

## **FINANCIAL LITERACY – THE NEED OF THE HOUR**

MANAN MITTAL

Delhi Public School, Bangalore South

DOI: 10.46609/IJSSER.2022.v07i07.022 URL: <https://doi.org/10.46609/IJSSER.2022.v07i07.022>

Received: 21 July 2022 / Accepted: 29 July 2022 / Published: 30 July 2022

### **ABSTRACT**

This paper focuses on understanding the current state of financial literacy by analyzing a survey. The survey was filled by students going to private schools in Bangalore to ascertain their understanding of various financial concepts. The results stated that 88.7% of the students want to learn more about financial literacy. This paper concludes that financial literacy amongst youngsters has a lot to be desired as the information they are getting in schools is not enough. This might be solved by introducing more forums where students can actually discuss about the same.

**Keywords:** Finance, Financial Literacy, Education, School-Going Youth, Undergraduates, Economics

### **INTRODUCTION**

During the Covid-19 pandemic, the world saw the global economy suffer plummet (World Bank Group, 2020). It resulted in billions of dollars being wiped out of the markets resulting in economic fallout (Press Trust of India, 2020) and many people losing their jobs.

Financial literacy is more essential now than ever (Valladares, 2020). According to GCF Global, this can be achieved more efficiently through informed decision-making around parameters such as earning, saving, investing, and staying away from a debt trap.

Lack of financial literacy or its ignorance in the young and old alike leads to many of them going down a spiral of a vicious cycle since they are not aware of the difference between formal and informal sources standardized or non-standardized monetary sources (Carevic, 2019).

The last two years of the pandemic resulted in \$19.5 trillion to be added to the global debt taking it to a whopping \$309 trillion. Public debt now accounts for almost 40 percent of the total global debt, highest since the mid-1960s. According to Executive Committee on Economic and Social Affairs of the United Nations (1999), measures to curb this can come through only if a theoretical understanding through research is implemented on a large scale publically.

Financial awareness, its application and a continued learning is a life skill (Hendry, 2018). Money management is integral not only for living a wholesome life in foresight but also to maintain a certain standard through striking a balance between spending, saving, and investing in the day-day. The first step towards this would be identifying the widening gap between lack of financial literacy, analyzing the reasons for it and to form policies in order to implement them.

As explained by Law Insider, global debt is the result of short-term and long-term debt, i.e., borrowing by people, government and businesses. For instance, public debt is money owed by the governments through securities, bonds, etc. (Britannica, 2022). While there are varying definitions of financial literacy, it may be explained as the cognitive understanding of financial components and skills and the ability to apply it; such as personal fund management, budgeting, and investing. It is more than just a sharp acuity for handling finances but an opportunity to gain access to formal economic institutions and prospects, thereby facilitating one's monetary prospects exponentially (DiGangi, 2021). However a lack of such skills is referred to as financial illiteracy (Field, 2022).

According to Valladares (2020), it is now important more than ever for people to learn more about financial instruments if they want to safeguard themselves and their family members. It is in fact important for the government and companies to promote financial literacy and teach it for a better economy and mindful spending by its citizens (Nikolovska, 2022).

The hypothesis for this research is that the awareness among Indian school-going students and undergraduate students about financial literacy is not adequate enough for them to do personal financial planning.

## **REVIEW OF LITERATURE**

While searching for previous studies and papers on Financial Literacy, it was very surprising to find that a lot of the studies were dated between 2000 and 2010. The data found from papers and articles are stated below. The implication and relation of these papers have been discussed later on in the discussion chapter.

Marco Carevic at Wion news found that "Borrowing from a non-regulated sector leads to a lack of financial protection, as unmoderated borrowing-lending gives rise to an even bigger liability than the initially borrowed sum, thus becoming an unmanageable non-transparent spiral. The individual is caught in a vicious cycle of borrowing only to pay back previous sums."

Abigail Johnson Hess at CNBC (2022) reported that approximately 44 million Americans collectively hold over \$1.6 trillion as a result of student debt. The cost of a four-year college degree has increased by 25% and student debt by 107%.

Braunstein et. al. (2002) stated that the forces of technology and market innovation are driven by increased competition and demand. Thereby resulting in a sophisticated industry wherein customers are offered a broad spectrum of services by a wide array of providers.

Agarwal et. al. (2006) results suggest that an addition of basic topics in the school-level curriculum will automatically enhance the investment capability and behavior of people through education as well as awareness. This shall ultimately be directly proportionate to the financial well-being of individuals.

