Socio-Economic and Demographic Determinants of Indian Youth Financial Literacy: Determinants of Financial Literacy

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ABSTRACT

The purpose of this study is, with the existing data about the level of financial literacy at hand, to examine which factors actually determine the level of personal financial literacy among the youth in India’s financial capital city. A total of 650 completed and returned questionnaires have finally been used for the purpose of this study. The data analysis uses descriptive statistics and multivariate analysis. The explanatory variables are gender, district of residence, educational level, father’s educational level, employment, marital status and parenthood. Findings of the study depict that having children is the most positively correlated (+0.327) with financial literacy. Education (+0.245) and employment (+0.140) are positively correlated with financial literacy. It is also concluded that females are less likely to have a high level of financial literacy (-0.271) compared to males.

KEYWORDS

Financial Literacy, Programmes, Socioeconomic Variables
INTRODUCTION

Financial Literacy

The contribution of governments and employers in managing investments on behalf of individuals has reduced considerably in recent times. This has added to the individuals’ role in managing their own finances. In the last few years researchers all over the world, have started to study and explore whether individuals are well-equipped to make financial decisions and how to bridge the knowledge gap in financial education and wellbeing. Although the focus of this research varies in terms of the concerns and the context, it is worthwhile to know that the research shows that a large percentage of the population does not have a good enough financial understanding to ensure long-term financial stability for themselves and their family. Also, the instability of the global marketplace is leading to a very high level of complexity in financial decisions. One of its main implications include rising costs of goods and services that push people to be able to make well-informed financial decisions (Lusardi & Mitchell, 2009). Exposing the youth to all this is particularly important as they are at a vulnerable age. Evidence from around the world presents a frightening picture; and recognizing the importance of financial literacy, a growing number of countries have developed and implemented national strategies for financial education in order to improve the financial literacy of their populations in general, often with a particular focus on younger generations (Grifoni & Messy, 2012).

Financial literacy refers to understanding finance and the capability to utilize it to make sound personal financial decision. (Hogarth and Hilgert, 2002). More specifically, it refers to the set of skills and knowledge that allow an individual to make informed and effective decisions through their understanding of finances. (Norman, 2010). According to Remund (2010), financial literacy is a person’s ability to understand and use financial matters. Financial literacy is considered an important adjunct for promoting financial inclusion, financial development and ultimately financial stability. (Ramakrishnan, 2011). According to Mahdzan and Tabiani (2013), increasing financial literacy and capability promotes better financial decision-making, thus, enabling better planning and management of life events such as education, housing purchase, or retirement. This is particularly relevant for the India as the country has the competitive advantage of its demographic dividend which is waiting to be exploited. The study investigates the socio-demographic variables that influence the financial knowledge of the youth in India. A financially aware youth workforce would be a great asset for India.

Greater Need in India

Financial literacy is of particular relevance to emerging economies. As these economies try to accelerate growth rates, improvement in financial literacy would help enhance the financial well-being of the people. Before the financial sector reforms commenced in the early 1990s, the Indian monetary system basically catered to the needs of planned development. Customers had little choice in financial investments. The underdeveloped financial markets ensured that exposure to risk was also very little. In such a situation, customers could use their basic skills to invest in simple financial products with returns
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