

FINANCIAL BEHAVIOR AMONG UNIVERSITY STUDENTS

A Thesis Proposal

Prepared By

Sanju Singh Maharjan

Central Department of Management

Roll No: 1231

Registration No.7-2-925-206-2012

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CHAPTER I

INTRODUCTION

1.1 Background of the study

Several studies showed that financial literacy is positively related to self-beneficial financial behavior (Hilgert, Hogarth, and Beverly 2003) .In the course of everyday life, people make a variety of financial decisions about saving, investing and borrowing. The global marketplace is increasingly risky and is becoming more vulnerable day by day. 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, 2011).

This phenomenon requires individuals to be equipped with some knowledge and skills relating to personal financing, or simply financial literacy. In academia, financial literacy can be defined as “one’s understanding and knowledge of financial concepts” (Lee, 2005; and Hogarth & Hilgert, 2002). Financial literacy can have important implications for financial behavior. For instance, people with low financial literacy are more likely to have problems with debt (Lusardi & Turfano, 2009), less likely to participate in the stock market (Rooij et al., 2007), less likely to choose mutual funds with lower fees, less likely to accumulate and manage wealth effectively and less likely to plan for retirement (Lusardi & Mitchell, 2006). In recent times, concern for the levels of financial literacy in society as a whole has grown considerably and is expected to grow even more important in the future (Fox et al., 2005).

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 more relevant for college students. Peng et al. (2007) stated that university students take on higher levels of personal financial responsibility. These students face more financial challenges in conjunction with relevant instruction. It is also more likely that college students are experiencing more challenges with finances as they pay bills, use credit cards, working, saving, budgeting monthly expenses, and manage debt. Thus, there is paramount importance of financial literacy among college students. The financial behavior that college students learn during these years are likely to influence the decision they make in future (Shim, et al 2009). Students

reported in many studies that the most significant influence on their financial management behaviors was their parents. There have no significant formal studies on financial literacy and financial behavior with regards to problems among Nepalese students in the access of the researcher.

Financial behavior refers to ways and extent of use of funds, identification of most economical fund sources, discharging loan in time, habit of conducting financial transaction through record keeping and so on. The financial behavior is influenced by many factors including gender, ethnicity, place of origin, financial position of parents, support of parents, employment status and more importantly the financial literacy. Whereas financial literacy is the possession of the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. People with appropriate financial literacy training make better financial decisions and manage money better than those without such training. Though many university students may have some financial knowledge it is the formal financial knowledge that is available to the management students. Hence they are expected to pose financial literacy as distinct from others.

1.2 Focus of the study

It focuses on the fact that investors are not always rational, have limits to their self-control, and are influenced by their own biases. The impact of financial determinants includes gender, employment status, family background, income level and residence of students studying in TU. Financial behavior will be mainly focused on the habit of spending saving, income related activities, record keeping behavior. The main focus is about financial literacy directly could make vast difference in financial behavior.

1.3 Statement of the problem

1. Does gender difference influence financial behavior of University students in Nepal?
2. Does age level affects financial behavior of University students of Nepal?
3. Does family income level affects financial behavior of University students of Nepal?
4. Does educational stream affect financial behavior of University students in Nepal?
5. Does employment status affects financial behavior of University students in Nepal?

6. Does place of origin affects behavior University students in Nepal?

1.4 Objectives of the study

The objectives of the research is to evaluate the effectiveness of financial knowledge, attitude and financial behavior of University students in TU can determines by factors such as financial knowledge, attitudes, financial education, individual characteristics, ethnicity, family income level, employment status, place of origin, gender, age level, and education stream of respondents. The general main objectives are

- I. To test the relationship between gender difference and financial behavior among University students in Nepal.
- II. To test the relationship between age level and financial behavior among the University in Nepal.
- III. To examine the relationship between family income and financial behavior among the University students in Nepal.
- IV. To examine the relation between employment status and financial behavior among the University students in Nepal.
- V. To analyze the relationship between place of origin and financial behavior among the University students in Nepal.
- VI. To analyze the relationship between educational stream and financial behavior among the University students in Nepal.

1.5 Significance of the study

Financial behavior determines overall resource allocation seeking for making rational decision and financial investment decision. Many research work that have been conducted on the related subject matter still lacking quantitative approach concentrating on Nepalese students in general and post graduates students of TU in particular. For this reason, the study is significant to the students, researcher, finance analyst, educational experts and university teachers; which maybe use as reference for educational planners as well. Indeed, getting funds from loan may have long term consequences surrounding the misuse of credit, including years of credit, including of years of financial debts, low credit source impeding future plans and extreme cases personal bankruptcy (Holub, 2002; and Robert & Jones 2001). Understanding

financial behavior helps to avoid emotion-driven speculation leading to losses, and thus devise an appropriate wealth management strategy.

