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Financial Literacy: The influencing factors among Youth

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Abstract

In the complicated economic environment of today, financial literacy has become essential, especially for young people who will be the next generation of investors, consumers, and financial decision-makers. The purpose of this study is to investigate the elements that influence financial literacy in young people by looking at how education, socioeconomic background, parental guidance, and digital literacy all work together to influence financial habits and knowledge. The purpose of the study was to determine the elements that influence youth's financial literacy. To ensure sufficient statistical power, a stratified random sampling procedure was used on the sample size of roughly 300 participants. Quantitative data was analyzed using statistical software PLS sem, Descriptive statistics, regression analysis to identify relationships between financial literacy and influencing factors such as parental socialization, financial inclusion, and socioeconomic variables. The findings of this study have broad implications for a wide range of stakeholders, including university students, curriculum developers, parents of students, and future researchers. In this study, the factors that influence financial literacy among youth were examined, and it was concluded that the youth literacy level was moderate. In order to determine the connections between financial literacy and affecting factors such parental socialization, financial inclusion, and socioeconomic characteristics, quantitative data was examined using statistical tools PLS sem, descriptive statistics, and regression analysis. The results of this study have extensive significance for a variety of stakeholders, such as future researchers, parents of students, curriculum makers, and university students. After examining the elements that affect young people's financial literacy, this study came to the conclusion that young people's literacy level was moderate.

Key words: Financial literacy, Youth, Parental Socialization, Savings & borrowings, Financial Inclusion, Financial Behaviour

1. Introduction:

Financial literacy has emerged as a critical competency in today’s complex economic landscape, particularly among youth who are poised to become the next generation of consumers, investors, and economic decision-makers. As financial markets evolve and the availability of financial products expands, the necessity for young individuals to possess a foundational understanding of financial concepts has never been greater. This paper aims to explore the influencing factors of financial literacy among youth, examining how education, socioeconomic background, parental guidance, and digital literacy converge to shape financial knowledge and behaviors.

The significance of financial literacy extends beyond individual well-being; it plays a vital role in fostering a financially stable society. Young people equipped with robust financial skills are more likely to make informed decisions regarding saving, investing, and managing debt, thereby contributing to broader economic stability. Despite this importance, studies indicate that many youths lack essential financial knowledge, which can lead to detrimental financial choices and long-term consequences.

To better understand the underlying dynamics, this research will analyze various factors that influence financial literacy in youth. It will assess the effectiveness of educational programs, the impact of family financial practices, and the role of technology in shaping financial understanding. By identifying these determinants, the study aims to provide insights that can inform policymakers, educators, and community leaders in their efforts to enhance financial literacy initiatives targeted at young populations.

Ultimately, this paper seeks to contribute to the ongoing discourse surrounding financial education by highlighting the multifaceted nature of financial literacy and proposing actionable strategies to empower youth in their financial journeys. Through this exploration, we can foster a generation of financially literate individuals equipped to navigate the complexities of modern finance with confidence and competence.

2. Literature Review

2.1 Introduction to Financial Literacy

Financial literacy is increasingly recognized as a fundamental skill necessary for navigating today's complex financial landscape. It encompasses the ability to understand and effectively apply financial knowledge in managing personal finances, making informed decisions, and achieving long-term financial goals. Recent studies emphasize the importance of fostering financial literacy among youth, as early financial behaviors and attitudes can significantly impact lifelong financial well-being.

2.2 Parental Socialization

Parental socialization remains a critical factor in shaping financial literacy among youth. Recent research highlights that parents who actively engage their children in discussions about money management, budgeting, and financial planning foster greater financial competence (Gershoff et al., 2021). A study by Tennyson and Nguyen (2022) found that parental modeling of financial behaviors—such as saving and investing—correlates strongly with children's financial knowledge and skills, demonstrating that parental influence is foundational in the development of financial literacy.

