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WHAT IS FINANCIAL LITERACY?

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ABSTRACT

This paper highlights the importance of financial literacy among teenagers from different countries. This paper also discusses different financial literacy rates in different countries and the reason behind the different showing results. After that the methods by which anyone can manage their personal finances across various age groups have been stated. There are some key rules which can help an individual to recover from debt (if any) or do along-term benefit investment. In my opinion, financial literacy can be referred to as one of the important key skills for any individual who is embedded in complex financial scenarios, as it focuses on the ability to manage personal finance effectively. Financial Literacy is the education about how money works in the world and on what basis the product is marked at the respective price. Nowadays, lack of financial education is a common problem around the world.

Keywords: Financial literacy, Investment, personal finances

OBJECTIVES

The main objectives of the paper are as follows:

1. To measure the level of financial literacy.
2. To measure financial behavior.
3. To study the ways that all financial literacy consists of.
4. Why is Financial Literacy so important?

Why Is Financial Literacy Important?

It includes study about savings, investments, including personal financial management, real estate, tax planning, retirement plan, and budgeting. A financially literate person knows how to earn, invest and make the best use of it in any way or other. Despite its importance, research has shown that financial literacy is lacking in many individuals. According to a 2018 survey national

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foundation of credit counselling found that only 17% of the people were very confident in their ability to manage their finances. Financial literacy has been identified as a potential to solve this problem. Many schools, organizations, and communities have been aiming to organize financial education workshops and make awareness among respondents. To ensure that either students or their parents are financially literate, the government has been organizing financial literacy and behavior programs with the help of institutions and schools' support. It makes an individual self-sufficient and financial stability can be achieved.

If financial literacy is not taught to the young generation, then it would be very difficult for them to understand the causes of it. The reserve bank of India has issued a short story on financial study with the help of school students and in comic form. In that, it is said that due to lack of money control the country suffered from recession, inflation, and economic crisis. There have been some studies that have revealed that financial education has made a difference people in risk-taking perceptions.

According to recent reports, it has been showcased that many populations suffer from lack of financial knowledge, it doesn't matter that where they live is developed or not. Besides, recent evidence displays that being unable to understand financial topics.

Financial rate in different countries-

This study has been done by the "American Institute for Research". The given graph shows the rate of financial education in different countries of non-earning youngsters.

China has been ranked in the very first position, because for the following reasons: -

- The national policies of China are so well practiced that make the population notified about these.
- These policies are not only for a specific class but focus on the nation's needs and future growth of the country.
- Their government is investing a large amount of money in financial institutions to get their youth educated without forgetting the adults and providing them with free campaigns.
- These institutions mainly focus on the daily financial issues which makes a great impact on most of the population.