In addition, high level of debt has been reported among the stressors that lead student to commit suicide (Holub 2002; and Robert & Jones 2001). Accumulation of the student's loans, credit card and lack of financial resource and planning for the future can be overwhelming for University students in assessing limited resources. Most of the students in middle class families in terms of financial position. Thus it is important for educators to assist college students in acquiring effective money management practices, including regular review of bank and credit card statement, budgeting, discipline spending, financial record keeping and planning for taxes, insurance, investment, retirement and estate issue. In the context the nation is going to restructuring through new constitution, concerned authority might have an attention after scrutinizing the research especially in the educational sector to avail financial resources as per need.

1.6 Limitation of the Study

The study will be carried out within the students currently studying in TU as postgraduate students. The result and conclusion may not cover the financial knowledge, attitude and financial behavior of whole Nepalese students at one hand and even the selected sample may not represent the whole sampling frame of the study. Hence, the importance should be given while applying the finding of the study to the other part and different time and financial factors are the constraint in confining this study within the very narrow area.

1.7 Organization of the study

The study will be organized as per the standard format of report containing face chapter namely: 1) Introduction: which will be further more divided into Background of the study, Focus of the study, Purpose of the study, Statement of the Problem 2) Review of the literature containing Theoretical framework, review of related studies of past, variables and research hypothesis. 3) Methodology and this will be further divided into Research Design, Population, Sampling Procedures, Data Gathering Procedures, Variables and measures, statistical procedure. 4) Presentation of data and result comprising Descriptive analysis and test of hypothesis using Chi-squared and regression analysis 5) Summary and conclusion.

CHAPTER II

REVIEW OF LITERATURE

2.1 Literature review

The overall views concept in regard to influencing on financial behavior is not new completely. Some scholars and researchers have contributed considerable efforts in this study. For our subject matter, some available and related studies have been reviewed. For this study the literature review have been done under two categories; the conceptual review and review of empirical study.

For this, different books, journals, previous research works, reports and policies, other published and unpublished documents related to the subject will be reviewed. The researcher will make effort to identify and understand relevant concept of financial behavior, attitude and knowledge and also we have tried to find research gap and to know the application of research methods.

Financial behavior, attitude and influence are related to financial knowledge (Jorgensen, 2007). Hathaway and Khatiwada (2008) provided critical analysis of the impact of financial education programs on consumer financial behavior but the empirical relationship between financial knowledge and behavior was not found. It may be that savings behaviors are associated with factors other than financial knowledge and attitudes. However, Hilgert et al. (2003) provided some support for a link between financial knowledge and better financial practices. They used monthly survey data from the University of Michigan's Surveys of Consumers and constructed indexes that represent the level of households' participation in each of four financial management practices: cash flow management, credit management, saving, and investment. A review of the literature on financial literacy shows that most of the studies focused on demographic variables of the students. Though some of the studies dealt with the college students, however, sample students are taken from a single University or two only.

Further, they are limited within one level of students such as undergraduate or graduate. Very few of these studies covered selected areas in personal finances, such as financial behavior, attitude and knowledge.

There is no such a definition of financial literacy satisfying all types of readers. The Organization for Economic Cooperation and Development (2005) defines financial literacy as: "the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial wellbeing. However, The United States Financial Literacy and Education Commission (2007) describes financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being". Similarly, Lusardi (2008) defines, financial literacy as the knowledge of basic financial concepts, such as the working of interest compounding the difference between nominal and real values, and the basics of risk diversification. And, Huston (2010) describes financial literacy as a measuring how well an individual can understand and use personal finance-related information. In addition, financial literacy includes the ability and confidence of an individual to use his/her financial knowledge to make financial decisions. Thus, in this study, financial literacy is defined as the understanding and knowledge of basic economic and financial concepts, as well as the ability to use that knowledge to manage financial resources.

