Factor Affecting for Personal Financial Literacy of Undergraduates

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***Abstract*: Financial literacy has become an important concepts in the modern global economy. Because of globalization all countries and nations can be deal with each other easily. Having good knowledge about financial concepts is essential to deal with each other in the present economy. The study intends to examine the factors effect on personal financial literacy in Sri Lanka. Data were collected using questionnaire from 125 undergraduate students of five different faculties in University of Kelaniya, Sri Lanka. The study finding reveals that total financial literacy of undergraduates is low. There is a strong positive relationship only between parents' education level and personal financial literacy.**

***Key Words*: Financial Literacy, Undergraduate, gender, education, work experiences**

I. INTRODUCTION

The ability to manage personal finances has become increasingly important in today's world. The global marketplace is an increasingly risky and can be unpredictable. It also affects the nations and the societies as negatively or positively. One of its main implications that rising costs of goods and services and it push people to be able to make well-informed financial decisions (Lusardi & Mitchell, 2011, Kumari, 2016a). This phenomenon requires individuals to be prepared with some knowledge and skills relate to the personal financing, or simply financial literacy.

Achieving sustainable economic growth and development are the main objectives of developing countries. There are many various policy measures and strategies have been introduced to achieve these development goals. The levels of development and differences among countries are mainly linked to their capacity for investment, capital formation, and production. The supply of resource for this investment and capital formation is largely depends on a country's savings. Therefore people must have good knowledge about finance to get right decision on savings, investment and all of financial matters.

Financial literacy have been defined in the by Noctor, Stoney, straddling (1992) as "the ability to make informed judgments and to take effective decisions regarding the use and manage of money'. OCED, (2005) concerning financial education, they define financial education as "The process by which financial consumers/investors improve their understanding of financial products and concepts and through information instruction and/or objective advice, develop the skills and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being". Hence financial education is an essential thing for financial literacy and it affect to the humans' well-being. According to that anyone can not consider about financial literacy without financial education. According to president annual report in USA, financial literacy is a thing more than balancing the check book, comparing price and ability to getting a job. It is a vision and plan for a long time. As well using skill in every day for the future, relevant to the 2 financial literacy. Financial literacy relevant to persons' life time. In production side financial literacy need to evaluate the production and making decisions and also in consumption side to start a bank account, mortgage jewelry and getting money and in both regular and unregularly financial transaction is needed financial literacy.

Mandell& Klei(2009) and Noctor, Stoney, straddling (1992) have defined financial literacy as "ability of an individual to make informed judgments and to take effective decisions regarding the use and management of money". As well according to Anthes (2004) "personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect material wellbeing" (Sammy, 2008). Financial literacy can be define as "A combination of awareness, knowledge, skill and attitudes, education, decisions making, behaviour and planning about finance. Simply financial literacy can be identified as persons' ability to understand financial concepts.

The personal financial literacy have strong relationship between its main economic activities. There are many studies to identify how personal savings play an important role in economic systems in many countries. But there are hardly find many studies concerned about that aspect in Sri Lanka (Kumari, 2016b). Over the world there are many researchers who have done research studies to examine the financial literacy of school children's, teenagers, university undergraduates and graduates etc. but unfortunately in Sri Lankan context there's hardly to see any research paper that has done to identify the financial literacy of above mentioned clusters. Therefore in this research attempt to study situation of personal financial literacy over the undergraduates in Sri LankaKumari,(Kumari, 2016). Hence, the research problem of this study is "what is the level of personal financial literacy of undergraduates in Sri Lanka". And also to identify the factors effect on personal financial literacy.

Concepts of Literacy

The word “literacy” has been derived from the word of “literate” in 1886. “Literate” has been derived from the word of “literae”. Literae is a Latin word which means that “literature” or “letters” (Mckenzie, 2009). Oxford dictionary defines literacy as “ability to read and write” and also Cambridge English dictionary defines as “the ability to read and write”. According to the Dictionary com literacy is “the quality or state of being literate, specially the ability to read and write”. According to this definition, generally literacy can be identified as “ability to read and write”. There are few type of literacy in the concept of literacy such as educational literacy, computer literacy and financial literacy. Thereby financial literacy can be identified as exclusively.

