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Financial Literacy and Income Inequality Among Senior Secondary School Students

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Abstract
Young people are developing financial literacy as an essential skill due to the increasing frequency of youth participating in financial activities such as online shopping, digital payment methods, maintaining bank accounts, subscriptions, as well as saving, and spending money. However, the level of exposure to available opportunities regarding financial literacy and education is not equal for different individuals depending on their socio-economic background. Thus, this article aims to explore the impact of the socio-economic background among the youth regarding financial literacy. It makes use of a simple survey wherein students involved in the study were from classes 11 and 12. The survey included important questions relating to areas such as savings, budgeting, and financial decision-making. The results of the study showed that youth from different social classes have different levels of financial literacy. Students from wealthier families scored better marks than students from less fortunate families. Youth who have been involved in financial discussions with their parents tend to have better understanding of financial knowledge. The study indicates that there are gaps in financial literacy among youth of all income groups and the importance of introducing financial knowledge in school should be reiterated. Majority of young people express the desire for practical knowledge of financial issues.

I. Introduction

Financial literacy refers to one's understanding of fundamental financial principles, and helps in making decisions regarding finances. It encompasses straightforward yet vital concepts, such as budgeting, saving, borrowing, inflation, interest, responsible spending, digital payment, and secure finances. Financial knowledge is significant as every individual makes numerous financial choices during her/his life, which has repercussions on the economic security and quality of standard of living of that person.

The significance of financial literacy has begun to expand beyond adults. Young people even start becoming financially active at younger ages. Teenagers typically use mobile payment apps, subscribe for a streaming service, shop online, handle bank accounts, and save money, among others. It requires some amount of financial literacy. A student who understands budgeting may know how to spend his/her limited money wisely. The same holds for people who are aware of online scams and fraud prevention.

Although the importance of financial literacy has been growing, financial education is not always imparted as a separate course at school. Therefore, students often learn about financial matters from their parents and other people. It means that they may acquire different levels of financial knowledge depending on their family's background and financial literacy.

Household incomes may largely contribute to varying financial knowledge of students. People from high-income households tend to encounter banking services, insurance, credit cards, loans, investments, and savings plans more often than people living in poorer households. Other students may not be introduced to the same opportunities.

However, income is not the only determinant of the level of financial literacy. Parents' schooling level, school conditions, access to the World Wide Web, family ways of life, love for learning about finances, and external financial education from other sources shape the financial literacy level of students, as well.

This research investigates if there are any differences in the financial literacy of seniors from various household income categories and if it is true that students having conversations about finances at home know more than people not having such a chance.

II. Literature Review

The subject of financial literacy has gained importance because an individual's financial knowledge impacts the choices that he or she makes regarding expenditure, saving, borrowing, investing, and planning. Lusardi and Mitchell have suggested that financial literacy is vital since it leads to the making of informed financial decisions. Their study shows that financial knowledge is not evenly distributed among different groups of people. Young people have also attracted attention in research on financial literacy because most habits about finances are formed in adolescence. For example, saving regularly, cutting back on some expenditure, comparing prices, or planning spending can be developed even before one becomes financially independent. Financial education at a young age can influence financial choices later on.

The OECD has conducted studies on financial literacy in schools using the PISA approach. Financial literacy in this context refers to knowing about money and financial transactions, managing finances, knowing about risk and reward, and applying financial literacy in real life situations. It has been noted in previous studies on financial literacy that differences in financial literacy are affected by the socioeconomic condition of an individual. Those students who belong to better-off families appear to do better than those who hail from really poor backgrounds in terms of financial literacy.

However, the above does not mean that a higher income has a direct positive connection to higher financial literacy. Various other factors may contribute to the inequalities. For example, those who comes from rich families have greater access to financial services, technological innovations, education, and experience in financial planning. Unfortunately, the financial experience of those who come from poorer families is not extensive enough for them to understand how to invest, borrow, or save money.

Family influence is very important when it comes to financial education. As children see how adults manage their families they learn about finances. Family can help children learn how to save, parents may provide allowances, have discussions about bank accounts, and bills, and share their purchasing experiences. Family discussions and practices can help a substantial degree in terms of financial literacy instruction.

Nevertheless, relying entirely on family support for financial education can create inequality. Families are different in terms of their knowledge, income level, experience, and access to financial resources. It is important that every student did not rely solely on home education to learn how to budget, understand interest, or avoid becoming a victim of financial fraud.

Thus, schools can play a considerable role in financial literacy education. Financial education in schools does not have to be overly complicated. Children can learn valuable tools of practical importance very easily. Teaching them budgeting, saving, borrowing, the interest rate, payment safety, and fraud can help young people prepare to be financially independent.

III. Methodology

In the context of this investigation, the simple descriptive survey method was adopted as the study design. This was appropriate considering the study's goal was to understand financial literacy among student populations and ascertain differences within groups rather than carry out a complicated experiment. The study sample comprised senior secondary school pupils in Classes 11 and 12 of ages 16 to 18.

The survey was carried out with a sample of 45 participants who were from urban senior secondary institutions and belonged to different income levels. Instead of going into details about the household income of students, broad categories are considered to be appropriate. These categories would include low-income households, medium-income households, and high-income households. There were various reasons for considering broad categories such as not all the students in school would know about their actual income of their parents and some may feel uncomfortable in disclosing their financial details.

The questionnaire was prepared using Google Forms. The questionnaire consisted of simple questions related to financial literacy with a focus on practical aspects. These are budgeting, saving, simple interest, inflation, loans, needs versus wants, online transactions, fraud, OTP security, and emergency funds. The design of the questionnaire was intended to ensure that students could answer without advanced knowledge in economics or mathematics.

