

CHAPTER- 3

REVIEW OF RELATED LITERATURE

3.1 Introduction

In this chapter an attempt has been made to review studies which provided some insights to the investigator about the topic.

Review of related literature is an essential aspect of a research project. The survey of related literature is a crucial aspect of planning the study and though such a survey is invariably time consuming and demanding, it is nevertheless, a wise investment. The investigator ensures that her problem does not exist in a vacuum and her capability to capitalize on the advances made by previous researchers will undoubtedly go a long way in making her research work a success. Reviewing related literature provides one with the aspiration for undertaking the study and lays a sound foundation for one's entire investigation to indentify the area of needed research. It acquaints one with methods of investigating facts concepts, theories, bibliographies etc and prevents pitfalls that have plagued previous researchers. It avoids duplication and provides comparative data on the basis on which one can evaluate and interpret the significance of one's findings. This happens as an outcome of the investigator's reaction to the design, findings and conclusions of other investigations.

There exist very few surveys that provide information on financial literacy. The following studies have been reviewed for the purpose of developing insights on the topic under study:

3.2 Related Studies undertaken in India

Agarwalla, Barua, Jacob and Varma (2012) conducted a survey to study the financial literacy among students, young employees and the retired in India. For this study they employed a readymade Questionnaire prepared by OECD. The findings suggest that high financial knowledge is not widespread among Indians. Less than one-fourth rank among the highly knowledgeable by the OECD approach. The financial knowledge among

Indians appears to be low by global standards. The basic principles of money and household finance, such as compound interest, impact of inflation on rates of return and prices and the role of diversification of risk are not well understood. Men are found to be financially more knowledgeable than women. The financial attitudes of women are marginally better compared to men. Education and urban background have no influence on the financial attitude. Awareness of financial products is generally low. Most employed and retired borrow less and depends on their savings. Positive behaviour among Indians appears to be associated with higher financial knowledge. There is positive financial attitude among Indians. For further studies they suggested focus group interviews, experiments and longitudinal studies to provide more insight about the topic.

Bhatt, Patel and Modi (2012) aimed to study the changes in the lives of women availing the services of micro-finance and to analyse the effect of micro finance on women empowerment. The major findings are as enumerated below.

- There are significant differences in the decision authority before loan and decision authority after the loan. This change can be attributed to the micro finance that the women are availing.
- After taking the loan, the status of the women in the community has improved significantly.
- The status of family in community and in household is related and improved after taking loan.
- If one utilizes the loan for income generating activities i.e. starting a new business, expansion of an existing business, etc., then 61% chances are there that the level of savings will increase.

3.3 Related Studies undertaken Abroad

Bernhiem (1995, 1998) was the first to point out not only that most households cannot perform very simple calculations and lack basic Financial Knowledge, but also that the saving behavior of many households is dominated by crude rules of thumb.

Haliassos and Bertaut (1995) argued that short sale constraints, income risk, inertia and departures from expected utility maximization may explain why so few households hold stocks.

Chen, H. and Volpe, R. P. (1998) surveyed 924 college students to examine their personal financial literacy and the relationship between literacy and students' characteristics and impact of the literacy on students' opinions and decisions. Results show that participants answer 53% of questions correctly. Non-business majors, women, students in the lower class ranks under age 30, and with little work experience have lower levels of knowledge. Less knowledgeable students tend to hold wrong opinions and make incorrect decisions. It is concluded that college students are not knowledgeable about personal finance. The low level of knowledge limits their ability to make informed decisions.

Hilgert and Hogarth (2002) examined financial literacy in a sample covering all age groups and on surveys by the National Council on Economic Education (NCEE) that cover financial literacy among high school students and the adult education.

Beal and Delpachitra (2002) conducted the first Australian financial literacy survey on a sample of first- year students from the University of Southern Queensland across five faculties and tested five main skills areas: basic concepts, markets and instruments of financial markets, planning, analysis and decision making and insurance. The major analytical method was logical regression modeling with a total of ten independent variables collected from survey questions. A dichotomous dependent variable was defined by classifying respondents into two groups, high achievers and low achievers.

