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Impact of Level of Education on Financial Literacy: Evidence From Haryana

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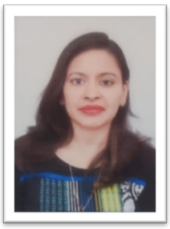

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Abstract

The study was conducted to check the impact of education on the financial literacy in the state of Haryana (India). To check the financial literacy a questionnaire was administered to 268 respondents. The study shows a positive association of education with financial literacy, the highly educated group portrayed a better financial literacy rate then the less educated group and moderately educated group. It can be said after the analysis of the study that education is a major factor for a better financial literacy in the state of Haryana.

Keywords: Financial Literacy; Education Level; Haryana; Financial Awareness

Introduction

As there are changes in the job market where people are jumping between different jobs, it is very important for such employees to be aware of their finances and shall know how to manage them with the changing dynamics of their income.

Due to the upgradation in technology the financial services are more easily available, and people opt for services which they are not much aware of and can get trapped in the net of financial stress. With new technology comes the new financial products which are more complex and are needed to be studied by those dealing in them.

Also, with the increasing cost of education we might head the students of our nation to the same way western countries are, to a debt trap of student loans. It can be troublesome for the students if they are trying to come out of the poverty trap with the help of education by taking loans without understanding the impact of a loan agreement.

These are some factors which portrays the requirement of financial literacy and thus we can say a study is required to understand the financial well-being of the individuals,especially to find out the impact of education on financial literacy. The study will help to know if after being educated an individual shows the signs of financial literacy or not. This will also portray the ability of the educators if they are successful in their job of imparting financial knowledge to the students. Researchers are trying to find out if the education has any association with the financial literacy of individuals in the state of Haryana.

People who lack a fundamental comprehension of financial principles are ill-equipped to make financial management decisions. People who are financially literate can sail through financial crisis and can make educated decisions about saving, investing, borrowing, and other financial matters.Research has shown that the financial literacy are unacceptably low worldwide. Developing countries have much less financially literate population as compared to the developed countries (Lusardi & Tufano, 2015) Financial illiteracy comes at a high price. Consumers who don't understand interest compounding pay more in transaction fees, accumulate larger debts, and pay higher rate of interest. Over indebtedness is a subjective indicator. Debt literacy is poor, with only roughly a third of the population understanding the basics of compounding interest. Study discovers a link between debt literacy and both financial experiences and debt burdens even after adjusting for demographics. Individuals with inadequate debt literacy are more likely to engage in high-cost transactions, paying more fees and utilizing high-cost borrowing.

The financial development is an important determinant of economic growth of anycountry.The more financially literate individuals a country has the more the upliftment of the nation’s economy. Education has been given the prior attention in the Indian society but there are very few studies which determine its impact on the individuals which lead to economic growth. Being financially literate is managing finances well and determines the financial wellbeing of the individuals in an economy. If more people are financially well off in any economy, then we can say that the economy is good. Resulting in good per capita income, a stable growth rate and better standards of living in the country.

Review of Literature

(Wagner, 2019)This study examines if a person's financial literacy score is linked to their financial education in high school, college, or via a workplace. When compared to individuals who did not get any financial education, the results reveal that those who obtained any financial education are more likely to have better financial literacy scores. Financial education has higher expected odds for persons with lesser education and income, implying that it is particularly relevant for this population.

(Brugiavini et al., 2020)The study shows that a small-scale training intervention has a statistically and economically significant influence on subjective and objective assessments of financial knowledge, based on a sample of university students. The intervention also enhances self-assessed financial knowledge more than real financial knowledge, according to the study. The intervention entails assessing financial literacy before and after a brief online course, which is delivered via a web-based platform.

(Kaiser & Menkhoff, 2017)Financial education has a strong influence on financial behaviour and, to a greater extent, financial literacy, according to a meta-analysis of 126 impact evaluation studies. Financial education, on the other hand, is less successful for lower-middle-income consumers, as well as in lower-middle-income nations. Specific behaviours, such as debt management, are more difficult to change, and mandated financial education looks to be ineffective at this time.

(Erner et al., 2016)After graduating from high school, young people are faced with more difficult and critical financial decisions. A thorough evaluation of financial literacy levels and potentially related factors is critical to the creation of enhanced financial literacy programmes. The authors conducted a survey of German high school pupils and found that they performed comparably poorly on conventional financial literacy measures as other groups. Across the board, female students, and those with a poor level of integration had much worse financial literacy. Furthermore, basic financial literacy is linked to mathematics abilities, whereas advanced financial literacy is linked to a student's overall cognitive ability and foreign language abilities.

(Shambare & Rugimbana, 2012)This study investigates financial illiteracy among university students in South Africa, a segment of the population that may be considered educated. A sample of 214 students from a big South African metropolitan university were given a self-administered financial literacy scale. Overall, the findings reveal modest levels of financial illiteracy, indicating that basic financial ideas must be reinforced even among the educated. There are several concerns for financial service providers when dealing with literate customers who may be financially ignorant.