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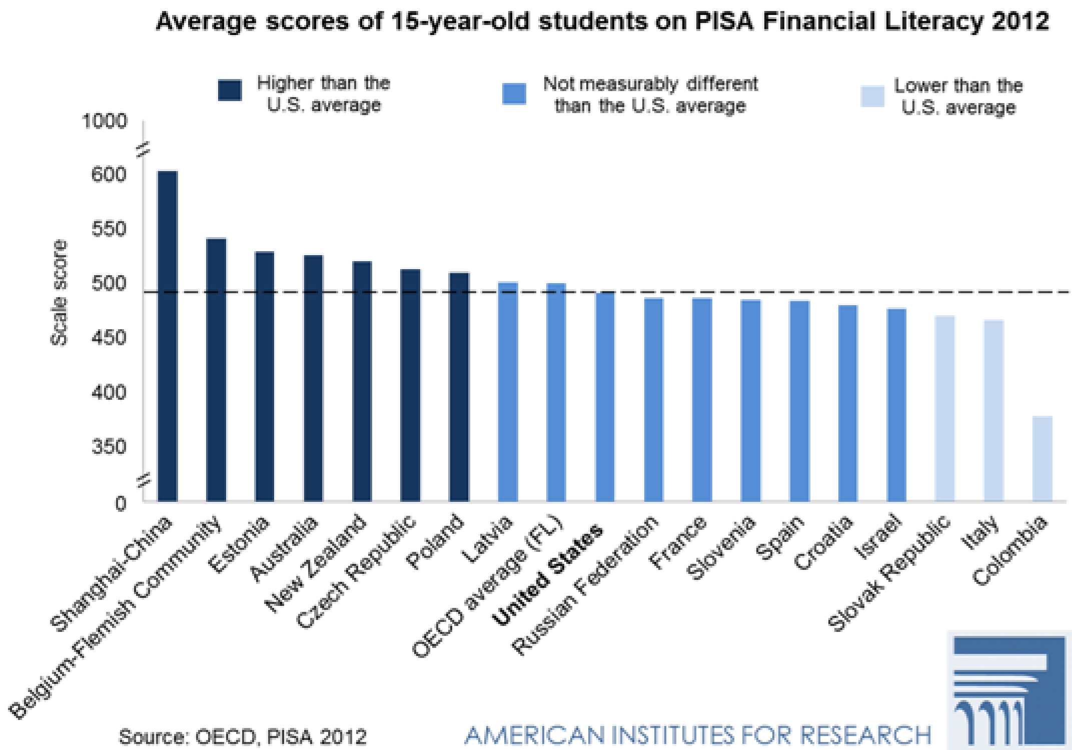
- Students have a separate subject about financial literacy due to which they get well educated, till the time they are in college it makes them very easy to study about and how to deal with their monthly expenses.

- According to research by "The Program of international student assessment" (PISA) the Chinese have been dominating in maths and comprehensive skills, which are the key skills for financial literacy.



How to manage your money correctly-

For any individual handling their finance in the right way should be the priority irrespective of their income. They can take advice from chartered accountants, or they can join some of the programs conducted by the government. These days many people are consulting with people who have great knowledge of finance. Interestingly, for the past few years study in finance has been a top pick for college students according to sources.

In my own opinion, an individual should know how to check their balances, passbooks, and how pay their bills on time so that no extra interest or penalty is charged on the principal amount. Managing money doesn't only require savings it consists of several steps such as investments, bank deposits, and a regular check on the daily expenses.

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For Non-Earning Youngsters: - Giving them even the smallest amount of money as their pocket money can also help them learn how to manage money. Giving teenagers a uniform amount of money, every month or week forces them to make a chart and spend according to it. Through this, they also learn about sacrificing.

Other than only getting dependent on pocket money, teenagers can earn money by doing various jobs or internships such as: -

1. Cleaning cars
2. Babysitting
3. Paper round
4. Looking after pets or taking their pets for a walk.
5. Making lawns for others such as family members, neighbors, or relatives.

By getting enrolled in these types of things and earning money the teenagers would be able to know the real value of money and will look forward to saving or investing.

Ways in which students can budget: -

1. Help them to find a budgeting app- Many of these apps make budgeting fun by assigning them daily goals and tracking progress.

2. Setting up a daily challenge- The goal must be related to something which they admire such as a toy, board game, video games, chocolate, etc.

For non-earning adults or retired professors: -

All the retired professors and non-earning adults look for opportunities to earn money, as they are in a condition in which it is hard for them to physically go out to work in offices and work 9-5.

So, many corporate companies with association from the government have launched schemes in which they can invest and look further for some extra return and reduces their dependence on others. The schemes are as follows: -