Analysis of the full model showed that students with higher financial literacy scores were more likely to be male, have greater work experience, have a higher income and have a lower aggregate risk preference. While the study showed that students with higher general finance knowledge and skills were more likely to be studying business, be male, work in a more highly skilled occupation and have more work experience, the researchers reached the overall conclusion that university students were not skilled, nor

knowledgeable in financial matters and that this would impact negatively on their future lives through incompetent financial management.

Constantinides, Donaldson and Mehra (2002) have argued that young people cannot borrow and thus do not have wealth to invest in stock.

Chen, H. and Volpe, R. (2002) aimed to determine participants' personal finance knowledge in the areas of general knowledge of personal finance, savings and borrowings, insurance and investments. The survey was conducted through a questionnaire among the college students. Major findings were as listed below.

- On average women know less about personal finance than do men.
- Many of the participants do not learn about financial knowledge through formal education, but through informal channels.
- Participants' financial literacy is related to education and experience - related factors.
- Business majors perform better in the survey because they have many opportunities to learn elements of personal finance.

Berhiem, Garrett and Maki (2004) and Berhiem and Garrett (2003) showed that those who were exposed to financial education in high school or in the work place saved more.

The CBF Study (2004) survey on financial literacy was the first study to investigate the strength of any link between financial literacy and outcomes or individuals and the Australian economy. This was achieved in three phases: a national survey of 5,000 Australians, an investigation of the microeconomic effects of improving financial literacy.

The results of the survey showed that the unemployed had poor financial literacy skills. Also among this group were young people, males, students, people with lower levels of education, people with lower income and people who have never worked in paid employment, Participants with these demographic characteristics made up the 10 percent

of respondents with lowest financial literacy scores. Results of the survey also showed that people in older age groups displayed lower financial literacy, suggesting that financial literacy is not merely a function of age or experience.

The results also indicated that the higher an individual's financial literacy, the lower the probability that they were unemployed. In addition, lower financial literacy was found to have an impact on an individual's health including a higher incidence of persistent sleeplessness and a higher desire to smoke. In terms of debt management, lower financial literacy scores were significantly related to respondents being unable to pay their mobile phone, utility and credit cards bills. The survey also revealed that 85% of the respondents primarily learn about managing their finances through 'Trial and Error' experiences.

The second phase of the study revealed that improvement in financial literacy "can result in life style gain for individuals of all ages, across the whole community." For those respondents with the lowest levels of financial literacy, the expected probability of unemployment was 14.3 percent, compared to 1.7 percent for those with the highest levels of financial literacy. Further, there was evidence that a modest improvement of the financial literacy of the 10 percent of the respondents with the lowest financial literacy scores would result in those people having an average increasing in annual income of \$ 3,204.

The third phase of the study revealed that an improvement in financial literacy has the potential to create more than 16,000 new jobs boosting Australian economy by \$ 6 billion per annum. Other anticipated macroeconomics effects include strengthening national savings, increase in public and private consumption and creating more successful small businesses.

Agnew and Szykman (2005) and Moore (2003), are of opinion that widespread illiteracy are reported in studies on smaller samples or specific groups of the population.

Chen and Volpe (2005) asserted the importance of personal finance literacy in workplace results because of the national debate about social security reform, with the president's call to allow workers to invest in stock and bond funds in their private accounts representing a fundamental change in the social security system. They argued

that for employees to be ‘better-off’ they must be financially knowledgeable in order to make informed investment decisions and take advantage of investment opportunities.

Lusardi and Mitchell (2006) devised a module on financial literacy for the 2004 US Health and Retirement Study (HRS). Their questions aimed to test basic financial knowledge related to the working of interest compounding, the effects of inflation and risk diversification. They found that financial illiteracy is widespread and particularly acute among specific groups of the populations such as women, the elderly and those with low education. These results are surprising not only because the literacy questions were rather simple and basic, but also their sample was composed of respondents who were 50 or older. Most respondents in that age group had checking accounts, credit cards, and had taken one or two mortgages.

OECD (2005) and Lusardi and Mitchell (2007) reviewed the evidence on financial literacy across countries and have shown that financial illiteracy is a common feature in many developed countries including European countries, Australia and Japan.

Christelis, Jappelli and Padula (2007), found that most respondents in Europe score low on numeracy scales.

Agrawal, Driscoll, Gabaix and Laibson (2007) showed that financial mistakes are prevalent among the young and elderly, who are those displaying the lowest amount of financial knowledge.

