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# Financial Behaviour and Demographic Background: Students' Perspective

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## Abstract

This study aims to examine the difference of financial behaviour on demographic background among Kolej MARA Kuala Nerang (KMKN) students. A sample of 350 active students was selected to complete an internet survey, consisting of questions on students' demographic background and financial behaviour. T-test and ANOVA analysis shows different gender and course enrolled significantly demonstrate the different financial behaviour. While other demographic backgrounds (hometown, recent CGPA, previous school, parents' monthly income and education background) do not provide any differences of financial behaviour. This finding may assist policymakers in developing programmes to encourage the good financial behaviour.

**Keywords:** Financial behaviour, demographic background, students

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## 1. INTRODUCTION

There is a concern about rising bankruptcy cases in Malaysia. Yuen (2014) reports the number of bankruptcies has been consistently increasing since 2007 due to failure to settle hire purchase of vehicles, inability to control the use of credit cards and to manage outstanding debts, as well as personal loans. What is more worrying is that of the total declared bankruptcies between 2007 and 2013, 1.5% of the individuals involved were aged below 25 years. According to the report, many credit card holders involve young people who use the facility to spend on nonessential or luxury goods. Based on the official portal of the Malaysian Department of Insolvency, the Director General of Insolvency explains that most cases of bankruptcy involving young people are related to the uncontrolled use of credit cards and failure to repay the debt within the prescribed period. In the case of older people, it is related to loans taken for housing, vehicles and businesses. The website also mentions that there are over 10 million credit card users in this country owing to a total of RM24.4 billion, but only 30% repay in full each month. Statistical calculations indicate if a person has RM1,000 credit card debt and only makes the minimum payment of 5% per month, he or she will take five years and eight months to settle the debt, including interest.

Zainal and Ismail (2012), find that many students face difficulties in repaying not only their education loan but also other debts that they incur after entering the job market. If more information and knowledge is imparted by all relevant parties to students about financial management, then they will be able to control their finances better, and as a result, have less debt. They suggest several ways that can be used to educate students. Students can be enlightened and advised on how to reduce and control spending. They can be shown the credit card statement and given an explanation how the interest rate is calculated and the risks if credit card usage is not

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monitored. They should be made aware of the importance of financial management or behaviour, and the adverse consequences, such as bankruptcy declaration if they do not manage personal finances properly. Students also need to understand the purpose of bankruptcy and how it can affect a person's future.

Zakaria and Kannan (2014) state that creating a society which has awareness on the importance of financial and debt management, requires long-term actions, including the introduction of subjects related to personal financial management for students of institutions of higher learning as well as school students. Guidelines related to prudent financial planning, saving habits, managing credit effectively, managing expenses, ethics and responsibilities as a borrower need to be developed and delivered at least as elective courses in the schools and universities. These efforts will not only be able to produce a knowledgeable generation but help to develop the right attitude regarding financial planning and management.

The study focuses on examining the difference of financial behaviour among selected demographic background elements. For the purpose of this research, a questionnaire was distributed to science and business students in Kolej MARA Kuala Nerang (KMKN) Kedah, Malaysia. The reason for choosing this sample is because financial management skills are critical for them. They receive a monthly allowance from MARA; therefore, they are supposed to plan and manage the money given properly.

## **2. LITERATURE REVIEW**

### **2.1 Financial Behaviour**

Financial behaviour is referred as personal financial management, is the way how people are planning, spending and investing their money. It is the action of managing money which involves several theories that are based on economics and accounting fields (Fadzil, Haron & Jantan, 2005). According to Muske and Winter (2004), financial behaviour refers to financial management and planning, whereby if the students cannot manage the financial elements properly, it could have a negative impact on their mental and physical wellbeing. It will also potentially reduce students' opportunities when they seek jobs after they finish their studies. Ibrahim, Harun and Isa (2009), state that financial behaviour includes the methods of saving money, budgeting and investing. In contrast, financial management involves financial organisations to help users manage their finances in order to avoid losses and to facilitate them to optimise their expenses.

Lawson (2006) defines financial behaviour as a part of personal financial planning by an individual to balance saving and expenses, including budgeting for their education and retirement. Lusairdi and Mitchell (2007) suggest that all students should be responsible for managing their financial manners, including planning their retirement funds. It is the best time to do these plans while they are still young. Lawson (2006) also supports that students need to start saving early to ensure that they can better manage their professional life. Wisdom is needed when one is handling situations that are related to money. The reason is that one must be able to identify what should be bought by paying cash and what must be purchased on loan. It is important for them to prioritise their needs over their wants (Lawson, 2006).

