

# **Advances in**

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# **Management**

*Editors*

**Dr. Anil Kumar Sinha**

**Dr. Asheesh Pandey**

**Dr. Amiya Kumar Mohapatra**

**Dr. Sudhir Rana**

BLOOMSBURY

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B L O O M S B U R Y  
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# Analysis of Financial Literacy and Financial Behavior among College Students in Delhi

Rajni, Kalpana Kataria and Deepika Dewan

## INTRODUCTION

Financial literacy is the main component of financial decision-making, and many young people become financially illiterate (Lusardi (2010)). Thus it plays a key role in preventing individuals from becoming involved with fraudulent financial transactions or engaging in financially destructive behavior. Studies show that people who are more financially literate tend to be better at retirement planning, accumulating wealth, and avoiding debt. In fact, people who develop financial plans tend to be 10 to 15 percent wealthier than those who do not (Palmer, 2008). Thus it is also advantageous for wealth preservation. Financially literate individuals are more likely to understand macroeconomic problems and make informed decisions related to fiscal and monetary policy. Financial literacy is vital to helping ensure financial wellness for our youth and communities as a whole. College and university students are at a decisive time in their lives as they move from financial dependence to financial independence. For a majority of students, the first year of college is viewed as an important transitional stage in which parental supervision and oversight are reduced and students begin to achieve some degree of financial autonomy. Young adults, particularly college students, receive more attention from financial educators (Goldsmith and Goldsmith, 2006; Gutter et al., 2010; Hayhoe et al., 2000; Hira et al., 2000; Joo, 2008; Norvilitis et al., 2006), as they have easier access to financial sources such as credit, debt, paying bills, creating a budget, using credit for the first time in their lives and educational loans than previous generations of students. How well they cope with these challenges depends on the financial knowledge and behaviors they acquired prior to arriving at college (Lynn Scherpf, & Roberts, 2006). According to Greenspan, 2005, the financial world has become so complex when compared to the generation before where a simple knowledge of how to maintain a checking and savings account at local banks and financial institutions was more than enough. But now, consumers have to differentiate between a wide range of financial products and services available in the modern financial market. Therefore there is an increasing need for people to be more financially literate and this has increased the responsibility of higher education institutions to facilitate the efforts to promote financial literacy.

Although many studies have identified parents as the most important sources for teaching children about money, it is reasonable to expect that once away from home and family, peers and the media may become more important factors in forming university student's financial knowledge and behavior. Increasingly, researchers are beginning to examine students' knowledge about finances to determine how they acquire financial management skills and to identify the best methods for teaching these skills, with the goal of helping them achieve financial well-being. However, because of the lack of financial management skills and poor money management, students report greater financial problems, greater stress, as well as decreased financial well-being (Hayhoe et al., 2000; Hira and Mugenda, 2000; Kidwell and Turrisi, 2004; Norvilitis et al., 2006). Garman and Fargue (2006) pointed out that financial literacy is a fundamental tool in successful financial management. Colleges and universities can use financial literacy programs not only to educate youth about finances, but also to reduce student loan default rates. Programs offered can accommodate a variety of scheduling and budget requirements in the process of educating children about finances.

## SCOPE OF THE STUDIES

To aid young adults, particularly college students, it is crucial to understand their level of financial literacy and, most importantly, their financial behavior and attitude. Furthermore, since college students are the future labor force contributors, it is necessary to understand the financial needs and dilemmas of college students in conducting



their finance during college life. Most importantly, the lack of financial literacy may lead college students to become involved in a higher level of financial problems during college life, which has a significant effect on their present and future family and career life. Teaching students about money has a great impact on their future. To help our college-age youth achieve financial security, requirements should stipulate financial literacy for college students. We are giving financial knowledge to the student but yet little or no time is spent teaching them how to plan, save, and grow that money. Providing money management for university students can proactively address many of the issues they'll face as adults, and help them live happy lives free from financial worry. This study aims at assessing the level of awareness of financial literacy among college students. It is believed that college students eventually will need to face and tackle financial decisions, be it savings, banking or future investment decisions. As such, the study assesses aspects in financial literacy such as, its level and importance to college students, their perceptions about finances, constraints and measures to improve financial literacy.

