

A STUDY ON THE LEVEL OF FINANCIAL LITERACY AMONG RECENTLY GRADUATED STUDENTS

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ABSTRACT

This study examines the level of financial literacy among recently graduated students in Mumbai and investigates its impact on their financial decision-making patterns. Financial literacy is essential in today's complex economic environment, where individuals are increasingly responsible for managing their finances effectively. This paper explores how factors such as age, dependency, and financial education contribute to young graduates' understanding of financial principles.

1. INTRODUCTION

Over the years, a number of researchers have provided definitions of financial literacy and these definitions range significantly in complexity and emphasis of Vitt, Reichbach, Kent, and Siegenthaler (2005) defined personal financial literacy as follows:

"Financial literacy may be defined as the ability to read, analyze, manage and write about the personal financial conditions that affect material well being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy."

One point that is not always highlighted in the available literature is the fact that the concepts of financial knowledge and financial literacy are in fact quite different. This is not always clear, as these terms are used interchangeably at times. Both concepts are equally important and demand clarification. We can start from the very basis of the concepts. Webster's dictionary defines being literate as "having knowledge or competence" in a general sense. Knowledge can basically be defined as

"(1) The fact or condition of knowing something with familiarity gained through experience or association;

(2) Acquaintance with or understanding of a science, art, or technique"

While these concepts are clearly interrelated, the following distinction is worth noting. Someone can learn how to read (i.e., become literate) but may not necessarily understand syntax and more advanced concepts (knowledge related to the art of language). Similarly, it is important to distinguish between one's ability to navigate financial decisions (literacy) and one's ability to understand the underlying forces at work (knowledge). This draws into question the end goal of these various financial literacy initiatives. Is it enough to provide consumers with the ability to get by in an increasingly complex financial market, or is it more important for consumers to understand the decisions they are making

2. RESEARCH METHODOLOGY

Objectives

- To study the level of financial literacy among recently graduated students.
- To examine the impact of financial literacy on their opinions and decisions.
- To study the relationship between certain demographic factors and level of financial literacy.
- To identify and assess the role of Mumbai University education curriculum in supplementing financial knowledge.
- To suggest, if any, a possibility for creation of financial education programs designed specifically to enhance financial literacy.

Hypotheses

To go ahead with this research I have provided a tentative solution to the defined research problem. The main objective of the research project is to study the level of financial literacy among recently graduated students. This will done by studying the current mindset and decision making process of graduates. We will proceed with the following assumption and the hypothesis will be framed as follows:

H0: Most recently graduated students are not financially literate enough to be financially competent.

H1: Most recently graduated students are financially literate enough to be financially competent.

3. LITERATURE REVIEW

Roy and Jain (2018) “A study on level of financial literacy among Indian women”

The central theme of this study elaborates on the financial literacy of the women in the financial sector of Jaipur. The main purpose of the paper is to enhance better and impactful understanding of the subject so as the economy as a whole can attain the benefits in the growth prospects. Apart from that, to know the financial literacy level of women, we constructed a questionnaire and circulated among the working women in the city of Jaipur so as to assort relevant and appropriate data. On the basis of the reactions, we found out that the financial literacy level of women is based on their financial knowledge, attitude and behavior. The outcome shows that the general alertness in relation to the techniques and planning tools related to the finance among women in the current scenario is still not satisfactory. The study has also addressed various aspects that are crucial and significant that is also related to the financial concept, financial products, and services etc. In addition, the paper has grasped the knowledge that is required to be attained by the women in order to make suitable planning for long period of time.

Furtuna (2007) “College students’ personal financial literacy: Economic impact and public policy implications.”

Economic impact and public policy implications.” This study analyzes the level of financial literacy among college students in Lynchburg VA area as well as the factors that impact the students’ competency in the field. Furthermore, The research examined how the level of financial knowledge influences students’ opinions and decisions on personal finance matters. It also analyzed the relationship between the financial literacy and the respondents’ demographic data, characteristics such as: gender, academic discipline, age, work experience, nationality, preferences to work after graduation, and whether a student has taken a class in personal finance previously or not. The results suggest that college students in Lynchburg area have a very low level of personal finance knowledge since the median score on a relatively simple financial literacy test was only of 37.5% that is much lower than the average 53% score indicated by previous research (Volpe, Chen & Pavlicenko 1997) which, on the other hand, used a much more comprehensive survey. In addition, since most of the respondents belong to the first two age groups, there is no significant difference in the financial literacy scores among these two age groups. The work experience and the class rank of the respondents have a very low statistical significance, thus, the level of financial literacy does not differ among the subgroups identified for these two variables.