1. Mutual funds

2. Systematic investment plan

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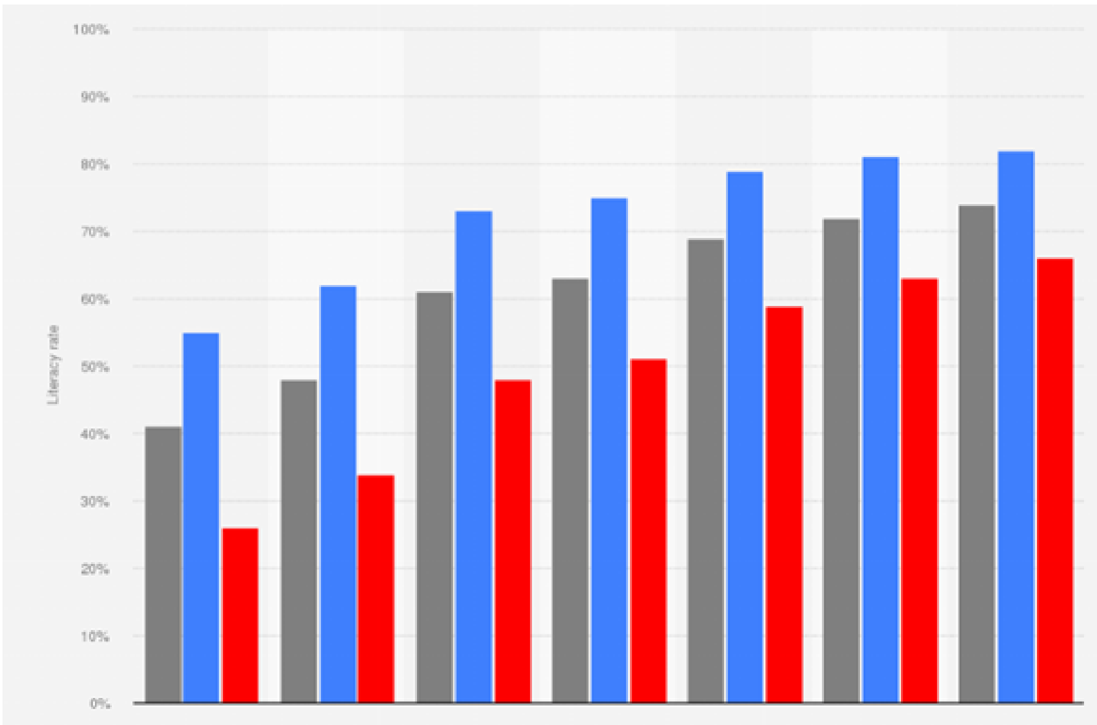
3. investment in gold and market share

Rise in literacy rate of India from 1981-2018: -



The above diagram shows the rise in the literacy level of India. The grey bar stands for overall increment, blue stands for male and red is for female. The male literacy rate has increased by 20% from the year 1981 to 2006. The female graph raised by 15% in the same period. According to some reports, such an increase was made during the period as the country was suffering was economic crises which lead the citizens of the country to take actively part in such money educational workshops. It was then further measured, and the results were as follows: -

1. The number of males literate was higher than females.

2. Males include a total of 82%, whereas females had only 66% in total at the end of year 2018.

3. The overall literacy of the country at the end of year 2018 was 74%.

Money in Bank: -

A person should start saving by opening a bank account. Once your paycheck is active, set up direct deposit. This keeps your money safe and saves you from paying interest on some

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payments due to late payment as a cheque is all you need to transfer the money to anyone's account. And these banks are also offering the facility of online payment or e-banking.

These days everyone has a bank account. Banks possess a facility of more than one type of bank account. They provide fixed deposits in which the rate of interest is the highest and the middle class always prefers to put some money in fixed deposits as it will increase from time to time.

Banks also provide time-to-time balances or transactions whenever you need them. The banks have all the transactions of every account with the time and their amounts. If any account holder wants the information, then they can take it from the bank.

Money Budgeting: -

One of the key features to save money is the ability to budget. Although, it's easy to understand very difficult to implement as it is hard to look in the mirror and willingness to see what stares back at you. Budgeting requires that you analyze and change your spending habits. Instead, of money controlling you, you should control money. You should develop the habits to save so that you avoid economic crises in the future.

How to make a Budget plan successful: -

- One should make a monthly budget plan and should spend strictly according to it.
- Debts if any, should always save some money and then pay off their debts.
- An individual should always think of how to make their expenses low.
- How to distinguish between short-term, medium-term, and long-term loans.
- If anything, more specific requirements then you should connect with financial experts.

