ECONOMIC SCIENCES

COLLEGE STUDENTS AND FINANCIAL DECISION MAKING – AN ANALISYS BASED ON THE ASSESSMENT OF FINANCIAL EDUCATION

Brikena Leka,
Associate Proffesor, Faculty of Economics, University of Tirana
Etleva Bajrami,
Associate Proffesor, Faculty of Economics, University of Tirana
Gentiana Sharku,
Proffesor, Faculty of Economics, University of Tirana
Drilona Mulaj
PhD Candidate, Faculty of Economics, University of Tirana
https://doi.org/10.5281/zenodo.10899308

Abstract

This article focuses in the assesment of the financial literacy level of students that attends college with no economic background. The level of financial education is very important for all individuals, but it takes a special importance for young people, since they are the ones who will encounter innovative products and services in their financial decisions for a longer time and they must be prepared for it. A low level of financial education means an increased risk in current and future decision-making, which would affect the quality of life of Albanian citizens. In order to evaluate the financial education level of students in addition to the descriptive analysis, are calculated: the global index for the level of financial literacy, as well as three partial indices for the level of: financial knowledge, financial attitude and financial behavior. To calculate the indices, primary data collected from the questionnaire were used and then the answers for each student were evaluated with points depending on the wrong or right answer, and then the evaluation was done on a scale from 1 to 100. The most important findings of the paper conclude with a low level of the index of financial knowledge, and a satisfactory level for the indices of financial attitude and financial behavior, concluding with an average value for the global index of financial education of students.

Keywords: financial literacy, knowledge, attitude, behavior, indices

Introduction

Over the years we become more and more involved in family problems, and at certain moments life becomes very difficult. This is one of the main reasons that explains that the knowledge in personal finance management should be obtained regardless the age of the individual. Often people spend 12 or more years of schooling to become good at earning an income without learning how to manage it.

Due to the fast technology innovations and the variety of financial products available to the investors, the concern of governments, institutions and academics on the approach that individuals and especially students have toward financial problems is recently increased.

Financial literacy refers to understanding basic financial skills and concepts. It is not only about knowing and acquiring information, but about its successful application in daily and professional life.

The end of the last century and the beginning of this century, found people in Albania and all over the world with more savings, loans, insurance policies, taxes and duties, investment alternatives including securities, real estate, pension funds, mutual funds etc. Technology development through "Fintech" has introduced a series of innovative products and services.

These developments highlight the importance of financial education, especially in Albania, where people have mostly saved their money only through bank deposits. This education takes on great importance for all individuals, but especially for young people in order to avoid financial pitfalls and make informed decisions about their finances in the future. Meanwhile, the financial markets are developing very quickly, also influenced by the big technological changes, producing innovative and complex financial products. The level of financial education of young people significantly affects their access to these products and services. A low level of this education means an increased risk in current and future decision-making, which would affect the quality of life of Albanian citizens. Therefore, financial education from a young age takes on great importance, and especially for students and young people who do not have economic and financial training. For this reason, the focus of this research are the students of non-economic faculties at the University of Tirana in Albania.

Literature Review

There are many definitions of financial literacy, but the definition provided by the OECD is probably the most complete. OECD (2015) defines financial literacy as "A combination of awareness, knowledge, skills, attitude, and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing".

Referring to the Program for International Student Assessment (PISA) study for 2021, but also Pisa 2018, 2015, Pisa 2012, the level of financial education of Albanian youth is very low compared to other countries, especially for the 18-29 age group, which will be the target group of our research.

Robb & Woodyard (2011) and Lusardi et al. (2010) in a study of American youth concluded that better financial education of young people is necessary for better money management. Also, Lusardi et al. (2010), showed that young people have a low level of financial education, where less than 1/3 of young people have basic knowledge about interest rates, inflation and risk diversification.

Mandell (2008) in a study of financial education on issues related to income, money management, savings, investments and spending, concluded that students leave school without acquiring the necessary skills to make important financial decisions affecting their lives in the future.

Volpe & Chen (2002), but also Volpe, Chen, & Pavlicko (1996) found that a financial education, especially in finance and accounting, improves students' core knowledge in personal finance.

Chen and Volpe (1998), concluded that students should improve their knowledge of personal finance, as their incompetence will limit opportunities for appropriate financial decisions. Danes and Hira (1987) found that students have very limited knowledge about issues such as insurance, credit cards, stocks, bonds, and pension plans.

