

A Report on Relation Between Financial Behaviour and Financial Literacy

Prof. Manjeet Mishra

Asst. Professor

St. Rock's College of Commerce and Science, Borivali (W), Mumbai, India

Abstract: *Financial literacy has been identified as a crucial ability for persons who are immersed in a financially complicated environment. Financial literacy enables individuals to make more confident and effective decisions in their financial lives. This research assesses the financial literacy of individuals and examines the connection between financial literacy and financial behaviour. The findings indicate that individuals possess a respectable level of financial literacy. Upon analysing the financial behaviour of individuals, it was discovered that the majority of them had fairly favourable financial behaviour. In addition, it has been noted that financial literacy can boost people's skills and capacities to make more informed decisions, leading to healthy financial behaviour. Thus, it may be concluded that improving the level of financial knowledge promotes fiscal responsibility.*

Keywords: Financial literacy, advanced financial literacy, and Financial behaviour

I. INTRODUCTION

"Money is a type of influence. However, financial education is more effective" - Robert Kiyosaki

Financial Literacy is the capacity to comprehend how money functions in the world and to make knowledgeable and prudent decisions on all financial activities. A financially knowledgeable individual understands how to earn, manage, and invest money. He is knowledgeable about financial goods and employs his expertise to make the most of them. Recent advances have increased the importance of financial education and knowledge for financial well-being.

The available data on consumer financial literacy indicates that most individuals lack the necessary financial background or understanding to navigate today's complex market. Sadly, most individuals also overestimate their level of financial literacy. The level of financial literacy tends to fluctuate with education and income, although the research indicates that highly educated customers with high salaries might be just as financially illiterate as less educated consumers with lower incomes.

The purpose of this research is to assess the level of financial literacy among individuals. Also researched is the relationship between financial literacy and financial behaviour. Although numerous researches have been undertaken on the topic of financial literacy, few have examined the relationship between financial literacy and financial behaviour.

II. REVIEW OF LITERATURE

OECD (2005) and Lusardi and Mitchell (2007) evaluated international evidence on financial literacy and concluded that financial illiteracy is prevalent in many industrialised nations, including Australia, Japan, and Korea, as well as Europe. Similar to the findings of Christelis, Jappelli, and Padula (2006), the majority of European respondents scored poorly on financial literacy scales. Financial Knowledge and Conduct Multiple research have demonstrated a correlation between financial literacy and self-beneficial financial behaviour. Financial behaviour and financial literacy questions were added to the national Survey of Consumer Finances by Hilgert, Hogarth, and Beverly (2003). They created a Financial Habits Index based on four variables: cash-flow management, credit management, savings practises, and investing practises.

According to Padula (2006), the majority of European respondents score poorly on financial literacy scales. Financial Knowledge and Conduct Multiple research have demonstrated a correlation between financial literacy and self-beneficial financial behaviour. Financial behaviour and financial literacy questions were added to the national Survey of Consumer Finances by Hilgert, Hogarth, and Beverly (2003). They created a Financial Habits Index based on four variables: cash-flow management, credit management, savings practises, and investing practises. Comparing the results

of this index with scores on the financial literacy questionnaire, they discovered that people with greater financial literacy had higher Financial Practices Index scores, demonstrating a correlation between financial literacy and financial behaviour.

Maarten van Rooij, Annamaria Lusardi, Rob Alessie: To comprehend financial literacy and its relationship to financial decision-making, it is necessary to test numeracy, fundamental knowledge of inflation and interest rates, and advanced financial knowledge of financial market products such as stocks, bonds, and mutual funds. Those with inadequate financial literacy are substantially less likely to invest in equities, according to the study.

III. FINANCIAL BEHAVIOR

Examples of financial behaviour include managing personal expenses, debt management, long-term planning, emergency and risk management, and seeking counsel.

Debt management: It takes into account aspects such as the payment of expenses such as rent, insurance premium, energy, credit card, etc. When analysing debt management, short-term loans obtained within the past few years and timely loan repayment are also considered.

Personal financial management: It includes aspects such as creating a monthly budget, purchasing items after thorough analysis, and distinguishing between requirements and wants.

Long-term planning takes into account aspects like retirement planning, long-term savings, and long-term investments.

Emergency and risk planning: To demonstrate responsible financial conduct, one must set aside an emergency fund and be appropriately insured. This component examines the respondents' emergency and risk planning behaviour.

Seeking advice: It is crucial to stay current on financial information from many sources, such as newspapers, television, friends, and financial experts. This element investigates the financial advice-seeking behaviour of the respondents.

IV. CONCLUSION

The purpose of this research is to assess the level of financial literacy (knowledge) and its impact on financial well-being.

The primary findings of this study indicate that the majority of respondents (64%) had an adequate degree of financial literacy. This is an encouraging indicator. Eighty percent of respondents had a solid understanding of basic topics such as simple interest, inflation, credit cards, and savings interest rate. Only 56% of respondents had a comprehensive understanding of advanced financial literacy topics such as long-term returns, stock market volatility, risk/return on stocks/bonds, and diversification. Basic financial concepts such as compounding, time value of money, and credit purchasing are unfamiliar to respondents, as are sophisticated financial concepts such as the operation of the stock market, bond prices, mutual fund financing, and loan financing. The majority of respondents exhibit relatively favourable conduct. Positive financial behaviour is observed in areas such as debt management, personal finance, long-term planning, emergency & risk, and seeking help.

Regarding the relationship between financial literacy and financial behaviour, it can be inferred that basic and advanced financial literacy are positively related to financial behaviour.

REFERENCES

- [1]. <https://fbj.springeropen.com/articles/10.1186/s43093-021-00064-x>
- [2]. <https://www.frontiersin.org/articles/10.3389/fpsyg.2022.906153/full>
- [3]. <https://www.emerald.com/insight/content/doi/10.1108/RBF-06-2020-0141/full/html>
- [4]. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3084021
- [5]. <https://digitalcommons.usf.edu/cgi/viewcontent.cgi?article=1138&context=numeracy>
- [6]. <https://www.econstor.eu/bitstream/10419/246677/1/1765840422.pdf>