Each answer pertaining to financial literacy was awarded a point. Hence, the maximum score possible was 10. In addition to the financial literacy score, general questions about the finance habits were also included in the survey. These were whether they save a part of their pocket money, whether there are discussions at home about money management, whether they had any financial education in school, and whether they wanted to learn more about money management.

Students were not required to give their names, telephone numbers, address, or any other personal data. Thus, confidentiality was ensured throughout the survey. The questionnaire could be answered in a few minutes hence it was appropriate for school projects.

The responses were analyzed by calculating simple averages, percentage, while the financial literacy scores obtained by various income categories were compared. The financial literacy scores obtained by those students who participated in the discussion on finance at home were also compared with those who never participated in such discussions.

IV. Results

Responses to the survey pointed to significant disparities in financial literacy scores of students from households with contrasting income levels. On average, the financial literacy score obtained by the students was about 6.3 which means that the students have acquired some familiarity with financial concepts although there remain major areas in which some of their knowledge needs improvement.

For example, the average score reported by the lower income group was 5.2 while that of the middle income earner was 6.4 and that of the high income category was 7.3.

Thus it can be seen that as the income level goes up the average score in financial literacy also tends to rise. This can also be supported by the finding that the lower the income level of a student, the less likely that the student shows mastery in the financial literacy questions.

However an analysis of the types of financial literacy questions being asked demonstrates that students have shown proficiency in identifying simple daily financial concepts. For example, most students had high percentage correct responses on the questions involving identifying needs or wants or protecting passwords like OTP. This shows that the students have good knowledge and awareness of simple financial decisions about basic level of consumption and safety of their financial transactions in cyberspace.

On the contrary, students were more confused when concepts such as simple interest, inflation and borrowing were discussed. Many were confused about the implications of interest on savings or borrowing.

Another interesting result that was obtained is about the financial conversations taking place in families. Students who answered that they talk often or sometimes about financial management issues had an average score of 6.9 while those who rarely or never discuss financial issues in the family reported an average score of 5.4.

This shows that practice of financial discussions within families contributes to higher score for financial literacy.

The findings also reveal that the students of the school didn't receive formal financial education.

About 36 percent of the students reported that they received proper financial education while about 84 percent expressed their need for improvement in financial education.

V. Discussion

The research findings demonstrate that there might be a link between the family financial position of the parent(s) and the financial literacy level of the student in their secondary school education. It was noted that students from families with high income received a higher financial literacy score than their counterparts from families with low income.

This same trend has also been found in some selected research conducted before on the topic of students' financial literacy. Studies conducted in other parts of the world support this finding as students with high family financial position usually perform better than their peers from families with low financial standing.

This finding can be accounted for on the ground that students from families with high incomes are afforded good opportunity to learn about financial products such as banks, investments, insurance schemes, and savings plans. They may even have endless series of meetings on issues like financial planning.

Nevertheless, the results obtained do not imply that the students on the low income scale do not possess skills. Just as income does not determine whether a person has the knowledge, it also implies that the students are capable of attaining sound judgment from being tutored by the family regarding the utilization of funds.

The issue related to the communication engaged at home on money issues produces another strong finding because the students who had frequent discussions at home about money had better performance level than others. The process of developing knowledge on finance takes place mostly on daily sequencing.

However, the fact that learning has been restricted to parents and families is likely to result in inequality in the impact made on students' performance because not all parents have the same level of knowledge as well education in finance.

The fact that a large number of students have expressed interest in learning about finance in school confirms the aforementioned reasoning. It is obvious that young people are approaching adulthood when they are going to enter the college or start a new job, and learning about how to manage finances would be helpful in preventing many mistakes.

In this respect, it would be important to implement different forms of financial policies at school in the form of practical exercises. For instance, the students may deal with budget preparation and interest calculation procedures.

VI. Limitations

There are limitations to interpreting the results of this study that should be acknowledged. First of all, the number of participants was not very large (the total number of people who participated was less than 45 students) and, therefore, not everybody can be generalized to the whole population of senior secondary school students. Besides this, the group studied consisted of students from urban schools, while students who live in rural areas might have richer experiences related to financial matters as well.

Secondly, apart from the fact that income had broad categories instead of precise measurements, participants might have very little information about family financial situations. Moreover, the financial literacy survey had only ten questions, which reflects only a small amount of financial knowledge.

In this study, there is a correlation established between income background and financial literacy scores, however, it does not prove that the level of the family income directly leads to differences in the knowledge about finances. There are a lot of things that influence the results, e.g. the level of education of parents, the quality of education they get at school, the Internet access, the level of interest in the matter, and other habits.

In the future, the studies should gather a bigger sample of students representing different educational institutions and geographical locations. There could be also an exam that should test students' financial literacy before and after having completed a short financial literacy course.

VII. Conclusion

Having adequate knowledge of finance has been described as a critical factor in the life of the youth as financial activities are done more frequently among youngsters as they enter their adult life. The objective of this research is to find out about financial literacy rates of young people from families with different sources of income.

It was determined from the analysis of the data collected that financial literacy was found to vary among families of different levels of wealth. The children from the wealthier family had higher scores than the children from a poor household.

On the other hand, The students who spoke about finance with their families showed positive correlation with learning finance. However, the notable thing here is that many students lacked knowledge when it came to understanding the concept of financial literacy.

Another most important part of this study was the students were very eager to learn about how to manage their financial problems. Even though the numbers of students formally studying financial literacy was limited but the interest of the students was paramount.

This research study emphasizes the significance of providing basic financial education for students during this period as schools can teach practical skills that will help them to understand how to manage their finances when they become adults.

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