Merriam-Webster defines finance as “the way in which money is used and handled; the way in which large amounts of money are used and handled by governments and companies”. According to definition of Oxford dictionary finance “the management of large amounts of money, especially by governments or large companies”. Cambridge dictionary defines financial or monetary as “relating to money or how money is managed”. However the concept of financial/monetary was developed because of becoming the money as the main exchange method in the economy. Before the evolution of money as the main exchange method, exchange was done via “BARTER SYSTEM”. In the Barter system, a one good exchanged directly to another good. Barter economy is a moneyless economy and also it is a simple economy. In this economy, People produced goods either consumption or exchange with another good. But as a method of exchange, there was some difficulties and disadvantages in the barter system (Jhingan, 1994); as Lack of double coincidence of wants, Lack of common measure of value, Indivisibility of certain goods 4. Difficulty in storing value 5. Difficulty in making deferred payments. Because of this difficulties “money” became a main exchange method in the economy. In the present global economy, money have been became a kingpin. Money have been defined in different ways

Money are defined by coulborn as “the means of valuation and payment; as both the unit of account and the generally acceptable medium of exchange”. According to Scitovsky “ Money is a difficult concept to define, partly because it fulfil not one but three functions, each of them providing a criterion of moneyness…those of a unit of account, a medium of exchange and a store of value” (Jhingan, 1994). However money is an essential thing in day to day life. The modern economy is an exchange economy. That way, people satisfy their needs involving a production process and exchanging income which they get from their production process with goods in the market. Therefore the modern economy defines as a money economy (Fritsch & Weyh, 2006). There are some features in money as; general acceptability, stability of value, profitability, divisibility, durability, storability and also communicability. Therefore money play an important role in economy. Hence we cannot discuss about finance or financial literacy without the money. Concept of financial/monetary is occurred after money became as the main exchange system in the economy.

Financial literacy

Various definition have been presented about financial literacy. Normally financial literacy can be defines as the ability understand about financial concepts. The organisation for Economic Cooperation and Development- OECD,2005) defines financial literacy as “A combination of awareness, knowledge, skill, attitudes, behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”. According to OECD,(2005)), five components such as planning ahead, choosing financial products, studding informed and financial control are consisted in financial literacy. Atkins and messy’s point of views financial literacy is combination of factors which relevant to making financial decision such as awareness, knowledge, skill, attitudes and behaviors. 10 Aggarwal et al, (2014) have said that “Financial literacy enable individuals to navigate financial world, make informed decisions about their money and minimize their chances being misled on financial matter”. Furthermore financial literacy has been became at significant level because of few things such as the importance of having a financial literacy in financial market, becoming Credits as most significant things in the market share, rapidly developing and marketing of financial products and encouragement of government for people to take more responsibility for their retirement income. According to Aggarwal it is important to having a financial literacy in the financial market. According to Hung, parker**, Young (2009)** “Financial literacy consistently predicts measure of people’s planning behaviour’’. As this viewpoint financial literacy directly effect on people’s planning behaviour. OCED (2005) concerning financial education, they define financial education as “The process by which financial consumers/investors improve their understanding of financial products and concepts and through information instruction and/or objective advice, develop the skills and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being”. Hence financial education is an essential thing for financial literacy and it affect to the humans’ well-being. According to that anyone can not consider about financial literacy without financial education. According to president annual report in USA, financial literacy is a thing more than balancing the check book, comparing price and ability to getting a job. It is a vision and plan for a long time. As well using skill in every day for the future, relevant to the financial literacy. Financial literacy relevant to persons’ life time. In production side financial literacy need to evaluate the production and making decisions and also in consumption side to start a bank account, mortgage jewellery and getting money and in both regular and unregularly financial transaction is needed financial literacy. AISEC (2003) and Noctor, Stoney, straddling (1992) have defined financial literacy as “ability of an individual to make informed judgments and to take effective decisions regarding the use and management of money". As well according to Anthes (2004) "personal financial literacy is the ability to read, analyse, manage and communicate about the personal financial conditions that affect material wellbeing" (Sammy, 2008). 11 Financial literacy defines by Criddle (2006) as "financial literacy is not just about the mechanics of checking bank accounts, or even budgeting for future savings. The definition can be expanded to include learning about selecting between a multiplicity of choices, setting personal financial goals, and reflecting on values about money" (ANZ, 2011).