University students mostly live away from their families. Based on this situation, they can learn how to manage their financial status, so that they can save money and undertake budget planning (Shaari, Hasan, Mohamed & Sabri, 2013). They have to learn how to balance between their savings and expenses to maintain their budget. Students should not change the plan without strong reason and keep track of the previous expenses in order to trace the unnecessary expenses (Lawson, 2006). Hayes (2012) adds that saving and investment are a part of budget planning. Knowledge on investments is also as important for students as saving and managing expenses knowledge.

Huang and Kisgen (2013) mention that it is necessary for students to attend additional classes related to financial management. It is important for them to develop their skills and learn how to manage their money so that they will be able to make better financial decisions in future. They also can apply the information and skills that they have gained to improve their financial behaviour. Besides, Ibrahim et al. (2009), who focus on investing, also prefer ongoing effort by students to learn about financial management by reading and attending seminars to get the right information on how to deal with financial issues. They must also try to meet financial counsellors and advisors if they get into any financial problems or complications (Usera, 2002). Sabri and MacDonald (2010) find in their study that the financial behaviour of teenagers, especially students, is affected by financial socialisation. Behaviour and attitude of young users in the market reflect consumer behaviour in the future (Mangleburg & Bristol, 1998). Therefore, they suggested that programmes related to financial behaviour should be organised to encourage students to get exposure and gain knowledge on managing money. Such

programmes can assist to increase students' knowledge and awareness on financial matters. To summarise, the financial behaviour is a necessary management and planning aspect that can be done in various ways; it applies to everyone for the achievement of financial goals.

## **2.2 Demographic Background**

The demographic background is categorised as personal characteristics, such as students' gender, academic and family background. Demographic analysis refers to the statistical data of the population's characteristics, like gender (male and female), age and income of working people. Meanwhile, the criteria for age encompasses ages starting from the young to the old. The government and the private sector always carry out demographic analysis to obtain, among others, financial information.

The primary focus of the demographic profile is gender. Concerning awareness and knowledge on finances, the Organisation for Economic Co-operation and Development (OECD, 2013) reports that women have much lower levels of financial knowledge than men in almost all of the countries studied, including the United Kingdom (UK) and Germany. While 67% of men in the UK gained a score of six or more on the knowledge measure, just 40% of women achieved the same; in Germany, the corresponding percentages are 67% and 50%. Women had the higher percentage of financial illiteracy in Australia and the United States (US). This situation has led to women being less productive, and only a small number of women participate in economic activities. Men take the lead with a difference of 1%, i.e., 49% compared to women with 48% in the participants' demographic profile (Lusardi & Mitchell, 2007). Men seem more knowledgeable and have expertise in every aspect of finance (Harris/Scholastic Research, 1993). The same result has been found by other researchers, i.e., male college students have higher knowledge and are more financially literate compared to females (Markovich & DeVaney, 1997; Chen & Volpe, 1998, 2002).

Murphy (2013) finds that undergraduate business majors are more financially literate than non-business majors. This finding was later supported by Chen and Volpe (1998) who claim that major business course is more related to the personal financial topic, for example, the subject of finance and accounting. It is also assumed that students who are taking business course studies can manage their finances better compared to students taking other courses. According to Beal and Delpachitra (2003), a survey done in Australia shows the level of financial literacy among the first-year students is not high. However, it improves when the students start working and generating their income. James, Leavell and Maniam (2002) state that, the students who are majoring in business courses in the universities seem to be experts and know how to make financial decisions based on what they have learnt.

Murphy (2013) finds that those who are from more educated families score better than those from less educated family backgrounds. Students from educated or business background families are more literate than those from less educated families. Parents' education is proven as one of the elements that could affect a child's literacy. Murphy (2013) also points out those college students who are studying in the town or urban areas always focus on the latest fashion trends and hence, fail to manage their routine expenses properly. On the contrary, the JumpStart College Survey by Mandell (2008) finds that financial literacy is monotonically related to parents' education levels. Likewise, Chiteji and Stafford (1999) conclude that the parents' income influences their children's wealth regarding managing their finances and also that individuals with high income are more likely to have more knowledge on finance. Parents' incomes are correlated across generations; it is more likely that students whose parents have high income might simply be an artefact of the cross-generational income correlation and could manage finances better. An educated mother or graduate mother highly influences here children's knowledge of finance compared to a non-graduate mother (Lusardi, 2011). A family with high income and higher education seems to have better financial knowledge. Chiteji and Stafford (1999) find that the children whose parents have private wealth or retirement wealth are more understanding about the effects of risk diversification. The children whose parents have higher education help to increase the knowledge of finance because they will be able to manage their finances independently without seeking any help from outsiders.