Also, a number of studies indicate that high school students are not well prepared to manage their personal finances (Bakken, 1967, Langrehr, 1979; Yates & Ward, 2011).

Emphasized problems related to the financial education of Albanian youth have always been highlighted, especially by important institutions such as the Bank of Albania (BoA), the Association of Albanian Banks and the Albanian Financial Supervisory Authority. In this context, since 2006, Bank of Albania organizes several projects, workshops and activities (i.e. Global Money Week) with students, teachers, journalists and interested parties. Financial education is also one of the priorities of the Albanian Financial Supervisory Authority, focusing especially on informing about the Securities Market, the Insurance Market and Private Pension Funds.

Dushku. E (2022), based on Bank of Albania data on 2019, concluded that the level of financial education for Albanian citizens is low compared to the average level in the world. Only 54% of Albanian citizens know at least 5 financial products, compared to 83% globally. Also, the use of payment products is 2.5 times lower than at the global level.

The Bank of Albania assesses that being familiar with basic financial and economic concepts, knowledge and proper use of banking products and financial instruments, as well as the ability to manage personal and family finances, avoiding the risks of over-crediting, are essential elements for achieving of well-being of the people and the whole society. While financial services and products develop and become more complex, financial education helps users to know and use them properly (Sejko G., 2018).

According to the 2014 Standard & Poor's report, Albania shows significant problems regarding the level of financial knowledge of adults, concluding that only 14% of them have financial knowledge, thus ranking among the last countries in the world.

D. Nano (2014) in her research emphasized the importance of financial education among young people for the development of the country, the economy and the financial system. The research concluded that the financial education of students is necessary, since the latter have a low level of financial knowledge.

A study performed in 2011, in the framework of a project between Bank of Albania and Bank of Italy on the financial culture in Albania, emerged the need for financial education among the young people.

Likewise, scientific studies carried out by students of Faculty of Economy in the University of Tirana (presented at conferences organized by the Department of Finance) highlight problems of financial knowledge among students of non-economic faculties.

The main objective of this article is to measure the level of financial education in the population of students of University of Tirana who do not study economics. The project also defines three specific objectives: 1) measuring the level of financial knowledge; 2) measuring the level of financial behavior; 3) measuring the level of financial attitude, for UT students, with non-economic background. The fulfillment of these specific objectives also makes it possible to fulfill the main objective, taking into consideration the definition of financial education given by the OECD.

Methodology

This paper measures not only the degree of financial education among the students, but in particular the level of financial knowledge of students, their behavior and attitude towards solving financial problems. A survey is conducted in order to collect the data among the students in five non-economic faculties of the University of Tirana.

The level of financial education in the population of students, is performed through 1) measuring the level of financial knowledge; 2) measuring the level of financial behavior; 3) measuring the level of attitude of students of public HEIs towards financial issues. The authors have calculated the Global Index of the level of financial education, the specific Index of Knowledge (financial inclusion) measured through the answers to questions about the financial knowledge that students have, the specific Behavior Index measured through the answers to the questions about the behavior of the students towards financial issues, and the specific financial Attitude Index measured through answers to questions about the attitude of students towards financial issues.

Through the analysis of the questionnaires, an analysis is performed to recognize the deficiencies and the lack of information that the students have regarding their financial education and to highlight the problems they face in solving financial issues.

The students of first (bachelor) and second cycles (master) of studies are part of this study. It was a sample of 302 students, which is statistically significant for the population. An important task was to determine the questions for each category that are most suitable for the students. For this, a brainstorming process was carried out.

Pisa, S&P and the Mendes study were taken as references for constructing the questionnaire and the data elaboration. There were constructed four Financial Literacy Indices: one Global and three Partial, one for each component of Financial Literacy – Knowledge, Attitudes and Behaviors, for each faculty. These indices are calculated to each individual. It was given a score to each question 0 and 1, depending on the answer. The 1 was assigned to the more correct answers and 0 to the less correct ones. There are some questions which cannot be scored this way, since it is impossible to say what is the right answer. So, these questions are not part of the Financial Literacy Indices. Based on these analyses the paper concludes that the students have a sattisfactor level of attitude and behavior towards financial issues, but a relatively poor level of financial knowledge.

Financial education indices

The number of students for each study program is presented in the table below. The largest number of students belongs to the first and second year of study, where the number of students is also higher, but also when general information for students is more possible to be provided. In the first two years of the bachelor studies, the possibility of including non-professional subjects in the curriculum is higher. This is possible even until the third year, but mainly it has to be in the form of an elective course. Moreover, it is much more important that financial education in the student's life cycle is offered as early as possible, that is, mainly in the first or second year of studies.