Spending habit, maintaining records, use of saving, managing money in problem, financial services taken and use of additional income are major aspects of financial behavior. Despite the different level of financial knowledge, most of the students are somewhat economical, maintain minimal records, deposit their savings into bank account, use their savings at the time of low income and prefer to deposit into fixed account when they have excess money. The result shows students do not like to use their money in buying jewelry, lending friends and investing in share markets. In the time of crisis, students do not like to take bank loan. They also neither like to buy insurance policy nor go for vacation if they have additional money. Among the five different financial services, bank saving was taken by most of the students while investment in commodities and insurance were least taken (Thapa & Nepal, 2015)

Laucher (2010) notes a positive relationship between education and prospects of income. He found that financial sacrifice of students during study acts as seed for

capital. Khanal (2015) concludes that education has become pivotal for sustainable development of a nation. Poudal (1998) established economical spending behavior of students during the study.

For people lacking financial experience, financial education programs have been identified as a key to improving financial knowledge and promoting financial responsibility (Elliot 2000; Fox et al. 2005; Peng et al.2007). In a study of 924 undergraduates from 14 college campuses, Chen & Volpe(1998) found that students with higher financial knowledge were both more likely to keep financial records and more likely to select the correct choice when given a hypothetical scenario regarding a financial decision compared to students with less financial knowledge.

Regarding gender impact on financial behavior, Henry et al.(2007) found that female students were more likely to have a budget than male students. Davies and Lea (1995) found that students carrying debt were more likely to be male. Markovich and DeVaney (1997) found that male college seniors reported more financial knowledge than female students. Danes and Hira (1987) found that male college students knew more about insurance and personal loans while female college students knew more about overall financial decision. These mixed support as well as gender differences in financial behavior/ practices. For example, Hayhoe et al. (2000) found that, compare to male students, female students were more likely to have a written budget, plan their spending keep bills and financial receipts, and save regularly.

Employment status may also influence financial attitude and behaviors. Chen and Vople (1998) surveyed 924 college students to examine financial literacy and its impact on the financial behavior. They found that employed participant were more likely to keep financial planning through proper record keeping. In addition, participants with more work experience were more knowledgeable than those with less experience. It is possible that students' work experiences enhance their financial behaviors in other studies were mixed. As, Lyons (2004), found that students with risky behaviors using credit cards were more likely to be working students.

In fact, most of TU students are from middle class family. Hence, they cannot go for unnecessary expenditure. But they are likely to be indebted even to meet the low expenditure due to low income of family at one hand and lack of employment

opportunities to support even the low level of expenditure. After getting knowledge of proper and productive use of resources, use of their money in unproductive use is very rare. Source of finance for their study is mostly provided by their parents who mostly engage in agricultural activities. During the study, they share room given by money constraints. Those, who are employed and from strong family background may be sophisticated in financial position and financial behavior of them is expected turns out to be negative.

2.2 Research gap

In Nepalese context, studies are rarely found that have examined the financial behavior of students using various areas of assessments, this study tries to fill this gaps. In addition, incorporating some important demographic variables with six different indicators of financial behavior including micro component will be the distinct feature of the study. The results collected will be analyzed using new approaches.