### OBJECTIVE OF THE STUDY

1. To study the level of financial literacy among college students.
2. To check awareness regarding the different financial products available in the market.
3. To study financial behavior of the college students.
4. To find out whether they are prepared for the future regarding managing their funds.
5. To analyze the money management skills possessed by Students.
6. To study ways and constraints to manage financial literacy.
7. To suggest measures so as to increase the Financial Literacy and awareness among the students.
8. To study the saving behavior and its relationship with financial literacy among students.

### REVIEW OF LITERATURE

Jacob (2000) conceded that financial knowledge acts not only as a convenience but as an essential survival tool for individuals to survive in a competitive economic environment. According to the Financial Services Authority (2002), there should be more emphasis on rising up the level of adult financial literacy as this would help in achieving many objectives such as promoting public knowledge and understanding of the financial system as well as enhancing consumer protection and eliminating financial crime. Lusardi, Mitchell and Curto (2006), Sages and Grable (2009), in their study found that the individuals who has the lowest level of financial risk tolerance is the least competent in terms of financial matters, have the lowest subjective evaluation of net worth and are less satisfied with their financial management skills. The level of financial risk tolerance of the individuals determines the financial behaviour. Martin Samy (2007) revealed that determinants of credit card are significantly dependent on a student's year of study, credit card status and daily routine, which has a strong relevance to respondents' knowledge of credit cards. Responsibility of money management lies with parents. Parents are the source of financial information. They are confident about their financial future. Their parents are successful in money management and they take them to be their role models in deciding upon financial matters. Mandell (2008) made a survey among college students and calculated average accuracy rate of the questions on financial literacy by their major. From the result, the average of all respondents was 61.9%. Although the accuracy rate of Business or Economics major was 62.4% and was higher than overall average, its rate was lower than Engineering (63.2%), Science (64.0%), and Social Science (64.0%). In addition, Koshal et al. (2008) reported that the difference between Indian MBA students' grades does not show a statistically significant effect on economic literacy score.

The public expects higher education to be value added experience for its graduates so they can lead successful lives. A financially literate graduate will be able to make financial decisions and be cognizant of the advantages and risks involved. The importance of university students becoming knowledgeable about personal finance is increasingly being recognized by universities. An informal survey of public universities in the state of Florida regarding personal finance courses had a 60% response rate (McKenzie, 2007) and revealed that 80% of the institutions offered a personal finance course. The Financial Literacy (2012) stated that most young people had a relatively poor financial literacy and a 29 year-old got difficulties to even budget. As such, being older is not



necessarily wiser in terms of decisions when it comes to money and finance matters. According to Anshu (2010) and the Economic Times (2012) state that financial literacy starts at home itself where children are educated about how to handle money such as to save and spend wisely. However, Huston (2010) found it essential to measure financial literacy in order to understand educational impact and barriers to financial decisions.

Agarwalla Sobhesh Kumar, Barua Samir, Jacob Joshy, Jayanth R. Varma (2012) conducted a study among 3000 individuals, and found that financial knowledge among Indians is very low than the International standards. But the financial behaviour and attitude of the employees and retired seems to be positive. Ansong and Gnanapavan (2012) conducted a study among 250 UG and PG University students of Cape Coast reveals that the age and work experience are positively related to Financial literacy. Also, mother's education is positively correlated with respondents' financial literacy. But, level of study, work location, father's education, access to media and the source of education on money has no influence on financial literacy. Study by Marzieh et al. (2013) revealed that the age and education are positively correlated with financial literacy and financial wellbeing. Women and people and men are more financially literate. Higher financial literacy leads to greater financial wellbeing, less financial concerns. Finally, financial wellbeing leads to less financial concern. Financial Planning enables an individual to frame appropriate budgets which in turn helps them to track his finances and meet the needs. Financial literacy is a global concern. The level of financial literacy required depends upon the financial needs and behaviour of an individual. From the above studies, it is inferred that financial literacy is highly influenced by age, region or country in which the individual resides, the financial environment which he experiences, the level of income, socio demographic factors like his family, number of dependents, mother's education, financial advice etc. The need to know the level of financial literacy of various groups is inevitable.

