A STUDY OF THE FACTORS AFFECTING FINANCIAL LITERACY

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Abstract

Financial literacy plays a crucial role in ensuring individual financial well-being and contributing to broader economic stability. However, despite its importance, significant disparities in financial literacy persist across various demographic groups. These disparities can be attributed to a complex interplay of socio-economic, educational, cultural, and psychological factors. This study employs a mixed-methods approach to examine how these factors contribute to the differences in financial literacy levels. The research highlights that age, education, and income significantly influence financial knowledge, with younger individuals and those with lower income levels often possessing less financial awareness. Furthermore, cultural norms and psychological factors such as risk tolerance and financial anxiety are also found to shape financial decision-making and behavior. For instance, cultural attitudes toward saving, investing, and borrowing can affect an individual's approach to managing money. Psychological factors, including financial stress and self-confidence, may either empower or hinder effective financial management. The findings underscore the need for targeted financial literacy programs tailored to the specific needs of diverse demographic groups. By addressing these gaps, such interventions can foster improved financial decision-making and contribute to greater financial inclusion and stability within society.

***Keywords**: financial literacy, socio-economic factors, educational background, cultural norms, psychological factors, financial decision-making.*

Introduction

In an increasingly complex financial world, financial literacy has become a cornerstone of personal well-being and economic security. The ability to understand and manage financial resources—ranging from budgeting and saving to investing and retirement planning—has never been more important. Financial literacy encompasses the knowledge, skills, and behaviors required to make informed financial decisions that contribute to long-term financial stability. Given the growing range of financial products and services, combined with economic shifts such as the move from defined pension plans to contributory systems, individuals now face greater responsibility in managing their financial futures.

Despite the acknowledged importance of financial literacy, its distribution across different populations is uneven. Disparities in financial literacy levels are evident across a range of demographic factors, including income, education, gender, age, and cultural background. Research consistently shows that individuals with higher financial literacy are more likely to make sound financial decisions, such as saving for retirement, investing prudently, and avoiding high-interest debt. In contrast, financial illiteracy often leads to poor financial choices, including over-spending, under-saving, and reliance on high-cost debt, all of which can have significant negative long-term consequences.

Moreover, the importance of financial literacy has become even more pronounced in the context of global economic challenges. The global financial crisis of 2008, for example, revealed the detrimental effects of widespread financial illiteracy, particularly in the subprime mortgage market, where poor financial understanding contributed to reckless borrowing and lending practices. This crisis underscored the need for robust financial education programs that not only equip individuals with the necessary skills

to navigate financial products but also promote an understanding of risk and the implications of financial choices.

While financial literacy is a crucial component of individual financial well-being, it is not universally available. Socio-economic factors such as income level and access to education play a significant role in shaping one's financial knowledge. Lower-income individuals and those from less-educated backgrounds are less likely to have access to financial education or the resources necessary to develop financial skills. Furthermore, cultural influences and family upbringing also impact financial behaviors. In some communities, traditional attitudes toward money—such as an emphasis on saving physical assets like gold or land—may overshadow modern financial products like investments or insurance.

Psychological factors, such as risk tolerance and cognitive biases, further complicate financial decision-making. For instance, individuals with low risk tolerance may avoid investment opportunities that could yield long-term benefits, while those with high risk tolerance may engage in overly aggressive financial behaviors that could jeopardize their financial future.

Given these varied influences, this study seeks to explore the different factors that affect financial literacy and its subsequent impact on individuals' financial behaviors. Specifically, it aims to investigate how socio-economic background, education, cultural norms, and psychological traits contribute to disparities in financial literacy. The study also examines the implications of these disparities for broader economic stability, particularly in emerging economies, where access to financial services is expanding but financial education remains limited.

By understanding the complex web of factors that shape financial literacy, this research aims to provide actionable insights that can inform the design of more effective financial literacy programs. Tailored interventions that address the unique needs of different demographic groups—taking into account factors such as age, gender, education level, and socio-economic status—could empower individuals to make better financial decisions and improve their overall financial health.