Right to Information (RTI) application filed by Manan (2022) to the National Council of Educational Research and Training received a reply which stated that "The various components of financial literacy are taught in an infused manner in schools, particularly in economics and business studies at different levels of school such as money and banking, insurance, E-Commerce, E-Banking, etc. However, we would like to inform you that as a follow up of National Education Policy 2020, the National Curriculum is being developed. The concerns of financial education will be placed for discussion at various forums and in the textbook development committees for its incorporation at different stages of school education."

## **METHODOLOGY**

### **Aim**

To evaluate the awareness of financial literacy among school-going students and undergraduates.

### **Sample and its selection**

This research has been conducted through a survey covering a sample size of about 151 participants. The sample were school-going students in Bangalore; 87.4% (132) between the age group of 14-17, 10.6% (16) were between 18-20, and 2% (3) were 21 and above. The gender split was 57.6% (87) females and 42.4% (64) males. The survey was collected through random sampling technique.

### **Description of tools employed**

The survey was conducted on school-going students by circulating a Google form through class groups and other groups to reach the masses. The Google form contains 21 multiple-choice questions related to awareness related to financial literacy, financial instruments, budgeting, etc.

### **Procedure**

Firstly, a Google form was created where questions were formulated to be answered. The description of the form stated that participation in the survey was completely voluntary and personal identity would be kept confidential. Then the survey was passed along through friend circles for it to be filled. After the desired amount of responses was received the survey was analyzed.

### **Analyses**

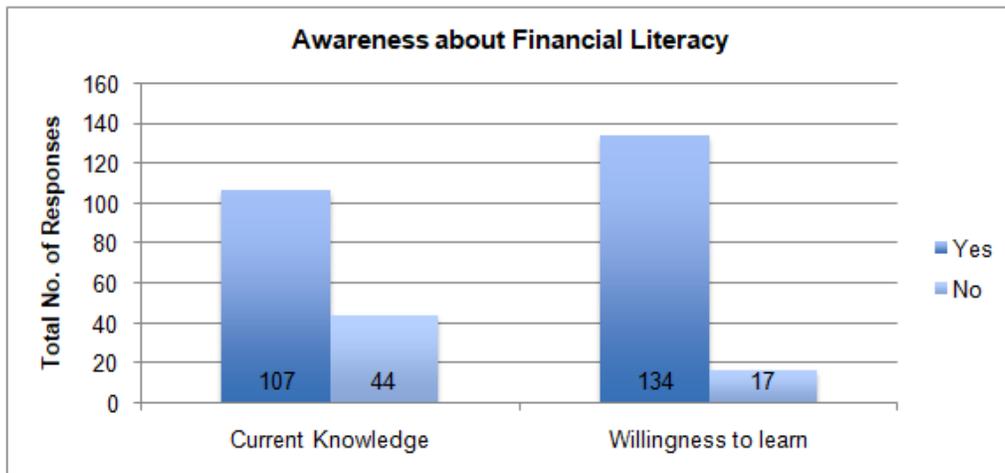
The survey was analyzed using a table format. All responses were weighted equally. Using absolute percentages of the responses, I was able to decipher the data listed below. I have followed them with the key findings of the survey.

### **RESULTS**

**Table 1. A presentation of the data shows the awareness of financial literacy and the willingness to learn about it among school students and undergraduate students.**

<b>Awareness about Financial Literacy</b>	<b>Yes</b>	<b>No</b>
Current Knowledge	107	44
Willingness to learn	134	17

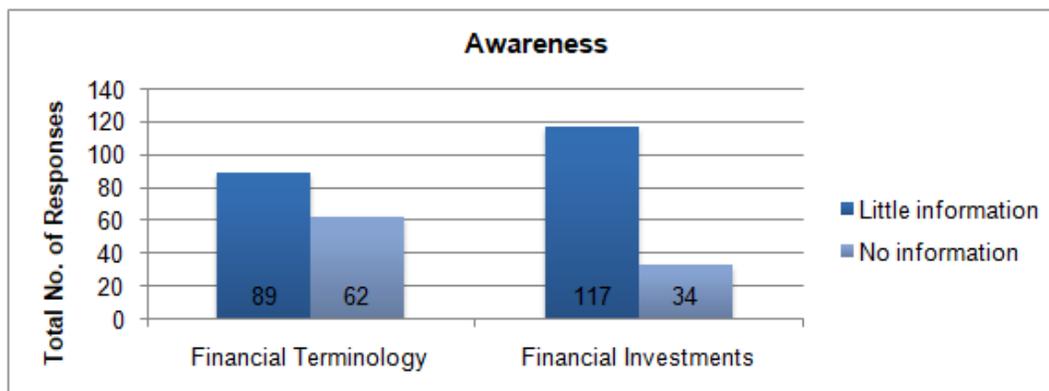
**Figure 1. Shows the data representing the awareness of financial literacy and the willingness to learn about it among school students and undergraduate students.**