Study Program	Students at Study Program
Bachelor I	34%
Bachelor II	31%
Bachelor III	26%
Master	9%

Source: Authors' Calculations

Financial Knowledge Index Calculation

After each answer was evaluated for each student, if it was correct or incorrect, the partial indexes were calculated first and then the global (overall) index.

Since the questions for the financial knowledge index are more professional, it is needed to know financial concepts as well as know how to do calculations and to analyze certain situations, so it is more difficult for students to answer correctly.

For this reason, this index was also expected to be lower than other indices. Although this level is low, it is again comparable to that of students in other countries, as it can be seen in the literature review, in general, a low level of financial education of young people is observed.

In addition, this level is lower for the 18-29 age group in Albania, an age group that also includes students.

However, it is very important for this study to identify the concepts where more problems appear and where the work should be focused for the future. The most problematic concepts are: time value of money, inflation, low risk investment taxes and liquidity.

Index of financial knowledge

The Faculty of Law	29%
The Faculty of Foreign Languages	21%
The Faculty of History and Philosophy	19%
The Faculty of Social Sciences	22%
The Faculty of Natural Sciences	28%

Source: Authors' calculations

Financial Attitude Index Calculation

E3The second group of questions was focused on the financial attitude of students. Financial attitude questions express their opinion and judgment about finances. It is expected that this index will be higher than the index of financial knowledge, since mainly individuals judge the financial matters are of high importance, regardless of whether they take steps to acquire financial knowledge or not.

Index of financial attitude

The Faculty of Law	64%
The Faculty of Foreign Languages	61%
The Faculty of History and Philosophy	55%
The Faculty of Social Sciences	58%
The Faculty of Natural Sciences	62%

Source: Authors' calculations

The issues that appear more problematic and where the work should be focused for the future, as far as the financial situation is concerned, are related to Financial Planning, mainly for attitude towards savings plan, as well as Debit and Credit Card use.

We think that the wider problem is seen in the use of the credit card, because referring to the stage of the life cycle that they are, for the future as a significant part of the individuals they don't want to get a loan. They connect the credit card directly with taking a loan, considering it a risk, which is why they have been more reserved in their assessment of its use in the future.

Financial Behavior Index Calculation

The questions included in this section focus on the student's ability to manage financial resources, includingfinancial planning, budgeting, saving plans, as well as their expectations about their role in the financial decision making in their future family.

Index of financial behavioral

The Faculty of Law	71%
The Faculty of Foreign Languages	70%
The Faculty of History and Philosophy	78%
The Faculty of Social Sciences	76%
The Faculty of Natural Sciences	85%

Source: Authors' calculations

The issues that appear more problematic are the practices related to Budgeting and Savings. It is a close connection with the problems noticed at the Attitude index, which means that students are skeptical about the importance of keeping records of income and expenses, planning budgets in broad terms and preparing savings plans. We think that these elements in the judgment of the students are seen as less important due to the stage of the life cycle where they are. Usually, the students have little income and classic expenses, something that justifies a budgeting of a smaller importance, since they have almost exactly calculated the main activities they have, the expenses they make as well as covering them with income, where the majority of them are provided by the family. The same analysis also applies to the savings plan, since being financially supported by their parents, they use this budget only to cover expenses, without having the opportunity to save. However, it is very important for students to understand how important and vital these elements are for the future in their families.

Global Financial Index Calculation

In the end, a general-global index was calculated for the level of financial education of students. This index considers the three groups of questions related to financial knowledge, financial attitude and financial behavior. The level of this index is not very low, but again it is not satisfactory considering the fact that the students are attending the college, which means that they should have more information. However, considering the satisfactory level of financial behavior and financial attitude, it means that they know the importance of financial education and are prone to financial literacy. So, the main focus must be on improving the financial knowledge index, which is low affecting the decrease in the level of the global index.

Global Financial Index

The Faculty of Law	55%
The Faculty of Foreign Languages	51%
The Faculty of History and Philosophy	51%
The Faculty of Social Sciences	52%
The Faculty of Natural Sciences	58%

Source: Authors' calculations

Main findings and suggestions

The end of the last century and the beginning of this century, found people in Albania and all over the world with more savings, loans, insurance policies, taxes and duties, investment alternatives including securities, real estate, pension funds, mutual funds etc. Technology development through "Fintech" has introduced a series of innovative products and services.