Savings: -

When anyone talks about financial literacy the very first thing that comes to mind is saving. Saving is an essential part of money budgeting. Banks give accessibility for opening a savings account. Saving Accounts also provide a good rate of interest, which can help you from draining your money during emergencies.

Pay Yourself First: -

“Be Sure to pay yourself First”, by Stanczak. It says that if you spend all the money you have earned after spending all your hard work, blood, sweat, and your precious time, without saving some of its parts for the future then you will never be able to gain wealth.

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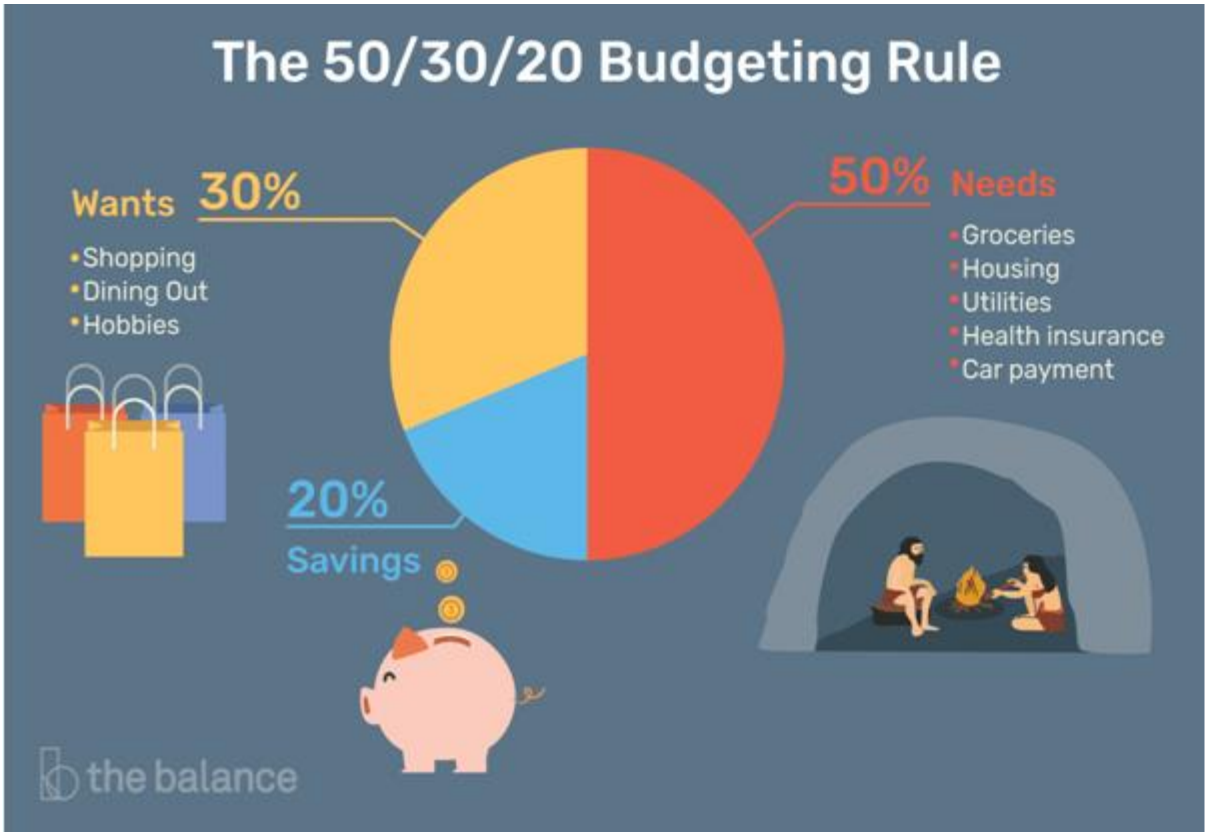
Pam Capalad, a certified financial planner and the founder and CEO of Brunch & Budget in New York City said that "one should always make a habit of saving regularly and should let the money aside to automate it."