**Table 2. Shows how many people are aware of the financial terminology and the financial investments.**

Awareness	Little information	No information
Financial terminology	89	62
Financial Investment	116	34

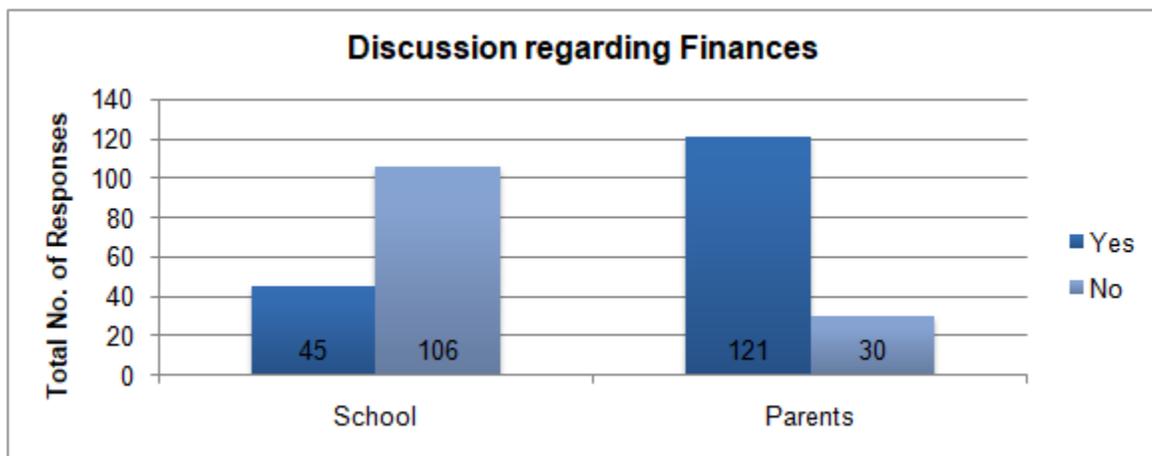
**Figure 2. Shows how many people are aware of the financial terminology and the financial investments.**



