

The Impact of Financial Literacy on Personal Financial Decision-Making: A Study with Students

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Abstract: As students are developing 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 students' personal financial decision - makings. Efficient money management is facilitated with the basic understanding of financial concepts which includes budgeting, saving, investing and managing debt. Students who are financially literate tend to make informed decisions in allocation of their resources effectively in order to meet short - term and long - term goals. The study emphasizes the importance of incorporating thorough financial literacy programmes into 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 with broader economic benefits such as increased savings rate, 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 analyses is collected through questionnaire from 100 respondents using convenience sampling technique to evaluate how financial literacy helps students to make better financial decisions.

Keywords: Financial literacy, Personal financial management, Budgeting, Saving, Investment

1. Introduction

In the contemporary world, having an adequate knowledge of finance has become essential for managing one's own finances. The significance of financial literacy among

students cannot be overstated, as a strong financial literacy base not only helps the students to maintain their own 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 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 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

Financial Literacy and Personal Financial Management with Outcome Chart

Financial literacy and personal financial management are interconnected skills essential for students to effectively deal with complex financial systems of the modern world. The benefits of investing in financial literacy education are substantial, which shall result in generating skills in managing modern financial management.

According to Becker's, **Human Capital Theory (1964)**, suggest that investment in education and training enhances an individual's skills and productivity, leading to better economic outcomes and henceforth, 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 Socialization Theory (2011)** is another crucial theory proposed by Clinton G.

Gudmunson and Sharon M. Danes, the theory posits the role of social interactions and experiences in shaping financial behaviour and attitude wherein individuals acquire financial knowledge, skills, behaviour through interactions with family, peers, educational institutions and media and therefore enhancing financial literacy among students through education can hasten the process of financial socialization 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 which further influences personal financial management among students.

2. Review on Literature

1) **Raras Risia Yogasnumurthi, Isfenti Sadalia, Nisrul Irawati. (2021)**, the research reveals about the significant relationship between financial attitude, financial knowledge and personal financial management among students through their study “ **The effect of Financial, Attitude, and Financial Knowledge on the Personal Finance Management of college students.** ” The study likely involved collection of data through surveys, questionnaires or interviews by using 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 which could provide deeper insights into their overall financial literacy.

2) **Mochammad Ridwan, Gugum Mukdas Sudarjha, Gunardhi A. (2017)**, the research highlights the level of financial literacy among undergraduate students to investigate the factors influencing financial literacy in their study “**The use of Financial Literacy for Growing Personal Finance.**” The data was collected through the use of questionnaire, descriptive analysis and multinominal logit tests. The study highlights the current low levels of financial literacy among students and identifies various influencing factors, it does not specifically address how structured and ongoing regular financial education could impact literacy levels and practical financial skills.

3) **Sulaeman Rahman Nidar, Sandi Bestari. (2012)**, the research aims at assess the personal financial literacy level among Padjadjaran University students and factors influencing the financial knowledge through their study “**Personal Financial Literacy Among University Students (Case study at Padjadjaran University students).**” The data was collected through questionnaire among 400 students. The findings of the research revealed the various factors influencing personal financial literacy. Though the existence research acknowledges the importance of financial education but there is limited research related to identifying various methods and strategies that enhances students financial literacy and personal financial skills.

4) **Dan Yates, 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 “ **Financial Literacy: Examining the Knowledge Transfer of Personal Finance from High school to College to Adulthood.** ” The research involved analysing survey data and highlighted the need of comprehensive assessment tools and resources to improve financial literacy at all levels. Although the study have 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.

3. Need 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.

4. Research Methodology

4.1 Research Methodology

Type of research: The research is descriptive in nature and the data is collected by primary sources of study.

Sampling Method used: Convenience Sampling Method

Sample size: The measure of the number of individual samples used in the study are limited to 100 respondents only.

Types of data collection

- a) **Primary data source:** Digitally collected by circulating questionnaires through google forms.
- b) **Secondary data source:** Research papers and websites which provides information related to financial literacy and personal financial management.

Objectives

- a) To explore the association between financial behaviour and practical financial skills among students.
- b) To assess the impact of regular financial education on student's financial literacy and practical financial skills.
- c) To identify various methods and strategies that enhances student's financial literacy and personal finance management skills.
- d) To identify barriers to effective personal financial management.

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 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 classroom is beneficial.

Statistical tools used

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 in this study is used for assessing whether there is a significant association between two categorical variables.

Limitations

a) The study is limited to 100 respondents only.

b) The data is limited to undergraduate and postgraduate students only.