## RESEARCH DESIGN AND METHODOLOGY

This study is an attempt to investigate the level of awareness among college youth regarding financial literacy. For the proposed work, data will be collected from primary sources. Primary data will be obtained by means of a self-explanatory questionnaire. The field questionnaire survey is conducted to collect the primary responses of the college students in Delhi. The convenient random sampling is pressed into service to study the financial literacy level of students in college. In this study we focused on the college students in Delhi. As we know that Delhi is the capital of the country and students from all over India come here to study. We focused on the college students of final year in Delhi. The reason behind this is as they are going to pass out from the college, we want to know how much they are prepared for the future regarding financial aspects. We plan to work on a sample of around 700 students all over Delhi who are studying in different colleges of Delhi University and Indraprastha University.

### Sampling Fundamentals

In this study we focused on the college students in Delhi. As we know that Delhi is the capital of the country and students from all over India come here to study so we focused on the college students of final year in Delhi. As they are going to pass out in this year so we want to know how much they are prepared for the future regarding financial aspects. We plan to work on a sample of around 700 students all over Delhi who are studying in different colleges of Delhi University and Indraprastha University. The focus of the study is to check the awareness and level of financial literacy among youth in Delhi therefore the sample of the study consisted of students studying in various colleges in Delhi. The study was administered to a small sample of 600 students studying in different colleges in Delhi. The sample included both girls and boys coming from different family backgrounds. Out of Delhi 538 found to be valid. Among 538 students 355 were boys and 183 were girls. The convenient random sampling technique is pressed into service to select the sample respondents. The responses were collected using a questionnaire survey method. The details of data collection and questionnaire development are discussed in next section.

### Pilot-Testing of Questionnaire

For conducting questionnaire survey, it is necessary to test the validity and reliability of the scales which are



developed to test the particular variables. In order to test the validity and reliability of the questionnaire, the pilot testing of questionnaire were conducted by collecting the 10% responses of total sample size and the reliability statistics is computed using Cronbach Alpha reliability statistics. The value of Cronbach's Alpha (0.8819) was found adequately high to consider the questionnaire reliable and consistent.

### Data Analysis Techniques (Statistical Tools)

Various statistical tests are applied to analyze the data. In order to see characteristics of data, the descriptive statistics was computed; which consist of central tendency and the frequency distributions with graphical plots. The Cronbach's Alpha statistics is computed to test the reliability of the scales, used to assess the awareness of financial literacy among the college students in Delhi. For data analysis, SPSS (Statistical Package for the Social Sciences) was used. Various statistical tests are applied to analyze the data. In order to see characteristics of data, the descriptive statistics was computed; which consist of central tendency and the frequency distributions with graphical plots. Further cross-tab analysis and one sample t-test statistics is computed to see the difference in the mean and variance patterns of responses. To see the inter-relationship between the variable we compute the pearson correlation coefficient.

### RESULTS AND FINDINGS

The study was administered to a small sample of 538 students, studying in different colleges in Delhi. The sample included both girls and boys coming from different family backgrounds. Among 538 students 355 were boys and 183 were girls. The age group of the students lies between 19-22 years. When we study the educational background of the students we found out that 38.8% are engineering students and 37.25 % are commerce students while the rest from the other field. 44% of the students father are self-employed while 43.3% are in service only 11.5% are found to be professional. When we study the mother occupation we found that 50% are housewives, 23.8% are in service sector while 19.3 % are self-employed only 7.1% found to be professionals.

The most significant influence on students money management behavior was their parents 67.8% reported parents together, while in 24.2% the father is the sole authority to take the decision in the family. It is quite surprising that only in 7.8% of the family the decision is taken by the mothers. The 79% of the respondents belongs to urban family while only 21% belong to rural background. 86% of the respondents receive their pocket money from their parents. Others receive from the scholarship and salary. The 33.5% students receive less than 1000 as their pocket money. 27% receive in the range of 1000-3000 and 21% receive between 3000-5000.