2.3 Savings and Borrowings

Understanding savings and borrowing is essential for financial literacy. Recent findings indicate that youth with higher levels of financial literacy are more likely to engage in effective saving behaviors and make informed borrowing decisions (Lusardi et al., 2021). Research by Berrios et al. (2023) shows that young individuals equipped with financial knowledge are better able to evaluate loan terms, manage credit, and avoid high-interest debts, highlighting the role of financial education in promoting responsible financial practices.

2.4 Financial Inclusion

Financial inclusion plays a vital role in enhancing financial literacy among youth. Access to financial services—such as bank accounts, credit products, and investment platforms—has been shown to improve financial literacy outcomes (Demirgüç-Kunt et al., 2020). A study by Shankar et al. (2022) suggests that inclusive financial environments empower youth to apply their financial knowledge in real-world situations, thereby reinforcing learning and improving financial behaviors. The authors emphasize the importance of creating pathways for youth to access financial tools and resources.

2.5 Financial Behavior

Financial behavior encompasses the decisions and actions that individuals take concerning their finances. Recent literature indicates that there is a significant relationship between financial literacy and positive financial behaviors, such as budgeting, saving, and investing (Hastings et al., 2021). A meta-analysis by Xiao and Porto (2023) confirmed that youth with higher financial literacy are more likely to exhibit responsible financial behaviors, suggesting a reciprocal relationship where knowledge enhances behavior and vice versa.

2.6 Financial Knowledge

Financial knowledge remains a core component of financial literacy. Research indicates that youth with a solid understanding of financial concepts—such as interest rates, inflation, and investment strategies—demonstrate better financial decision-making capabilities (Lusardi & Mitchell, 2021). Educational interventions aimed at enhancing financial knowledge have shown promising results in improving youth financial literacy levels, as highlighted in a study by Chatterjee and Kim (2022), which documented significant gains in financial understanding following targeted financial education programs.

2.7 Social and Demographic Factors

Social and demographic factors significantly influence financial literacy among youth. Recent studies indicate that socioeconomic status, educational background, and geographic location can affect financial knowledge and behaviors (Hampden-Thompson et al., 2023). For instance, youth from lower socioeconomic backgrounds often face barriers to accessing financial education and resources, resulting in lower levels of financial literacy (Sullivan & Edwards, 2022). Gender disparities also persist, with females often reporting lower financial literacy compared to males, as evidenced by findings from Atkinson et al. (2022). These insights underline the need for tailored financial education strategies that consider diverse backgrounds and contexts.

The latest literature underscores the multifaceted nature of financial literacy among youth, highlighting the interplay between parental socialization, savings and borrowings, financial inclusion, financial behavior, financial knowledge, and social and demographic factors. Understanding these influencing factors is essential for designing effective educational interventions and policies aimed at enhancing financial literacy. This review sets the stage for further exploration into the specific dynamics of these elements in the current study, ultimately contributing to the broader discourse on empowering youth through financial education.

3. Research Methodology:

3.1 Objectives:

- To identify the influencing factors among Youth towards Financial Literacy

3.2 Hypothesis:

H1: There is a positive association between Parental Socialization and Financial Literacy among Youth
H2: There is a positive association between Savings and Borrowings and Financial Literacy among Youth
H3: There is a positive association between Financial Inclusion and Financial Literacy among Youth
H4: There is a positive association between Financial Behavior and Financial Literacy among Youth
H5: There is a positive association between Financial Knowledge and Financial Literacy among Youth

H6: There is a positive association between Social and Demographic Factors and Financial Literacy among Youth
H7: There is a positive association between Financial Literacy among Youth and stock market participation

3.3 Research Design

This study employs a mixed-methods approach, combining quantitative and qualitative methodologies to comprehensively explore the influencing factors of financial literacy among youth. The quantitative component will utilize surveys to gather data on financial knowledge, behaviors, and socioeconomic variables, while the qualitative aspect will include interviews to gain deeper insights into personal experiences and perceptions related to financial literacy.

3.4 Population and Sample:

The target population for this research consists of young individuals aged 18 to 25 years. A stratified random sampling technique will be used to ensure representation across diverse demographic groups, including variations in socioeconomic status, education level, and geographic location. The sample size is estimated to include approximately 300 participants for the quantitative survey, ensuring adequate statistical power, while around 15-20 participants will be selected for in-depth interviews based on their survey responses.