According to Hira and loibl (2005) financial literacy is a main element of financial education. Financial literacy is the persons' ability to understand and use the common financial concepts (Singh, 2014). In the present economy, people betide to involve in various works to achieve their own needs. And also they have to make various decision. Therefore People must have some knowledge about financial production and financial institute to earn money as well to spend. Hence financial literacy defines as the persons' knowledge under the general money handling to make that decisions (Central Bank, 2014). Asian development bank defines financial literacy as "the ability of an individual to understand financial terms and concepts and to translate that knowledge skilfully into behaviour" (Fernando, 2010). Financial literacy defines an Indian scholar as "essentially knowledge of good money management practices, encompassing all monetary transaction that a person enters into such as earning, spending, saving, borrowing and investing" (Fernando, 2010). Pathmanathan (2012) defines financial literacy as "the knowledge of basic financial concepts, principles, skills and attitudes whose application leads to behaviour that improve financial outcome". Furthermore he mentions that improved financial knowledge, skills and attitudes affect to change the financial behaviour (Bank of Ceylon annual report, 2012). Normally financial literacy can be refer as the persons' ability to understand basic concepts of finance. The basic aspirations such as compounding of interest, trade-offs between risk and return, effect of inflation and diversification are included in this (Bank of Ceylon, 2012). According to this definitions financial literacy can be define as "A combination of awareness, knowledge, skill and attitudes, education, decisions making, behaviour and planning about finance. Simply financial literacy can be identified as persons' ability to understand financial concepts.

II. THEORETICAL BACKGROUND OF THE STUDY

There are some theories and theoretical models have been identified by academicians for financial literacy namely; Two-Period model, Multi-Period model, Family resource management theory Consumer's social adaptation theory and Social learning theory.

Jappelli & Padula, (2011) have identified two theoretical models for financial literacy namely, Two-Period model and Multi-Period model. According to them there is a correlation between personal financial literacy and wealth of person in their life cycle. There are both benefit and cost increasing financial literacy. Financial literacy let persons to make decision on better investment opportunities in benefit side. One other side, its request monetary resources and time investing in financial literacy.

2.1 Two-Period model

R ^Φ1&= ^Φ1& α

Φ1 means that the stock of financial literacy at the beginning of first period. The elasticity of the interest rate relevant to stock of financial literacy is implied by α and also in the model that transfer as rate of return of stock of financial literacy. In second (1) period consumer able to increase the stock of financial literacy buying financial literacy and also the cost of literacy relative to consumption good is p. therefore stock of financial literacy develops as follow.

Φ1 = (1-δ) Φ 0 + Ø Ø (Ø = investment on financial literacy)

According to Jappelli and Padula (2011), in the first period people involve savings and financial literacy investment as maximizing their utility. It has been shown by following log utility function.

lnc0 + βlnc1

But subject to budget constrains it can be shown as following way

C0 + S + PØ = y and C1 = Φ1α

0 < β < 1 = Discount factor

S = first period savings

C0 + S + PØ = y and C1 = Φ1α 0 < β < 1 = Discount factor S = first period savings

$$S : \frac{C1}{\beta C0} = \Phi_1^{\alpha}$$

$$Ø: \ P = \frac{\alpha \beta c0s\Phi_1^{\alpha-1}}{C1}$$

The optimal investment is defined by :

$$P = \frac{\alpha\beta\,(y - PØ)}{[(1-\delta)\,\Phi + 0]\,(1+\beta)}$$

This model suggest that "investment in literacy is more profitable when household have a higher volume of resources to invest".

$$\Phi_1^* = \frac{\alpha\beta}{1+\beta+\alpha\beta}\left(\Phi_0(1-\delta)+\frac{y}{p}\right)$$

The return to literacy, the discount factor and the initial stock of literacy are affected to increase stock of financial literacy. As well as stock of financial literacy decrease because of depreciation rate. The optimal savings level is:

$$S = \frac{\beta}{1+\beta+\alpha\beta}\left(Y + p\Phi_0(1-\delta)\right)$$

As pointed out this model consumers distribute their income on consumption in first period, savings and investment on financial literacy. As well as investing in financial literacy depends on the amount of saved and return to literacy. If they have considered about relationship between financial literacy and savings, they have not concluded there is any correlation between this variables and the higher stock of literacy is a reasons to higher savings. They pointed out that this variables are endogenous. As well as according to this model initial stock of financial literacy effect on saving and other hand saving effect on stock of financial literacy. According to this model when marginal cost of financial literacy is remain unchanged level of financial literacy depends on investment. When increase the income returns of financial literacy also increase and investing on financial literacy is more profitable when increase financial assets. Withal the person invest on consumption, savings and financial literacy in the first period. Persons who have a higher level of income and higher stock of financial literacy continue their savings.

