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Financial Prudence Among Youths In Mangochi

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ABSTRACT

Financial prudence is all about the careful manner of spending money in order to attain financial soundness or stability. Financial prudence can be used as a tool to combat the struggling economy of Malawi. If the youth are properly knowledgeable about finances, it can be helpful. The objective of this study was to assess the level of which final year students at DMI St John the Baptist University are financially prudent. The result of having financially prudent youths can result in the stability of the Malawian economy. This study also looked at the manner in which final year students use their pocket money and through this assessment of how financially prudent youths are made. This research is descriptive research with qualitative and quantitative approach. The sampling method used was the judgmental sampling method and a sample size was 100 respondents. The tools used for data collection were descriptive statistics, correlation and chi-square tests.

Keywords: Economy, Finance, prudence, qualitative and quantitative approach

1.0 INTRODUCTION

This study focuses on financial prudence in youths particularly the case of DMI St John the Baptist University. With the rapid growth and inconsistency of the Malawian economy there is a growing need for Malawi to breed financially prudent youths who are the next generation of leaders. The problem that Malawi as a whole face is not necessarily the acquisition of funds to finance the running of the county but the problem may lie in how the

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money acquired is spent in terms of developing the economy. It is safe to say that in a way Malawi's government is not financially prudent as a result from this Malawi is ranked as one of the poorest countries in the world. In order for Malawi to move forward from this problem there is a need to groom the youths in order for them to be financially prudent because from the current situation the country is in, a causing factor can also be the lack of financial prudence in the officials that run the government. The government as a whole is not a single person so the integrated failure of all government officials to make financial prudent choices for the country is the problem. This problem can only be conquered now at the root level where the next generation of Malawi can be groomed.

The next generation of Malawi is the youth and this comprises of all youngsters, be it those in primary school, secondary school or tertiary level of education and even individuals not enrolled in schools. All these individuals are exposed to the way the economy is going and for the fact that these youths are able to attain an education, this is the best place to bring about this financial prudent culture. In this case the immediate successors are the youths and this group is mostly composed of undergraduates in universities pursuing different levels of qualifications. This is the stage at which this culture of financial prudence can be injected into the future of Malawi.

Financial prudence can be effectively be attained among youth first by giving financially literacy. Most of these youths are exposed to money at young ages, as young as six years old. A child knows the value of the money he or she is given since this money is mostly given to children as money for snacks to buy at school. This stage is where mostly adolescent and university students receive money that is used to cater for personal needs. Others may receive in a form of pocket money or an allowance that maybe given to them periodically or this money may be given to them after completing a particular task.

It is also important to adopt positive activities such as financial planning which helps in managing income, build assets and also enables an individual to live a comfortable life, during their prime ages until retirement. Looking at this, youths in Malawi are properly exposed to money and the need for financial education is important. Recently the most common pattern of spending among youth is spending on fast foods, electronic gadgets, branded clothes and accessories and many other lifestyle related habits and hobbies are all part of today's expenditure among youths. The nature of spending pocket money among students varies depending on the type of family background they come from which would

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generally mean financial background of the family. Depending on the financial background family expenditure patterns can be different.

Firstly, students coming from rich families that can provide their children with generous amounts of pocket money. Most students with this background to this group indulge in reckless spending. These students tend to not be aware of the buying power of money and for the fact that the can easily access money, their spending is extravagant.

Secondly students that come from well to do families or in other words middle class families, whose parents are simply able to provide enough for basic needs and a little extra for a few wants that the students may require.

Lastly students there come from poor families or lower-class families. In the case of Malawian homes most families in the low class are unable to put their children through tertiary education and in cases where they are actually able to make it they are mostly sponsored by organizations and in most cases parents or the organizations are only able to provide a bare minimum of pocket money that simply caters for basic needs.

1.1 THE PROBLEM STATEMENT

Having financially prudent youths and knowing the magnitude of how financially literate they are can be a tool of development in Malawi. The rate at which financially prudent youths are particularly in universities in Malawi is uncertain. This research aspires to assess the financial prudence among the students of DMI St John the Baptist University.

1.2 OBJECTIVE OF RESEARCH

- To assess the level of financial knowledge among students at DMI St John the Baptist University.
- To assess the relationship between financial education and financial prudence among the students at DMI St John the Baptist University.
- To identify how much money students, get as pocket money.
- To make recommendations on improving the financial prudence among the students at DMI St John the Baptist University.

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1.3 SIGNIFICANCE OF THE STUDY

The instability of the Malawian economy attracts different questions that aim at identifying the problem or root of the cause of this instability. To a certain extent the problem may arise from the lack of prudent decisions made. This study will assess how true this is by looking at how financially knowledgeable final year students at DMI St John the Baptist university are. From this information a relationship between financial prudence in youths and the Malawian economy can be drawn. Identifying this can be seen as a starting point in the improvement of the economy from the youth level.

1.4 LIMITATIONS OF STUDY

Being an undergraduate student presented the problem of inexperience in the execution of this project. There are a few prior research studies done on financial prudence specifically. While data Collection few students spent only short span of duration to participate in data collection.