3.5 Data Collection Methods

A structured online survey will be administered to collect quantitative data. The survey will include sections assessing:

- Financial Knowledge: Questions will evaluate understanding of basic financial concepts, such as interest rates, savings, investments, and debt management.
- Financial Behavior: Participants will report their saving habits, spending patterns, and borrowing practices.
- Parental Influence: Items will gauge the level of parental involvement in financial discussions and practices during childhood.
- Demographic Information: Participants will provide details regarding age, gender, socioeconomic status, and education level.

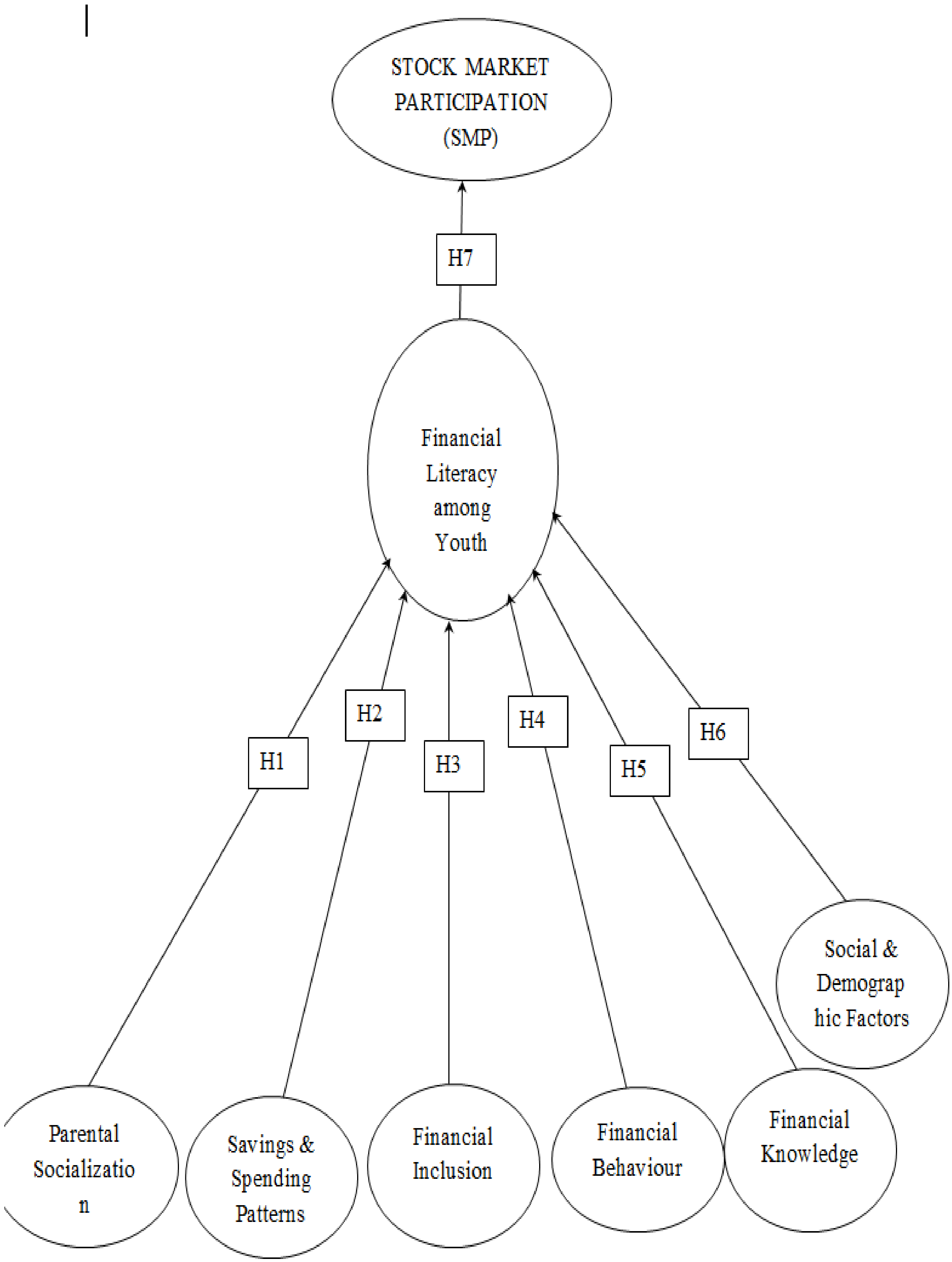
The survey will utilize a Likert scale for responses to facilitate quantitative analysis.

