



A STUDY ON FINANCIAL LITERACY AMONG MBA GRADUATES IN DELHI

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Abstract

Financial literacy has been defined in various ways in the literature. Personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect the well being. It includes the ability to determine financial choices, discuss money and financial issues, plan for the future and respond competently to every day financial decisions. Financial literacy has been found to be closely related with the well-being of the individuals. The present study deals with analyzing the financial literacy among MBA graduates of Delhi. The statistical analysis using student's t-test revealed a significant difference among financial literacy level of finance and non-finance major students. Moreover, a significant difference was also found on the basis of gender. Thus, it has been suggested that more emphasis should be given to financial literacy of college students so that they do not face severe consequences when they become working professionals.

Keywords--- Financial Literacy, Financial Decisions, MBA Graduates, Statistical Analysis, T-Test .

INTRODUCTION

Financial literacy has recently emerged as an area of interest and has been defined profusely by various authors. These definitions vary in terms of their focus, but all reflect an emphasis that financial literacy is necessary to function in society (Bowen, 2002). Financial Literacy can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. It primarily relates to personal financial literacy to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial. The various researchers across the globe have pointed the importance of financial literacy in making effective investment decisions. A rich literature also exists to bring to focus that students passing out of b-schools lack knowledge regarding financial aspects. This has been viewed negatively as to navigate in today's financial landscape, financial literacy is of paramount importance.

Measuring Financial Literacy

Several fundamental concepts lie at the root of saving and investment decisions for any individual. There are three ways for measuring financial literacy which are as follows

- Numeracy and capacity to do calculations related to interest rates, such as compound interest.
- Understanding of inflation; and Understanding of risk diversification.

Factors Affecting Financial Literacy

- a. Demographic Factors
- b. Demographic factors such as gender, age and education are associated with financial literacy. Additionally, there is emerging evidence in the behavioral literature that religion and ethnicity may influence financial literacy and financial decisions. In case of gender it has been found in many studies females are more risk-averse than males when investing in financial assets. Age is also commonly found to be associated with financial literacy.
- c. Socio Economic factors
- d. A number of socio economic factors are also associated with financial literacy which include factor such as employment type and status, personal and household income, and other wealth factors, such as investments held.
- e. Need of financial literacy
 - (a) There is growing evidence that students are leaving high school not knowing fundamental information on such topics as debt, credit, insurance, or even basic banking services. With the growing technological complexity and sophistication of the banking and investment industry, core knowledge on these topics is vital for people to be able to understand even the most basic of monetary transactions.
 - (b) Due to changes in investment and pension plans, many workers are now also responsible for managing their own retirement funds. Many businesses have changed from employer-sponsored plans (such as a traditional pension) to a more worker-oriented Individual Retirement Account. This shifts the responsibility to the individual and illustrates another need for information.
 - (c) People who are secure in their finances are better able to contribute to a growing and healthy economy, making personal financial literacy a vital key to maintaining the economic strength of our country.

Source	Conceptual Definitions
Moore (2003)	“Individuals are considered financially literate if they are competent and can demonstrate they have used knowledge they have learned. Financial literacy cannot be measured directly so proxies must be used. Literacy is obtained through practical experience and active integration of knowledge. As people become more literate they become increasingly more financially sophisticated and it is conjectured that this may also mean that an individual may be more competent.
National Council on Economic Education (NCEE) (2005)	“Familiarity with basic economic principles, knowledge about the U.S. economy, and understanding of some key economic terms”
Lusardi and Mitchell (2007c)	[Familiarity] with “the most basic economic concepts needed to make sensible saving and investment decisions”
ANZ Bank (2008), drawn from Schagen (2007)	“The ability to make informed judgments and to take effective decisions regarding the use and management of money”
Lusardi (2008a, 2008b)	“Knowledge of basic financial concepts, such as the working of interest compounding, the difference between nominal and real values, and the basics of risk diversification”

Source: Hung, A., Parker, A. M., & Yoong, J. (2009). *Defining and measuring financial literacy*.