## **3. RESEARCH METHODOLOGY**

### **3.1 Research Instrument**

This study distributed questionnaires to 350 active students of KMK. The online questionnaires were available for two weeks. They answered the questionnaires in the computer lab of the KMK.

### 3.2 Measurement of variables

#### 3.2.1 Financial Behaviour

Financial behaviour aspects in the questionnaire ask about respondents' behaviour with regards to their financial management as well as the frequency of their preference for each question asked. The questions are adapted from Dew and Xiao (2011) neglecting the question related to retirement due to non-relevant for foundation students. This study also adds two more issues related to Islamic finance and comprises nine questions as follows:

1. I do some comparison when purchasing a product or service
2. I keep a record of my monthly expenses
3. I stay within my budget or spending plan
4. I begin or maintain an emergency savings fund
5. I save money from every allowance I received from MARA
6. I save for a long-term goal, such as for car, education and home
7. I buy bonds, shares or mutual funds, such as ASB, SSPN
8. I check whether the saving, bonds or shares that I applied are *Shariah* compliant
9. I prefer Islamic banking products

#### 3.2.2 Demographic Background

The demographic background includes gender (male, female), course enrolled (business or science), recent CGPA, previous school attended (boarding school, Sekolah Menengah Kebangsaan Agama, Sekolah Menengah Teknik/Vokasional, Sekolah Menengah Kebangsaan, private school), hometown locality (rural, and urban), parents' monthly income and parents' highest education level.

## 4. FINDINGS

### 4.1 Demographic Profile

The results obtained from the students' responses on their demographic background is shown in Table 1.

Table 1: Students' demographic background

Demographic Factors		No. of Respondents	Percentage
Gender	Male	126	36.0
	Female	224	64.0
Course Enrolled	Business	157	44.9
	Science	192	54.9
	Missing	1	0.2
Recent CGPA	3.50 – 4.00	246	70.3
	3.00 – 3.49	86	24.6
	2.50 – 2.99	12	3.4
	2.00 – 2.49	2	0.6
	Below 2.00	2	0.6
	Missing	2	0.6
Previous School	Boarding School (MRSM / SBP)	144	41.1
	SMKA	46	13.1
	SM Teknik / Vokasional	9	2.6
	SMK	145	41.4
	Other	4	1.1
	Missing	2	0.6
Hometown	Rural	223	63.7
	Urban	123	35.1
	Missing	4	1.1
Parents' Total Monthly Income	More than RM20,000	7	2.0
	RM10,000 – RM20,000	44	12.6
	RM5,000 – RM9,999	108	30.9
	RM1,000 – RM4,999	130	37.1
	Below RM1,000	59	16.9
	Missing	2	0.6
Parents' Education Level	Ph.d	8	2.3
	Masters	39	11.1
	Degree	118	33.7
	Diploma	33	9.4
	School (STPM, SPM and Lower)	146	41.7
	Other	3	0.9
	Missing	3	0.9

It is found that 64% of the students who participated in this study are female and 36% are male. The data indicates that 54.9% are science students and 44.9% are enrolled in business subjects as their course. During their last semester examination, it is found that almost 70% scored CGPA between 3.50 – 4.00 and the rest of them managed to obtain CGPA below 3.49. Most of the KMKN students' previous schools are either boarding school, such as Maktab Rendah Sains MARA (MRSM) and Sekolah Berasrama Penuh (SBP) (41%) or SMK (41%). About 63% of the students come from rural areas, such as settlements, villages or towns with less than 10,000 people and 35% are from large towns or cities. Only seven students (2%) have parents whose monthly income is more than RM20,000 and 44 students (13%) have parents whose monthly income is between RM10,000 – RM20,000. Most students' parents' monthly income is between RM5,000 – RM9,999 (31%) and between RM1,000 – RM4,999 (37%). A total of 59 students parents' income is below RM1,000 per month (17%). On the issue of parents academic education, the study revealed glaring results as PhD (2%), Master degree (11%), Bachelor degree (34%), Diploma (9%), STPM, SPM and Lower (42%), and Others (1%).