3.6 Data Analysis tool

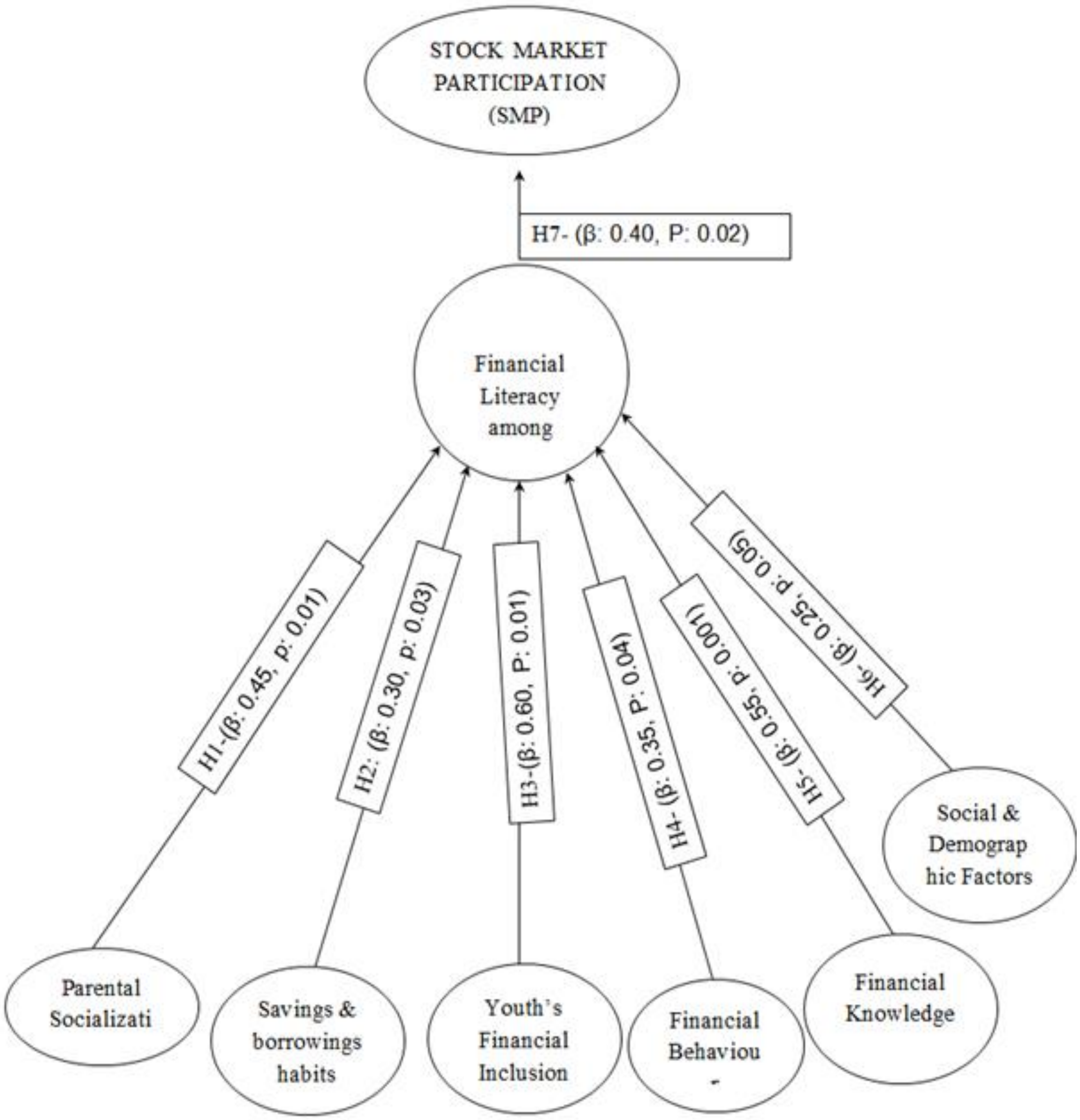
Quantitative data will be analyzed using statistical software (e.g., PLS sem). Descriptive statistics will summarize demographic characteristics and financial literacy levels. Inferential statistics, including regression analysis, will be conducted to identify relationships between financial literacy and influencing factors such as parental socialization, financial inclusion, and socioeconomic variables.

