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A Study on Lack of Financial Literacy

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ABSTRACT

It is really important in this digital era to know how to handle an individual's finances and having a financial discipline can help maintain their finances better. This research paper talks about how important it is to have financial literacy and understanding several financial concepts, such as spending, investing, saving, borrowing and future planning is included in financial literacy. It enables people to make wise financial decisions for themselves. Primary research was conducted for this research by sending out forms to get the respondents perspective about the subject.

INTRODUCTION

Financial literacy is defined as the understanding, expertise and comprehension of financial ideas and concepts that enables people to make educated successful decisions about their personal finances. It covers a wide range of money related issues such as spending, investing, saving, borrowing and future planning.

Financial literacy is more crucial than ever before in today's complicated and linked society. It enables people to take charge of their finances, make wise decisions and manage the financial systems problem and possibilities. It not only assists people in meeting their short term financial objectives but it also establishes the framework for future financial security and asset building.

Financial literacy is vital at every face of life from young folks who are beginning their financial adventures to elderly managing their retirement resources. It is critical in obtaining financial independence, minimizing financial stress and generating wealth. Furthermore, it enables users to defend themselves from monetary fraudulent activities and scams and make informed judgement regarding financial products and services.

Promoting financial literacy is a top goal for many government organizations and educational institutions around the world. Initiatives such as financial awareness programs workshops and online tools attempt to increase financial literacy and enable individuals to make educated financial decisions. In an era of increased financial complexity having a firm base in financial literacy is a vital tool for individuals and their general well-being.

LITERATURE REVIEW

"Financial literacy: Do people know the *ABCs* of finance? by Annamaria Lusardi (April 2015)

Individuals are in control of their respective financial well-being and are confronted with evermore complex financial instruments. However, evidence suggests that many people are ill equipped to make wise financial decisions. This paper discusses financial literacy which is described as the capacity to understand economic knowledge and make informed decisions concerning financial planning and wealth building, debt and pensions. Ignorance of basic financial ideas can be connected to lack of preparing for retirement, a lack of stock market involvement and poor borrowing behaviour."

"Financial Literacy: If it's So Important, Why Isn't It Improving? By Lewis Mandell (April 2006)

This paper looked at how a personal finance management course completed 1 to 4 years previously affected 79 high school students. The results showed that the individuals who did the course of study were no more financially aware than those who did not. Furthermore, those who attended the course did not perceive themselves to be more inclined to save and did not seem to exhibit better financial behaviour compared to those who hadn't taken the course. The study raises severe concerns regarding the long term usefulness of high school financial literacy classes."

"Financial literacy research: current literature and future opportunities by Sonia Marcolin, Anne Abraham (April 2006)

With the deregulation of financial markets and easier availability of credit, the immediate issue of credit cards, the rapid growth of promotional financial products and the government's encouragement for its citizens to take greater accountability for their retirement incomes, the need for financial literacy has grown. This research examines, contrasts and evaluates studies undertaken in Australia the USA and the United Kingdom to identify areas of agreement and disagreement. As a result of this analysis the report reveals recurring themes that could be expanded upon as well as prospective new topics of research for financial literacy."

"Financial Literacy and Financial Behavior among Young Adults: Evidence and Implications by Carlo de Bassa Scheresberg (July 2013)

This paper examines financial literacy and financial behaviour in a sample of around 4500 young adults aged 25 to 34 using data collected in the 2009 National Financial Capability Study. According to the study, the majority of young individuals lack fundamental financial understanding. Financial literacy is extremely low among certain demographic categories like women, minorities and those with lower incomes or less education. A high level of education on the other hand is not an indication of financial literacy. Only 49% among young respondents with college degrees and 60% of young respondents with the postgraduate education correctly answered 3 basic questions designed to test financial literacy."

"Financial literacy and retirement planning in the Netherlands by Maarten C.J. van Rooij, Annamaria Lusardi, Rob J.M. Alessie (August 2011)

In this research, they look at the connection between financial awareness and planning for retirement in the Netherlands. They discover robust and positive association between financial understanding and retirement plan, individuals who are more financially educated are prone to plan for retirement. Using data relating to economics education obtained in school, they demonstrate that the nexus of causality runs from financial awareness to planning instead of the other way around."

DATA ANALYSIS

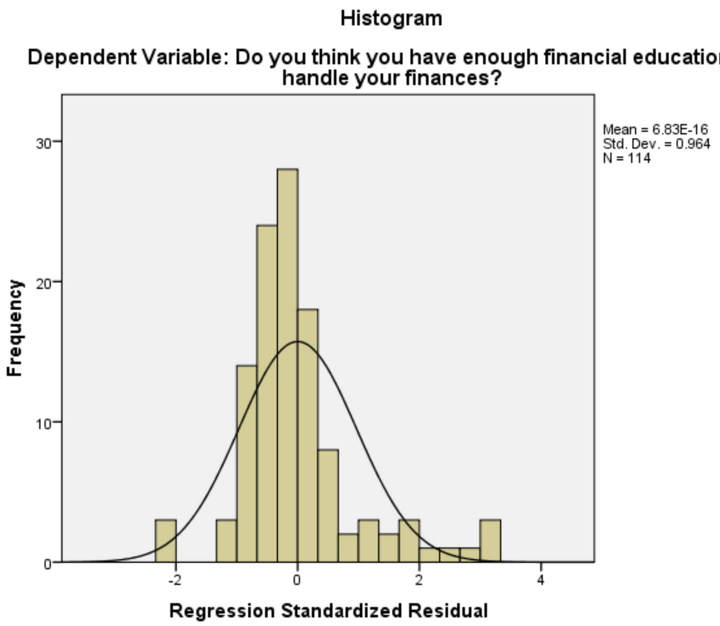
The below provided graphs and interpretation are the results conducted for the regression model:

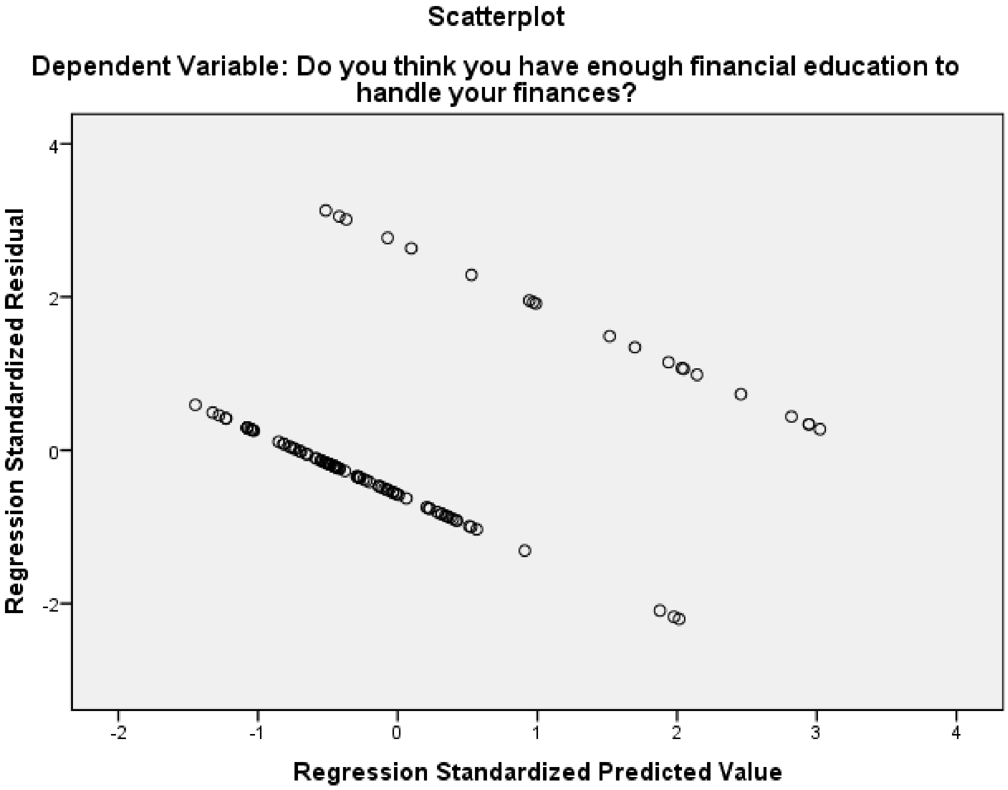
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.642[a]	.412	.367	.304	1.759

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.796	8	.849	9.199	.000[b]
	Residual	9.696	105	.092		
	Total	16.491	113			





Hypothesis:

H0: there is no substantial impact of the different variables taken on the financial literacy.

Ha: there is substantial impact of the different variables taken on the financial literacy.

1. The R square value is 0.642 that is 64.2% of the total variance of the dependent variable (i.e. financial literacy) is being explained by the IV (independent variables).
2. The value from the table of the Durbin Watson is 1.759 which means there is no auto correlation among the values as it is in the range of 1.5 – 2.5
3. From the Anova table it can be seen the value is < 0.05 which means the model is significant thus rejecting the null hypothesis.
4. F-ratio = MSR/MSE = 0.849/0.092 = 9.2
5. From the taken variables it is seen that only two variables are significant that is confidence in managing the personal finance and better understanding the of budgeting and saving money thus these impact the financial literacy according to the model.
6. The equation is given by: Y = 0.664 + 0.095 (confidence in managing the personal finance) + 0.095 (better understanding of the budgeting and saving money) + error.

CONCLUSION

It is abundantly evident that an absence of financial literacy leads considerably to personal financial challenges such as inadequate spending, excessive debt and restricted savings. Furthermore, a lack of financial understanding impairs individuals' capacity to take well informed choices about investments, saving for retirement and long term financial stability. These repercussions affect not only an individual's well-being but can have broader societal consequences such as greater financial stress, income disparities and even financial crisis.

Educational institutions, government agencies and business organizations all have a role to play in advocating financial education and making resources available. Furthermore, efforts to enhance financial literacy must be customized to the individual needs and histories of varied communities to provide equal opportunity for financial knowledge.

It is clear that tackling the lack of financial literacy is not just a personal obligation, but also a collective collaborative effort. By investing in financial education and encouraging financial literacy, we may encourage individuals to make informed decisions, enhance their financial security and eventually contribute to a more economically robust and fair society.

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