2.1 **LITERATURE REVIEW**

According to Simon Andrade (2011) defines the term finances in the following ways, "Area of economic activity in which money is the basis of the various embodiments, whether stock market investments, real estate, industrial, construction, agricultural development, so on. ", " Area of the economy in which we study the performance of capital markets and supply and price of financial assets". According to Bodie and Merton (1998), finance is "studying how scarce resources are allocated over time". O. Ferrel C. and Geoffrey Hirt (2013), say the term finance refers to "all activities related to obtaining money and effective use".

Financial literacy according to the national financial educators' council (2017) means possessing the skill and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals. According to the researcher's understanding, financial literacy is the knowledge that has to do with money, be it its value how to acquire it but mostly it is the ability one has on how to make money and how to properly spend it.

Chen &Volpe (1998) carried out a survey on nine hundred and twenty four college students to examine their level of financial literacy and also the relationship between financial literacy and students' characteristics and the impact of the literacy on students'

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opinions and decisions. It was found that 53% of questions were answered correctly. They said that less knowledgeable students tend to have wrong opinions and make incorrect decisions. It was concluded that college students are not knowledgeable about personal finance. The low level of knowledge will limit their ability to make informed decisions. Jeffery R. Hibbert, Ivan F. Beutler &Todd M. Martin (2004) carried out a study to examine the influence parents have in reducing the financial strain of their children's experience as early adults in the context that financial prudence was modeled in the commonplace routines of home and family life during the child's growing-up years. Using data from students about to graduate from two large U.S. universities, financial prudence was viewed for its direct effect on the reduction of financial strain and for two possible indirect effects of debt avoidance and credit card misuse.

Financial prudence was found to decrease financial strain directly and also indirectly through debt avoidance and credit card misuse behaviors. Roberts & Jones, 2001; Kasser & Ahuvia, 2002) have pointed out that lack of childhood inculcation of prudent financial behavior may result in erratic spending habits when teenage children are in school/ college and are employed in part-time or temporary jobs. Evidences show that college students tend to spend their discretionary income on instant gratification of their wants rather than save money for their further education. Hibbert, Beutler & Martin (2004) examine the influence of parental financial prudence on the attitude and behaviors of the next generation toward their finances. The study underscores the importance of family atmosphere to inculcate the necessity of being rational in personal financial management from the very early life of a person. The researchers show that, through a hypothesized model, financial prudence will help adult young adults nurture 'debt avoidance behaviors' and develop a tendency to 'resist credit card misuse' and these together keep them from unnecessary financial strain at a prime age itself. Five hypotheses were tested empirically to establish the relationships among 'financial prudence,' 'debt avoidance,' credit card misuse' and 'financial strain.' A study was further carried out through a process of determining an individual's financial goals, purpose in life and life's priorities, and after considering his resources, risk profile and current lifestyle, to detail a balanced and realistic plan to meet those goals." The participants in the survey were asked a series of questions to understand the attitude of the youth towards personal financial planning and its importance with regard to their future financial health. Having a financial plan is the ultimate test of financial prudence among the youth. Young

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adults who do not have a financial plan for their future run the risk of not having enough money to live comfortably in their retirement. The respondents were asked if they have a financial plan to assess the level of financial foresight possessed by the youth of today

Kristy Vienne (2009) concentrated on the different means to help college students to save and budget their finances in an effective manner. According to her "The purpose of a college education is to help students learn how to solve problems and we see a lot of students who are in need of solutions. The first step is to become financially literate". The advices that she gave to the students was that firstly, students should learn to identify money inflow every month so that their budgeting is much easier and faster. Students should learn to track their money expenditure. Students should learn to compare their expenses. Students should learn to identify inexpensive alternatives for daily usage products. Students should generate the tendency of savings. Students should understand how loans, credit cards and debit cards work. Students should also take advice from their parents or any financial professional. It was concluded that students are smart, responsible and eager to learn how to better manage their resources in order to manage their finance better.

Rajasekharan Pillai and Rozita Carlo and Rachel D'Souza(2010) studied how growing consumerism has left youths very vulnerable since they are now the most targeted segment in marketing and lack of knowledge on how to handle finances leads them into debt at young ages, this article enlightens how financial prudence can be used an instrument of personal discipline. The research analyzed the magnitude of financial literacy in youths, financial planning, spending and saving habits, influence of parents and family of expenditure habits and the nature and pattern of credit card usage. Their study however concluded that it was not a matter of financial illiteracy, rather the unwillingness of youths to exercise prudent behaviors in spending.

Sobhesh Kumar Agarwalla, et al (2013) reported an investigation of a study on the influence of various socio-demographic factors on different dimensions of financial literacy among the working youth in urban India. Financial literacy can be influenced by several factors such as gender, education and income and a few factors specific to India, such as joint-family and consultative decision making process were found to significantly influence financial literacy. The study also investigated the relationship between the dimensions of financial literacy and the growing empirical understanding of financial literacy across countries, the study provided an analytical basis for enunciating policy for enhancing

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financial literacy. It was concluded in research from around the world that inadequate financial literacy was present and this raised serious concerns about the ability of individuals to secure their financial well-being. There was evidence that individual's under-save, fail to invest wisely and are often indebted.