In order to find the results we had used secondary data is the source to understand the actual financial literacy of the students in the real world

Secondary data

Today, India is one of the biggest markets for businesses. Its large population is seen as an asset by Multinational Corporations. India has become a hub for Information and Communication Technology with Bangalore seen as the Silicon Valley of India. There has been a steady increase in foreign investments and many Indian companies have expanded their operations to other countries. India is quickly emerging as one of the fastest-growing economies in the world. However, many small producers, companies and Indian firms aren’t able to succeed. We have developed ourselves in technology and to some extent in production capacity, but most of the Indian businesses fail because of financial mismanagement. According to the 2011 census, 74.04% of the total population is literate, but only a few understand the importance of financial literacy According to the report conducted by the Global Financial Literacy Excellence Center, only 24% of the Indian adult population is financially literate. In comparison to other major emerging economies, the financial literacy rate of India is the lowest. This is due to inter-state disparities, lack of formal training and awareness.

Financial knowledge, behaviour and attitude: Inter-linkages

It is likely that the different dimensions of the financial literacy could be related to each other. For instance, high financial knowledge could influence both the financial behaviour and attitude. Alternatively, poor financial attitude could lead to less desirable behaviour. These relationships are examined to gain more insights about how the different aspects of financial literacy influence each other. These insights could be helpful as the financial literacy literature has not so far evolved any distinct or reliable explanatory model about how individuals obtain high financial literacy. Such a model could be helpful to formulate effective financial education policies and delivery methods. There is some support for the notion that high financial knowledge leads to more positive financial behaviour. The attitude appears to be almost unaffected by the financial knowledge. This might imply that focusing financial numeracy skills may not lead to the desired change in attitude towards money among individuals. We also do not observe any identifiable relationship between the financial attitude and financial behaviour, which is somewhat puzzling. If anything, it appears to be negative relationship. May be the scale used to measure the financial attitude with only three items is not a very valid measure to capture the relationship, even if it exists.

Variation in financial literacy across sub-groups

The Indian women are not distinctly different from the men in terms of the overall financial literacy measure. This could be largely due to their better scores on behaviour and attitude compared to men, despite their relatively lower financial knowledge. However, still the lack of basic financial knowledge and numeracy skills probably keeps them ill-equipped to secure their financial goals. Respondents of urban origin appear to marginally outperform those from the rural areas as observed for the individual components of financial literacy. This gap is largely due to the relatively poor financial knowledge of the respondents from rural origin. Perhaps one can attribute this to the relatively poor academic attainments in the rural areas.

The married appears to be outperforming singles in terms of overall financial literacy. This is largely brought about by their better behaviour and attitude towards money and household finance. It is interesting to observe, how raising a family brings about significant changes in the behaviour and attitude towards saving and consumption, borrowing, and financial planning, among the young.

It could be that the incremental expenditures involved in raising a family brings about thriftiness and caution among the married. Education levels are somewhat homogenous for the employed respondent group that we have surveyed, and therefore may not offer reliable insights about the impact of education on financial literacy. Among the young employed, it appears that the educated tend to score high on the financial literacy. However, there is no perceptible relationship between education and financial literacy among the retired. As observed, for the different dimensions of financial literacy, respondents in the higher income levels are financially more literate than those from the lower income levels. A similar, observation emerges from all the countries surveyed by the OECD.

THE STORY IS FROM SEPTEMBER 11, 2020 – Times of India.

“Why encouraging literacy in finance matters” By Punith Pandey | TNN | Sep 11, 2020

The move to include finance education at school and college would help youngsters make apt investment planning. With an aim to create a financially aware population, the Reserve Bank of India (RBI) recently launched the National Strategy for Financial Education (NSFE) 2020-25. The strategy aims at inculcating financial literacy concepts among the people, encourage their active savings behaviour and boost participation in financial markets. The NSFE will formulate the content for financial education and develop capacity and code of conduct for the providers. Speaking on the need for introducing the plan, Atul Kumar Gupta, president, ICAI says, “India is home to around 17% population of the world and the literacy rate here is around 74%. While, out of the total population, only 24% population is financially literate. This reveals the pressing need to educate the masses about finance and savings.” He, however, adds that there has been a marked improvement in the understanding of financial concepts by rural India in the last five years. Only 15 % of the population was financially literate in 2013 as compared to the 24% today, he says. Anticipating a boost due to NSFE in the economy, Ashish Garg, president, ICSI, says the strategy will act as a game-changer in creating financial literates which will further serve as a key component in building the country’s economy. “The initiative of the government and Financial Sector regulators that aims at building a financially educated and independent nation will definitely act as a gamechanger.

