Extended Abstract

FINANCIAL LITERACY AS A KEY TOOL TO IMPROVE FINANCIAL WELLBEING IN THE AFTERMATH OF GLOBAL FINANCIAL CRISIS: EVIDENCE FROM GREEK UNIVERSITY STUDENTS

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Abstract

Global Financial Crisis reveals the importance of Financial Literacy. Financial knowledge has become an essential tool due to the instability of the global economy and the increasing complexity of financial products causing consumers faced with challenges in their economic and financial activities. The purpose of this study is to investigate for the first time the interrelations between Financial Literacy, Financial Fragility and Financial Wellbeing among university students in Greece. Focus was given to Greek University students through Greek economic crisis since the future generation should have high level of financial literacy in order to overcome current financial crisis and its structuring costs and to prevent from a future one, acting as responsible consumers in order to improve their financial wellbeing. The results of the data were analyzed based on demographic and household economics variables using cross-tabulations, chi-square tests and logistic regression analysis. Overall, the results showed that male students are more financial literate than female students while students who keep expenses-record or their father is high educated are more literate than others. Moreover, students' financial fragility was examined and results revealed that students who are more financial literate are able to bear with an unexpected financial need. Finally, Financial Literacy seems to be a key driver for Financial Wellbeing among Greek University students.

Key Words: Financial Literacy, Financial Fragility, Financial Wellbeing, Global Financial Crisis, Greece

JEL Classification: A20, D14, I21, I23

1. INTRODUCTION

Financial literacy has become an essential skill required for everyday life around the world. On daily basis people are called upon to make minor or important financial decisions. Complexity of financial decisions has threatened the quality of people's individual lives. Financial Literacy, Financial Fragility and Financial Wellbeing are important factors determining the quality of life. Recessions have threatened the financial well-being and caused economic concerns, including concerns about health, debts, income and career advancement in the world. These concerns have harmful effects on psychological and physical health.

Several studies have been conducted with the subject of financial wellbeing, financial concerns, and financial literacy. Many studies have shown that levels of financial literacy are low, especially among young population and university students. (Chen, & Volpe, 1998; Beal, & Delpachitra, 2003; Oppong-Boakye, & Kansanba 2013; Sarigul, 2014; Cameron, Calderwood, Cox, Lim, & Yamaoka, 2014; Fatoki, 2014). Due to this, young citizens are unable to understand key financial terms and concepts preventing them from making wise financial decisions.

Furthermore, many researchers (Shim et. al., 2009 and Hogarth, 2006), indicate that financial knowledge, financial attitude and financial behavior affect the financial wellbeing of the individual. Financial literacy develops financial attitude and financial attitude leads toward financial wellbeing. Studies have found the strong positive relationship between financial literacy and financial wellbeing. The results showed that increase in financial literacy effect the financial contentment which eventually turn into the financial wellbeing of the people (Joo and Grable, 2004).

The purpose of this study is to investigate for the first time the interrelations between Financial Literacy, Financial Fragility and Financial Wellbeing among university students in Greece while we identify the factors/characteristics which determine the levels of financial literacy. Furthermore, we measured the Financial Fragility among University students and we also examined the relationship between the students' financial fragility and their "absolute"/excellent financial literacy. Finally, students' financial knowledge will be linked to Financial Wellbeing, examined the impact that has. The rest of this paper proceeds as follows. Section 2 presents the experiment design and the methodology. Section 3 provides the empirical results. The last section concludes the paper and suggests some unexplored avenues of research in the field.

2. RESEARCH METHODOLOGY

2.1 Data Collection

Data was collected through the use of a paper version self-administered survey instrument. Mostly, final-year undergraduate students were targeted. The total participation number was 456 university students mainly from University of Piraeus. Students' profile, final-year students were rationale selected as the participants were expected to score higher. Firstly, due to more years being exposed to higher education and secondly, due to relevant major with financial matters.

2.2 Survey Instrument

The measurement instrument was focused on financial knowledge and financial skills, including numeracy (interest), compound interest, inflation and risk diversification. Students were asked to answer to 31 multiple choice questions in total. In more details, students answered 5 questions measuring the levels of their financial knowledge and 19 questions on their demographics characteristics, on their parents' socio-economic, financial crisis affects and educational background and some on their personal financial experience.

2.3 Econometric Methodology

The main research question was whether the university students exposed to higher education with financial matters would demonstrate higher level of financial literacy compared to average young population. Cross-tabulation analysis is most often used to analyze categorical (nominal measurement scale) data. Financial literacy is compared to each independent variable (e.g. gender, age, nationality etc.). Then, logistic regression modeling is used in order to identify the factors that affect financial literacy. Furthermore, we tested the relation between Financial Literacy and Financial Fragility and also the interrelation between Financial Literacy and Financial Wellbeing.

3. EMPIRICAL RESULTS

In order to define the levels of financial literacy of University students in Greece, participants were asked to answer 5 questions in financial knowledge. Results revealed that the level of financial literacy for Greek university students in absolute terms (students answered correctly all 5 financial knowledge questions) were determined as low as 19.3%. For comparison reasons, if we apply the measurement level of financial literacy when participants have to answer correctly at least 4 questions, the level of financial literacy for university Greek youth population is 71%. As it was expected this level of financial literacy is higher than the findings for general population in Greece 45% (Klapper et al., 2015).

Moreover, the cross-tabulation analysis showed that financial literacy is strongly related only with the independent variables “Gender”, “Father’s Education” and “Keep records of income/expenses” at 5% significant level. Therefore, the above mentioned independent variables “Gender”, “Father’s Education” and “Keep records of income/expenses” were used at the logistic regression. Applying a logistic regression model, three of the independent variables analyzed were found to be statistically significant at 5% level. Among the three independent variables the strongest predictor was “Keep record of income/expenses”. This indicates that students who “Keep record of income/expenses” have 1.9 times higher possibility to be financial literate than those who don’t while odds ratio for “Gender” showed that male students are 2.02 times more likely to show acceptable levels of financial literacy than female students.

Furthermore, we examined the relationship between the students’ financial fragility and their “absolute”/excellent financial literacy (e.g. answered correctly all 5 questions) acquired, using a crosstab. The Pearson’s chi-square value was barely below accepting levels of 5%.

Finally, we tested the interrelation between Financial Literacy and Financial Wellbeing. From the results revealed that Financial Literacy is strongly related with financial wellbeing and students with high levels of literacy have higher possibility to achieve the so called “future wellbeing”, for themselves and their families.

4. CONCLUSIONS

The relationship between financial literacy and financial wellbeing, financial literacy and financial fragility were assessed in this study. Also, the role of demographic characteristics including age, sex, marital status and education level on the score change of financial literacy were investigated. The results revealed several important points. First, there is a relationship between the "Gender", "Father's Education" and "Keep records of income/expenses" and the levels of financial literacy. Second, a higher level of financial wellbeing is followed by financial literacy. Third, an interrelation between financial literacy and financial fragility exists. Finally, it is revealed that financial literacy is a key driver to improve financial wellbeing.

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