2.3 Conceptual framework

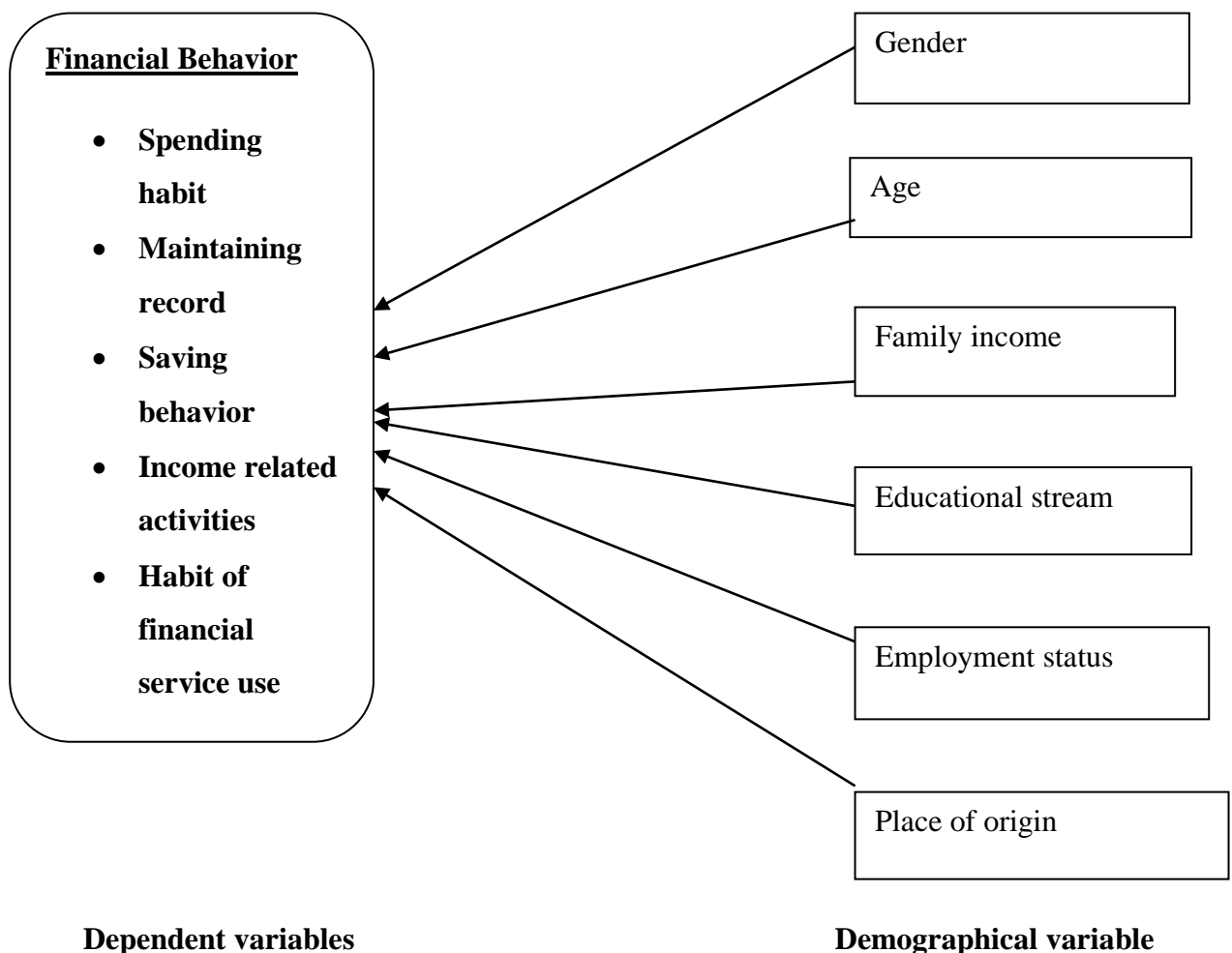
The theoretical framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. Sekran (2007): "the theoretical framework is the foundation on which the entire thesis is based. It is logically developed, described, and elaborated network of associations among variables that have been identified through such processes as interviews, observations, and literature survey. These variables are deemed relevant to the problem situation."

The theoretical framework describes the relationship among the variables. The dependent variables under this study are financial behavior of the student of Central College of TU. The variables that may be the component of financial behavior (the dependent variable) are spending habits of students, maintaining financial record, savings, income & Financial service uses etc The effect of identified 8 independent variables has been analyzed on financial behavior. Moreover, framework of relationship between demographic variables including gender, age, and family income, place of origin, educational stream and employment status with financial behavior has been established. Those who have high income may not require educational loan neither from formal or informal source. However, low income

village students require significant educational loan and due to low access to formal sector loan resulting from insufficient collateral, high interest charge from informal sector is common to them. This leads to economic use of money including share of common living room and curtail of entertainment expenditure.

Many studies have indicated that students from strong financial position in terms of own income, income of parents, assets and support of parents are expected to spend more. In the similar vein, students from village area may not spend as much as of municipality sector. However, individual nature of students and their future outlook can increase or decrease the degree of relationship between independent and dependent variables. The selected variables and their relationship have been expressed.

Fig: 1 Schematic diagram of the theoretical framework



2.4 Some important variables

2.4.1 Demographical variables

Some demographic variables that may have significant impact on financial behavior are;

a. **Employment status of students:**

Students working as employee either or part time or full time are considered as employed. Informal job has not been taken into consideration as employment status and at the same time self-employment and working for others have not been distinguished.

b. **Place of origin:** Place of origin has been categorized into two groups i.e. from urban sector indicated by students from municipality also known as easy access area and from rural area indicated by students from VDC also known as remote area.

c. **Gender of students:**

Students are categorized into male and female and are studied accordingly.

d. **Family income**

Students from family having higher than average income are considered as high income family and from family having lower than average income are considered as low income family. Respondents in our analysis have been categorized into four income group.

e. **Educational stream**

Though there are many streams of study in T.U. For convenience respondents are divided into from management stream and non-management stream.

f. **Age**

Respondents are divided into four age group categories i.e. below 23 years, 23-26, 27-30 and 31 or above. Impact of age in relation with financial behavior has been analyzed accordingly.

