by graduates and then postgraduates. In total, there were 39 undergraduates, 10 graduates, and only 8 postgraduates. The respondent's marital status was also taken into consideration which showed that there were 45 unmarried participants and 12 married participants. Out of these respondents, 18 were employed and 39 were unemployed.

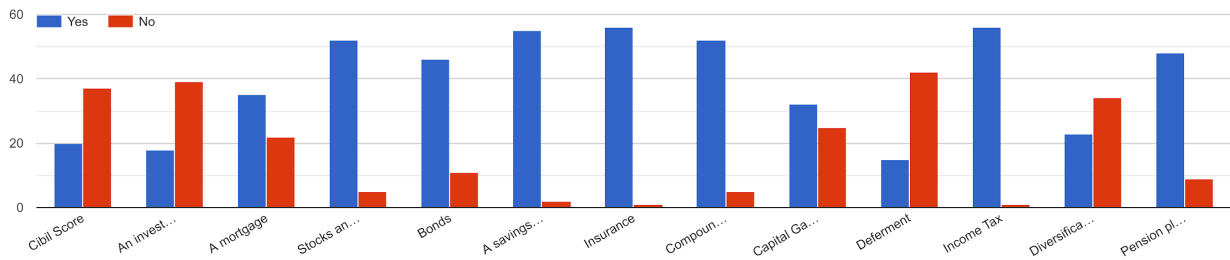


The influence of one's family on one's decision-making capacity is important. Finding out whether any of the respondent's family members are interested in business and finance, for example, will help us understand the respondent's financial understanding. The quality of their financial decisions is determined by whether or not they participate in their family's financial decisions. Knowing who makes their daily financial decisions and whether they keep track of their finances or weigh their purchasing power before purchasing anything shows us how involved they are in making their own financial decisions. Some questions related to general basic financial knowledge like about some financial terms and products helped us in evaluating their financial literacy.

According to the survey, approximately 66 percent of male respondents and 70 percent of female respondents are financially literate, as evidenced by their ability to correctly answer the requisite questions and make sound financial decisions. However, this does not rule out the possibility that a person's gender influences financial literacy. Although the sex ratio, or the number of females per thousand males, is not very high, we received a higher number of female participants than male participants. Taking this into account, it is clear that gender has a direct relationship with young adults' financial literacy. Male adolescent literacy is higher than female adolescent literacy.

Higher educational qualifications are associated with a person's ability to have a deeper understanding of problems and make better decisions. Our analysis supports this finding. In contrast to graduates or postgraduates, undergraduate respondents were less financially literate. They had a poor understanding of financial matters and were incapable of making sound financial decisions. Just 51% of undergraduate participants were financially literate, while 100% of graduate and postgraduate participants were financially literate. As a result, educational attainment affects the degree of financial literacy among young adults.

Have you heard of any of these financial products or terms?

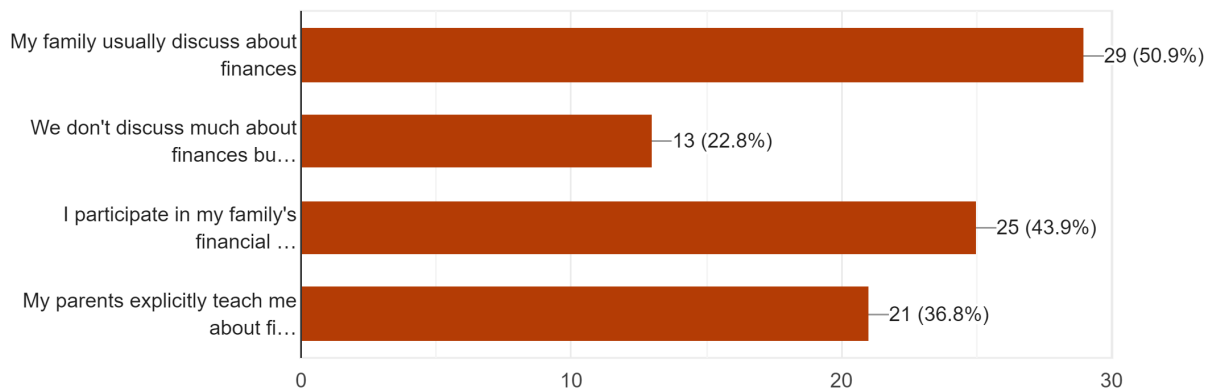


After getting married, a person becomes more responsible because they are now responsible not just for themselves but also for their spouse. However, the same is true in terms of their financial literacy. Financial literacy was observed in about 72 percent of married respondents. Marriage has an effect on a person's financial literacy, or their ability to make sound financial decisions.