(Kiliyanni & Sivaraman, 2018)This research uses logistic regression to develop a prediction model for financial literacy using data obtained from educated young adults in Kerala, India's most literate state. The report demonstrates the state's poor level of financial literacy. Gender, age, religion, academic discipline, employment, and personal income all have a role in financial literacy, according to the model.

(Lusardi, 2015)The capacity to digest economic information and make educated decisions concerning financial planning, asset creation, debt, and pensions is defined as financial literacy in this article. Ignorance of basic financial ideas can be connected to failure to plan for retirement, lack of stock market involvement, and poor borrowing behaviour. People, communities, nations, and society as a whole are affected by financial literacy, which has ramifications for individuals, communities, countries, and society as a whole. Given the population's lack of financial literacy, it may be necessary to address this by include financial literacy in the school curriculum.

(Saeedi & Hamedi, 2018)One of the most critical aspects of implementing financial literacy development projects is determining who needs to be trained. Authorities are interested in a wide range of target groups. By determining which category, they belong to, investors can access customised instructional materials. This chapter highlights the key target audiences for financial education programmes, explains the relevance of variance among groups, and discusses strategies geared at various target audiences.

(Akhter & Sangmi, 2015)This research aims to determine how well-informed young people are about several areas of the stock market, such as concepts, goods, procedures, and institutions. The study's findings show that the sample kids have a poor to intermediate understanding of the stock market, with no significant differences across sample groups based on the discipline they are studying.

(Raj et al., 2017)The financial literacy training was shown to be quite helpful in research. The difference in accurate responses following the session was found to be quite substantial. This is most likely since the responders were from an economics school, and the workshop was held in a very favourable environment in a formal academic setting. In addition, the students took formal economics classes, which helped them grasp what was taught in the workshop. According to the findings, financial literacy of respondents may be successfully boosted via the use of financial literacy workshops provided students enrol in related courses as part of their official studies and the workshops are held in a formal academic setting.

(Meier & Sprenger, 2013)The findings of a field investigation relating individual decisions to get financial information to a generally unobservable characteristic: time preferences are presented in this paper. We used incentive choice experiments to elicit time preferences from all people who were provided a financial education programme. Our findings reveal that those who opt to get personal financial data have much larger discount factors than those who do not. Non-participants are more likely to underestimate the benefits of financial literacy, according to the findings.

There is no study that is portraying the impact of educational qualification on the financial literacy, educational qualification has been taken up as a demographics but doesn’t show its impact as a whole. The area is not explored by the researchers yet, so as to fill in the gap the study was conducted.

Hypothesis

H1: There is significant association between the level of education and the overall financial literacy of individuals i.e. financial literacy differs for the different level of education.

$H_{1.1}$: There is significant difference in the saving habits of individuals belonging to different education levels.

$H_{1.2}$: There is significant difference in the knowledge of concept of time value of money between different education levels.

$H_{1.3}$: Education has a significant influence on knowledge of inflation.

$H_{1.4}$: Education has a significant influence on knowledge of diversification.

$H_{1.5}$: Education has a significant influence on knowledge of borrowing risk.

Research Methodology

The study has been conducted by collecting primary data through a questionnaire in the state of Haryana. To check the financial literacy, five questions were asked from the respondents to measure and analyse the knowledge of different concepts of finance namely savings, time value, inflation, diversification and borrowing risk. The respondents were tested on these five concepts and were segregated based on highest level of education they have. This gave out the literacy rate of individuals who are highly educated, moderately educated, and less educated. Where highly educated class consists of those individuals who possess a post graduate degree or a PhD, the moderately educated class consists of those who are graduates and less educated are those who are high school pass outs.

After this segregation, the total score for each respondent is calculated by giving one mark for each correct answer and a score of 4 was found apt, thus those individuals who score 4-5 questions correct were termed financially literate and those who scored less than 4 were termed not financially literate. To test the hypotheses of the study, the ANOVA technique has been applied taking the five questions and an overall score as dependent variables and the different levels of education as independent variables.

Objective of the Study

Financial literacy is still a huge problem in the state of Haryana and education qualification of the individuals plays an important role. The study will find the extent of impact that educational qualification will have on financial literacy of individuals in the state of Haryana. The study also look into the interrelation of different financial concepts of savings, time value, inflation, diversification and borrowing risk.

Results and Discussions

The sample of respondents include 268 responses out of which 34 respondents are from the group of less educated (high school degree), 48 are moderately educated and 146 are from the group of highly educated.