Ultimately, this paper underscores the importance of financial literacy not only as an individual skill but as a critical element in promoting economic stability on a global scale. As we move further into an era of financial complexity, ensuring that individuals have the knowledge and confidence to navigate this landscape will be key to both personal and societal prosperity.

Literature Review

Financial literacy is essential for informed financial decision-making and well-being. Studies show a positive relationship between financial literacy and better retirement planning, wealth accumulation, and responsible borrowing (Lusardi & Mitchell, 2009). Conversely, financial illiteracy is linked to excessive debt and poor financial decisions (Chen & Volpe, 1998; Lusardi & Tufano, 2009).

The rise of digital finance adds another layer to financial literacy. Bansal (2019) highlighted the importance of digital financial literacy, particularly in rural India, where demographic factors like age, income, and education influence digital financial skills. This underscores the need for digital literacy in emerging economies.

Islamic financial literacy, influenced by religiosity, has also been studied by Rahim et al. (2019), emphasizing the role of religious beliefs in financial decision-making. Socio-economic factors like income and education significantly affect financial literacy, with studies showing women and lower-income

groups tend to have lower financial literacy (Lusardi & Mitchell, 2011). Psychological factors, including risk tolerance and impatience, also shape financial decisions (Hastings & Mitchell, 2011).

Rural populations face unique challenges in financial literacy, often due to limited access to formal financial services. However, media-based financial education has proven effective (Ravikumar et al., 2003). The OECD (2012) advocates for financial education in school curricula, especially in emerging economies, where individuals are increasingly responsible for their own financial security.

Tailored financial literacy interventions are more effective when they consider specific demographic characteristics (Cole & Shastry, 2009).

Research Method

The research utilized a quantitative approach to assess the relationships between financial literacy, financial knowledge, financial behavior, and various demographic factors. Primary data were collected through an online survey using Google Forms, targeting a sample of 116 respondents. The questionnaire was designed to gather insights into respondents' financial literacy, behavior, and attitudes.

The data analysis was carried out using SPSS (Statistical Package for the Social Sciences). SPSS was chosen due to its robust statistical capabilities, particularly in analyzing correlation, regression, and hypothesis testing. The survey captured various demographic information, including gender, age, educational qualification, and household income, alongside factors assessing financial literacy, knowledge, behavior, and attitude.

Results and Discussion
Descriptive Statistics
Gender of Respondents

The sample consisted of a fairly balanced gender distribution, with 51.5% female and 48.5% male respondents. This suggests a representative gender mix in the study.

Age of Respondents

The largest age group was 25-34 years, comprising 41.7% of the respondents. This was followed by the 35-44 years age group, with 26.2%, indicating that the majority of the respondents were young to middle-aged adults.

Educational Qualification of Respondents

The most common educational qualification was a Master's Degree, held by 46.6% of the respondents. A significant proportion, 38.8%, held a Bachelor's degree, suggesting that the majority of respondents were well-educated.

Household Income of Respondents

A large portion of respondents reported household incomes ranging from 30,000 to 75,000 (33% in each group), with smaller proportions in higher or lower income brackets. This suggests a moderate to middle-income household demographic.

Correlation Analysis

Correlation analysis was used to determine the strength and direction of the relationships between key variables:

Financial Literacy and Financial Knowledge

A strong positive correlation was found between financial literacy and financial knowledge (Pearson correlation = 0.619, $p < 0.05$). This indicates that individuals who are financially literate tend to have better financial knowledge.

Financial Literacy and Financial Behavior

There was a moderate positive correlation (Pearson correlation = 0.555, $p < 0.05$) between financial literacy and financial behavior, suggesting that those who are more financially literate are also more likely to engage in positive financial behaviors.

Financial Literacy and Financial Attitude

A significant positive correlation (Pearson correlation = 0.513, $p < 0.05$) was found between financial literacy and financial attitude, highlighting that individuals with higher financial literacy generally exhibit better financial attitudes.

Financial Literacy and Age

There was a weak positive correlation between financial literacy and age (Pearson correlation = 0.309, $p < 0.05$), indicating that older respondents tended to be slightly more financially literate.

