

# Financial literacy level and personal financial decisions, opinions and practices of university students in Ethiopia

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**ABSTRACT:** *This study has been undertaken to examine the relationship between financial literacy level and personal financial decisions, opinions and practice of public university students in Ethiopia. The study used primary source of data from a sample of 382 students using probabilistic and non probabilistic sampling methods. To test whether there is significant relationship between the financial literacy level and students' personal financial decisions, opinions and practices chi-square test is used. The finding of the study shows that there is positive significant relationship between the student's financial literacy level and personal financial decisions, opinions and practices. Therefore, it is highly recommended that students should improve their financial knowledge so they can make informed decisions and have sound financial opinions and practices.*

**Key Words:** *financial literacy, financial knowledge, financial opinion, financial decision, financial practice*

## 1. Introduction

According to Lusardi (2008) individuals are not capable of making appropriate financial decisions because of low financial knowledge. Studies in Australian university a student suggests that students have a satisfactory level of general financial literacy, there are particular areas where they scored low which needs to be addressed (Sonia bird 2008). But, increasingly, everyone is responsible for his/her own financial stability and is even with more complex financial instruments with full of dilemmas in making appropriate choice Greenspan (2003).

The President's Advisory Council on Financial Literacy in the US (PACFL, 2008), defined financial literacy as the ability to use knowledge and skills to manage financial resources effectively for a lifetime for one's financial well-being. It is the knowledge of basic economic and financial concepts, as well as the ability to use that knowledge and other financial skills to manage financial resources effectively for lifetime of financial well-being. Financial literacy skills enable individuals to navigate the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal and Delpachitra, 2003).

According to Hogarth (2002) financial literacy is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy. Hence, financial literacy includes knowledge and understanding of basic financial concepts and the ability to use these to plan and implement financial decisions.

### 1.1. The need for financial literacy

The need for financial literacy would continue to grow because individuals are expected to become more self-reliant (The Adult Financial Literacy Advisory Group, 2008). That is why financial literacy has become an increasingly significant research topic in developed and developing countries around the world. In recent years, countries in the world including developed and emerging countries and economies are very concerned about the financial knowledge of their citizens. This has stemmed in particular from shrinking public and private support systems, shifting demographic profiles including the ageing of the population, and wide-ranging developments in the financial marketplace. Concern was also heightened by the challenging economic and financial context with the recognition that lack of financial literacy was one of the factors contributing to ill-informed financial decisions and that these decisions could, in turn, have tremendous negative spill-over's (OECD, 2009a; A series of tangible trends underpin the rising global interest in financial literacy as a key life skill which includes risk shift, Increased individual responsibility, increased supply of a wide range of financial products and services and Increased demand for financial

products and services. Financial literacy cannot only be viewed as an ability to read financial issues.. Financial literacy does not automatically affect people’s financial practices. Financial literacy, and those that apply to it, vary with time and place. Financial literacy is a concept that needs to be situated and studied in practice. The need for financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit, the rapid growth in marketing financial products. This study aims at assessing the level of awareness of financial literacy among university students.

**1.2. Review of literature**

Personal Financial decision making is the process of selecting a logical financial choice from the available alternatives which is to be made by individuals. According to Lusardi, A., & Mitchell, O. (2006) those personal financial decisions are greatly affected by the person’s limited resources or income and the means of generating the goods and services in the market. In the current period it is now becoming increasingly necessary for consumers to be more knowledgeable and competent in managing money. This is because changes in financial markets have resulted in the availability of a wider selection of financial products and services, making financial decisions multifaceted and more complicated. Fonseca, R., Mullen, K., Zamarro, G., & Zissimopoulos, J. (2010). Suggests that the knowledge and skills related to money management include the ability to balance a checkbook, prepare a budget and compare prices of different products. Individuals must therefore make day to day money management decisions to enable better planning and management of life events such as food, education, illness, housing purchase or retirement. According to Agarwal et al. (2009) an increase in age also comes with the accumulation of knowledge based on practical life experiences.