Financial literates will play an important role in building a strong Gross Domestic Capital Formation (GDCF) which is a key component in a nation’s economic development,” he says. Garg underlines that though the foundation of modern banking was laid in the country in as early as the 18th century, a large portion of the savings is still in the unorganized sector. “Despite having the world’s 10th largest and Asia’s oldest stock exchange, low per capita income, education inequality, non-banking habits and informal borrowing and lending, ruled the country for years. Thus, it is imperative for the country to now optimize its resources and boost the economic and financial backbone of the nation,” he adds. Benefits of inclusion at an early level. The Plan recommends the introduction of the financial curriculum in schools and colleges. The move to inculcate financial awareness at an early age is expected to benefit the people in planning their investment properly at a later age, says Gupta. “Students would be exposed to the basic fundamentals of capital markets and different areas of investment in the school. This would help them plan their investment well once they start earning. Also, they would over a period of time learn to analyze the performance of companies to decide whether or not to invest in shares of those companies,” he says. The introduction of financial education at an early level will also help the students to identify whether to narrow down to the same career in future or not. As currently, they are able to take this decision only when they are undergoing graduation, he added.

Only 24% Indians Financially Literate

India is home to almost one-fifth of the world population and has a literacy rate of nearly 80 per cent. Unfortunately, only 24 per cent of people in the country are financially literate. Three-fourths of the Population in India does not know or understand the pressing need of managing finances is scary for a country that depends on the economy for its

development. Nonetheless, there has been a remarkable improvement in the percentage in the last eight years. In 2013, only 15 per cent of the country's Population knew how to manage their finances and savings.

The Times of India quoted the President of the Institute of Company Secretaries of India (ICSI), Ashish Garg, "Despite having the world's 10th largest and Asia's oldest stock exchange, low per capita income, educational inequality, non-banking habits, informal borrowing and lending practices that have been going on for years. Thus, it is imperative for the country to now understand how to optimize its resources and boost the economic and financial backbone of the nation."

Policies Launched By The Centre

The Reserve Bank of India (RBI) launched the National Strategy of Financial Education (NSFE) 2020-2025. The policy aims to teach financial literacy concepts among ordinary people, encouraging them to save actively and boost their participation in the financial markets. The initiative formulates content for financial education and develops the capacity for a code of conduct among the providers. The Central Bank recommends including financial education in the curriculum at schools and colleges. Inculcating the concept at an early stage helps people put it to use later in their lives. Moreover, the National Centre for Financial Education (NCFE), which the Reserve Bank of India has set up (RBI), Insurance Regulatory and Development Authority of India (IRDAI) as well as Pension Fund Regulatory and Development Authority (PFRDA), aims at educating Indians on primary areas such as the difference between saving and investing, the power of compounding, the time value of money as well as the importance of diversification, among others. The need for financial literacy arises mainly when young people, who have just started their careers, find it challenging to manage their finances and end up spending more than they are earning. Stepping into the vicious debt trap increases the probability of not having enough to provide for themselves and their families. Later, when they realize the importance of financial education, it becomes less valuable since they already have a debt to repay. Therefore, the National Centre for Financial Education would spread awareness about primary financial products, such as bank accounts, to link new users to the financial sector. Moreover, the initiative would educate the existing users in the financial industry to make informed decisions.

4. FINDINGS, CONCLUSIONS AND SUGGESTIONS

In conclusion, the financial literacy of graduates is a dynamic and multifaceted aspect of their overall education. While progress has been made in recognizing the importance of financial education, there is still work to be done to ensure that graduates are well-equipped to navigate the complex world of personal finance. Continuous efforts from educational institutions, employers, and policymakers can contribute to improving the financial literacy of graduates and, consequently, their financial well-being.

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