

Analysis of Interrelationship between Financial Behaviour, Financial Attitude and Financial Knowledge of Youth

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ABSTRACT

Financial literacy is an important concept in today's world. Every individual needs to be financial literate to take logical financial decisions in a complex financial system. At present, there are numerous products and services available in the financial market. To select the best option out of these for investment, whether it is related to the long term or short term, financial literacy is an essential requisite. The present study seeks to examine the interrelationship between financial behavior, financial attitude and financial knowledge of youth. Primary data was collected from 231 respondents with the help of a questionnaire. Judgemental sampling technique was used to select the respondents and data was analyzed using Cronbach's alpha and Karl Pearson's coefficient of correlation with the help of SPSS. Results show that there is a statistically significant correlation between financial behavior and financial attitude but correlation doesn't exist between financial knowledge and financial behavior. Similarly, financial knowledge and financial attitude do not correlate with each other. Results also show that there is a significant but weak to moderate degree of correlation exist among financial behavior variable and financial attitude variables. Thus the results of the study suggested that all three dimensions contribute to financial literacy and they are also interrelated up to some extent.

Keywords: Youth, financial literacy, Financial Behaviour, Financial Attitude, Financial Knowledge

INTRODUCTION

Financial literacy plays a vital role in decision making related to financial matter and only a financially literate person can take accurate financial decisions associated with daily life. Financial literacy is a complex topic and it does not have a simple definition. Numerous authors and institutions describe financial literacy in their own way. Some of them said that financial literacy is parallel to the financial knowledge while others stated financial literacy as mixtures of financial knowledge, financial behavior, and financial attitude. Organization for Economic Co-operation and Development (OECD) defines Financial Literacy "as a combination of financial awareness, knowledge, skills, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being." The above definition given by OECD can be said a complete view of financial literacy because, in a complex financial system, not only financial knowledge but financial behavior and financial attitude of an individual also contribute in their own way while taking financial decisions.

Various researches and surveys conducted by different organizations and agencies explored the financial literacy level of peoples based on their various characteristics. Researches from across the world indicate that peoples are not adequate financially literate. To improve the level of financial literacy around the globe, three dimensions of financial literacy namely financial behavior, financial attitude and financial knowledge should be considered while developing financial education programmes. Previous researches show that these three

dimension are correlated with each other and makes a meaningful impact while making the financial decision. India is a young country, thus, its focus should be on improving financial knowledge and developing positive financial behavior and financial attitude of youth. Therefore, the present study is aimed at examining the interrelationship between three dimensions of financial literacy by targeting youth as a population.

LITERATURE REVIEW

Literature mainly highlights the behavioral and attitudinal aspects of financial literacy. Mandell and Klein (2009) studied the impact of financial literacy education on subsequent behavior of high school students. They found that financial management course doesn't have a significant impact on the financial behavior of students. Oseifuah (2010) assessed the level of financial literacy and its influence on youth entrepreneurs in South Africa and concluded that youth entrepreneur can be said financially knowledgeable. This youth entrepreneur shows positive financial behavior which reveals that financial knowledge leads to positive financial behavior. Jorgensen and Salva (2010) examined the parent's influence in determining young adult's financial knowledge, financial attitudes and financial behavior in the USA. The results show that parents were perceived to influence financial behavior and financial attitude of young but they do not influence their financial knowledge level. The researcher also explored that financial knowledge had a large influence on financial attitude and financial behavior. Agarwalla et al. (2013) studied the effect of a socio-demographic variable on financial literacy and correlation between three dimensions of financial literacy. They found that joint family and consultative decision-making process are two variable that influences financial knowledge level specifically in India. They also found a highly significant and positive correlation between financial knowledge and financial behavior which means responsible financial behavior would be the result of adequate financial knowledge. Haslem (2014) reviewed various published research articles, journals and surveys to analyze financial literacy, financial education, individual investment outcomes, genetics investment biases, and related issues. It was revealed that less financially informed individual have less ability to make rational financial decisions. The researcher also revealed that personal behavior of individuals with a high level of financial literacy depends on the two styles of thinking namely intuition and cognition in dual process theories and financial advice is correlated with financial knowledge positively.