**1.3. Objective of the study**

The study is carried out to attain the following objective:

- To examine the relationship between financial literacy and personal financial opinions, personal financial decisions and financial practices of university students in Ethiopia.

**1.4. Hypothesis of the study**

The study examined whether there is significant difference among the students financial literacy level. The hypothesis of the study was:

- H1:** There is a positive significant relationship between financial literacy and financial opinions.
- H2:** There is a positive significant relationship between financial literacy and financial decisions.
- H3:** There is a positive significant relationship between financial literacy and financial practices.

**1.5. Sampling & Data Collection**

A sample of 382 was used out of 53,174 students from four public universities in Ethiopia by using both probability and non-probability sampling techniques. Purposive sampling technique was used to select the four public universities. Stratified random sampling technique is used to select the students for this study.. The research was based on primary data that was collected using questionnaire from the field. A comprehensive questionnaire designed to cover major aspects of financial literacy, including financial literacy on general knowledge, savings and borrowing, investments, and insurance, was used to collect the data. To see the relationship of financial literacy and personal financial decision, opinions and practice, questions and statements was used.

**2. Findings of the study**

After gathering the data the researcher had observed it carefully and entered in to Statistical Package for Social Sciences version 21.0 and MS-Excel for analysis purpose.

In this section the impact of the students’ financial literacy on their financial decision is examined. Mainly in this part of the study a question about how financial knowledge influences the personal financial opinions, decisions and practices.

The students were grouped in to three as students with high financial knowledge which scores eighty and above, students with medium financial knowledge which scores sixty up to seventy nine and students with low financial knowledge which scores below sixty in the financial literacy questions.

**Table 7.1 Overall financial literacy score**

No	Students financial knowledge	Frequency	Percentage
1	Low (2 up to 14 right )	298	78
2	Medium (15 up to 19 right )	62	16.2
3	High (20 and above right )	22	5.8

Source: Developed for the research from field work 2018

Based on above table 7.1 On the overall financial literacy test, 78% of the respondents got the right answer of two up to 14 questions which are grouped under low financial knowledge or C grade, 16.2% of the respondents answered fifteen up to nineteen questions correctly and grouped under medium financial knowledge or B grade and the remaining 5.8% of the respondents answered 20 up to twenty five questions correctly and grouped under high financial knowledge or A grade. This indicates that majority of the respondents have low financial knowledge.

### 2.1. The relationship between financial literacy and personal financial decisions

As shown in table 7.2 show the decision making capability of the respondents on how to choose the safest place for keeping money, how to set money for emergencies and how to improve financial wealth. The students with high financial knowledge answered the questions 78.8% and 21.2% correctly and incorrectly respectively. This result indicates majority of the students with high financial knowledge gives the right decision. The students with medium financial knowledge answered the same question 49.4% correctly and 50.6% incorrectly. However, the students with low financial knowledge answered the question 23.5% correctly and 76.5% incorrectly. This result show those students with low financial knowledge makes wrong decision regarding financial issues. The Pearson Chi- square result is 230.878<sup>a</sup> and P value result is 0.000 which is statistically significant at 5% significance level. This implies that the level of financial knowledge has a positive impact on students' financial decision. Therefore, the hypothesis that there is positive significant relationship between financial literacy level and financial decision is accepted. This result is consistent with the findings of Chen and Volpe (1998).

**Table 7.2 Relationship between financial literacy and personal financial decision**

No	Students financial knowledge	Correct	Incorrect	Total
1	High	78.8	21.2	100
2	Medium	49.4	50.6	100
3	Low	23.5	76.5	100

Pearson Chi- square=230.878<sup>a</sup> and P value= 0.000 which is less than 5%

Source: Developed for the research from field work 2018

### 2.2. The relationship between financial literacy and personal financial opinions

**Table 7.3 Relationship between financial literacy and personal financial opinions**

No	Students financial knowledge	1	2	3	4	5	Total
1	High	0	0	8.1	36.4	55.5	100
2	Medium	1.6	6.6	11.9	54.5	25.3	100
3	Low	2.8	15.7	16.7	51.7	13.1	100

