

BASIC FINANCIAL LITERACY AMONG TEENAGERS IN KATHMANDU VALLEY

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ABSTRACT

This paper analyses the basic financial literacy of teenagers in Kathmandu, Nepal. Our research has two aims. One is to find out the status of basic financial literacy among teenagers that have studied/are studying from/in secondary schools inside Kathmandu valley while the second one is to compare the level of basic financial literacy among students that have/had taken commerce subjects. For our two purposes, we used a questionnaire to judge 109 respondents, of which 51 were male and 58 were female, on their knowledge of all five core competencies of financial literacy. The five core competencies of financial literacy include needs and wants, financial goals, grievance handling, household budget, savings, loans, financial service providers, remittance, microenterprises, and business plans, and risk management. The results showed that the basic financial literacy of teenagers was on the lower end of the spectrum and that the average increased with age. Results further show that a large portion of the students have a fundamental degree of monetary information however they need comprehension of credit, charges, share market, fiscal summary, remittance, microenterprises, business plans, and protection. This study highlighted the need for programs like 'NRB with students' to increase the financial literacy of teenagers in Nepal and more involvement of the education sector in promoting financial literacy.

Key words: Financial Literacy, Financial Products, Commerce, Core Competencies, Insurance, Tax, Business, Financial Decisions, Educational Sector, Teenagers, Kathmandu, Nepal.

INTRODUCTION

It's of no doubt that throughout the years, there has been a need for financial literacy but, at this moment it is higher than ever and is expected to grow more with time, so the youth must know how to invest in shares and mutual funds, pay off their debt and even plan for their retirement. ⁱ

The spontaneous financial decisions that individuals make in their early life can have long-term consequences. Such consequences include losses due to fraud and trickery, low savings and investments, high debt loads, inadequate insurance, bankruptcy, higher prices paid for goods than necessary, and many more.ⁱⁱ To prevent oneself from such consequences, basic financial literacy is a must, especially in today's demanding financial environment.ⁱⁱⁱ According to OECD, national surveys show that young adults have amongst the lowest levels of financial literacy. This is reflected by their general inability to choose the right financial products and often a lack of interest in undertaking sound financial planning.^{iv} In a 2009 survey on credit card usage among undergraduate students in the United States, 84% of students said they needed more education on financial management topics, 64% would have liked to receive information about financial management topics in high school and 40% would have liked to receive such information as first-year college students.^v Keeping in mind the importance of financial literacy, countries around the globe have started to implement national strategies concerned with financial education, many of them with their primary focus on the youth. To promote financial literacy in Nepal, different programs are held by the government, NGOs, and private sectors. For example, the central bank of Nepal, Nepal Rastra Bank, had launched a program named 'NRB with Students' for building up financial literacy among students.^{vi}

Although Nepal Rashtra Bank, SEBON (the regulator of the securities market in Nepal), Rashtriya Beema Samiti (Insurance Board), and other organizations have been active in promoting financial literacy in Nepal, it seems as though the education sector has fallen behind. The Ministry of Education should take a coordinated approach to ensure that all educational institutions spread across Nepal provide basic financial knowledge to their students by adding related subjects to their curriculum. The educational institution themselves can carry out programs to ensure that their students don't lack basic financial skills.^{vii}

While different researchers have defined financial literacy in different ways, here in this paper, we decided to go with the definition provided by OECD (Organisation for Economic Co-operation and Development) and INFP (International Network on Financial Education). According to OECD INFP, financial literacy is “A combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.”^{viii} On the basis of financial knowledge and its uses, the level of financial literacy has been divided into two categories: (i) basic level and (ii) advanced level. Basic level literacy is the minimum degree of literacy required for all individuals from any type of background to navigate daily life. Its core competencies include needs and wants, financial goals, grievance handling, household budget, savings, loans, financial service providers, remittance, microenterprises and business plans, and risk management.^{ix} Keeping in mind these aptitudes, we created a questionnaire with questions related to almost each core competency for teenagers (13 to 19-year-olds) that have studied/are studying from/in secondary schools in Kathmandu valley, to fill out.

This research has two purposes. The first purpose of our study is to provide the status of basic financial literacy among teenagers that have studied/are studying from/in secondary schools inside Kathmandu valley whereas the second purpose of our study is to compare the level of basic financial literacy among students that have/had taken subjects such as finance, economics, accounting, and business in school and those students who had never taken subjects as such in school. The same questionnaire has been used for both purposes.