When the saving behavior of the students is studied it was found out that 30% of the respondents do not save at all may be they are receiving very less pocket money and that money is not just sufficient to cover their expenses. 42% of the respondent save between 10-20% of their money out of their pocket money for the future while 28% save around 20% to 30%. 55% of the respondents are both saver as well as spender of their pocket money. 24% are only savers and 15% are spenders.

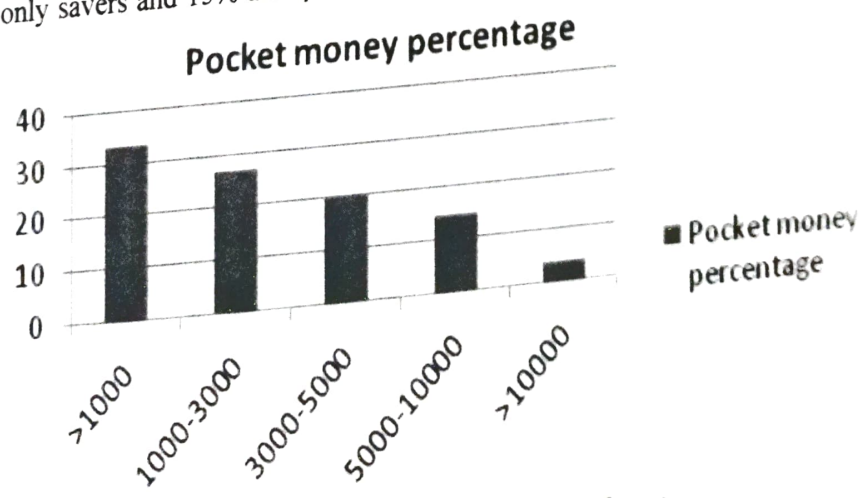
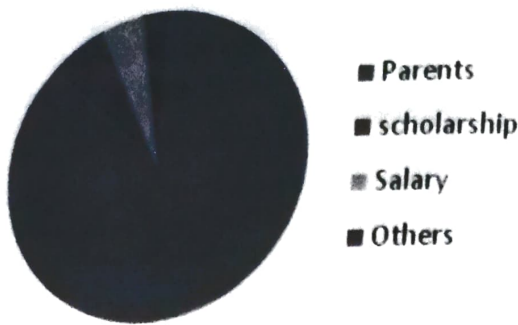
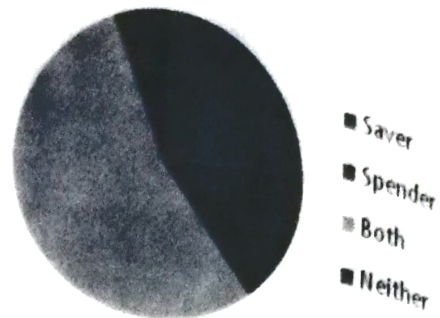


Figure 1: Percentage of Pocket Money

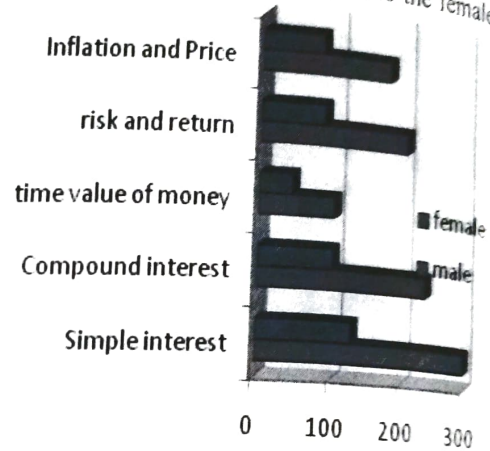
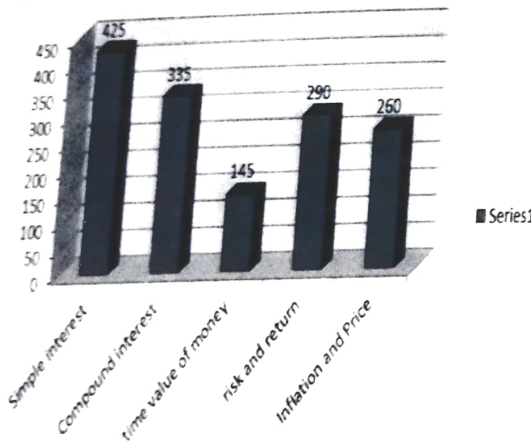