LITERATURE REVIEW

Chen Haiyang and Volpe P. Ronald (1998) surveyed 924 college students to examine their personal financial literacy; the relationship between the literacy and students' characteristics; and impact of the literacy on students' opinions and decisions. Results showed that participants answered about 53% of questions correctly. Non-business majors, women, students in the lower class ranks, under age 30, and with little work experience had lower levels of knowledge. Less knowledgeable students tend to form wrong opinions and make incorrect decisions. It was concluded that college students are not knowledgeable about personal finance; therefore researcher concluded that this low level of knowledge would limit their ability to make informed decisions.

Symanowitz Colette Delene (2006) identified differences in financial literacy levels for different demographic and psychographic profiles. Saving level was found to be low in both South Africa and the USA, while pending and debt levels were high indicating low level of financial literacy.

Cude Brenda J., Lawrence Frances C., Angela Lyons C., et. al.(2006) examined college students' overall financial management practices using quantitative and qualitative data from a multi-state research project. Multiple regression analysis indicated students' grade point average (GPA), having a credit card, year in college, ethnicity, and the marital status of their parents explained 8% of the variance in their financial fitness scores.

Samy M., Tawfik, H., Huang, R and Nagar, A. . (2009) reported on the potential use of Neural Network as a sensitivity modeling tool for the determinants of financial literacy. The financial literacy modeling in this research had been attempted to measure the literacy of youth in the Australian society with respect to their financial knowledge of Credit Cards, Loans and Superannuation (Pensions scheme in Australia that allows for choice of funds and investment decisions by the member). This paper examined the potential use of neural networks to analyze the data (n= 1010) on financial understanding of youth at a major Australian university. This technique captured the relationship between education, financial independence, work status, financial stress, age, gender and marital status and financial variables such as Loans, Credit cards and Superannuation. The findings indicated that the determinants of credit card were significantly dependent on a student's year of study, credit card status and daily routine, which had a strong relevance to respondents' knowledge of credit cards.

Lusardi Annamaria, Mitchell S. Olivia and Curto Vilsa (2010) examined financial literacy among the young using the most recent wave of the 1997 National Longitudinal Survey of Youth. It was found that while the overall level of financial knowledge was low among the young, there were significant differences according to socio demographic, family, and peer characteristics.

Ansong Abraham and Gyensare Michael Asiedu (2012) explored the determinants of university working-students' financial literacy. The author reported that people who studied economics or business courses are more likely to be financially

knowledgeable. In terms of participants work experience and ages, participants with more years of work experience are more knowledgeable than those with less experience.

Agarwalla Sobhesh Kumar, Barua Samir, Jacob Joshy and Varma Jayanth R. (2012) made an attempt to understand the financial literacy levels of three important demographic groups, viz. young working adults, retired and students in India. The respondents did not score well on financial knowledge aspect but showed a positive financial behavior. Also a desirable attitude towards saving and consumption among Indians was found.

Ramasawmy Ramen, ThapermallSavila, S. DowlutAnoop and Ramen Mootooganagen (2013) assessed the level of awareness of financial literacy among management students at the University of Mauritius. The study revealed that most students had a medium level of knowledge and skills in financial literacy and in savings and borrowings. However, no significant difference was observed for the financial literacy level between male and female respondents.

Shaari Noor Azizah, Hasan Nurfadhilah Abu, Mohamed Ramesh Kumar Moona Haji and MdSabriMior Ahmad Jafri (2013) examined the financial literacy among university students. The sample consisted of 384 students and the target population of the study was from local Universities of Malaysia. Convenience sampling method was used in collecting the data and the results were compiled by using SPSS software system. The overall results showed that the financial literacy level of University students was moderate as 65.7% of the student scored 5-8 marks out of the 12 questions.