LITERATURE REVIEW

There have been different definitions of financial literacy, provided by different researchers. A paper named *Defining and Measuring Financial Literacy*, which was published in 2009, provided various definitions of financial literacy by various researchers. One paper lays out the definition as “The understanding ordinary investors have of market principles, instruments, organizations, and regulations” whereas another paper defines it as “Individuals are considered financially literate if they are competent and can demonstrate they have used the knowledge they have learned. Financial literacy cannot be measured directly so proxies must be used. Literacy is obtained through practical experience and active integration of knowledge. As people become more literate, they become increasingly more financially sophisticated, and it is conjectured that this may also mean that an individual may be more competent”. The two other definitions that were written down are “The ability to evaluate the new and complex financial instruments and make informed judgments in both choice of instruments and extent of use that would be in their own best long-run interests” and “familiarity with the most basic economic concepts needed to make sensible saving and investment decisions”. There are a few more other definitions of financial literacy provided in the paper.^x But, in this paper, we decided to go with the definition provided by OECD INFP.

There have been international research papers published about financial literacy among teenagers and high-school students around the globe. A research paper published by Annamaria Lusardi, Olivia S. Mitchell, and Vilsa Cultro examined financial literacy among the young, which concluded that less than one-third of young adults hold basic knowledge of interest rates, inflation, and risk diversification.^{xi} One other paper published by Michael P. Cameron, Richard Calderwood, Ashleigh Cox, Steven Lim, and Michio Yamaoka comparing the financial literacy of high school students in Hamilton, New Zealand, with samples from Japan and the USA, gathered the information that all three of these countries should work harder towards bettering the financial literacy of their high school students.^{xii}

While there has been a research paper published on financial literacy among college students in Nepal, many papers with a focus on financial literacy among teenagers and high school

students in Nepal haven't been published. Our research paper tries to fill in the gap. The research paper regarding a survey analysis of financial literacy among college students written by Bharat Singh Thapa and Surendra Raj Nepal also mentions how although college students in Nepal do possess a basic level of financial knowledge, they lack understanding of credit, taxes, share market, financial statement, and insurance. ^{xiii}

PRESENTATION AND ANALYSIS OF DATA:

A. *Sample characteristics:*

Among the 109 people who responded to the survey, 58 females were comprising 53.2% of the sample, and 51 males made up the other 46.8% of the sample size (as illustrated in fig.1). About 32.1% of respondents were aged 18, followed by 14.7% of respondents aged 19 and 15, 12.8% of respondents aged 14, 11% of respondents aged 17, 8.3% of respondents aged 16, and 6.4% of the respondents aged 13 (as illustrated in fig.2). Among them, 50 students (45.9%) came from a commerce background where they either studied accounting, finance, economics, business, or all four (as illustrated in fig.3). Similarly, 48 respondents comprising 47.5% of the total respondents were high school graduates which are denoted by '13' in the pie chart and 7 respondents comprising 6.9% were studying in 11th grade (as illustrated in fig.4).