A low level of this education means an increased risk in current and future decision-making, which would affect the quality of life of Albanian citizens. Financial literacy has become one of the most discussed issues in these three decades. The Internet is overflowing with Web-sites in the field of personal finance and especially in that of investments.

Acquiring knowledge in personal finance helps to face the challenges, responsibilities, and financial opportunities, helping to: gain financial knowledge, effectively use the relevant skills and mechanisms, clarify financial values and goals, as well as identify needs and specific desires that can be fulfilled with the financial resources that are owned. One of the most important issues is financial planning.

The main purpose of this study is to identify the level of financial literacy of students, with the aim of taking appropriate measures at this stage of life to improve the level of financial education, knowing its importance for the future.

Based on these analyses the articles concludes that the students have a sattisfactory level of attitude and behavior towards financial issues, but a relatively poor level of financial knowledge. It means that the students appreciate the importance of financial education in their life, but meanwhile they do very little to get financial knowledge related to this financial decision in the future. These findings, considering the global index as well are in the same line with the literature review findings for students as Danes and Hira (1987), Mandell (2008), and Lusardi et al. (2010).

Referring the Financial Knowledge index, it is needed more knowledge regarding *time value of money, inflation, low risk investments and taxes.* Concerning the financial attitude index, it has to be focused more on issues regarding *financial planning- especially on savings plan, and debit and credit card use.* Considering the financial behavior index it has to be focused on *budgeting and savings,* so again it is connected with the financial planning.

At the end of this article, there is included some suggestions:

- Preparing webinars on these main issues concerning the indices, preparing short descriptive materials, flyers and leaflets, and publish in the website of the proper units.
- Including in the curricula of these institutions a module in Financial Knowledge, or Personal Finance.

These steps, if undertaken, will affect the improvement of the indices calculated above, as well as the overall level of financial literacy.

References*:*

1. Bakken, M. R. 1967. Money management understandings of tenth grade students. National Business Education Quarterly.
2. Chen, H. and R. Volpe. 1998. “An analysis of personal financial literacy among college students”. Financial Services Review, 7, 107-128.
3. Chen, H., Volpe, R. 2002. Gender differences in personal financial literacy among college students. Financial Services Review, vol. 11, no. 3, pg. 289-298.
4. Danes, S., Hira. K. 1987. “Money management knowledge of college students”. The Journal of Student Financial Aid, 17, 4- 16.
5. Dushku, E. 2022. Evidence on financial literacy and financial inclusion in Albania. SUERF Policy Brief No 317.
6. Financial Literacy Around the World: Insights from the Standard & Poor’s ratings services global financial literacy survey. 2014
7. Harris/Scholastic Research (HSR). 1993. Liberty Financial Young Investor Survey, New York, NY
8. Huston, S. 2010. Measuring Financial Literacy. The Journal of Consumer Affairs, Vol. 44, No. 2, pg. 296-316.
9. Langrehr, F. W. 1979. Consumer Education: Does It Change Students' Competencies and Attitudes? The journal of consumer affair. Vol. 13, Issue 1, Pg 41-53.
10. Lusardi, A., Mitchell, O., Curto, V. 2010. Financial Literacy among the Young. The Journal of Consumer Affairs. Vol. 44, No. 2, pg. 358-380.
11. Mandell, L. 2008. Financial Literacy of High School Students. Handbook of Consumer Finance Research. Springer.
12. Mendes, A. F. C. 2013. Financial Literacy of College Students- Study Case: Students of the University of Porto. Dissertation of Master of Finance.
13. Nano, D. 2014. Aftësia financiare e studentëve në Shqipëri- Punim Doktorature.
14. Pisa 2021. 2018. Pisa 2015: Results in Focus (OECD 2016).
15. Robb, C. A, Woodyard, A. 2011. Financial Knowledge and Best Practice Behavior. Journal of Financial Counseling and Planning. Volume 22. No 1.
16. Volpe, R., Chen, H., Pavlicko, J. 1996, Personal Investment Literacy among College Students: A Survey. Financial practice and education. Pg 86-94.
17. Volpe, R, Joseph E. Chen, H. 2002. A Survey of Investment Literacy among Online Investors. Financial Counselling and Planning, Volume.13, No.1, pp.1-16.
18. S&P Global FinLit Survey. 2015.
19. Yates, D., Ward, C. 2011. Financial Literacy: Examining the Knowledge Transfer of Personal Finance from High School to College to Adulthood. American Journal of Business Education 4(1). Pg. 65–78.