**Table 3. The data represents the discussion of finances at school with others and at home with parents.**

Discussion regarding Finances	Yes	No
School	45	106
Parents	121	30

**Figure 3. The data represents the discussion of finances in school with others and at home with parents.**

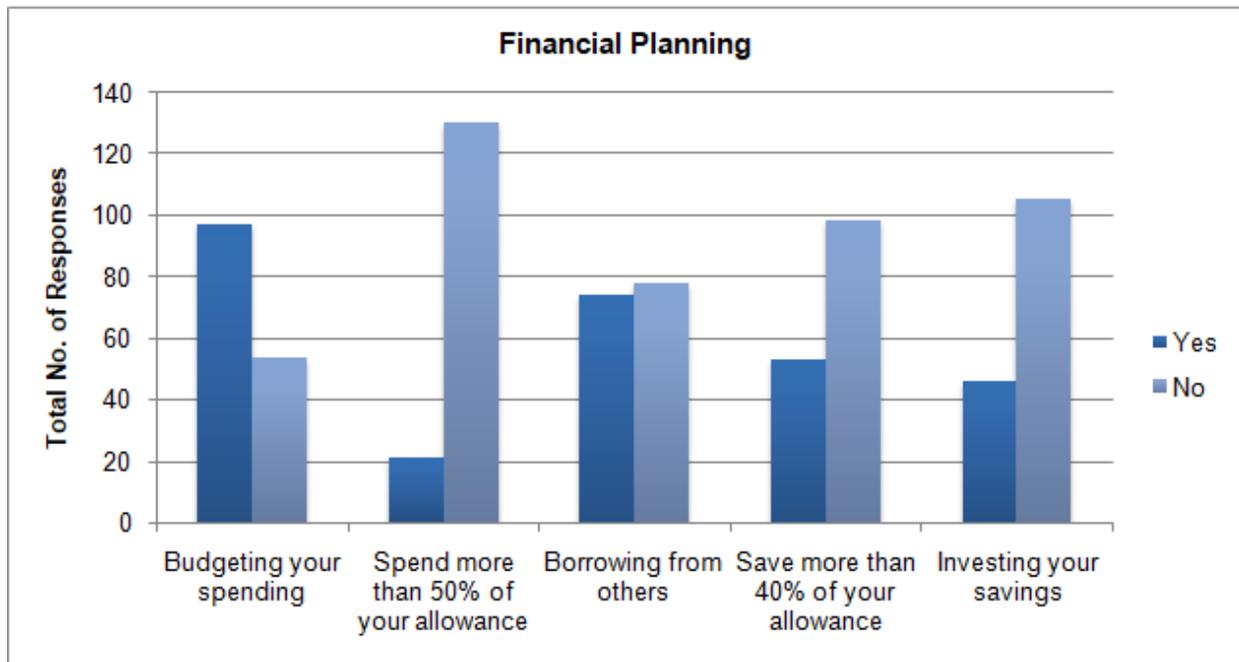


**Table 4. This presentation shows how school-going students and undergraduate students plan their finances.**

Financial Planning	Yes	No
Budgeting your spending	97	54
Spend more than 50% of your allowance	21	130
Borrowing from others	74	78
Save more than 40% of your allowance	53	98

Investing your savings	46	105
------------------------	----	-----

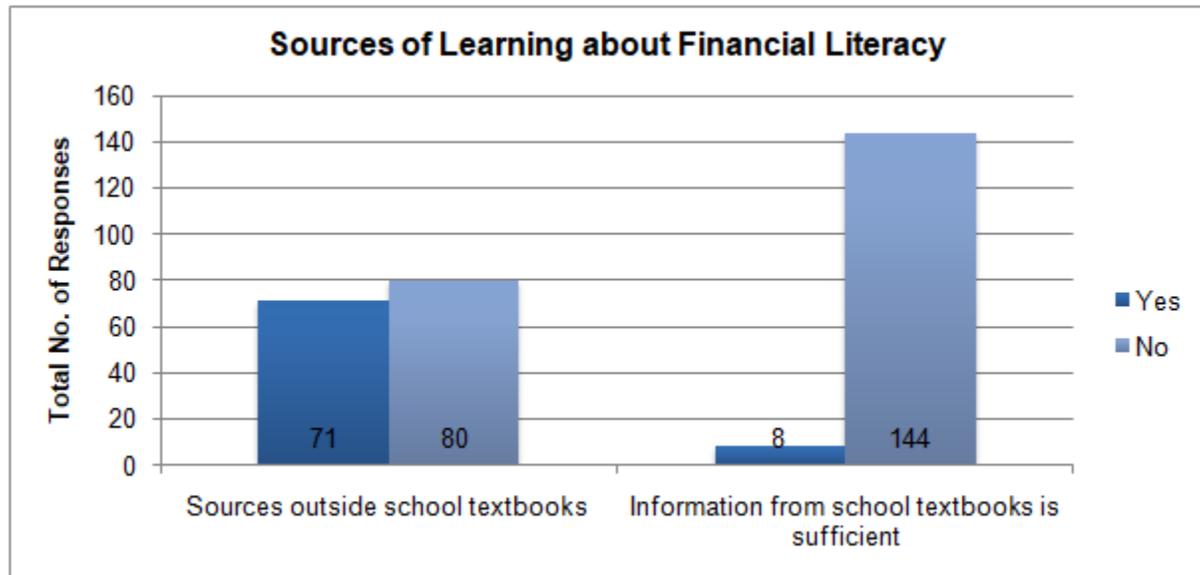
**Figure 4. This presentation shows how school-going students and undergraduate students plan their finances.**



**Table 5. Shows the sources from which they gain knowledge about financial literacy.**

Source of Learning Financial Literacy	Yes	No
Sources outside school textbooks	71	80
Information from school textbooks is sufficient	8	144

**Figure 5. Shows the sources from which they gain knowledge about financial literacy.**



**The key findings of the study are as follows:**

A majority (88.7%) of the respondents want more awareness on financial literacy. More than two-thirds (70.2%) of the respondents have never received financial planning education at school. As a result, one-third of the respondents do not budget their spending/allowances, two-thirds do not invest their savings, and about half of the respondents believe their parents will fund their college education (as exposure to other avenues is limited). When you talk about financial jargon like “S&P 500” and “Repo Rate”, 41.1% don’t know about it. More than 60% of the respondents are not able to save even 40% of their monthly allowance.