Ben Bernanke (2011) highlighted the need for continuous updating of financial literacy amongst all age groups because of constant change in the nature of financial products and services as well as the changing needs and situations of individuals with time. Fernando Angulo-Ruiz, Albena Perglova (2015) examined the antecedents of youth financial behavior. They grounded the conceptual framework on empowerment theory and argue that in addition to financial knowledge other elements such as Intrapersonal and interactional elements impact youth financial behavior. The results indicated that external point of control has the highest total effect on youth financial behavior followed by parental influence and motivation. In Canada, a study on youth financial literacy prepared for the Financial Consumer Agency of Canada reported that six of ten youth currently have debt and half feel their debt is as much or more than they can handle financially (Financial Consumer Agency of Canada 2008).

Armstrong Opoku (2015) assessed the level of financial literacy of Senior High School students in the Kumasi Metropolis. The study investigated three hundred and twenty students' levels of financial literacy using questionnaires. Results from the study showed that students need to improve their personal finance knowledge. The students answered about 48.7% of the questions correctly and many of the students were familiar with issues relating to simple interest, compounding and loan guarantee. The students were less knowledgeable and inexperienced with issues concerning personal financial planning, budgeting and overdraft. The in competencies shown by the senior high school students therefore limit their ability to make sound financial decisions and are more likely to have financial related issues in the real world. The low level of financial literacy can also make small financial issues become overwhelming which can turn into financial stress and consequently affects other aspects of their life.

1.3 RESEARCH METHODLOGY

This chapter looks at the ways in which the research of this study will be implemented in order to answer the problem statement. It will look at the research approach, the statistical

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tools to be used in this study, various methods of collecting data and the sample size. The type of research is descriptive research in nature since it sought to obtain information concerning the current status of the phenomena and to describe what exists with respect to variables or conditions in a situation. The researcher has used both a qualitative and a quantitative approach. Quota sampling method is used to choose the sample respondents. The quota is given according to the weightage of the strength in each department. (BBA- 35%, B,Com – 15%, B.Sc – 20% and BSW – 30%). In this research 100 respondents were selected to collect the relevant information using a structured questionnaire. Tools used for analysis were percentage analysis, Chi-square Test and Correlation.

4.1 FINDS AND DISCUSSION

It was observed that 35 BBA students, 15 BCOM students, 20 BSC students, and 30 BSW students participated in answering to the questionnaires. Among the respondents 58% of the respondents were male and 42% were female. It is observed that most students relate financial awareness and financial literacy as the same. Similarly it was seen that 55% of the students are financially stable whilst 45% of the respondents are not financially stable. It was found that most of the respondents do budget with 35% of the students being able to whilst 35 % of the students sometimes have budget. On the other hand 30% of the respondents completely do not budget. It was found that most of the respondents making up 35% are able to save money whilst 35% sometimes save and 30% do not completely save any money. 30% of the respondents sometimes plan on how they will spend and 31% of the respondents tend to spend recklessly without any precaution. Most of the respondents get their pocket money from varied sources with 26% getting their pocket money from parents, 22% getting pocket money from a job or business, 24% getting pocket money from both and 28% getting their pocket money from other sources. 32% spend their money on school. Financial prudence is not necessarily related to financial awareness and literacy. However, financial knowledge does assist an individual to be more prudent in their financial dealings. Most respondents show traits of being financially prudent but not completely prudent. 16% spend it mostly for recreation, 34% save their money and 18% spend it on other things. Also it was observed that there is no significant relation between financial awareness and spending patterns and there is relationship between gender and financial awareness when spending.

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5.1 RECOMMENDATIONS

Findings of this study show a relatively poor rate of final year students who are financially prudent at DMI St John the Baptist University. The following recommendations are suggested. DMI St John the Baptist University should incorporate more financial modules in every course in order to ensure financial awareness and literacy. If the students are properly exposed to financial material on a regular basis through modules learnt through the course of their studies, it is more likely that gradually the next set of final year students will be more financially aware, literate and prudent. More investigations of this nature should be carried out in order to assess the magnitude of financial prudence in other institutions like DMI St John the Baptist University nationwide. This will give a better picture of the standing of the country.

6.1 CONCLUSION

If financial prudence were to be looked at as a tool to combat the poor economic growth of Malawi, it would be very beneficial. The hindrance that can be seen in the development of the nation is the failure of officials in charge to carefully spend the money available to them and also the failure to properly secure enough funds. If the youth in Malawi were taught how to be financially prudent at young stages, and the behavior grows with them up until they are in leadership roles, it would easily lead to more economic development of the country because of the ability of the now financially prudent generation to properly and carefully spend money to ensure financial soundness.

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