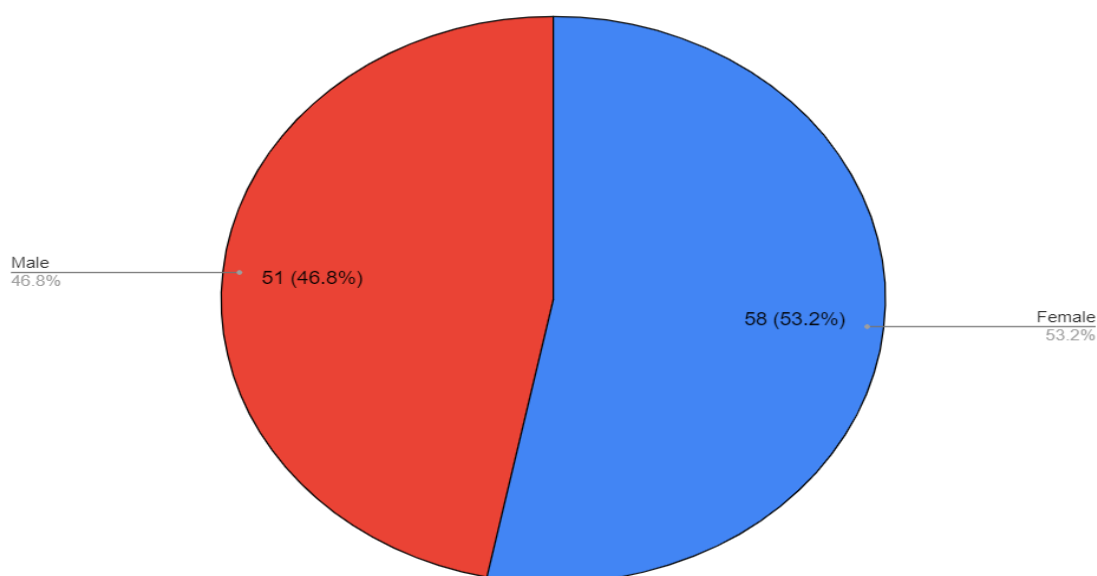


Figure 1: Male/Female Ratio among respondents

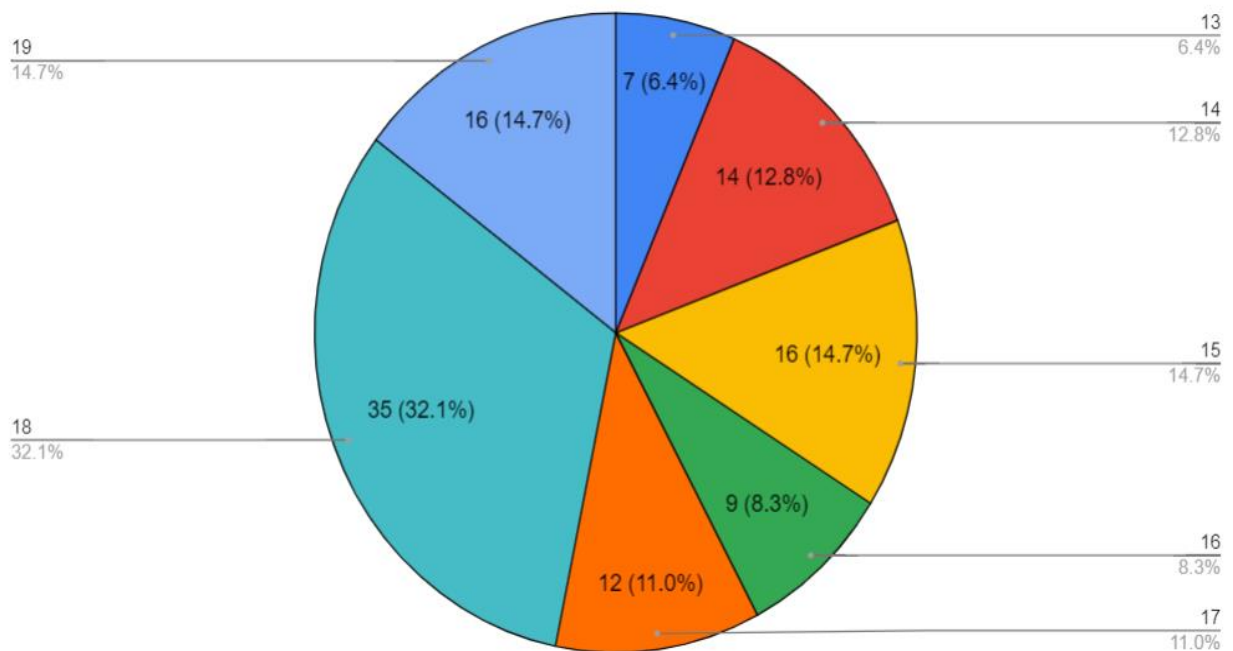


Figure 2: Percentage of correspondents according to their age

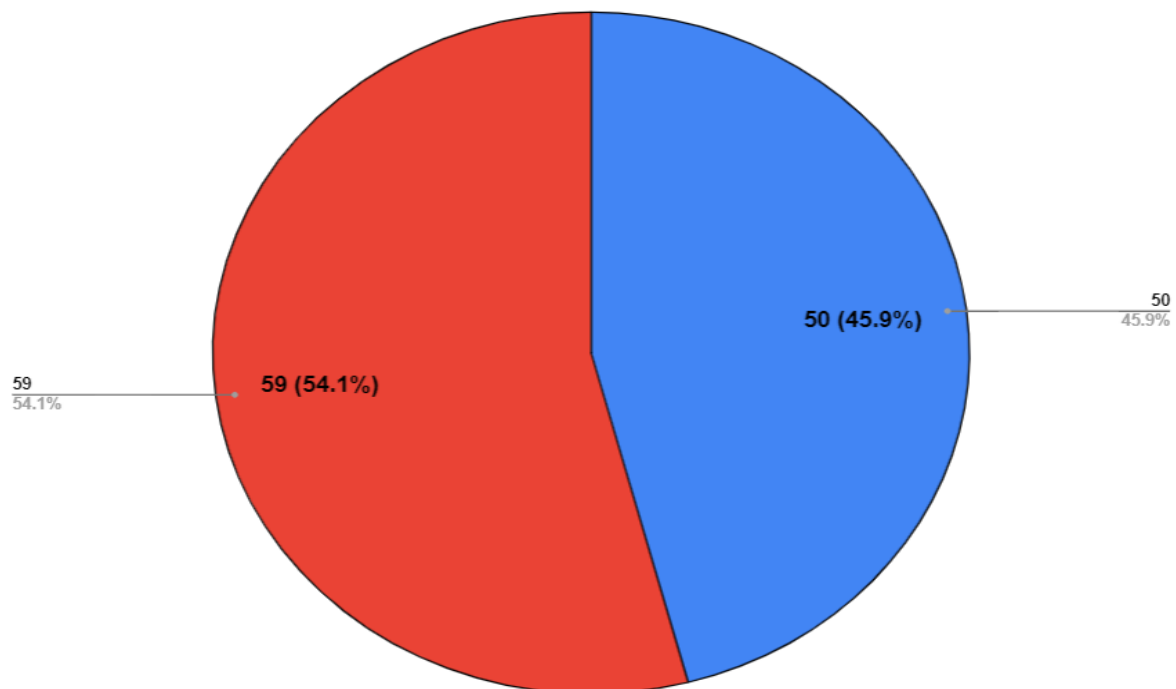


Figure 3: Respondents that have/had are taking/taken commerce subjects in school and those who haven't/aren't where red represents students who haven't/are not taken/taking any commerce subject whereas blue represents students that have taken/are taking commerce subject/s

