

FINANCIAL LITERACY AMONG UNIVERSITY STUDENTS

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Abstract

In Turkey, financial system has improved tremendously in recent decades parallel to the developments in the world. Today, people should have at least basic financial knowledge in order to make good use of their money in their daily lives and also to survive during economic and financial crises. Financial literacy aims to measure the financial knowledge of individuals, thus estimate and improve their ability to use financial system. This research investigates the financial literacy in Turkey at the higher education level. The financial literacy level is studied among university students who are expected to be aware of the importance of finance, hence to have knowledge and experience. In this research, a survey is applied to the university students asking their financial participation, financial behavior and basic financial knowledge such as about interest, inflation, risk and diversification. This survey also includes a number of questions about Islamic financial literacy because now Islamic finance forms a considerable part of financial system in Turkey. In the research, the financial literacy level among university students is examined in detail and the factors of financial literacy are analyzed. The difference between students of Faculty of Business and Management Sciences and those of other faculties are also highlighted.

Keywords: Financial literacy, Islamic financial literacy, financial awareness, household finance.

ÜNİVERSİTE ÖĞRENCİLERİNİN FİNANSAL OKURYAZARLIĞI

Özet

Türkiye’de finansal sistem dünyadaki gelişmelere paralel olarak son yıllarda muazzam bir gelişme göstermiştir. Günümüzde, bireylerin günlük hayatlarında paralarını iyi şekilde değerlendirebilmesi, bunun yanı sıra yaşanan ekonomik ve finansal krizlere karşı hayatta kalabilmesi için en azından temel bir finans bilgisine sahip olması gerekliliği daha da önem kazanmıştır. Finansal okuryazarlık, bireylerin finans bilgisini ölçerek onların finansal sisteme katılım ve kullanım durumunu öğrenmeyi ve geliştirmeyi amaçlamaktadır. Bu araştırma, Türkiye’de yükseköğretim düzeyinde finansal okuryazarlığı incelemektedir. Araştırmada, finansın bireylerin hayatındaki öneminin farkında olması beklenen ve temel finans bilgisine ve tecrübesine sahip olacağı düşünülen üniversite öğrencilerinin finansal okuryazarlık düzeylerine bakılmıştır. Bunun için üniversite öğrencilerine faiz, enflasyon, risk ve çeşitlendirme gibi finans bilgilerinin yanı sıra finans sistemine katılımları ve finansal davranışlarına dair sorular içeren bir anket uygulanmıştır. İslami finansın Türkiye’nin finansal sistemi içerisinde önemli bir yer edinmeye başlaması sebebiyle, ankette İslami finansal okuryazarlık hakkında da bir takım sorular bulunmaktadır. Bu araştırmada, uygulanan anket ile üniversite öğrencilerinin finansal okuryazarlık düzeyi detaylıca araştırılarak, finansal okuryazarlığa etki eden faktörler analiz edilmiştir. Ayrıca, konuyla daha alakadar olmaları beklenen İşletme ve Yönetim Bilimleri Fakültesi öğrencileri ile diğer fakültelerin öğrencileri arasındaki farklara da dikkat çekilmiştir.

Anahtar Kelimeler: Finansal okuryazarlık, İslami finansal okuryazarlık, finansal farkındalık, hanehalkı finansı.

Introduction

The role of finance in the economic system has substantially increased in recent decades all around the world; and each passing day financial system continues to develop and becomes much more important. Parallel to these developments in the world, financial system in Turkey has also largely improved and now takes a crucial place not only in the national economy but also in the lives of individuals.

In today’s world, financial system provides new opportunities and benefits to the individuals, besides causes challenges and difficulties for them especially during national and global crises happening occasionally. Therefore, financial literacy is very essential now for individuals. They need to have at least basic knowledge about current financial system and financial instruments available for them in order to spend their budget efficiently, make good use of their savings and manage the financial risks faced with. Otherwise it is very likely for them to make losses in their daily expenditure and investment as well as in the time of economic and banking crises.

This research aims to examine the financial literacy of university students in Turkey. It could be expected about the university students to be more aware and conscious of the importance of

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financial system in their lives. They are also likely to get information about current system either in the courses or by experience. There are a few number of researches about financial literacy at higher education level (Kılıç, Ata, & Seyrek, 2015; Özdemir, Temizel, Sönmez, & Er, 2015; Sarıgül, 2015; Barış, 2016; Altundere, 2017). Thus, this is one of the first researches in this very new area and aims to provide a significant contribution.

1. Research Method

The objective of this research is to examine the financial literacy level of university students and also analyze the determinants of financial literacy. For this research, a questionnaire was prepared and applied to the students of a foundation university in İstanbul. These students were asked several questions about their demographics and participation to financial system. In addition, to measure their financial literacy level, the survey includes questions which are mainly developed by OECD-INFE (OECD/INFE, 2011). There were also questions related with Islamic financial awareness and literacy because Islamic finance has gained momentum in recent years in the Turkish financial system.

This survey was conducted to 376 university students at the undergraduate level; 164 of them are from the Faculty of Business and Management Sciences (FBMS) and the rest is from the other faculties. The impact of economics and finance education on financial literacy is studied with analyzing these two groups of students separately.