Pearson Chi- square=374.201<sup>a</sup> and P value= 0.024 which is less than 5%

Source: Developed for the research from field work 2018

As shown above table 7.3 regarding the five statements on the importance of keeping financial record, spending less than income, maintaining life insurance, maintaining non life insurance and planning and implementing investment program 8.1%, 36.4% and 55.5% % of students with high financial knowledge thinks as not sure ,important and very important respectively. the students with medium financial knowledge thinks 1.6% as very unimportant, 6.6% as unimportant,11.9% as notsure,54.5% as important and 25.3% as very important. The students with low financial knowledge view 2.8% as very unimportant, 15.7% as unimportant, 15.7% as not sure 51.1% as important and the remaining 13.1% as very important. Comparatively, those students with high financial knowledge gives better opinion as compared to those students with low financial knowledge and students with low financial knowledge and those students with medium financial knowledge gives good opinion as compared to those students with low financial knowledge. The Pearson Chi- square result is 374.201<sup>a</sup> and P value result is 0.024 which is statistically significant at 5% significance level. This implies that the level of financial knowledge has a positive impact on students' financial opinion. Therefore, the hypothesis that there is positive significant relationship between financial literacy level and financial opinion is accepted. This result is consistent with the findings of Chen and Volpe (1998).

**2.3. The relationship between financial literacy and personal financial opinions**

**Table 7.4. The relationship between financial literacy and personal financial opinion**

No	Students financial knowledge	1	2	3	4	5	Total
1	High	0	10	24.5	40	25.5	100
2	Medium	9	27.5	32.9	23.3	5.8	100
3	Low	23.3	36.2	28.5	11.1	1.5	100

Pearson Chi- square=1048.823<sup>a</sup> and P value= 0.000 which is less than 5%

Source: Developed for the research from field work 2018

The above table 7.4 shows the financial practices of the respondents on the importance of setting money each month for saving, setting money for future needs, comparing prices before making purchase transactions, using spending budget and keeping record of personal expenses.

The students with high financial knowledge thinks 10% as rarely, 24.5% as often, 40% as very often and 25.5% as always on the importance of basic financial management practices. 9%, 27.5% and 32.9% 23.3% and 5.8 of students with medium financial knowledge thinks as not sure, important and very important respectively. the students with low financial knowledge thinks 23.3% as very unimportant, 36.2% as unimportant, 28.5% as not sure, 11.1% as important and 1.5% as very important. Comparatively, those students with high financial knowledge view better financial management practice as compared to those students with low financial knowledge and students with low financial knowledge and those students with medium financial knowledge thinks better on financial management practices as compared to those students with low financial knowledge. The Pearson Chi- square result is 1048.823<sup>a</sup> and P value result is 0.000 which is statistically significant at 5% significance level. This implies that the level of financial knowledge has a positive impact on students’ personal financial management practice. Therefore, the hypothesis that there is positive significant relationship between financial literacy level and personal financial management practice is accepted. This is result is consistent with the findings of Chen and Volpe (1998).

**2.4. SUMMERY OF THE CHI-SQUARE TESTS**

**Table 7.5 Summary of chi-square test**

NO	Hypothesis	Decision	Sig.level
1	There is a positive significant relationship between financial literacy and financial opinions.	Accepted	.000
2	There is a positive significant relationship between financial literacy and financial decisions.	Accepted	.024
3	There is a positive significant relationship between financial literacy and financial practices	Accepted	.000

Source: Developed for the research from field work 2018

**3. Conclusion and recommendation**

Financial literacy is helpful for individuals for making informed decisions, opinions, and good financial management practice. This study mainly examines the relationship between financial literacy level and personal financial decision, opinion and practice of university students in Ethiopia. The study first determines the level of financial literacy and then investigates the relationship with the respondents’ opinions, decisions and practices.

The financial literacy level is found to have a positive significant relationship with the student’s personal financial opinion, decisions and practices these results are consistent with the studies of Chen and Volpe (2002). Therefore it is highly recommended that the students should improve their financial knowledge through different mechanisms so then can have sound financial opinion and practice and make informed financial decisions.

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