2.2The multi period model

There are two assumption in this model. First one is persons' life time narrow for T period (from 0 to T - 1) and end of the life time in period of T – 1. Second one is they consume their all assets and income to maximize their utility. Therefore a utility optimization problem is occurred. That has defined as a function.

$$Vt\,(At, \Phi t) = \max_{\{Cs,\, \Phi s+1\}} \frac{1}{1-\frac{1}{\sigma}} \sum_{S=t}^{T-1} \beta^{s-t} C_s^{1-\frac{1}{\sigma}}$$

At = persons' assets and income Vt = values function Φt = stock of finance C = cost β = discount factor σ = depreciation rate

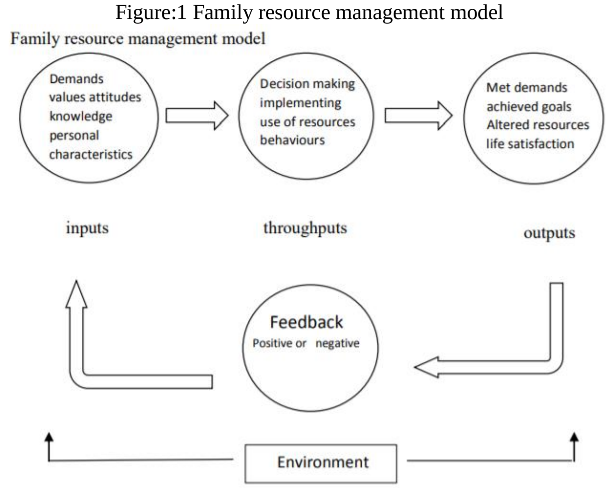
This model consider that the consumers live in six period in their life time and every periods consist in 10 years. From the first period to four period income is positive and also income increase by 20 percent for a one period. After that consumers retire and get their constant pension in the fifth and sixth periods. In that period they earn only interest as the income. As well consumer subscribe to social security system by 20 percent of their income. According to this model there is a strong correlation between wealth and literacy in life cycle. Literacy and wealth increase in working period and both of this become the highest level in the retirement period. The relationship between financial literacy and savings depends on abandons of the social security system. As point out this model its needs to government intervention on savings. Government should provide some motivations on savings and to gradually aggrandise of financial literacy.

It is important considering 'different social security arrangement and a condition of gradually rise of social security'. Finally this model point out that a higher cost of financial literacy leads to decrease motivation on invest in literacy but it leads to increase the wealth. Even though in this studies have been built the useful theories, there are some weakness in this model. They have not considered about demographical factors, risks, constraints, earning and returns on share market, health shock.

2.3 Family resource management theory

Family resource management model have been developed by Deacon & Firebaugh. They have presented about how people develop their financial behavior and make their financial decisions. Financial decisions and financial behavior link the financial literacy. This model have been posit about financial behavior and decisions making through few stages which inputs, throughput, outputs and feedback loop. It has been shown as follow.

Figure:1 Family resource management model



Source: (Goldsmith, 2005)

Inputs

The first stage of family resource management model is inputs. Demands values, attitudes, knowledge and personal characteristics have been presented by as inputs in the family resource management model. Persons should develop this sources through their interaction with the environment as satisfy demand. As this model posits the demand of a family determine on few factors such as Demands values, personal characteristics, attitudes and knowledge.

Throughputs

The second stage of this model is throughputs. According to this "decisions are made based on individual's demand and available resources". Planning, implementing, decisions making, communication and use of resources are included in throughputs. Simply throughputs explains as persons' behaviour which a person use their resources to satisfy demand

Outputs

Outputs are introduced as the third stage of the family resource management. As this model outputs are whether expected goal was achieved or whether demand were required. Therefore outputs are included achieved goal, met demand, vary resources and the level of the life satisfaction

Feedback

Feedback loop is the fourth stage of the model. According to rice and Tucker (1986) feedback is always used in the all stages of the model. Goldsmith, Hayhoe (2005) point out If there is an unbalanced in persons' life, it cause to occur feedback (Jorgensen, 2007). An example has been posited to explain the home management model as "A student is confronted with a financial demand such as college tuition. The student uses his/her resources to meet the demand, creates options to choose from based on his/her knowledge, values, and attitudes and decisions on one of the options to implement. If the desired outcome of having college tuition is not achieved, the input section receives feedback through acquiring new knowledge or the shifting of attitudes. The student then has increased knowledge to help make choices to achieve the financial goal" (Jorgensen, 2007).

