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AN EMPIRICAL STUDY ON THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND FINANCIAL WELL-BEING AMONG HOUSEHOLDS

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ABSTRACT

This study attempts to examine the relationship between Financial Literacy and Financial Well-being among households. Increasing complexity of financial products and forever changing global economy has complexity when it comes to making the financial decision and financial planning and it has left people with a challenge while participating in economic and financial activities. For this reason, the significance of financial knowledge and financial literacy has increased. Keeping in mind, the growing importance of financial literacy as an important factor in financial well-being, this study attempts to evaluate the relationship between financial literacy and financial well-being among household. For the purpose of study, a questionnaire was designed and has been distributed. Household families were selected as respondents using random sampling method. The data analysis was done using correlation test, independent two sample test based on T distribution and regression. The results have shown that education of the decision maker in the family and his/her age has direct relation with financial literacy and ultimately the level of financial literacy affected positively on financial well-being. It was also found that married men and women are more financially literate and higher levels of financial literacy leads to higher level of financial well-being.

KEYWORDS: *Financial Literacy, Financial Well-being, Household Financial Management.*

Introduction

In the earlier times, options related to investment were limited and thus taking financial decisions was easy compared to the current scenario. With the economic reforms and increasing volumes of trade, variety of goods, increasing size of financial markets, increase in alternative of financial products available in the market also increased. These kind of circumstances resulted in the growing complexity in financial management of families and it made the decision making process difficult. Moreover the stability of global economy has declined which has caused inflation and unemployment which resulted into reduced income of families. The quality of life and standard of living of people has been threatened by the adverse economic condition and and complexity of financial decisions. This whole scenario has encouraged researchers to investigate into this area to find a way to deal with these issues. Financial management and financial well-being are significant factors that affect the quality of life of people. Unstable economic condition has adversely affected the financial well-being of people which has given birth to economic concerns. Concerns about physical and mental health, career growth, income, debt etc. These concerns have a negative effect on physical and psychological health of an individual. It decreses a perso’s confidence and productivity at his work. It results into delays, absenteeism, lack of concentration and conservatism.

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One factor that can help to simplify the complexity regarding financial decision and which could increase a person's economic capability and financial well-being is financial literacy. Financial literacy is the ability to understand, comprehend and analyze financial products, financial alternatives, effective planning for future and responding appropriately to the events. Having this ability has a positive influence on the standard of living and the quality of life as whole. It can be very helpful and efficient financial management which includes future planning and different ways to increase income.

Various studies have been conducted on the subject of financial literacy, financial management and financial well-being. In these studies, researchers have studied the effect of variables on financial decision making process. Which includes family background, education of parents, socio-economic factors, demographic variables, gender, age, education etc.One of the gaps which this study will try to bridge is the relationship among financial literacy, financial management and financial well-being of the families and household and other variables affecting the financial well-being of a family.

Literature Review

Different definitions of financial literacy and personal finance are presented so far in the literature. Garmanand forgue (2000) identified financial literacy as the understanding of the principles and terminology necessary for successful management of personal financial problems. Jacob et al (2000) viewed personal financial literacy as concepts of personal financial management skills and information. They considered the meaning of knowing words as conditions, practices, rules and standards necessary for the accomplishment of financial tasks. The term financial encompasses a wide range of day-to-day activities associated with funds and includes activities such as checking checks to managing credit cards, preparing the budget, buying insurance and investing. According to Remund (2010), financial literacy is a person's ability to understand and use financial matters. Huston (2010) considers financial literacy, including financial awareness, knowledge and instruments and their application in business and personal life. In general, these definitions show that financial literacy includes the ability to balance a bank account, prepare a budget, save for the future, and learn strategies for managing debt. A person is known to be financially literate if he is able to manage his personal financing in the changing life and society in order to enable him to achieve the necessary perception, to develop his skills in this area and to be able to understand the impact. Financial decisions of the individual on his own, others and the environment (Remund, 2010).

The reliance of the market boom on conscious consumers, the increase in economic security and the financial well-being of communities through consumer awareness raising, sophisticated financial markets and the increased risk of financial decisions have made financial literacy one of the most important human needs in the world known throughout the world (Hogarth, 2006). It is equally important that in January 2008 the American president signed an ordinance to create a state advisory board on financial literacy and public awareness in America. The purpose of this council was to conduct research into financial literacy issues and to establish standards for public awareness of financial issues and to assist schools in providing appropriate training in this area (National Institute for Financial Education of America, 2010).

Well-being is a multi-part concept. According to **Van Praag et al. (2003),** well-being is ensured by the satisfaction of individuals in six areas: business, finance, housing, leisure, health and the environment. McGregor and Goldsmith (1998) recognize well-being as including economic, physical, social, emotional, environmental, political and spiritual aspects. As mentioned in both references, material well-being is one aspect of well-being and convenience. Fergusson et al. (1981) describe financial well-being as a level of financial income and an asset.