**Figure 2: Sources of Pocket Money**



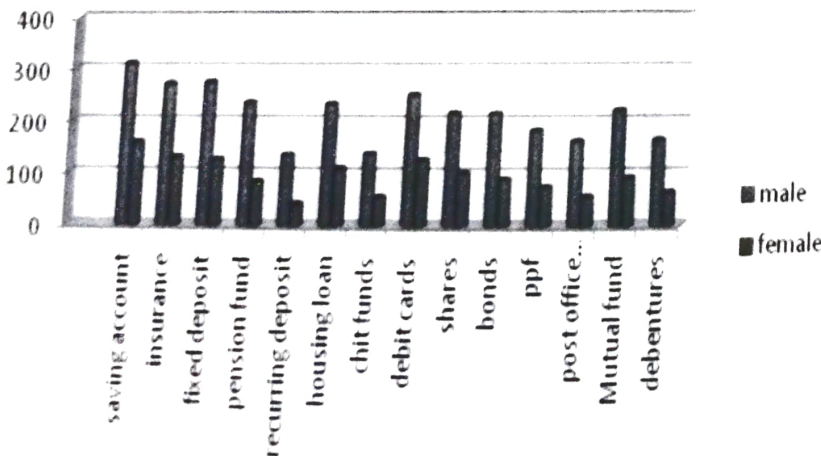
**Figure 3: Saving Behavior of Students**

Regarding the awareness of the financial terms, awareness was found to be high in case of simple interest (79%) and compound interest (62%). The students are also aware about the inflation and price and risk and return but the level of awareness is found to be low. We found that students are least aware about the concept of time value of money (27%). The reason may be they don't know about the concept in theoretical terms but aware about that the value of money change according to the time. When we see the awareness level of male and female students, we find out that the awareness level of male are found to be high as compare to the female students.



**Figure 4: Awareness Regarding Financial Terms**

When the awareness was measured across various financial product available in the market for investment, we found that students are more aware about the saving a/c, Insurance, fixed deposits and debit cards. While the awareness is found to be very low in case of Recurring deposits, chit funds and post office saving a/c. When we compare the awareness of male and female, again the same results found out that male are more aware regarding the financial products available in the markets as compare to female.



**Figure 5: Awareness Regarding Financial Products**



## FINANCIAL LITERACY LEVEL

We study the financial literacy level of the students through different parameters using the likert scale with 5 = 'strongly agree' 4 = agree, 3 = neutral, 2 = disagree, 1 = strongly disagree. Overall the financial literacy level of the student were found to be 3.65. We applied the one sample t-test on the different financial literacy indicators. The value of t-test were found to be highly significant. When the awareness regarding banking services was studied it was found out that, on an average the student have more awareness regarding the digital banking, insurance, mobile money loans, and debit/credit cards. While they are very less aware regarding the foreign exchange services and DEMAT accounts. The reason behind this is, they never get the experience regarding these services in their real life and these services are not covered in the syllabus of the majority of the students and saving accounts are traditional plan of the savings in the middle class family and now nearly every student have a bank accounts. So students comes to know about these and also involves in the process of fixed deposit, recurring deposit and saving accounts. They are also agreeing that they are aware about the risk and return concept while investing their money in investment plan. When the students were asked about the money management skill of them they are neutral regarding this indicating sometimes agree and sometimes disagree with the skill they have. They agree that they discuss the financial issue with their friend. They strongly agree that the most trusted sources of information about money management skill is father and sometimes the mother.