Stango and Zinman (2007) showed that those who are not able to correctly calculate interest rates out of a stream of payments end up borrowing more and accumulating lower amount of wealth.

Rooij, Lusardi and Alessie (2007) conducted a study to better understand the relationship between financial literacy and stock market participation. Survey participants were Dutch households who were interviewed via the internet. The age of the respondent

varied from 22 to 90. The questions measured economic knowledge before entering the stock market. The main finding was that those who have low financial literacy are significantly less likely to invest in stocks.

Mandell, L. and Klein, L. (2007) conducted a survey with the objective to evaluate financial literacy in the following four areas:

- Income
- Money management
- Spending and credit
- Saving and Investment

This survey also examined the hypothesis that low financial literacy scores among young adults, even after they have taken a course in personal finance, is related to a lack of motivation to learn or retain these skills. They found that the motivational variables significantly increase our ability to explain differences in financial literacy. For high school, students' motivation is a key factor to become financially literate. High school classes in personal finance or money management do not tend to increase the financial literacy of students who take them.

Princeton survey research Associates International (PSRAI) (2007) conducted a survey with the purpose to establish a benchmark survey that indentified what Americans know about their finances and how receptive they are to professional financial advice and education. PSRAI conducted telephone interviews in English and Spanish with 1,003 members of the general public for collecting data. Some of the major findings of this study are as enumerated below.

- Only a minority keep close track of expenses.
- Most of them get financial education at home rather than at school.
- Younger Americans, Blacks, Latinos and Southerners are most interested in financial education and advice.
- Not even 50% check their credit history.
- More than 1/3rd received professional advice.
- Sizeable minority pay less than full amount on credit cards every month.

Lusardi and Mitchell (2011) aimed to measure financial knowledge across eight countries to have deeper understanding of the causes and consequences of financial illiteracy. They concluded that financial literacy is very low around the world, irrespective of the level of financial market development and the type of pension provided. Low level of financial knowledge in older populations also suggests that these groups may be particularly vulnerable. Financial literacy should not be taken for granted, even in countries with very developed financial markets. Financial literacy is an important predictor of retirement planning. Even at the highest level of schooling, financial literacy tends to be low. They suggested that to be effective, financial education programmes can best help people to make good financial decisions.

ANZ (2011) conducted a survey to study adult financial literacy with these objectives:

- To monitor how aspects of financial literacy have changed compared to the previous studies of 2002, 2005 and 2008.
- To continue to inform public policy, particularly as it relates to low financial literacy segments, to encourage continued focus on the area and to stimulate further debate; and
- To provide a valuable information resource that will assist the development of strategies to improve financial literacy in community.

The 2011 study largely repeated the measures taken in the previous surveys and time-series data were used. Data collection was done by telephone interview. The target population for the surveys was all Australians aged 18 years or above who were accessible by fixed-line telephone. Major findings were as given below.

- Financial knowledge was strongly associated with choosing financial products.
- A view that financial dealings are stressful was associated with low scores on financial control and to a lesser extent keeping a track of finances, choosing financial products and staying informed.
- Use of Debit Visa or Master Card was higher amongst younger people than it was amongst older people.

- Young people were the most likely to have obtained financial advice from friends or family members.
- Other investments including debentures, bonds, notes or derivatives were made by 3% of respondents not significantly different from the 4% recorded in 2008.
- Twenty one percent of respondents aged 55 years or more said that they had a retirement income stream product.

Harris Interactive Inc. Public Relations Research (2011) conducted a survey with the objective to study the financial literacy of consumers. The survey was conducted by telephone interviews within in the United States among 1,010 adults. The key findings were as given below.

- More than half of adults do not have a budget.
- Most of the U.S. adults have not reviewed their credit score (63 %) or credit report (65%) in past 12 months.
- U.S. adults are now more likely to save for retirement than they did in 2009.
- More than 1 in 5 U.S. adults do not have a good idea of how much they spend on housing, food, entertainment.

Harris Interactive Inc. Public Relations Research (2012) conducted a survey with the objective to study financial literacy of consumers. It had employed telephone interviews for the purpose of collecting data. Some of the key findings were as given below.

- More than half do not have a budget.
- More than 77 million Americans do not pay all of their bills on time.
- The proportion of savings has decreased.
- Americans continue to learn about personal finance primarily from their parents or at home.