**DISCUSSION**

The hypothesis for this research is that school-going children need more financial literacy. This aspect has been explored by gauging their current understanding of financial terminologies and related basic concepts. Teaching the youth to apply financial knowledge, budgeting, and planning to spend wisely is essential and recommended. It is recommended to teach them to plan such that costs of college education and miscellaneous day-to-day expenses are looked after. The results back the hypothesis that financial literacy among youth in India is in a rather deplorable state. It is high time that the financial policies that are under discussion concerning the New Education Policy 2020 be implemented with as little delay as possible.

There are so many who want to learn but cannot, simply due to a lack of resources. In various developed countries, the youth, including students and young workers, are deep in debt with maxed-out credit cards (reaching/surpassing credit limits of credit cards issued to them). A lot of them also have a negligible net worth.

India could go a long way by educating its youth to make smart decisions with their money and teaching them about the available avenues through which they can maximize their savings be it through investing, saving, or budgeting.

Marco's findings at Wion resonate with the fact that borrowing from the informal sector leads to a lack of financial discipline, and the individual is caught in a vicious circle of borrowing only to pay back previous sums. The youth must be educated on formal and informal sources of borrowing so that they can make informed decisions. Financial literacy has been termed a life skill by OECD, NYTimes, Business Insider, and many more. As Abigail at CNBC also talks about the widespread student loan problem in the USA, it should be noted that the majority of the students surveyed in this research believe that their parents are going to fund their college education simply because of the students' (and possibly parents') lack of exposure to other sources.

School education is at the forefront of a student's life. It thus makes sense, for schools to lead the initiative of teaching about finance, and all its aspects are positive or negative, as suggested in the study by Agarwal et. al. (2006). Risk due to misguidance increases if one doesn't educate oneself from a credible source. As seen in the study by Brunstien et. al., due to larger sources and avenues available to consumers, they must be aware of the right sources. Financial literacy at the school level can look like saving for an emergency fund, investing, health insurance decisions for the student, good debt vs. bad debt, optimum utilization of credit cards, and learning the drawbacks of not investing in the right places or of not investing at all.

## **CONCLUSION**

This research paper establishes that there is a requirement for financial literacy among the youth in India. Most of them understand that the knowledge they get from conventional sources such as textbooks is not enough. They want to learn more about it. This makes a strong case for financial literacy to be introduced into the school curriculum.

An important impact of introducing financial literacy would be on the funding of college education. Pursuing a good college education is a dream for almost all. Therefore avenues available to fund college education should be introduced alongside other elements of saving and

investing during the school tenure. This would contribute to alleviating some of the financial burdens of the parents. In most cases, the college education cost can be shared by the student and the parents. There can be a well-thought plan including but not limited to funding by parents, education loans, and personal savings by students to make the management of finances better.

The findings of this research paper would be truly impactful if we find a way to create awareness around financial literacy as a part of the school curriculum. This can be facilitated through parents-teachers-students discussion forums which can be offline or online.

This research paper also found a keen interest to learn about financial literacy among the surveyed students. However, financial literacy needs to be introduced into the curriculum. Hopefully, more research is conducted to facilitate such an introduction to India's school syllabi.

## **REFERENCES**

Agarwal, P., Kureel, R. C., &Yadav, S. (2017). A study on future plan for increasing financial literacy among people. *Global Journal of Finance and Management*, 9(1), 29-38.

[http://mail.ripublication.com/gjfm17/gjfmv9n1\\_04.pdf](http://mail.ripublication.com/gjfm17/gjfmv9n1_04.pdf)

Braunstein, S., & Welch, C. (2002). Financial Literacy: An Overview of Practice, Research, and Policy. *Federal Reserve Bulletin*, 88 (11), 0.

<https://doi.org/10.17016/bulletin.2002.88-11>

Britannica, T. Editors of Encyclopaedia (2022, January 25). Public debt. *Encyclopedia Britannica*.

<https://www.britannica.com/topic/public-debt>

Carevic, M. (2019, July 29). Financial literacy enables poorest to follow their dreams. *WION*.