Environment

As point out in this model environment influence on persons' financial life. Persons' attitudes, behaviour and knowledge of financial come their home environment and social reaction. According to Bandura (1986) persons start to understand about their values, knowledge and attitudes of financial over the social reaction (Jorgensen, 2007).As a summary of family resource management theory persons' attitudes, knowledge, behaviour about finance are affected to determine the level of financial literacy. Then financial literacy affect to demand of financial knowledge. Demand of knowledge depend on their decision making and using of resources. As well it lead to the met demand, achieve their goal and self-satisfaction.

III. RESEARCH OBJECTIVES

Main objective

The main objective of the study is to identify the factor affecting for personal financial literacy

Sub Objective

1. Examine the relationship between race and personal financial literacy
2. Analyze the relationship between work experiences and personal financial literacy
3. Examine the relationship between monthly income and personal financial literacy
4. Analyze the relationship between parent's education and personal financial literacy
5. Examine the relationship between money management skills and personal financial literacy

IV. RESEARCH METHODOLOGY

The aim of this study is to explore the factors that influence on personal financial literacy. Previous studies on personal financial literacy have largely utilized the questionnaire survey for their data collection. The study was used the questionnaire based survey as the main data collection method. The study was utilized the primary and secondary data for establishing the relationship between selected components of personal financial literacy to find out the answers for research questions. The data were collected through the standard questionnaire, focusing group of university undergraduates who chosen as stratified randomly. Secondary data were collected from the sources such as books, journals, publications. The scales were applied to measure different variables. There are five independent variable namely; race, work experiences, parent's education level, money management skills and monthly income of the respondents and personal financial literacy was the dependent variable of the study. A Person correlation analysis was used to analyze the data. SPSS statistical software used to analyze the sample data.

V. DATA ANALYSIS AND DISCUSSION

In order to make the generalization to the research problem, data has collected and analyzed. Prior to the main study pilot study was conducted to measure the reliability of the questionnaire. Reliability was confirmed of the pilot study. Following table presents the demographic factor of the respondents.

Table 2: Demographic information of the respondents

Demographic Factor	Statistics	%
Gender		
Male	68	54
Female	57	45
Total	125	100
Race/ Ethnic		

Sinhala	84	66.7
Tamil	25	19.8
Muslim	16	12.7
Total	125	100
Faculty		
Social Sciences	25	19.8
Humanities	25	19.8
Commerce & Management	25	19.8
Science	25	19.8
Medicine	25	19.8
Relevant Course		69.8
No	88	28.6
Yes	36	100
Total		
The interest in following a		
Yes	85	68
No	40	32
Total	125	100
Work experience		
None	28	22
Less than 1 year	43	34.1
Two or less than 2 year	40	31.7
Three or less than 3 year	11	8.7
Total	125	100
Work Type		
Government Sector	22	4.8
semi Government Sector	8	17.5
Private Sector	105	54.8
Total		83.3
Monthly Receiving Money		
Less than Rs. 5000	14	11.1
Between Rs. 5000 – 8000	43	34.1
Between Rs. 8001 – 10000	60	47.6
More than Rs. 10001	8	6.3
Total	125	100
Parents' education level		
Passed Grade 8	16	12.7
O/L Passed	29	23
A/L Passed	38	30.2
Higher Education	23	18.3
Vocational Education	19	15.1
Total	125	100
Money management Skill		
Yes	74	58.7
No	51	40.8

Source: Research data

This research was collected data from one hundred and twenty five (125) undergraduates from five faculties namely; social science, humanities, commerce & management, Science and Medicine in University of Kelaniya. Thereby the percentage of male is 54% and female are 57%. Therefore female deputes generality of sample. When consider about race or ethnic of undergraduates, the major is Sinhala than other ethnic. Frome overall percentage of ethnic in undergraduates 84 percent of undergraduates are Sinhala and 25 percent are Tamil while Muslims are 16%.The research was used 125 of undergraduates from five faculties in university of kelaniya like equal.