One-Sample Test

Statements	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I am aware of all banking services digital banking	101.497	537	.000	4.022	3.94	4.10
Insurance	105.808	537	.000	3.963	3.89	4.04
Loans	99.225	537	.000	3.894	3.82	3.97
mobile money	93.016	537	.000	3.849	3.77	3.93
wealth management	79.964	537	.000	3.630	3.54	3.72
Debit Credit Cards	95.235	537	.000	3.972	3.89	4.05
DEMAT	66.484	537	.000	3.353	3.25	3.45
Foreign Exchange Service	63.502	537	.000	3.303	3.20	3.41
Most of the time, you (your family) run out of money from previous earnings before the new money arrived (wages, pension, scholarship, benefit, etc.).	63.420	537	.000	3.171	3.07	3.27
I am aware of interest rate on fixed deposit and saving account.	83.632	537	.000	3.695	3.61	3.78
I am able to discuss financial issues without discomfort with my friends.	84.843	537	.000	3.582	3.50	3.66
I am aware of the basic concept of Risk and return.	78.364	537	.000	3.571	3.48	3.66
The most trusted source for information about money management	79.794	537	.000	3.717	3.63	3.81
Father	100.876	537	.000	4.301	4.22	4.38
Mother	72.502	537	.000	3.586	3.49	3.68
Siblings	58.953	537	.000	2.968	2.87	3.07
Friends	58.801	537	.000	2.857	2.76	2.95
Teacher	54.686	537	.000	2.812	2.71	2.91

## FINANCIAL BEHAVIOUR

We also study the financial behavior of the students. Overall financial behavior of the students have mean score of 3.58 indicating an above an average financial behavior. The t-test value of the all the financial behavior is found to be highly significant. Most Students are of the view that it is important for them to be aware of the financial behavior regarding managing and handling money having mean score of 4.279. They also make efforts to improve their personal financial skills and money management through various sources so that they will be prepared for the future for money management. As in the college we are not imparting the practical knowledge to the students only theoretical knowledge is provided. In the newspaper students are more interested in entertainment and the social news, sometimes they read the finance section of the newspaper to increase their financial knowledge. The students are also agree that they prepare budget, pay rent/phone bills and regularly set aside money for their saving. Regarding the banking behavior the students read term and condition, check passbook and bank statement for accuracy and personally visit bank for financial activity. They sometimes use the bank website and bank mobile apps for financial activity. Mostly the students use the cash on delivery option for making payment online and sometimes use the debit/credit cards for making payment. The reason behind they avoid making payment online as they are more risk averse.

One-Sample Test						
Statements	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Thinking about your life today, is it important for you to be aware of how to manage money and know how to take care of finances.	123.609	537	.000	4.279	4.21	4.35
I prepare budget for my money spending.	81.822	537	.000	3.665	3.58	3.75
I pay PG Rent/ other living expenses (i.e. phone & utilities) on time each month.	56.976	537	.000	3.305	3.19	3.42
I read Terms & Conditions written in Pass Book.	67.818	537	.000	3.390	3.29	3.49
I regularly set aside some amount of money each month for savings.	75.380	537	.000	3.526	3.43	3.62
I personally visit the bank for any financial activity.	77.487	537	.000	3.576	3.49	3.67
I frequently use ATM for any financial activity.	81.540	537	.000	3.736	3.65	3.83
I use bank's website for any financial activity.	70.874	537	.000	3.428	3.33	3.52
I use bank's mobile app for any financial activity.	67.560	537	.000	3.288	3.19	3.38
I use cash on delivery option for making payments of online shopping.	86.192	537	.000	3.838	3.75	3.93
I use debit or credit card for making payments of online shopping.	70.419	537	.000	3.487	3.39	3.58
I do not regularly check my bank statements for inconsistencies.	66.757	537	.000	3.203	3.11	3.30
I check the accuracy of the transactions then file them.	81.444	537	.000	3.528	3.44	3.61
I am prepared to manage my finances after graduation.	83.100	537	.000	3.602	3.52	3.69
I was able to explain how to manage my finances before attending college.	78.267	537	.000	3.400	3.31	3.48
I read finance section in Newspaper daily.	63.982	537	.000	3.113	3.02	3.21
I do make efforts to learn to improve my personal finance skills and money management through various sources.	85.041	537	.000	3.613	3.53	3.70