FRC (The Financial Reporting Council) (2012) conducted a survey on financial literacy of directors. The sample consisted of 385 respondents from a diverse population of directors and financial professionals who deal with directors. Some of the key findings include the ones listed below.

- Directors generally rated their personal level of financial literacy marginally higher than the financial literacy of their fellow directors.
- Both directors and financial professional rated the knowledge of directors of basic accounting principles as higher than their knowledge of specific, more technical accounting issues.
- A number of respondents expressed a concern that the increasing complexity of accounting standards is making it more difficult for directors to acquire and maintain the level of financial knowledge needed to sign off on financial statements.

3.4 Other Related Studies

Bose, Banerjee and Mukherjee (1973), the investigation aimed to examine academic and financial aspects as well as administrative arrangements of the seven big colleges in Calcutta. The major findings were as given below.

- The colleges spend more than their income in maintenance of teaching and non-teaching staff.
- The colleges were obliged to spend very little on maintenance of building furniture, library and laboratories.
- Purchase of library books from the college fund was inadequate.
- Average number of lectures delivered by a teacher in a particular subject for teaching day was quite small in some cases...

Malhotra (2002) emphasised that even after identifying empowerment as a primary development goal, neither the World Bank nor any other major development agency has developed a rigorous method for measuring and tracking changes in levels of empowerment.

Kansara (2006) conducted a study of perception of students and teachers of higher secondary commerce stream towards vocational guidance. The five point perception scale

for teachers and students and interview schedule for teachers was employed for the purpose of collecting data. Some of the major findings were as listed below.

- As per 80% of teachers, vocational guidance will develop independent decision making power among the students, as it is one of the most important skills to be possessed by the commerce students.
- 50% teachers were having misconception about vocational guidance.

This study is likely to make higher secondary teachers aware about the need of vocational guidance in the life of the students of higher secondary. It is expected to make teachers aware about the effective of providing vocational guidance to the students.

Vijayan (2006) aimed to evaluate standard 11 commerce textbook prescribed by Gujarat State Textbook Board in the year 2004 with the purpose to evaluate both physical and academic aspects of the same textbook and also to study opinions of teachers and student regarding the suitability of the same textbook in terms of physical and academic aspects. It was an evaluation research. Content analysis was done and an opinionnaire was employed for collecting the opinion of teachers and students about the textbook. Major findings were as listed as below.

- Style of binding needs improvement.
- Cover page of the textbook is appropriate to some extent only.
- Activities are not covered in the textbook.
- According to all teachers activities must be there to provide practical exposure.
- Reference books for students and teachers should be given.
- Summary should be given at the end of each chapter so that they will get an overall idea about the chapter.

- **Implications of review of related literature in the present study**

By reviewing the related literature the investigator came to know the research gaps in this particular field of research. In Australia, US that are developed countries many researches on financial literacy are conducted with different groups but in a developing country like India very few research studies are conducted. As we know India is a growing economy.

So, we need to check and channelize the capital formation. Further, for capital formation there is a need for savings and investments. So it becomes necessary to know the financial literacy among the citizens of India. Researches undertaken in this light have targeted groups like household people, students and adults. However, few attempts have been made to track financial knowledge and skills of the working people. For example, **FRC (The Financial Reporting Council) (2012)** conducted a survey on financial literacy of directors, **Chen and Volpe (2005)** asserted the importance of personal finance literacy in workplace and **Agarwalla, Barua, Jacob and Varma (2012)** have conducted a survey on young employees in India. Furthermore, no attempts have been made to know the financial literacy among the teachers in different disciplines. If teachers are financially literate then they can provide adequate and efficient training to students, to help them manage not only their personal finances but also to enhance the capital formation of the country by saving and investing in a wide variety of financial products. Furthermore, there have been only a few attempts to explicitly link financial knowledge with financial behavior. It is possible that certain aspects of financial literacy are more or less significant in an economic sense in determining good or bad financial behavior and consequently, high or low levels of financial success and sustainability of such success. Further research and testing are needed to determine more realistic benchmarks for the ongoing measurement of financial literacy. This is help to determine the validity of implementing educational strategies in order to improve financial literacy in schools, universities, colleges and workplace. Thus, the reviews have been of immense help to the investigator not only in understanding the backdrop for the study on hand also to develop specific focus, regarding relevant issues.