5.1 Person's Correlation Analysis

The bivariate analysis use to identify the relationship between two variables. Personal financial literacy was the dependent variable while the six variable were independent variables. The objectives of this study are to investigate the impact of each independent variable for the personal financial literacy. The Pearson correlation analysis was conducted to analyses the relationships of independent variables and dependent variable

5.1.1 Relationship between Personal financial literacy and Race

When consider about the relationship between personal financial literacy and race, there is a weak positive relationship between among this variables. The Pearson correlation among these is 0.009. It indicates that if the respondents' Race is change, their level personal financial literacy will also be change. Its corresponding p-value is (0.918) which is higher than 0.05 level of significant, hence the relationship or correlation is weak**.**

Table 3: Total Personal Financial literacy and Race

		Total Fin	Race
Total_Fin	Pearson Correlation	1	.009
	Sig. (2-tailed)		.918
	N	125	125
Race	Pearson Correlation	.009	1
	Sig. (2-tailed)	.918	
	N	125	125

Source: Research Data

Source: Research data analysis

5.1.2 Relationship between personal financial literacy and work experience

The Pearson correlation value between personal financial literacy and work experience is 0.690 .Since it is positive, it indicates that if the respondents' work experience is high, their level personal financial literacy will also be high. However, its corresponding p-value is (0.000) which is low than 0.05 level of significant, hence the relationship or correlation is strong.

Table 4: : Correlation between Personal financial literacy and work experience

		Total_Fin	Work_Exp
Total_Fin	Pearson Correlation	1	.690**
	Sig. (2-tailed)		.000
	N	125	125
Work_Exp	Pearson Correlation	.690**	1
	Sig. (2-tailed)	.000	
	N	125	125

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Source:
Research data analysis

5.1.3 Personal financial literacy and monthly income receiving

There is a moderate positive correlation between monthly income receiving and personal financial literacy.

Table 5: Correlation between personal financial literacy and monthly receiving money

		Total_Fin	MONTHLY RECEIVING MONEY
Total_Fin	Pearson Correlation	1	.388**
	Sig. (2-tailed)		.000
	N	125	125
MONTHLY RECEIVING MONEY	Pearson Correlation	.388**	1
	Sig. (2-tailed)	.000	
	N	125	125

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data

The Pearson correlation value between personal financial literacy and work experience is 0.388. Since it is positive, it indicates that if the respondents' monthly receiving money is high, their level personal financial literacy will also be high. However, its corresponding p- value is 0.000 which is low than 0.05 level of significant, hence the relationship or correlation is positive.

5.1.4 Relationship between personal financial literacy and Parents' education level

Table 6: Correlation between Personal financial literacy and Parents' education level

		Total_Fin	Parants_Edu_Level
Total_Fin	Pearson Correlation	1	.189*
	Sig. (2-tailed)		.034
	N	125	125
Parants_Edu_Level	Pearson Correlation	.189*	1
	Sig. (2-tailed)	.034	
	N	125	125

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research data

Monthly receiving money which undergraduates' receive is correlate with personal financial literacy as 0.189. This is a moderate positively relationship. It indicates that if the respondents' parents' educational level is high, their level personal financial literacy will also be high. However, its corresponding p-value is 0.034 which is low than 0.05 level of significant, hence the relationship or correlation is positive.

5.1.5 Personal Relationship between financial literacy and Money management Skill

Table 7: Correlation between Personal financial literacy and Money management skill

		Total_Fin	Money_manage_skill
Total_Fin	Pearson Correlation	1	.121
	Sig. (2-tailed)		.180
	N	125	125
Money_manage_skill	Pearson Correlation	.121	1
	Sig. (2-tailed)	.180	
	N	125	125

Source: Research data analysis

As posit by above correlation tables, there is a weak positive relationship between Money management Skill and personal financial literacy. However, its corresponding p-value is 0.180 which is more than 0.05 level of significant, hence the relationship or correlation is weak.

VI. CONCLUSION

The study reviews that the total financial literacy of undergraduates is low. According to the correlations between independent variable and dependent variable, there are some differences each other. , there is a weak positive relationship between race, money management, parent's education and personal financial literacy and race. There is a moderately positive correlation between monthly income receiving and personal financial literacy. Also there is strong positive relationship only in the relationship between parents' education level and personal financial literacy.

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