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RESEARCH ARTICLE

UNDERSTANDING AND IMPORTANCE OF FINANCIAL LITERACY AMONG YOUTH- A REVIEW

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ABSTRACT

In recent times of financial turmoil and uncertainity experienced by developed and developing countries, there is growing concern among individuals, governments, regulators, institution and academics about levels of financial literacy. An individual's level of financial literacy,and the resulting attitudes and behaviors have been shown to have a powerful impact on macroeconomic conditions, especially highlighted during the recent global financial crisis. It can be said that the well being of population depends on how well they are financial literate. Personal financial literacy is associated with success in managing dept, investing in retirements and coping with financial stress.The predictive ability of personal financial knowledge demonstrates the importance of improving the knowledge of college students. Without enough knowledge,you are more likely to make mistakes in the real world. Improving financial literacy strengthen self-determination and improves quality of life. This review will help you understand the importance of financial literacy in your personal life.

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INTRODUCTION

In todays world managing personal finance is increasingly important**.** Everyone needs to plan long-term investments for their children's retirement and education.[1] Financial literacy is a growing concern among governments and financial system regulators[2]. There is also empirical evidence that people with a high degree of financial literacy tend to earn more income from their savings and invest in more diverse set of financial instrument.[3] Financial literacy is the ability of an individual to effectively manage financial matter, his/her own personal finance, budgeting, investing through application various financial skills.[4] The national and international regulatory authorities, especially within the Organization for Economic Co-operation and Development(OECD-2012) countries, have been conducting several studies on this topic in order to determine the levels of financial literacy of the population, and to establish financial education programs that would raise these levels and therefore positively influence the consumers behaviour related to financial products and services.[2]It highlights the importance of educating the younger generations, since they are likely to face increasing complexity and sophistication in financial products and to bear higher responsibility for retirement plans.[2]

For all these reasons, it is extremely important to educate young populations, and prepare them to an active financial life.[2] Financial literacy varies by sector and level of education, as well as by age, gender, high school major, and years of work experience. Financial knowledge, attitudes, and behaviors are also positively correlated, so students with better financial literacy tend to adopt more appropriate financial attitudes and behaviors.[2] Financial literacy is vital to consumers operating in an increasingly complex financial environment. It is therefore not surprising that governments, industry, communities and workplaces around the world are interested in Funding effective financial literacy programs to raise the level of financial knowledge, attitudes and behaviors.[5]

It also shows that financially literate citizens are able to

1) make daily choices about how to use their money and maintain their financial position duty; 2) exploit the ever-changing financial markets and buy products and services tailored to their unique needs; 3) plan ahead on how to use earn money for life goals, such as buying a home or preparing for retirement; 4)deal with local, state, and national government programs and systems often difficult to understand, even for the most experienced; 5) filter the financial

information and advice they receive, whether from friends, the media or professionals; 6) and best manage the resources at their disposal, including social benefits, and public pensions, tax credits, public benefits, investments, home ownership, access to consumer credit and purchasing power[5].People quote about how to get a job and make money, but no one teaches how to manage money. Learning how to manage money is just as important as making it.[6]

DEFINING FINANCIAL LITERACY

Based upon a review of research studies since 2000, Remund (2010)[7] suggests the following synthesized definition: "Financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions.[7]

IMPORTANCE OF FINANCIAL LITERACY

Financial crisis emerging as a concern is important not only from individual perspective but also from global and economic perspective[8]. Financial literacy contribute to the economic growth as well as helps to reduce poverty by more efficient allocation of capital within society. When viewed from global economic status there are two sides assets and debt side. Assets sides involving information on growing number and complexity of financial product and services available while the debts side provide an opportunity to choose among different loan possibility and situation of predatory lending helps to create a more competitive and efficient market, given that consumers meet product of financial needs.[9] From an individual point of view, the lack of financial literacy leads to ineffective money management resulting in behaviors that make consumers vulnerable to financial crisis.[10] The Organization for Economic Co-operation and Development (OECD-2006) offers the argument that the economic literacy may be crucial in making contributions to the monetary growth, assisting to lessen poverty in all economies and attenuating the volatility of economic markets.[2] Budgeting, debt, saving and investment are the four components-Budgeting-Helps with planning and money management. It helps to track spending habits and optimal use of money and create a workable financial plan, helps to track expenses, separate unnecessary expenses and spend money wisely. The thumb rule is that income should be greater than expenses, this helps with short, medium and long-term spending planning.(21) Debt- It's borrowing and spending money that doesn't belong to an individual. Debt covers many different aspects of borrowing such as borrowing from banks and using credit cards, among other things. But not every debt is negative, and to achieve that, you'll need to understand the difference between bad debt and good debt. Good debt means borrowing money for things needed to make a living, including things like paying school fees or buying a house or car. Bad debt includes borrowing to meet unnecessary expenses such as using a credit card to fulfill your wishes. Individuals should avoid bad debts as much as possible.(21) Saving- Saving means financial well-being while securing the present and the unseen future. Good financial planning will help you build lasting wealth. Having a tab on spending habits will help you save money and a strong savings habit will help achieve many things including achieving the financial goals, achieving financial discipline and creating emergency funds among others.(21) Investing- Investing means the ability to transfer one's money into a financial instrument instead of keeping it idle in a bank account. Investment will help create and increase wealth so that one can enjoy a secure and happy future. By investing, one can achieve financial goals and allocate some money for retirement. Some of the widely used investment options include debt securities, stocks, real estate, mutual funds, and gold.(21)