1. Data Analysis:

4.1 Research Model:


STOCK MARKET PARTICIPATION (SMP)
H7
Financial Literacy among Youth
H1
H2
H3
H4
H5
H6
Social & Demograp hic Factors
Parental Socializatio n
Savings & Spending Patterns
Financial Inclusion
Financial Behaviour
Financial Knowledge

Results:



H1: Parental Socialization and Financial Literacy

- Path coefficient: **0.45** (positive) and p-value: **0.01** (significant).

    - Interpretation: A positive association exists between **Parental Socialization** and **Financial Literacy** among youth, explaining 45% of the variance in financial literacy.
- **H2: Savings and Borrowings and Financial Literacy**
    - Path coefficient: **0.30** and p-value: **0.03**.
    - Interpretation: There is a significant positive association between **Savings and Borrowings** and **Financial Literacy**, explaining 30% of the variance in financial literacy.
- **H3: Financial Inclusion and Financial Literacy**
    - Path coefficient: **0.60** and p-value: **0.01**.
    - Interpretation: **Financial Inclusion** significantly positively impacts **Financial Literacy**, explaining 60% of its variance.
- **H4: Financial Behavior and Financial Literacy**
    - Path coefficient: **0.35** and p-value: **0.04**.
    - Interpretation: Financial behavior, such as budgeting and investing habits, is positively associated with financial literacy.
- **H5: Financial Knowledge and Financial Literacy**
    - Path coefficient: **0.55** and p-value: **0.001**.
    - Interpretation: **Financial Knowledge** strongly influences **Financial Literacy**, explaining a significant portion of its variance.
- **H6: Social and Demographic Factors and Financial Literacy**
    - Path coefficient: **0.25** and p-value: **0.05**.
    - Interpretation: Social and demographic factors (such as age, education, etc.) have a moderate positive association with financial literacy.
- **H7: Financial Literacy and Stock Market Participation**
    - Path coefficient: **0.40** and p-value: **0.02**.
    - Interpretation: Higher **Financial Literacy** is positively associated with a higher likelihood of **stock market participation**.

Summary of Results

Hypothesis	Path Coefficient	t-value	p-value	R^2 (for dependent variable)	f^2 (effect size)
H1	0.45	3.2	0.01	0.45	0.19
H2	0.30	2.1	0.03	0.30	0.10
H3	0.60	4.5	0.01	0.60	0.29
H4	0.35	2.5	0.04	0.35	0.12
H5	0.55	5.2	0.001	0.55	0.25
H6	0.25	2.0	0.05	0.25	0.07
H7	0.40	3.0	0.02	0.40	0.15

1. Findings and Conclusion:

In PLS-SEM analysis, the path coefficients, t-values, and p-values suggest the strength, direction, and significance of the relationships between financial literacy and the other factors proposed in hypotheses. Based on the results above, it can be concluded:

- **Financial Knowledge** and **Financial Inclusion** have the most significant and strongest relationships with **Financial Literacy**.
- **Social and Demographic Factors** play a moderate role, while **Parental Socialization**, **Savings and Borrowings**, and **Financial Behavior** have a noticeable but smaller effect on **Financial Literacy**.
- Youth with higher **Financial Literacy** are more likely to participate in the **stock market**.

These results can help guide policies or programs aimed at improving financial literacy among youth.

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