Table 2: T-Test financial behaviour with gender, course and hometown

		N	Mean	Mean Difference	Standard Deviation	Sig.
Gender	Male	125	3.1903	0.1877	0.72672	0.020*
	Female	224	3.0026		0.71387	
Course	Business	157	2.9520	-0.2142	0.72785	0.006*
	Science	192	3.1662		0.70654	
Hometown	Rural	223	3.0814	0.1850	0.75128	0.820
	Town	123	3.0629		0.66715	

Table 2 shows that the mean for male students is 3.1903 and the mean for female students are 3.0026, with significance value is 0.020. Since the significance, the value is less than 0.05. Thus, it can be concluded that there is a significant difference between students' financial behaviour and their gender. This indicates that male performs better than female students in financial behaviour. The table also shows the mean for the business course is 2.9520 and the mean for science course are 3.1662. It is found that the mean for students from science course is higher compared to students from a business course. The significance value is 0.006, and since the value is less than 0.05, it can be concluded that there is a significant difference between students' financial behaviour and their course enrolled. This implies that business students are more financially literate than non-business students. However, there is no difference of financial behaviour between students from rural and town areas.

Table 3: ANOVA Financial behaviour with academic and family background

		N	Mean	Standard Deviation	Sig.
Recent CGPA	3.50 – 4.00	246	3.0710	0.73457	0.560
	3.00 – 3.49	86	3.0183	0.67931	
	2.50 – 2.99	12	3.3512	0.85275	
	2.00 – 2.49	2	3.3750	0.17678	
	Below 2.00	2	2.7500	0.53033	
	Total	348	3.0675	0.72284	
Previous School	Boarding School	144	3.1687	0.64103	0.314
	SMKA	46	2.9887	0.72318	
	SMTeknik /Vokasional	9	3.0139	0.49783	
	SMK	145	2.9990	0.81120	
	Other	4	3.1563	0.37326	
	Total	348	3.0700	0.72412	
Parents' monthly income (RM)	More than 20,000	7	3.4566	0.69901	0.101
	10,000 – 20,000	44	3.2001	0.68444	
	5,000 – 9,999	108	3.0488	0.68677	
	1,000 - 4,999	130	3.1030	0.73411	
	Below 1,000	59	2.8829	0.77167	
	Total	348	3.0682	0.72352	
Parents' highest education level	PHD	8	3.4598	0.68709	0.409
	Master	39	3.1241	0.72885	
	Degree	118	3.1091	0.68292	
	Diploma	33	3.0974	0.75410	
	School	146	3.0095	0.75339	
	Other	3	2.6250	0.45069	
	Total	347	3.0717	0.72452	

The study adopted One-Way ANOVA statistics tool to determine if the means of the students' selected demographic background are significantly different as demonstrated in Table 3. For new CGPA variable, the overall mean is 3.0675 with a significance value of 0.56. The result indicates students from various level of

CGPA responded similarly on financial behaviour. The previous school variable overall means amounts to 3.0700 with significance value is 0.314. Thus, the result shows that there is no significant difference between students' financial behaviour and their school background. Further, the overall mean for parents is 3.068 with a significance value of 0.10. Thus, it can be concluded that there is no significant difference between students' financial behaviour and their parents' monthly income level. Finally, overall mean for the parents' highest education level is 3.0717. The significance value is 0.41. This value is greater than .05, and the result shows that there is no significant difference between students' financial behaviour and their parents' level of education. It can be concluded that none of the above variables provides the difference in their financial behaviour.

## 5. DISCUSSION AND CONCLUSION

From the findings, it shows that there are no significant differences of demographic background among KMKN students, except for gender and course enrolled. KMKN male students are more knowledgeable about finance and can manage their money better than KMKN female students. Chen and Volpe (1998) indicate that males are better in financial knowledge than females because they are more literate and have more expertise in this field. It is also supported by Markovich and DeVaney (1997) who find that male college students have higher levels of financial literacy than their female counterparts.

With regards to differences between science and business students' financial behaviour, the finding shows that there is a significant difference between students' financial behaviour and their course enrolled. The result suggests KMKN science students are more knowledgeable in managing their monthly allowance compared to business students. This is contradicting to Murphy (2005); James, Leavell and Maniam (2002); and Chen and Vope (1998) who found undergraduate business students tend to be more financially literate compared to their non-business major colleagues. This result might be influenced by their family and location factors. Most KMKN science students come from educated and high-income parents, while KMKN business students mostly come from rural areas and less educated family background. The result is consistent with Murphy's (2005) that found students from educated or family with a business background, is more literate than those from less educated families because they have less knowledge.

Overall, the finding shows that there are no significant differences in students' financial behaviour among KMKN students regarding family and academic background, except for gender and course enrolled. In a nutshell, the results conclude that KMKN students' financial behaviour is affected by their demographic background, including their family and academic background.

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