A person's thought space expands when they are working. They are capable of surviving in a physical, harsh, and fast-paced world. People become capable of making personal decisions, many of which are often linked to their financial affairs, in order to face the difficulties head-on. The study found that 90% of working young adults gave correct answers to the questions and were well-informed about a variety of financial terms and matters.

How finances are handled in your family? (check all that apply)

57 responses



The best advice a person can receive comes from his or her family and friends, especially his or her parents. Children appear to pick up on their parent's attitudes and behaviors. As a result, how a person's parents handle their financial problems has an impact on how that person makes financial decisions. During the survey, it was discovered that many respondents have financial discussions with their parents and that some have benefited from their parents' examples. This demonstrates that parental control has a significant impact on how children make financial choices and their financial literacy. Approximately 82% of respondents who had regular financial discussions with their parents or family and who learned from observing their parent's financial decisions were more financially literate than those who didn't.

The study helped us to conclude that young adults are significantly financially literate and are capable of making effective financial decisions. Respondents in the age group of 18-29 yrs are found to have better knowledge in respect of almost all the indicators in terms of prevalence rates (NCFE 2019). Over 57% of adults continue to give themselves a grade of A or B on their knowledge of personal finance, and nearly 9 in 10 (87%) say they were very or somewhat confident that they made the right choice during their last big financial decision. At the same time, however, over 1 in 10 (13%) admit they are not very or not at all confident, which has been rising slightly each year since 2017 (12% in 2019, 10% in 2018, and 8% in 2017) (2020 Consumer Financial Literacy Survey - NFCC).

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## Annexure

### Link to Questionnaire and Responses-

<https://forms.gle/FYfUyE1w4aN24XX36>

### Code Book of Questionnaire

Question No.	Variable	Response Pattern	Code
1.	Gender	Female	1
		Male	2
2.	Age	18-21	1
		21-24	2
		22-27	3
		27-30	4
3.	Educational Qualification	Undergraduate	1
		Graduate	2
		Post Graduate	3
4.	Marital Status	Married	2
		Single	1
5.	Employment Status	No	1

		Yes	2
6.	Are any of your family members involved in the field of business and finance?	No	1
		Yes	2
7.	Who is responsible for day to day decisions about money in your households?	Your Partner	2
		You	1
		Any other family member	3
8.	Have you heard of any of these financial products or terms? a. Cibil Score b. Investment Account such as unit trust c. Mortgage d. Stocks and shares e. Bonds f. Savings account g. Insurance h. Compound interest Capital gains i. Deferment j. Income tax k. Diversification Pension plan	No	1
		Yes	2
9.	What do you think about the following- a. If you are married, do you think that your financial decisions have improved	Strongly Disagree	1



	<p>after marriage?</p> <p>b. If employed, do you think you are able to make better financial decisions after getting employed?</p> <p>c. Before I buy something I carefully consider whether I can buy it or not.</p> <p>d. I keep a close personal watch on my financial affairs.</p> <p>e. Do you think household size is a major influence on personal financial planning decisions?</p> <p>f. Do you think high inflation means that the cost of living is increasing rapidly?</p> <p>g. Would you consider yourself as financially literate?</p>		
		Disagree	2
		Neutral	3
		Agree	4
		Strongly Agree	5
10.	Which account usually pays the MOST interest?	Checking account	0

		Savings account	1
		Certificate of deposit (CD)	2
		Money market account	3
11.	When a check bounces, who, if anyone, is usually charged a fee?	The check writer only	1
		Both the check writer and the person to whom the check is written	3
		The person to whom the check is written only	4
		Neither the check writer nor the person to whom the check is written	2
12.	How finances are handled in your family?	My family usually discuss about finances	1
		We don't discuss much about finances but I learned from their examples	2
		I participate in my family's financial decisions	3

		My parents explicitly teach me about finances	4
13.	How would you compare yourself to your parents?	Much more likely to save	1
		Somewhat likely to save	2
		About as likely to save/spend	3
		Somewhat likely to spend	4
		Much more likely to spend	5