Hayhoe et al. (1990) defined financial well-being as the feeling of satisfaction of a person with his financial situation. According to Porter (1990) financial well-being is one's attitude toward financial status based on objective aspects and judging them against standards. According to Joo (1998) the concept of well-being or, in other words, the perception of people's well-being varies with the change in people's standard of living. In the past, well-being had the meaning of general happiness or satisfaction with your financial status or assets. But today the concept of well-being has changed to material and non-material aspects of the perception of a person from their financial situation, improving their standard of living and includes perceptions such as: ability to satisfy needs, feel safe, feel comfortable and satisfied with the income and the prize distribution system. Goldsmith (2000) knows financial well-being as the financial adequacy and security of the individual or family that protects the person against economic risks such as unemployment, illness, bankruptcy, poverty and homelessness in retirement.

Researchers and indifferent studies have used different methods to measure economic well-being and well-being. One of these methods is to use a target or a position scale. The scale uses quantitative indicators visible from a financial statement to determine the level of financial well-being. For example, consumption of goods, net worth, savings, socioeconomic status, income, number of children, and home ownership are counted as physical aspects of financial well-being (Van Praag et al., 2003).

Williams et al. (1996) examined the impact of financial concerns on labor productivity. This research was carried out on the basis of a field study with 1000 employees. The results showed that employees' financial concerns have a negative impact on their productivity. In addition, employees participating in counseling courses and training fundraising activities had less financial concerns and higher productivity.

Joo and Grable (2004) conducted a study to determine factors that influence financial satisfaction. The survey results showed that educational level, financial literacy, risk, financial standing, financial activity, and financial pressure all have a direct impact on financial satisfaction. The results showed that with a high level of knowledge and financial skills, strengthening financial behavior leads to higher financial satisfaction and that financial risk tolerance level and financial pressure have a negative correlation with financial satisfaction. This study did not demonstrate the impact of variables such as age, gender, race, marital status, residence, family income, and the number of people dependent on financial satisfaction.

Tamimi et al. (2009) examined the impact of financial literacy on financial decisions. Their results showed that the field of individual activities affects the level of financial literacy and people who invest in the banking and equity sectors have a higher level of financial literacy. The survey also showed that men have higher financial literacy and their income, age and education level are followed by higher financial literacy levels.

Cude examined in 2010 the effective factors on people's financial literacy. Their results showed that higher levels of education, appetite for risk, older age, more work experience, family income, parental occupation, and attendance at training classes will increase financial literacy. This research expresses that people with greater financial literacy are more successful in their business and personal lives. Their financial worries were much less and they had longer term savings and investments and triggered a better future with a longer term vision.

Research Hypothesis

Following hypothesis is formulated based on the objectives of research:

H1: There is a significant positive relationship between financial literacy and age

H2: There is a significant positive relationship between financial well-being and age

H3: There is a significant positive relationship between financial concerns and age

H4: There are significant differences between men and women in financial literacy

H5: There are significant differences between men and women in financial matters

H6: There are significant differences between men and women in terms of financial well-being

H7: There is a significant difference between single and married financial problems

H8: There is a significant difference between literacy financial well-being when single and financial when married

H9: There is a significant difference between financial well-being when single and married

H10: There is a positive relationship between financial literacy and the education of people

H11: There is a positive relationship between financial well-being, concerns and education

H12: There is a positive relationship between financial well-being g and people's education

H13: Greater financial literacy leads to greater economic well-being. (Financial literacy has a positive impact on financial well-being)

H14: Greater financial literacy leads to fewer financial worries. (Financial literacy has a negative impact on financial worries)

H15: Greater financial well-being leads to fewer financial worries. (Financial literacy has a negative impact on financial worries).

Research Methodology

The survey for this study is placed within the vicinity of relevant studies depending on its aim, as it makes a specialty of making plans to clear up a actual-global hassle and the consequences can be carried out inside the real choice-making situations. And from the view factor of the technique of data collection it is able to be placed in the subject of survey and evaluation studies, because it studies the characteristics of a statistical populace and seeks for analyzing and processing statistics.

A questionnaire was used in order to measure financial literacy of individuals. This questionnaire has been attempting to reflect onconsideration on the most essential non-public finance elements in the dimension of financial literacy. These elements include: usual expertise of finance along with 9 questions, financial savings and loan including 9 questions, funding consisting of 6 questions, insurance plan inclusive of 7 questions and economic decisions, financial opinions and monetary education consisted of 8 questions.

A five-option Likert scale was used in the questionnaire so that the rating 1 represents the worst and 5 suggests the best scenario for a respondent upon that question. A questionnaire was used to degree respondents' financial wellbeing. The questionnaire consisted of eight questions. A ten-option scale become designed and respondents are requested to choose the most appropriate rating on their own position so that the lowest rating indicates the economic stress and the very best score is a hallmark of monetary well-being.

The questionnaire used in this study was to measure the respondents' financial concerns. The questionnaire consists of factors: satisfaction with financial condition, debt and savings, adequate income, and investment. The questionnaire included four items: "I am satisfied with my financial situation", "My income is sufficient to pay for my monthly expenses", "I am not worried about my debts", and "I am satisfied with the amount of money that I am saving." For retirement and investment. "These four questions were presented on the Likert scale of five options and respondents rated their agreement with terms with expressions from one to five.