2.2.3 Financial behavior

Financial behavior is related with the ways of using income, making expenditure, use of financial services, saving behavior, and record keeping behavior. There may or

may not be significant relationship between aforementioned demographic and components of financial behavior.

2.4 The hypotheses

Following hypotheses have been formulated for the study:

H₁: There is significant impact of gender difference on financial behavior.

H₂: There is significant impact of age level on financial behavior.

H₃: There is significant impact of family income on financial behavior.

H₄: There is significant impact of educational stream on financial behavior.

H₅: There is significant impact of employment status on financial behavior.

H₆: There is significant impact of place of origin on financial behavior.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

It is the plan of conducting research. It provides overall framework of blueprint of the study with maximum control over factors that may interfere with the validity of findings. Appropriate research design describes the plan regarding how, when and where the data are to be collected and analyzed. It provides the idea in answering the research questions or testing the research hypothesis. Variables in the study will be measured using both qualitative and quantitative tools. However, for objectivity in analysis, quantitative research design having nature of both descriptive, analytical will be used.

The study attempts to analyze the financial behavior of master degree's students currently studying in TU in relationship with selected demographic variables. The thesis will be entirely based on survey. The researcher will design the study in such a way that responses of respondents have been recorded in suitable format for treatment of statistical analysis using SPSS software. The collected data will be analyzed using both descriptive statistics like mean, frequency, percentage along with analytical statistics like standard deviation, t-test, χ^2 –test to get information regarding the variance on financial score among the selected demographic variables on financial behavior on the basis of P-value less than 0.05 or not. The central college TU will be selected for convenience and easy access of information. Some financial indicators like saving behavior, spending behavior, income behavior, record keeping behavior and habit of using financial services and their connection with respect to gender, age, place of origin, financial position and income of parents, employment status and educational stream of respondents will be studied using statistical question pattern.

3.2 Population and sample

The number of students studying in 38 different central departments will be the population of the study among 148141 students admitted in TU and its affiliated colleges in 2016/17. Representative sample of size 120 will be selected out of which 60 are male and 60 are female. Similarly, 60 are from management faculty and 60 from non-management faculty. Since the aim is to study the financial behavior of

students studying in central college TU, out of around 2500 semester students; sample size 120 fulfills the representative limit of 5%.

3.3 Sampling procedure:

Sample will be taken with the combination of convenience sampling and stratified sampling. Hence probability and non-probability sampling methods are mingled. Students currently studying at central college TU, Kirtipur will be selected. For convenience and making comparison between management and non-management students 50% students from MBS and remaining 50% students will be selected from rest of other central departments of TU. While taking sample, care will be given that students from heterogeneous groups are not missing.

3.4 Research instrument

Self-administered questionnaire method will be used to obtain data. The study adapts the questionnaire from various past studies related to this topic and mainly used 4-point Likert scale to measure the financial behavior. The respondents will be asked to rate on the statements that describe their financial behavior. A higher scale demonstrates the respondents practice effective financial behavior & vice versa. The questionnaire has been divided into two sections where by section I consist of demographic profiles of the respondents while responses on the five indicators of financial behavior are recorded in section II.

3.5 Data gathering procedure

120 sets of self-administered scheduled questionnaire in written form will be the data collecting instrument to get information from selected respondents and data is processed via SPSS version 18. The purpose is to ensure the data are in the standard of quality. The process includes checking, editing, coding and transcribing. No amendment is required as there is no missing data. Thus, the researchers further proceeds to coding process by identifying and assigning a numerical score or other characters symbol to the data. For instance, for the gender of respondents in section.

3.6 Statistical treatment of data

The responses will be categorized, tabulated, processed and analyzed using different methods. The data are measured in ordinal scale. Frequency distribution, arithmetic mean and percentage, standard deviation, variance, χ^2 –test as a statistical tool to

measure significance of impact of identified variables on financial score will be calculated and compared using SPSS version 18. Data analysis enables describing and comparing variables numerically, which enhance the statistical analysis and data interpretation (Sander et al., 2009). All the data obtained from the questionnaires collected thus need to be interpreted and summarized in average, frequency distribution and percentage distribution (Zikmond, 2003). Mean and Median will be used to measure the central tendency while standard deviation, variance are used to measure variability of the data. Additionally, pie-charts are inserted to make the data more understandable and effectively communicate with the readers in visually appealing way. In the similar vein hypotheses will be tested using t-test and χ^2 -test to get P-value at 95% confidence level given the degree of frequency (d.f.). The frequency analysis of respondent's demographic data will be illustrated in the pie-charts in the next chapter.

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