## FINANCIAL CONSTRAINTS

We applied the t-test on the constraints related to financial literacy, the result of the t-test are found to be highly significant for all the constraints. On a 5 point likert scale ranging from 'strongly agree' to 'strongly disagree', it was found that on an average students are agree with all the constraints related to financial literacy. If these constraints can be removed then we can achieve the level of financial literacy.

	One-Sample Test					
	Test Value = 0					
	t	Df	Sig (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I think that present education system is not able to impart the financial literacy.	89.206	537	.000	3.665	3.58	3.75
I think that educational institution are not imparting knowledge of financial literacy.	90.378	537	.000	3.753	3.67	3.83
I think lack of government Initiatives creates restriction for financial literacy.	104.802	537	.000	3.777	3.71	3.85
I think lack of personal interest is limitation for financial literacy.	99.263	537	.000	3.708	3.63	3.78
I think that due to lack of sources of financial information, there is less financial literacy.	100.878	537	.000	3.710	3.64	3.78
I think that there is complexity in financial literature.	89.616	537	.000	3.556	3.48	3.63

## WAYS TO IMPROVE FINANCIAL LITERACY

When the ways to improve the financial literacy was study, the result of the t-test was found to be highly significant for all the statement. On an average the respondent were agree that the best way to improve financial literacy is through seminar, workshop, financial literacy programme on radio and television and through the help of government and NGO initiatives.

	t One-Sample Test					
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I think financial literacy can be achieved more through workshops and seminars on financial literacy.	105.991	537	.000	3.914	3.84	3.99
I think financial literacy can be enhanced through financial literacy programmes on radio and television.	106.476	537	.000	3.888	3.82	3.96
I think Government and NGO's Initiatives can help in improvement of financial literacy.	104.296	537	.000	3.820	3.75	3.89
I think distribution of Pamphlets and booklets in college can help in improvement of financial literacy.	82.751	537	.000	3.565	3.48	3.65
I think hotline service set up can help in improvement of financial literacy.	87.328	537	.000	3.561	3.48	3.64

## INTER LINKAGE BETWEEN FINANCIAL LITERACY AND FINANCIAL BEHAVIOR

We also study the inter-linkage between financial literacy and financial behavior using the correlation. We found

significant. Indicating that there is positive inter-relationship between financial literacy and financial behavior and the value is found high but the interrelationship is not so strong. The reason being this that high financial literacy does not mean high financial behavior. Some times the people have knowledge of finance but they did not apply that knowledge in real life. We also find the t-test between financial literacy and financial behavior. The t-test value is found to be highly significant indicating that financial literacy and financial behavior are interrelated with each other.

## CONCLUSION

The research assessed the level of financial literacy and financial behavior of the college students in Tamil Nadu. The findings are consistent with the previous literature. One conclusion from the research is that the level of financial literacy is not very high. In case of banking the student knowledge regarding digital banking, insurance, credit and debit card/credit card is high but very low regarding the wealth management, foreign exchange and DEMAT account. The most significant influence on students' money management behavior comes from their parents. They discuss the financial issue with their friend and the most trusted sources of information are their money management skill is father and sometimes the mother. Students are very much aware about their money management and handling of their finance. They also make efforts to improve their personal financial literacy. Money management through various sources so that they will be prepared for future for money management. The students are found to be very risk averse in their behavior, they try to avoid risk. Students are of the view that the present education system, government initiatives, personal interest and lack of sources of financial information are the constraints in the financial literacy. We can increase the level of financial literacy by workshop, seminar programmes on TV and radio and taking the help of government and NGO's. We found the inter-relationship between financial literacy and financial behavior but the relationship is not so high indicating that high financial literacy does not lead to high financial behavior.

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