RESEARCH METHODOLOGY

The study is descriptive in nature. Descriptive research is an exploration of certain existing phenomenon. It is mostly done when a researcher wants to gain a better understanding of the topic. This type of study is quiet factual, accurate and systematic. Both primary and secondary data collection methods have been employed to conduct the research work. The survey has been carried out by means of a self-administered, structured questionnaire.

A. Objectives of the Study

- To measure levels of financial literacy among MBA students.
- To compare the financial literacy between finance and non-finance students.
- To compare the financial literacy between male and female students.

B. Scope of the Study

The present study was undertaken to assess the financial literacy of postgraduate students in order to get insights on reasons for differences in financial literacy level. For this the sample size of 100 MBA students from North-West Delhi region was considered.

DATA ANALYSIS

Demographic Profile of the Respondents

Table 1: Demographics

Particulars	Number of Respondents
Gender	
Male	50
Female	50
Specialization	
Finance	57
Non Finance	43

As can be seen from Table 1, equal proportion of male and female respondents represented the sample. Also, nearly half of the sample consists of finance major students and rest belonged to non-finance category.

Financial Literacy Scores

Table 2: Financial Literacy Scores of the Respondents

Interval	Number of Respondents
0 – 6 (low)	26
6 – 12 (high)	74

Table 2 indicates that majority of the respondents were in high financial literacy interval.

Hypothesis Testing

It was hypothesized that:

H01: There is no significant difference between financial literacy levels of male and female students.

H02: There is no significant difference between financial literacy levels of finance and non-finance students.

For statistically testing the above mentioned hypothesis, student's t-test was applied with the help of SPSS. The results are as follows:

Table 3: Independent Sample t-test Values

Variables		Mean	Standard Deviation	Std. Error Mean	Confidence Interval of the Difference		t-value	Sig. (2-tailed)
					Lower	Upper		
Gender	Male	5.5800	1.64242	.23227	1.72973	.35027	2.992	.004*
	Female	6.6200	1.82824	.25855	1.72983	.35017		
Specialization	Finance	7.0233	1.89597	.28913	1.94083	.45656	3.210	.002*
	Non-Finance	5.8246	1.78408	.23631	1.93338	.46400		

*p<0.05, significant at 5%

The null hypothesis mentioned is tested at 95 level of confidence. From the last column of Table 3, it is found that for both the variables the significance value is less than 0.05. Thus, the null hypothesis could be rejected in favor of alternate hypothesis. Hence, it can be stated that there is a significant difference between male and female students' financial literacy level. Also, a significant difference between financial literacy levels of finance and non-finance students is found to exist. Moreover, mean financial literacy score of females was found to be more than male respondents and finance major also scored more than non-finance specialized students.

MAJOR FINDINGS OF THE STUDY

The major findings could be summed up as follows:

1. Almost all respondents were between 20 and 25 years of age among which both male and female respondents were equal in number i.e. 50 each out of which 57 respondents opted for finance specialization and 43 respondents opted for non-finance specialization.
2. The survey also showed that 26% respondents had low level of financial literacy as they lie between 0 to 6 interval and 74% respondents had high level of financial literacy as they lie between 6 to 12 intervals.
3. 28% of male respondent had low level of financial literacy and 24% of female respondent had low level of financial literacy. Moreover 36% of male respondent have high level of financial literacy and 38% of respondents have high level of financial literacy.
4. There was found to be a significant difference among male and female students' financial literacy levels.
5. A significant difference among finance and non-finance students' financial literacy was also reported.

LIMITATIONS OF THE STUDY

1. Time was a limiting factor. The survey was time consuming and time for collecting the data was very less.
2. The study only considered the sample of MBA students; sample of students from other courses was not included.
3. The sample size taken for the study was only 100; the results might have been more accurate if sample size was of a large number.

CONCLUSION

More emphasis should be given to financial literacy of college students. As the findings suggest that the financial literacy of non-finance students is significantly lower than those of finance graduates. Thus, more efforts should be made to incorporate basic financial education for all the students and more specifically for non-finance major and female students.



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