Financial Literacy and Household Income

A weak correlation (Pearson correlation = 0.209, $p < 0.05$) was observed between financial literacy and household income. While statistically significant, the relationship was not strong, suggesting other factors may also influence financial literacy.

Regression Analysis

Regression analysis was conducted to examine the relationship between financial literacy and predictors like financial behavior, financial knowledge, and financial attitude. The results indicated a statistically significant model (F = 30.035, $p < 0.05$), confirming that financial knowledge, behavior, and attitude have a strong collective impact on financial literacy.

- **Financial Knowledge** (Beta = 0.387, $p < 0.05$)
- **Financial Behavior** (Beta = 0.257, $p < 0.05$)
- **Financial Attitude** (Beta = 0.212, $p < 0.05$)

These findings suggest that financial knowledge has the strongest impact on financial literacy, followed by financial behavior and attitude.

T-Test and ANOVA

T-Test for Gender and Financial Literacy

An independent t-test revealed no significant difference in financial literacy between male and female respondents ($p = 0.295 > 0.05$), implying that gender does not play a significant role in financial literacy.

ANOVA for Household Income and Financial Literacy

An ANOVA test found a significant relationship between household income and financial literacy ($F = 8.158$, $p < 0.05$). This suggests that higher household income is associated with higher financial literacy.

Findings and Interpretations

Demographic Insights

- The majority of respondents were female (51.5%) and in the 25-34 years age group (41.7%).
- Most respondents held a Master's degree (46.6%) and had a household income ranging from 30,000 to 75,000.

These demographic patterns may suggest a more educated and moderately affluent sample, which could influence their financial behaviors and knowledge.

Key Relationships

Financial Literacy and Knowledge: There is a significant positive relationship between financial literacy and knowledge, meaning that better financial knowledge generally correlates with higher financial literacy. This reinforces the importance of education and awareness in improving financial decision-making.

Financial Literacy and Behavior: Financial literacy is also strongly linked with financial behavior. Those with higher literacy are more likely to engage in prudent financial practices, such as budgeting and saving.

Age and Financial Literacy: A weak positive correlation was found between age and financial literacy, indicating that older individuals tend to have slightly higher financial literacy. This could be due to greater life experience and exposure to financial decision-making.

Household Income: A modest positive correlation between financial literacy and household income was observed. Higher-income respondents tend to have higher financial literacy, which could be attributed to better access to financial resources and education.

Implications

- Financial literacy programs should focus on enhancing financial knowledge, behavior, and attitudes to foster better financial decision-making among individuals.
- The relationship between financial literacy and household income indicates that financial education should be targeted toward lower-income households to bridge the knowledge gap.

Research Gap

- The sample size of 116 respondents may not fully represent the broader population, particularly in terms of socio-economic diversity.
- Cultural Variations: The impact of cultural norms on financial literacy is underexplored. Future research could examine how cultural attitudes towards money influence financial behaviors, particularly in diverse socio-economic and regional contexts.
- Psychological Factors: More research is needed into how psychological traits like risk tolerance and cognitive biases affect financial literacy. Understanding these factors can enhance intervention strategies.

- Digital Literacy: With the rise of digital finance, understanding digital financial literacy is crucial. Future research should explore how digital tools influence financial knowledge, especially in emerging economies.

Conclusion

This research confirms a strong link between financial literacy, financial knowledge, behavior, and attitudes. It shows that individuals with higher financial literacy tend to make better financial decisions, including responsible budgeting, saving, and investing. They also exhibit more positive financial behaviors, such as cautious spending and long-term planning.

The findings emphasize the importance of improving financial literacy, particularly in contexts where financial knowledge is limited or access to education is scarce. In these situations, individuals are more likely to struggle with basic financial tasks, which can lead to poor financial outcomes. Enhancing financial literacy is not only beneficial for individuals but also crucial for broader economic stability, as financially literate individuals are less likely to rely on high-interest debt or engage in risky financial behaviors.

The study suggests prioritizing financial literacy programs, especially in underserved communities, to equip people with the knowledge and tools they need to make informed financial decisions and secure long-term financial well-being.

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