Bhushan and Medury (2014) study the inter-linkages between financial knowledge, financial attitude and financial behavior of salaried individuals. The results indicated that high financial knowledge affects financial attitude and financial behavior positively which clearly shows that not only financial knowledge but also financial behavior and financial attitude has an influence on overall financial literacy. Mahapatra et al. (2016) examined the status of financial literacy by taking into consideration three variables namely socio-demographic characteristics, parental influence and attitude towards financial planning. The authors concluded that financial literacy is influenced by all three selected variables. But, socio-demographic characteristics and parental influences have a positive impact while financial attitude has a negative impact on financial planning. Potrich and Vieira (2018) identified the integrated effect of financial literacy on the selected behavioral factors which includes materialism, compulsive buying, and propensity to indebtedness. The authors found that financial literacy has a greater impact on compulsive buying behavior followed by a propensity to indebtedness and materialism. Financial literacy improves the compulsive buying behavior of individuals. Sivaramakrishnan et al. (2017) examined how financial literacy, risk avoidance, financial wellbeing, regulatory perception, social influence and hassles of investing influence stock market participation. The authors found that advanced financial literacy has a significant influence on investment intentions and equity holding. They also found 'Attitude to Investment Behaviour' as a multi-dimensional variable during analysis and testing which could act as a restriction to investing.

RESEARCH METHODOLOGY

The present study is quantitative in nature and population related to the study is youth and based on Haryana, India. Primary data on financial literacy was collected through a questionnaire developed with the help of a literature review. The questionnaire was developed by reviewing various previous instruments which were used in data collection in previous studies. All three dimensions were measured by using 16 variables. Financial behavior was measured using 5 variables and financial attitude was measured using 3 variables which consist of 20 and 12 items respectively. Five-point Likert scale was used to gather the responses from respondents which range from “strongly disagree” to “strongly agree”. Financial knowledge was measured using 8 variables which consists of financial concepts. A pilot study was conducted and expert advice was taken to improve the questionnaire. Measurement scale was also checked for consistency and quality using Cronbach's alpha. Following table shows the value of Cronbach's alpha:

Table 1.1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.744	.744	32

Value of Cronbach's alpha is .744 which is more than .7 thus data is reliable (Hair et.al. 2003). Data was collected with the help of judgemental sampling technique from 240 respondents out of which 231 questionnaires were used for analysis. Data were analyzed using SPSS.

The objective of this research paper is to find out the inter-relationship between three dimensions of financial literacy (financial behavior, financial attitude, and financial knowledge). Study of inter-linkages among these dimensions will explore more insights about financial literacy which ultimately helps in improving financial literacy level of peoples. For studying inter-linkage between financial behavior, financial attitude and financial knowledge, Karl Pearson's Coefficient of Correlation were used. Following table describes the values for strength of correlation among variables.

Table 1.2: Pearson Correlation critical values

Value of Correlation Coefficient	Strength of Correlation
1	Perfect
0.7 – 0.9	Strong
0.4 – 0.6	Moderate
0.1 – 0.3	Weak
0	Zero

Source: Albeerdy, M. I., & Gharleghi, B. (2015)

Following model shows the interlinkage between three dimensions of financial literacy:

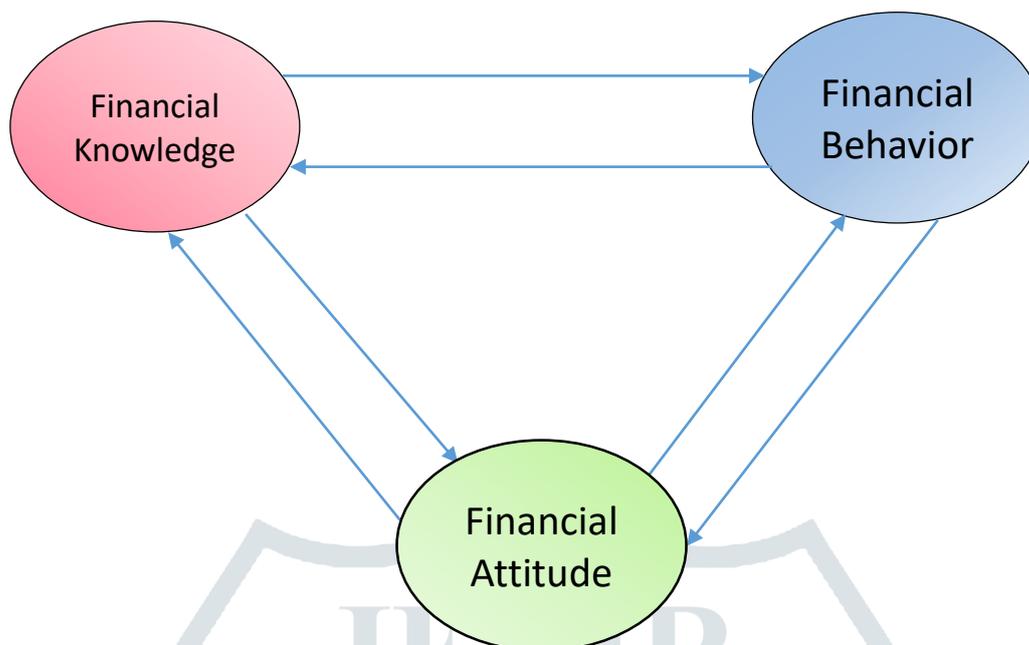


Figure 1.1: Proposed Model

RESULTS AND DISCUSSION

Results of Karl Pearson’s coefficient of correlation and their interpretation is as follows:

Table 1.3: Correlation between Financial Knowledge and Financial Behaviour

		Choosing Financial Product	Staying Informed	Planning Ahead	Keeping Track Of Financial Txn.	Financial Control
Financial Knowledge	Pearson Correlation	-.028	-.146*	-.093	.002	-.120
	Sig. (2-tailed)	.671	.026	.159	.980	.069
	N	231	231	231	231	231

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

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

Table 1.3 shows the relationship between financial knowledge and financial behavior of respondents which was explored by calculating the correlation between financial knowledge scores and the mean score of various financial behavior variables. The results reveal that financial knowledge was significantly ($p < 0.5$) but negatively correlated ($r = -.146$) with “Staying Informed” and the degree of correlation is low (14.6%). This reveals that the respondents with higher financial knowledge were not trying to be informed about financial product and services. The results also indicated that there is no statistically significant correlation between financial knowledge and “Choosing Financial Product”, “Planning Ahead”, “Keeping Track Of Financial Transaction”, “Financial Control” which indicated that financial knowledge is not the only factor which stimulates respondents to choose financial products, to plan for future about financial events, to keep records of their financial transactions and to control their spending.

Table 1.4: Correlation between Financial Knowledge and Financial Attitude

		Attitude towards risk	Attitude towards investment	Attitude towards consumption
Financial Knowledge	Pearson Correlation	.056	.046	-.103
	Sig. (2-tailed)	.394	.489	.117
	N	231	231	231

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

Association between Financial Knowledge and Financial Attitude of the respondents was studied in table 1.4 with the help of correlation between financial knowledge scores and mean scores of all three selected financial attitude variables. The results showed that there is no statistically significant association exist between financial knowledge and “attitude towards risk”, “attitude towards investment” and “attitude towards consumption” which indicates that financial knowledge is not the only factor which develops an attitude to take and deals with financial risk, develop an attitude to relating to money investment and develop an attitude towards spending or consumption of money.

Table 1.5: Correlation between Financial Behaviour and Financial Attitude

		Attitude towards risk	Attitude towards investment	Attitude towards consumption
Choosing financial product	Pearson Correlation	.305**	.270**	.322**
	Sig. (2-tailed)	.000	.000	.000
	N	231	231	231
Staying informed	Pearson Correlation	.328**	.303**	.232**
	Sig. (2-tailed)	.000	.000	.000
	N	231	231	231
Planning ahead	Pearson Correlation	.110	.237**	.151*
	Sig. (2-tailed)	.094	.000	.022
	N	231	231	231
Keeping track of financial txn.	Pearson Correlation	.218**	.152*	.232**
	Sig. (2-tailed)	.001	.021	.000
	N	231	231	231
Financial control	Pearson Correlation	.355**	.361**	.387**
	Sig. (2-tailed)	.000	.000	.000
	N	231	231	231

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

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

Table 1.5 shows the relationship between various financial behavior variables and financial attitude variables and the following points has been explored:

- “Choosing financial products” was found to be positively and significantly correlated with all the financial attitude factors such as “attitude towards risk”, “attitude towards investment” and “attitude towards consumption”. This shows that the respondents who purchase financial products rationally have positive attitudes towards risk, investment, and consumption.

- “Staying informed” was also found to be positively and significantly correlated with “attitude towards risk”, “attitude towards investment” and “attitude towards consumption” which shows that the respondent who was interested in gathering information about financial products and services had a positive attitude towards risk, investment, and consumption.
- “Planning ahead” was the only factor among financial behavior factors which was not significantly associated with all the three financial attitude variables. Although “Planning ahead” was positively and significantly related with “attitude towards investment” and “attitude towards consumption”. The above results indicate that the respondents who plan for their future financial needs have positive intent towards investing and spending their money. The results also indicated that there is no statistically significant relationship exist between “Planning ahead” and “attitude towards risk”.
- “Keeping track of financial transaction” was found to be positively correlated with “attitude towards consumption”, “attitude towards consumption”, “attitude towards consumption” but the degree of correlation was low although the association is statistically significant. This indicates that the respondents who keep records of their financial transactions have positive attitudes towards risk, investment, and consumption.
- “Financial control” was found to be positively correlated with “attitude towards risk”, “attitude towards investment”, and “attitude towards consumption”. The degree of correlation was also high which indicated that the respondents who control their expenses have also a positive attitude towards risk, investment, and consumption.