5. Interpretation and Analysis

1) Demographic Profile

Table 1: Demographic Profile

SL. NO	Statement	Responses				
		Range (years)	18 - 20	20 - 30	30&above	Total
01	Age	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
05	Field of Study	Streams	Commerce	Arts	Management	
		No. of responses	45	17	38	100
		%	45	17	38	100

Interpretation:

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

Hypothesis testing using Python 3.11

a) Association between Practical Financial Skills and Financial Behaviour among students

Table 2: 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

Summary of analysis

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

Alternative hypothesis (H1): There is an 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
- $P < \alpha = 0.311 > 0.05$

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 fails to reject null hypothesis. Therefore, based on the data there is no statistically significant association between financial behaviour and practical financial skills.

Interpretation:

The data reveals that there is no significant association between different types of financial skills that are perceived as crucial for various outcomes like financial competence, responsible behaviour, long - term financial success and resilience

b) Impact of regular financial education on student's financial literacy and management skills

Table 3: Impact of regular financial education on student's financial literacy and management skills]

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

Summary of analysis

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

Alternative Hypothesis (H1): The proportion of students experiencing financial difficulties decreases as the level of regular financial education increases.

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

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

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 null hypothesis.

Interpretation: Based on the data, the proportion of students experiencing financial difficulties decreases as the level of regular financial education increases.

c) Effective approaches for gaining financial expertise

Table 4: Effective approaches for gaining financial expertise

Beneficial approach	Responses	Experiences financial difficulty	Responses	Total
1) Learning theoretical financial concepts in classroom	36	Yes	30	36
		No	6	
2) Combining classroom learning with practical experiences	64	Yes	10	64
		No	54	
Total				100

Summary of analysis

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

Alternative Hypothesis (H1): The proportion of students who find combining classroom learning with practical experiences beneficial is higher than those who find learning financial concepts in classroom beneficial.

If $P < \alpha$: Reject null hypothesis – The proportion of students who find learning financial theoretical concepts in classroom beneficial is 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 null hypothesis.

Interpretation

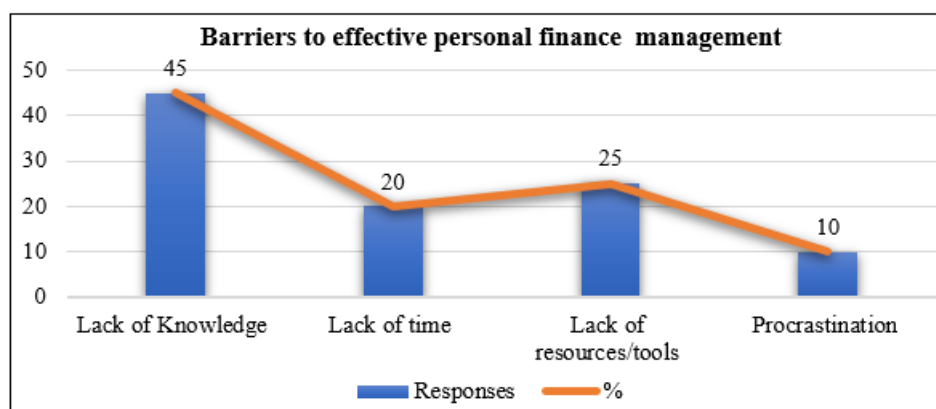
The above data indicates that there is a significant difference in the proportions of students who find combining classroom learning with practical experiences beneficial compared to those who find learning theoretical financial concepts in the classroom beneficial.

d) Barriers to Effective Personal Financial Management (Simple statistics)

Table 5: 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

Graphical representation of the data



Interpretation:

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.

Findings

- From the analysis based on the data collected with reference to first objective, the P - value (0.3115835) is greater than the significance level (0.05), due to which we fail to reject null hypothesis. 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 with the second objective, the P - value (8.69009) is significantly less than the significance level (0.05) due to which we reject the null hypothesis. Therefore, based on the data, there is a statistically significant association between financial education and financial difficulties.
- The analysis with reference to third objective reveals that the P - value (1.3502191) is significantly less than the significance level (0.05), due to which we reject null hypothesis. Therefore, based on the data, there is a statistically significant association in the proportion of students who find combining classroom learning with practical experiences beneficial is higher than those who find learning theoretical concepts in the classroom is beneficial.
- The data discloses that lack of education is the primary barrier to effective personal financial management.

6. Summary of Findings

- The study highlights the importance of level of significance and practical financial skills among students, wherein there is no association between the level of significance and practical financial skills
- The study reveals savings and investments being 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 importance of combining classroom learning with practical financial experience to gain financial expertise, which makes student's more capable of managing their finances effectively.
- The study highlights the barriers for effective personal finance management among student's which includes lack of knowledge, lack of resources/tools and time.

7. Conclusion

The research highlights the importance of financial literacy and personal finance management among student's which enhances financial well - being in order to foster a financially literate student population. Educational institutes can contribute to promote responsible financial behaviour among student's to navigate the complexities of financial world. The development of good savings habit is another critical aspect of financial management, which provides safety for future opportunities with reference to time value of money which emphasizes 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 necessary skills and habits to explore sound financial decisions that shall benefit students in long term.

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