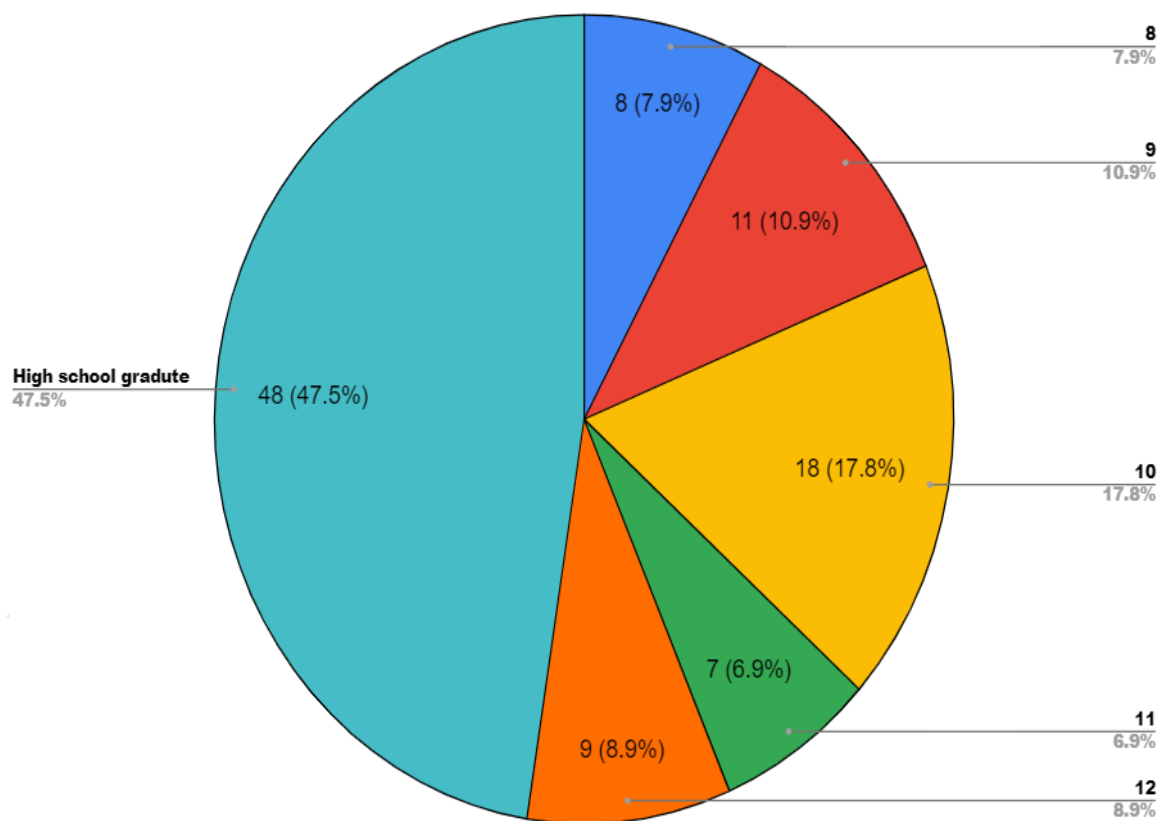


Figure 4: Grades of respondents

B. Representation of data:

The total sum of marks obtained by 109 students was 870 out of which 58 females scored a sum of 440 and 51 males scored a total of 430. To make relevant analysis we calculated the equivalent sum of marks obtained by 51 females which came out to be 387 (illustrated in fig.5).

The average of female respondents is 7.58 and the average of the male respondents is 8.41. The average mark obtained by each age group has been tabulated in fig.6. To understand the effect of studying commerce on financial literacy we calculated the average of 50 commerce and 59 non-commerce students and compared them. The average mark for commerce students was 6.88 and for non-commerce students, it was 8.98.

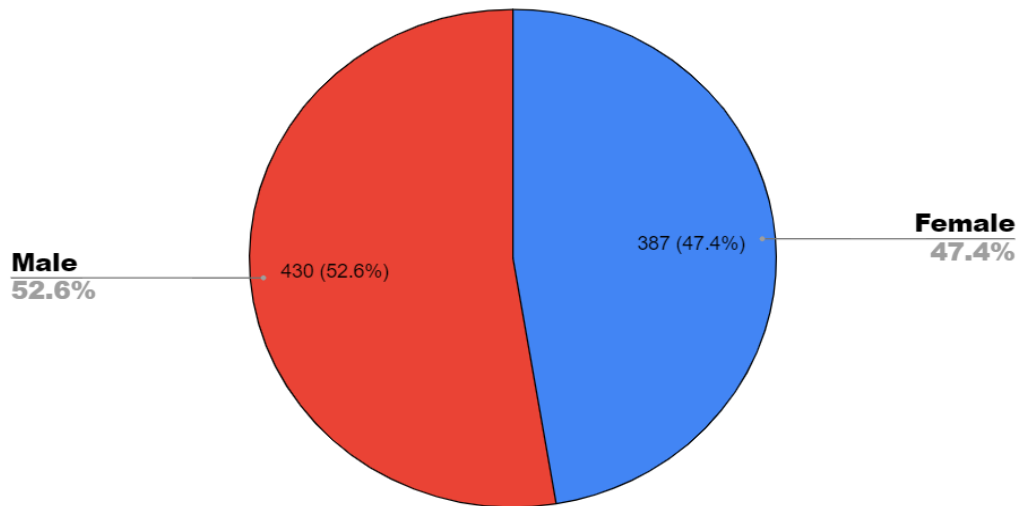


Figure 5: Sum of marks obtained by male and female correspondents where male respondents:red:430:52.6% and female respondents:blue:387:47.4%

	AGE ▼	AVG MARKS
1	19	10.375
2	18	10.4
3	17	8.58
4	16	5.44
5	15	6
6	14	4.14
7	13	2.78

Figure 6: Average marks obtained by respondents according to their age

C. Analysis of data:

On average females scored lower than males. As the age of the respondents increased the average also increased linearly even though most of the respondents were not affiliated with a commerce background.

The average mark scored by all 109 respondents was 7.98, which is 44.33% of the total marks. We can reasonably infer that financial literacy is low. On average commerce students scored 6.88 and non-commerce students scored 8.98. It can be reasonably inferred that as the age of the respondents increased, the marks they attained increased as well. Most of the respondents (56%) in the commerce field were in grades 7-10 and aged 13-15 this might explain why the average for the commerce section is low. The average of the commerce group when grades 7-10 were excluded came out to be 9.68. In the questionnaire, more than 60 respondents got questions 4,5,7,9,18,14,12,11 correct, as illustrated in fig.7 highlighting more knowledge on Insurance, loans, budgeting, investment, and their knowledge about banks and other types of financial institutions. But respondents were found lacking in knowledge about sectors like credit, charges, share market, remittance, taxes, microenterprises, business plans, etc.