Table 1.6: Intra Behaviour Correlations

		Choosing financial product	Staying informed	Planning ahead	Keeping track of financial txn.	Financial control
Choosing financial product	Pearson Correlation	1	.408**	.233**	.354**	.325**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	231	231	231	231	231
Staying informed	Pearson Correlation	.408**	1	.311**	.232**	.323**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	231	231	231	231	231
Planning ahead	Pearson Correlation	.233**	.311**	1	.177**	.278**
	Sig. (2-tailed)	.000	.000		.007	.000
	N	231	231	231	231	231
Keeping track of financial txn.	Pearson Correlation	.354**	.232**	.177**	1	.300**
	Sig. (2-tailed)	.000	.000	.007		.000
	N	231	231	231	231	231
Financial control	Pearson Correlation	.325**	.323**	.278**	.300**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	231	231	231	231	231

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

Table 1.6 demonstrates that correlation among financial behavior variables which is as follows:

- “Choosing financial products” was found to be positively correlated with “staying informed”, “planning ahead”, “keeping track of financial transaction” and “financial control” which reveals that the respondent who choose financial products precisely were informed about financial markets, plan their financial events, knows their financial spending, and take control of their financial transaction.
- “Staying informed” was found to be positively correlated with “choosing financial products”, “planning ahead”, “keeping track of financial transaction”, and “financial control”. The highest degree of association of “staying informed” was found with “choosing financial products” which signify that those who are informed about financial products and services were choosing financial products rationally.
- “Planning ahead” was also found positively correlated with “Choosing a financial product”, “staying informed”, “keeping track of financial transaction” and “financial control”. The highest degree of correlation of “planning ahead” was found with “staying informed” which indicates that the respondents who make a financial plan for their future try to be informed about financial information regularly.
- “Keeping track of financial transaction” was positively and significantly associated with “choosing financial products”, “staying informed”, “planning ahead”, and “financial control”. The highest degree of correlation of “Keeping track of financial transaction” was found with “choosing financial products”. This shows that the respondents who keep records of their financial transaction and saves money regularly make more rational decisions.

Table 1.7: Intra Attitude Correlation

		Attitude towards risk	Attitude towards investment	Attitude towards consumption
Attitude towards risk	Pearson Correlation	1	.351**	.331**
	Sig. (2-tailed)		.000	.000
	N	231	231	231
Attitude towards investment	Pearson Correlation	.351**	1	.234**
	Sig. (2-tailed)	.000		.000
	N	231	231	231
Attitude towards consumption	Pearson Correlation	.331**	.234**	1
	Sig. (2-tailed)	.000	.000	
	N	231	231	231

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

Table 1.7 demonstrates that correlation among financial behavior variables which is as follows:

- “Attitude towards risk” was found to be positively correlated with “attitude towards investments” and “attitude towards consumption”. But the degree of association is higher with “attitude towards investment” in comparison to “attitude towards consumption”. This means that the respondents who take risks with their money were more interested in saving it in different financial products and services rather than consuming it.
- “Attitude towards investment” was found to be positively correlated with “attitude towards consumption” but the degree of association was low which showed that the respondent who has a positive attitude towards investment will prefer to invest money for future needs than to spend it.

CONCLUSION

It can be concluded that financial literacy is an utmost important aspect for people who want to invest their money or want to spend their money wisely. Without developing positive financial behavior and positive financial attitude, no one can improve their financial literacy level because these three dimensions are interrelated with each other. Financial behavior and financial attitude are significantly correlated which means positive financial behavior leads to a positive financial attitude while the correlation between financial knowledge and financial behavior shows that as the respondent's financial knowledge increases, they reduce their efforts to gain financial knowledge. Thus, it can be said that financial knowledge, financial behavior, and financial attitude is important dimensions of financial literacy which can't be ignored while targeting financial knowledge level of peoples. These dimensions should be included while developing financial literacy programmes at every level to increase the effectiveness of programmes.

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