In the research, SPSS Statistics V25 is used to make data analysis. Thus, descriptive statistics, hypothesis testing, correlation and regression analysis are done.

2. Empirical Results

The data are collected from the students of various departments in the university. Among all, 55 percent of students are female, which is quite similar to the university level. Students are aged mainly between 18 and 23 as expected, but there are also students in their thirties and forties.

Financial participation of the students is examined. It is seen that nearly 80 percent of them have a bank account, 60 percent is using internet banking and 45 percent is making use of credit card. This implies that many of the students are related with the financial system more or less. In addition to this, it is found that 57 percent of them are either working now or they worked before, which shows that more than half of them have job experience.

In this research, the level of financial literacy is measured with nine questions that are about basic arithmetic, interest, inflation, risk and return relation and diversification. The empirical results present that nearly all the students correctly make basic division in financial context. More than 90 percent of the students seem to know whether an interest paid on loan or not. However, when the calculation of interest is asked to the students, correct answers decrease below 70 percent for simple interest while even below 40 percent for compounding interest. According to the OECD-INFE Report which surveyed the individuals aged between 18-79, these percentages are around 6 percent more than those of Turkey, but much below than those of the average of OECD countries (OECD/INFE, 2016: 24).

The questions about inflation show quite interesting results. Among all the students, only 53 percent understand that the value of money decreases in time if there is inflation in economy; and 60 percent say that inflation increases the cost of living. The OECD-INFE Report shows that Turkish people on average knows more than these university students, the percentage for the latter is even more than 80 percent not only for Turkey but also for the average of OECD countries. This is also similar for the risk-return and diversification questions (OECD/INFE, 2016: 24). Relationship between risk and return is known by nearly 73 percent of the students.

This proportion gets smaller when the benefit of diversification in the risky situations is asked; 67 percent seems to understand the importance of diversification on savings, and just 39 percent on the stock market –which is probably that they don't have knowledge about the stock market.

The comparison of the students from FBMS and the other faculties is presented in Table 1. It is clearly seen that economics and finance education have positive effect on the percentages of the correct answers. For each of these questions (except the first basic division question), the results of hypothesis testing shows that there are significant differences between FBMS and the others. Besides, the students of other faculties mostly prefer “don't know” rather than giving wrong answer, compared to those of FBMS. It implies that these students don't have any information about those financial issues which are very basic and crucial for the lives of individuals.

Table 1: Comparison of Financial Literacy (in percentages)

	Faculty of Business and Management Sciences			Other Faculties		
	Correct Answer	Wrong Answer	Don't Know	Correct Answer	Wrong Answer	Don't Know
Basic Arithmetic in Financial Context	98,2	1,2	0,6	99,0	1,0	0,0
Time Value of Money (Inflation)	62,1	28,6	9,3	46,0	23,5	30,5
Interest Payment on Loan	92,1	3,7	4,3	88,6	2,4	9,0
Calculation of Simple Interest	74,4	13,4	12,2	65,7	7,6	26,7
Calculation of Compounding Interest	45,8	47,7	6,5	36,8	49,5	13,7
Relation between Risk and Return	80,9	13,6	5,6	68,3	17,3	14,4
Definition of Inflation	68,7	20,3	11,0	53,8	26,0	20,2
Diversification (Stock Market)	52,4	23,2	24,4	28,7	24,4	46,9
Diversification (Savings)	69,5	15,2	15,2	65,4	12,0	22,6

The level of financial literacy is measured with considering these nine questions together. The results present that nearly 75 percent of the students correctly answer five to eight questions. All the questions are known by 7 percent whereas there are some students who could solve only one or two questions.

Islamic economics and finance started to take important place in Turkey. However, it seems that many of the students don't know even the fundamentals of Islamic finance such as giving profit-shares, being interest-free and sharing both profits and losses. When more detailed questions are asked about Islamic financial instruments, the percentage of correct answers falls up to 20 percent. Moreover, Islamic financial literacy level is significantly correlated with financial literacy level.

The determinants influencing the financial literacy level of students are also investigated. The regression results show that gender, curiosity and faculty have significant effect on financial literacy level, holding other things constant. As anticipated, on average, the level of financial literacy for female students is less than for male students. The students who are more curious about money issues also have higher level of financial literacy on average. Being a FBMS student has positive effect, which was also clearly shown for each question separately.

Conclusion

Financial literacy becomes a prominent topic especially after 2008 Global Financial Crisis. Both countries and international institutions put special emphasis on this issue, and many researches have been implemented and published. In Turkey, Central Bank of the Republic of Turkey mainly focuses on this topic, thus studies the financial literacy level of individuals,

makes researches and provides financial education via a website (herkesicin.tcmb.gov.tr), booklets, school visits and university meetings (TCMB Bülten, 2015; TCMB, 2018).

In this research, financial literacy of university students is analyzed and the results present that a considerable fraction of these students don't know even the very basic information about financial system. Nevertheless, it is seen that taking economics and finance education increases the level of financial literacy. In today's world, where financial system is deepening day by day and the internet brings this system easily in the daily lives of people, not only the university students but all the individuals should learn at least basic knowledge about the current financial system.

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