Table 1 shows that there is significant positive influence of education on the overall financial literacy i.e., the level of financial literacy increases with an increase in education level of respondents. The positive influence of education is in line with results of many studies across the world. The table reveals that the financial literacy is highest for the respondents who have Post Graduate degree (69%) followed by those who have graduate degree (47%). From the table it can be observed that F value is significant at 1% significance level. Hence the hypothesis (H_1) - There is significant association between education level and overall financial literacy level is accepted and it can be concluded from the analysis that the financial literacy depends on the education level.

Table 1: Mean and F-value of Respondents

		N	Mean	Std. Deviation	F-test	Sig.
Overall Financial Literacy	High School	34	0.41	0.500	8.502	0.000
	Graduates	48	0.47	0.502		
	Post Graduate	146	0.69	0.463		
	Total	268	0.58	0.494		
Savings	High School	34	0.59	0.500	1.446	0.237
	Graduates	48	0.66	0.477		
	Post Graduates	146	0.73	0.448		
	Total	268	0.69	0.465		
Time Value	High School	34	0.82	0.387	0.335	0.716
	Graduates	48	0.86	0.345		
	Post Graduates	146	0.88	0.330		
	Total	268	0.87	0.342		
Inflation	High School	34	0.26	0.448	4.034	0.019
	Graduates	48	0.42	0.496		

	Post Graduates	146	0.52	0.501		
	Total	268	0.46	0.499		
Diversification	High School	34	0.53	0.507	12.583	0.000
	Graduates	48	0.50	0.503		
	Post Graduates	146	0.79	0.410		
	Total	268	0.66	0.474		
Borrowing Risk	High School	34	0.97	0.171	0.601	0.549
	Graduates	48	0.97	0.183		
	Post Graduates	146	0.94	0.241		
	Total	268	0.95	0.215		

For the present study, the overall financial literacy of respondents is measured through five different dimensions namely savings, time value, inflation, diversification and borrowing risk. The association between education level of respondent and each dimension of financial literacy is also analyzed and presented in Table 1.

Savings

As can be seen from the table that the mean score on the saving question is highest for the respondents who are highly educated at 73% and followed by the respondents who are graduates at 66%, meaning thereby that the saving habits has a positive relation with the education level of individuals. However, the relationship is not statistically significant and $H_{1.1}$ i.e., there is significant influence of education on saving habits, is rejected.

Time Value

It is clear from the analysis that the sample respondents have quite good knowledge of the concept of time value of money. Majority of our respondents (87%) have correctly answered the question and there is no such difference regarding knowledge of concept and the education level.

Inflation

Further, the understanding of inflation is very poor as evident from the data, only 46% of the respondents have the knowledge of inflation. Only about 26% of the respondents who belong to the group of less educated understood the impact of inflation on the rate of return, however, the knowledge of inflation increases with increase in education. So, the hypothesis $H_{1.3}$i.e. the education has a strong positive influence on the knowledge of inflation is accepted.

Diversification

Nearly, two-third of respondents have agreed that the diversification in the portfolio helps to reduce the risk. As depicted in the Table 1, majority of the respondents i.e. 79% belonging to the group of highly educated have correctly understood the role of diversification in portfolio, followed by only 50% and 53% for moderately and less educated respectively. The difference with regards to knowledge of diversification between different groups of respondents belonging to less, moderate, and highly educated class is highly significant and hence, $H_{1.4}$ is accepted.

Borrowing Risk

The odds ratio for the knowledge of borrowing risk is about 95% indicating that the sample respondents have very good understanding of the concept irrespective of their education.

The performance on various dimensions of financial literacy suggested lack of understanding of basic concepts of money in everyday life. The Table 2 provides the comparisons between the different groups of respondents.

Table 2: Comparisons between Groups

Dependent Variable	(I) Educational Qualification	(J) Educational Qualification	Mean Difference (I-J)
Financial Literacy	Less	Moderate	-0.054
		High	-0.280**
	Moderate	Less	0.054
		High	-0.226**
	High	Less	0.280**
		Moderate	0.226**

** Statistically significant at 0.05 level.

It is evident from the table that the respondents who belong to the highly educated group are financially more literate in comparison to their counterparts. And the mean difference between the two groups (less educated and highly educated; and moderate and highly educated) is statistically significant at 0.05%. However, there is no significant difference found between the mean scores of less educated and moderately educated respondents.

Conclusion

The study finds that education level and financial literacy are strongly associated with each other. The more educated one is, the better financial decision one can take and be well off. Educating more and more individuals should be the target for the better future of the country as well as the individuals. The study has resulted positive for the Indian government's focus on educating India to remove poverty. The study clearly shows the impact of education on financial well-being of the individuals in the state of Haryana. The study also talks about the financial concepts, concepts of diversification and inflation are known to individuals who are less educated also but concepts like savings, time value and borrowing risk are to be focused on as these concepts were known to the educated classes only. The study can be furthered with a detailed analysis on the impact of these educated individuals on the economy of a country.

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