The 50/30/20 rule: -



This will give you a better view of the 50/30/20 rule. According to studies, 50% of the income can be spent on essential needs, for example- loans, rent, school fees, and other household expenditures.

Then comes the 30% of your income that a person can spend on their wants that are not regularly, like outings with family, movies, shopping, entertainment, etc.

At last, comes your remaining 20%, which the person should save either by hook or crook. Because these savings are your only financial help in case of any emergency or your family's financial crisis.

In my own opinion if a person follows these steps, then the chances of financial crises become nearly 1%.

Investing: -

To become financially literate, one should learn about the key features of investing. Investing makes a person take risks as no one knows what the future value of the asset will be. some very important components that should be learned to ensure the safety of investments are interest rates, price levels, good market knowledge, risk mitigation, and indexes.

Learning about crucial investment components allows individuals to make smarter financial decisions that may result in an increased inflow of income.

Types of Investments: -

Real estate Investments: -

Real Estate investing uses real estate properties as an investment material to earn profits by the medium of industrial properties, commercial places, and collecting cash flow in real rental income.

Some basic Principles of investing: -

- One should always know how much loss they can suffer and for how much time. It is not necessary that everyone can overcome the loss.
- A very famous quote is used in stock investments- "Be greedy but be patient".
- Some people come in the way of others and without even adequate knowledge about that field they invest. One should always research on its own.
- Sometimes, the investments can make you profit but not every time. So, invest in that about which you are aware of.
- You should not invest only in one item, always invest in various things.
- One should be emotionally strong when it comes to investing.
- Investing in the share market, mutual funds, fixed deposits, current deposits, systematic investment plans, etc.

Any person invests their money for future retirement.

Establish how much you need to pay your

1. bills: -

To establish your essential living expenses, add your recurring bills including payments, rent, utilities, liabilities, groceries, and daily household expenses. According to a study one's

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framework should be 50/30/20 rule. Your essential expenses should not take more than 50% of your income. If they are taking more then there is a need to negotiate your bills and reduce them.

Jorge Padilla, a certified financial planner and senior client advisor at The Lubitz Financial Group once said, "Ask yourself if your current lifestyle is the right one to allow you to be in a solid financial position in the Future".

2. Borrowing: -

In most cases, almost every individual has to borrow money from one or the other at some point in life. To ensure borrowing is done safely so that there is no problem in future repayments of the debts done by understanding tax rates, interest rates, compound rates and time value of money, payment methods, and loan structure is crucial.

If the above criteria are well understood then it reduces the debt loss probability of any person as an individual's financial literacy will increase, which will provide practical borrowing guidelines and reduce long-term financial stress.

Rural India is a great example of this

In backward areas where farming is done. Farmers borrow some funds from landlords or businessmen to run their businesses or do household work. They are not aware of the interest rates and methods of payment in which they can pay. Lenders use this opportunity to make additional profits and due to this the farmers feel it difficult to pay and die in debt.

3. Taxation: -

When we talk about financial education, knowing about taxes and their policies becomes an important aspect to learn. Gaining knowledge about different forms of taxation policies and how they impact an individual's net income is crucial for obtaining financial literacy. Whether it be employment, inheritance, rental or unexpected, each source of income is taxed differently.

Awareness of the different income tax rates permits economic stability and increases financial performance through income management.

Conclusion

Research has shown that financial education can be effective in improving financial literacy. A study by the Federal Reserve Bank of St. Louis found that individuals who completed a financial education program had higher credit scores and were more likely to have a savings account. Additionally, financial education has been linked to higher levels of financial well-being and lower levels of financial stress.

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However, there are challenges to improving financial literacy. Many individuals lack access to financial education programs, and those who do have access may not take advantage of them. Additionally, financial education is not a one size fits all solution, and programs may need to be tailored to specific demographics and populations.

Lastly, Financial literacy is a crucial component of personal financial management. While many individuals lack financial literacy, education programs have shown promise in improving financial knowledge and behaviors. Addressing the challenges to improving financial literacy will be essential in ensuring that individuals can make informed decisions about their money and improving their financial well-being.

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