BENEFITS OF FINANCIAL LITERACY

Financial literacy benefits individuals and families [11]. It increases students saving potential, to Invest, get out of debt, spend less than you earn, and live within your budget. Improvement in financial literacy also noted positive influence on students attitudes towards business in general and their ability to be smart social consumers. Having education about financial literacy is found to be highly associated with risk tolerance, financial attitudes and savings and investment behavior.[6] Knowledge of financial literacy strengthen self-determination and improve quality of life.[13] Another benefit of financial literacy is improved physical, emotional and psychological health. Norvilitis et al. (2003)[6] found that college students perception of financial well-being appears to be related to their psychological well-being, the ability to have better control over their lives and low levels of dysfunctional attributes. Students who lack financial skills experience financial difficulties later in life[11]. Students with lower financial literacy had more negative opinions about finance and more false opinions to make financial decisions. They point out that low financial literacy limits students' ability to make informed decisions.[12] Sobolewski and Amato (2005)[6] found that financial hardship negatively impacts student-parent-teen relationships, educational attainment, and student earnings. Financial literacy goes beyond knowledge about money that includes being a wise consumer of food (improving your health) and other purchases like cars (affecting safety and the environment) (Knapp, 1991)[13]. Improving financial literacy can therefore affect student's physical health and safety, as well as their mental health.[6]

MEASURES OF FINANCIAL LITERACY

Assumed Framework for Accessing Levels financial literacy consists of three main aspects:

- Financial Knowledge - Apply a series of questions on key financial concepts such as compound and interest rates, risk and return, and inflation.
- Financial Behavior – using a series of relevant financial behavioral questions such as Think before you buy, pay bills on time, set a budget, and save and borrow to meet your goals.
- Attitudes – analyzes people's attitudes towards various aspects of financial issues such as money management and future planning. To determine their attitudes and preferences, ask them if they agree or disagree with a particular opinion.[14]

INFLUENCES SHAPING FINANCIAL LITERACY

PARENTAL INFLUENCE

Strong parenting practices such as modeling and teaching can affect financial literacy in early childhood and teenage years and they can have greater influence than their children's peers.[15] Children often follow their parents bad financial patterns and repeat the financial hardships they face.[16] Parents teach their children how to act on their values, beliefs, and knowledge. Direct impacts such as family discussions and grant seeking may consist of increased knowledge and the formation of attitudes, values and action. Consumer learning occurs when children are exposed to mass media that parents want to bring with them inside the house (TV, magazines, newspapers, radio, etc.)[18]

PEER INFLUENCE

Point out that the impact of each individual (family, school, media, and peer group) depends on the extent to which children are exposed to each. This is one of the reasons why it is important for parents to start teaching their children not only the benefits and consequences of managing money, but also the knowledge, attitudes, and behaviors early on, and to repeat these lessons frequently. The increased peer influence may be due to the fact that as adolescents get older they spend more time with their peers and thus are more influenced by their environment. Brown et al. (1993)[15] found that parents do retain indirect influence over their children's peers, although they do not lose influence as they spend more time with their peers. John (1999)[19] found that materialistic attitudes were positively associated with weakness in family communication and vulnerability to peer group influences influenced by an unstable home environment. Therefore, positive economic communication at home, especially from parents, influences peer influence on children.

PERSONAL CHARACTERISTICS

Chen and Volpe (1998) found that students were more knowledgeable and performed better in familiar subjects such as credit cards, bank accounts, and leasing, and scored lower in areas they thought less of like Life Insurance and Investments. College students socialization is influenced by individual student characteristics such as life experience, socioeconomic status, gender, and age. A student's personal characteristics can influence their consumer socialization, and thus their financial literacy, attitudes and behavior.[12]

EMPOWERING PHYSICIANS WITH FINANCIAL LITERACY

Most doctors complete medical training without a thorough knowledge of business and finance. This flaw leads to sub-optimal decisions that can damage a household's or company's finances. Susceptibility to incompetent or dishonest advisers; anxiety that can paralyze decision-making and even affect personal relationships.[20

NEED OF FINANCIAL LITERACY AMONG PHYSICIANS

Physicians should view financial education as necessary and urgency. Instead, many hesitate or act half-heartedly. The harsh reality is that doctors face more financial challenges than ever before. a) More specialization means more years of training. b) Diminished revenue across many specialties due to private practice mergers and acquisitions. c) Asset management is becoming more complex.[20]

RECOMMENDATIONS

- attending financial seminars- great for the purpose of networking and meeting new people with similar interests. One can interact with investors, matter-experts and industry analyst. Attending seminar can help you with knowledge.
- participating in blogs- people share wisdom and knowledge using blogs.
- workshops and finance programs-workshop and finance program can help in understanding and improving your credit score , developing a saving strategy.
- peer financial counselling- a financial counsellor can answer financial question whether it is about the basic day to day money situations or more complex long term scenarios. They can assess the financial situation and help plan for all the financial needs.
- use of technology- use social media channels to follow financial experts on twitter or any other media accounts. Many finance oriented accounts can help with knowledge about finance
- listen to financial podcast- podcast can be a great way to soak up financial information and news while doing housework, run errands, etc
- Enroll for a short term course- short term courses are available around personal finance, corporate finance, investment banking, international finance and financial management.

CONCLUSION

Money decisions are fundamental to our society. This literature review provides an overview of the theoretical framework that determine the usefulness and importance of students financial knowledge, the influence of parents and peers, and personal characteristics that shape students financial literacy, attitudes and behavior.

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