Retrieved from <https://www.wionews.com/opinions/financial-literacy-enables-poorest-to-follow-their-dreams-239146>

Corporate Finance Institute. (2021, February 21). Financial Literacy. Retrieved from

<https://corporatefinanceinstitute.com/resources/knowledge/finance/financial-literacy/>

DiGangi, C. (2021, November 21). Financial Literacy. *The Balance*.

<https://www.thebalance.com/what-is-financial-literacy-5120435>

Executive Committee on Economic and Social Affairs of the United Nations. (1999, July).

Finding solutions to the debt problems of developing countries. *United Nations Publication*.

Field, B. (2022, May 19). Financial Illiteracy Definition: Top Definitions of Financial Illiteracy. NFEC.

<https://www.financialeducatorsCouncil.org/financial-illiteracy-definition/>

Financial Literacy. (2021, October 30). Investopedia. Retrieved from

<https://www.investopedia.com/terms/f/financial-literacy.asp#:~:text=Financial%20literacy%20is%20the%20ability,a%20lifelong%20journey%20of%20learning>

Fitzgerald, M. (2020, February 26). Coronavirus wipes out \$1.7 trillion in US stock market value in two days. CNBC. Retrieved from <https://www.cnbc.com/2020/02/25/coronavirus-wipes-out-1point7-trillion-in-us-stock-market-value-in-two-days.html>

Global Debt Definition. Law Insider.

<https://www.lawinsider.com/dictionary/global-debt>

Hendry, B. (2018, April 20). Financial literacy is a basic life skill and a need to know - and now it's more relevant than ever. Business Insiders. Retrieved from

<https://www.businessinsider.in/personal-finance/financial-literacy-is-a-basic-life-skill-and-a-need-to-know-and-now-its-more-relevant-than-ever/articleshow/63849298.cms>

Hess, AJ (2020, June 12). How student debt became a \$1.6 trillion crisis. CNBC. Retrieved from <https://www.cnbc.com/2020/06/12/how-student-debt-became-a-1point6-trillion-crisis.html>

I. (2021, December 15). Global Debt Reaches a Record \$226 Trillion. IMF Blog. Retrieved from <https://blogs.imf.org/2021/12/15/global-debt-reaches-a-record-226-trillion/>

India's Growing Financial Literacy | IBEF. (2022, January 27). India Brand Equity Foundation. Retrieved from <https://www.ibef.org/blogs/india-s-growing-financial-literacy>

Marcolin, S., & Abraham, A. (2006). Financial literacy research: Current literature and future opportunities.

<https://ro.uow.edu.au/cgi/viewcontent.cgi?article=1233&context=commpapers>

Messy, F. A. Financial education and youth. Retrieved from

<https://www.oecd.org/financial/education/financial-education-and-youth.htm>

Money Basics: Staying Out of Debt. GCFGlobal.Org.

<https://edu.gcfglobal.org/en/moneybasics/staying-out-of-debt/1/>

Nikolovska, H. (2022, May 11). 10 Benefits Of Employee Financial Literacy Programs. People Managing People.

<https://peoplemanagingpeople.com/articles/employee-financial-literacy-program/>

Press Trust Of India. (2020, March 13). Market carnage: Rs 12 trillion worth of investor wealth wiped off. Business Standard. [https://www.business-standard.com/article/markets/market-carnage-rs-12-trillion-worth-of-investor-wealth-wiped-off-120031300315\\_1.html](https://www.business-standard.com/article/markets/market-carnage-rs-12-trillion-worth-of-investor-wealth-wiped-off-120031300315_1.html)

Schuetze, C. F. (2014, July 27). Learning Personal Finance as a Life Skill. The New York Times. Retrieved from <https://www.nytimes.com/2014/07/28/world/europe/learning-personal-finance-as-a-life-skill.html>

Valladares, M. R. (2020, December 15). Financial Literacy Is More Essential Than Ever. Forbes. <https://www.forbes.com/sites/mayrarodriguezvalladares/2020/12/15/financial-literacy-is-more-essential-than-ever/?sh=596ff5046304>

Wilkes, T. (2022, February 23). Emerging markets drive global debt to record \$303 trillion - IIF. Reuters. Retrieved from <https://www.reuters.com/markets/europe/emerging-markets-drive-global-debt-record-303-trillion-iif-2022-02-23/#:%7E:text=The%20IIF%20sees%20total%20global,potentially%20%247.2%20trillion%20by%202025>

World Bank Group. (2020, June 8). The Global Economic Outlook During the COVID-19 Pandemic: A Changed World. World Bank.

<https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>