questions	people
1	36
2	54
3	46
4	77
5	82
6	49
7	87
8	16
9	66
10	19
11	80
12	72
13	52
14	82
15	61
16	66
17	34
18	82

Figure 7: Number of corresponds that got each question correct

SUMMARY AND CONCLUSION:

This study analysed the basic financial literacy among teenagers in Kathmandu through a research questionnaire survey among 109 teenagers. This study found out that basic financial literacy among teenagers is on the lower spectrum. As the age of the teenagers got higher, the level of basic financial literacy increased as shown in figure 6. Teenagers in their late teenage years had more knowledge in basic financial literacy which can be a reason why the average for the commerce group is low as the teenagers in the commerce field were aged 13-15.

The 18 questions related to basic financial literacy that we included in our research questionnaire:

1. Inflation is the state in which^{xiv}
 - a. The value of money decreases
 - b. The value of money increases
 - c. The value of the money increases first and then decreases
 - d. The value of money decreases first and increases later

2. Imagine that the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, would the money in the account buy more than it does today, exactly the same or less than today?^{xv}
 - a. More
 - b. Same
 - c. Less
 - d. Don't know

3. Buying a single company's share (also known as "stock") usually provides a safer return than a share mutual fund.^{xvi}
 - a. True
 - b. False

- c. Don't know
4. Health insurance is... ^{xvii}
- Only for those who get sick.
 - An unnecessary expense because you may not need it.
 - A must buy item for your budget. - true
 - More important for women than for men.
5. Which of the following is a true statement about credits? ^{xviii}
- You should never get a credit card
 - If you get a credit card, you will go into debt.
 - You should get a credit card and use it responsibly. - true
 - The credit card companies don't charge you money to buy everything from them.
6. If you use a credit card, you should ^{xix}
- Pay the full balance of the credit card every month - true
 - Pay the minimum payment each month
 - Never pay the bill
 - Buy anything you want
7. What does being on a budget mean? ^{xx}
- You pay bill every month in full and on time
 - You made a spending plan of your expenses to be less than or equal to your income - correct
 - You can buy anything you want or need
 - Your bills are generally paid by every due date
8. Under which of the following circumstances would it be financially beneficial for you to borrow money to buy something now and repay it with future income? ^{xxi}
- To buy a car to get a much better paying job - correct

- b. To go on a summer vacation
 - c. To get new clothes on sale
 - d. To invest the money because I need to start saving for retirement
9. Which of the following is NOT an example of an investment? ^{xxii}
- a. Share
 - b. Mutual Fund
 - c. Real Estate
 - d. Automobiles
10. Maria worked her way through college earning \$20,000 per year. After graduation, her first job pays \$40,000. The total dollar amount Maria will have to pay in federal income taxes in her new job will: ^{xxiii}
- a. Be lower than when she was in college
 - b. Stay the same as when she was in college
 - c. Double, at least, from when she was in college
 - d. Go up a little from when she was in college
11. Which of the following allows invested money to grow over time? ^{xxiv}
- a. Compound interest
 - b. Inflation
 - c. Taxes
12. Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? ^{xxv}
- a. more than \$102
 - b. exactly \$102
 - c. less than \$102

13. I got a loan to pay for my new car. If I default on my loan, only this lender will know about it and if I need another loan, I'll be able to get it from another lender. ^{xxvi}

- a. True
- b. False
- c. Don't know

14. Who regulates the banks and financial institutions in Nepal? ^{xxvii}

- a. Securities Board of Nepal
- b. Securities Exchange Commission
- c. Insurance Board of Nepal
- d. Nepal Rastra Bank

15. The main reason to purchase insurance is to ^{xxviii}

- a. Protect you from a loss recently incurred
- b. Provide you with excellent investment returns
- c. Protect you from sustaining a severe loss
- d. Protect you from small incidental losses
- e. Improve your standard of living by filing fraudulent claims

16. What do you think deserves the most attention when one has to compare between the banks to choose the one where to take a loan from? ^{xxix}

- a. Bank's reputation (fame) and its reliability
- b. View of the bank office and qualifications of its personnel
- c. Interest rate and the other costs
- d. Gifts and advertising campaigns

17. A company issues shares in the: ^{xxx}

- a. Secondary markets
- b. Primary markets
- c. Stock exchange

d. Derivative markets

18. Do you know the difference between a debit card and credit card?

a. Yes

b. No

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