Data Analysis

The data was analyzed using statistical tools from SPSS. The Pearson correlation test was used to verify the validity of the 1, 2 and 3 hypotheses. The outcomes of these shows that two financial well-being and financial literacy variables are linked to the age of participants.

These findings are consistent with assumptions 1 and 2. Since the coefficient of correlation is positive for the financial literacy and financial well-being variables, thus, the validity of the first two hypotheses is with 99 percent confidence, verified. Correlation analysis studies deny the association between age and financial concern, hence the validity of hypothesis 3 is rejected at significance level of 95%

The t-test for two separate samples was used to test the validity of hypotheses 4, 5 and 6.Results show that, at the 95 percent confidence stage, the presumption of established there is evidence of gaps in financial literacy for men and women. Since males' average financial literacy scores are higher than females, it can be inferred that males' financial literacy is higher than financial literacy among women.At the 95% confidence mark, which is confirmed and hypothesis 5 is also acknowledged, there are also substantial variations between male and female financial concerns. Since the average ranking of male financial concerns is more than female, males are more concerned than females about financial problems.The presence of a substantial difference in the financial well-being scores of men and women would be denied at a confidence level of 95 percent for the sixth hypothesis.

In order to investigate the presence of discrepancies between the two classes, the validity of hypotheses 7, 8 and 9 is tested using the t-test for two separate samples. With regard to statistics (t=2.05) and (p=0/019), which is less than 0.05, at the 95% confidence level of the zero hypothesis, the equivalent means of single and married financial literacy is rejected and the seventh hypothesis was confirmed.Also, because the figures (t= 0.022) and (p= 0/981) which are less than 0.05, equivalent means of single and married financial literacy have been accepted at the zero hypothesis 95 percent confidence level and the eighth hypothesis has been dismissed. At the 95 percent confidence level, the ninth hypothesis is dismissed because (p = 0.407) is greater than 0.05.

The Pearson's correlation test was used to evaluate whether scores of financial literacy and financial concern are correlated with financial education. The interval scale is used in order to assess the degree of education of respondents. Thus, for the associate degree, BA, MA, and 4, respectively, scores

1, 2, 3 and 4 were taken into account.The findings of the correlation test are shown in Table 2. This test shows that the level of education at the 95 percent trust level is related to financial literacy (r = 0/444) and financial well-being (r = 0/223). But the test rejected the relationship between financial concerns and financial education, so the relationship between financial concerns and financial education was rejected. Hypothesis 11 is rejected and accepted by hypotheses 10 and 12.

A regression test was conducted to verify hypotheses 13, 14, and 15. Since the results of the correlation analysis proved the relationship between financial literacy with education and age, age and education were used to validate the hypothesis 13 as a control variable in regression testing.So, these two variables were entered into the model in the first stage of the regression model and then the variable financial literacy was entered. For inspection of independent variables and financial concern as the dependent variable in the regression study, the validity of hypotheses 14 and 15, financial literacy and financial well-being were used.In the first and second phases of the test, the variables financial literacy and financial well-being were entered into the model, and their effect on financial issues was calculated. Regression analysis findings show that hypotheses 13 and 14 are confirmed at 99 percent of the level of confidence and hypothesis 15 at 95 percent of the level of confidence.

Results and Findings

This study examined the relationship between financial literacy and financial well-being, financial literacy and economic issues, and financial well-being and financial concerns. The position of demographic characteristics such as age, gender, marital status and level of education on the change in the score of financial well-being, financial literacy and financial concerns was also examined.The findings revealed some significant points. Firstly, there is a positive relationship between age and financial well-being and financial literacy variables, marital status and gender and the variable of financial literacy, and the variable of education and financial well-being and financial literacy level. Second, financial literacy is followed by a higher level of financial wellbeing.Third, higher financial literacy results in less economic worries. Finally, financial worries are minimized by higher financial well-being.

As previously stated, many studies provide distinct results from the relationship between demographic variables with financial literacy, financial issues and financial well-being variables. Owing to variations in the time and location of the inquiry, there is one reason for this disparity.The shift in time and place will impact the concept of individuals and their relationship with demographic variables based on financial well-being and financial concerns.Changing economic circumstances, technology, principles, community and standards changing position and time among populations, and causing changing expectations such as income and savings satisfaction, needs, protection, comfort, and satisfaction with income and bonus distribution.

In studying the relationship between the three variables of financial literacy, financial concerns, and financial well-being, this survey showed that higher financial well-being and higher financial concerns may be accompanied by higher financial literacy, which also contributes to decreased financial concerns.Living and working interactions, losses, rewards and everyday activities can rely primarily on personal financial management. The money management skills of individuals in corporate and personal lives are also attributed to elevated financial literacy.Financial literacy offers the context of one's active involvement in economic activities through enhanced savings, proper buying option, proper investment, wealth management, insurance use, debt, credit management, and financial well-being enhancement.On the other hand, financial literacy, by improving the ability to meet needs and ensuring compatibility between financial income and expenditures, creates reduced financial concerns and higher level of financial well-being

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