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# Financial Prudence among Youth

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## Abstract

Frugal expenditure habit is no less important than the basic illiteracies such as reading, writing and arithmetic. Present day youth are seemed to show callous expenditure, being independent, competitive and free-of-behaviour, that eventually lead them perpetually in debt. The present study explores the magnitude of financial literacy among youth focusing on expenditure and saving trends. It is understood that the youth are unwilling to get out of their comfort zone and reckless expenditure behaviour, despite of their sound knowledge of the fundamentals of financial literacy. The credit card culture is also found out to have grown phenomenally among the youth. The freedom of choice of present generation is unlimited. Hence they are being victimized in onslaught of sales and service offers and promotions in the market especially; the lure of on-line buying, trendy apparels, electronic gadgets, mobile services and others segmented products and services. It is understood that the young generation rarely practice basic financial skills, such as budgeting, frugal spending, developing a regular savings plan, or planning for long term requirements.

*Key Words: financial prudence, financial literacy, financial planning of youth, credit card usage, spend thriftiness, financial portfolio of youth, spending and saving habits of youth, economic independence of youth, financial decision of youth, influence of family and peer in financial management.*

JEL Classification: E21, G00, G11,

***“There is a secret psychology of money. Most people don't know about it. That's why most people never become financially successful. A lack of money is not the problem; it is merely a symptom of what's going on inside of you.” – T. Harv Eker***

With the dawn of the era of consumerism and the marketing mania, wants are tremendously exceeding needs and it has been widely observed that widespread consumerism and westernization have lured the people into dissipating their earnings at an alarming rate. Not only the hard-earned money that is being dissolved into the irresistibly tempting buying options, plethora of opportunities are there to effect purchases without legal tender or debit card balance, thanks to the burgeoning growth of credit accessibility to prospective customers. The plight of young generation is even more vulnerable. With availability of

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generous pocket money, personal credit cards, access to credit cards of family members or high-paid jobs at prime age, young people are faster becoming impulsive spenders and prove reckless often. Strategic marketers are designing products and services targeting young generation. Globalization, in this regard, assumes great relevance in the light of the magnitude of products flowing from different parts of the world into a target market space. With the ease of information access through the Internet and web technology, marketers have managed to capture a significant market of youth through online store sales. In the Asian subcontinent, new trends in fashion, electronic gadgets, sports, video games, mall culture and music are important contributors to wasteful spending among the youth. Most of today's young adults, although smart and independent, scarcely understand the value of money because of the desire to adopt extravagant lifestyles, in addition the above mentioned factors. Young adults under the age of 30 are now the fastest growing age group filing for bankruptcy. Moreover, there has been an alarming rise in college suicides because of credit card and student loan debt (Lee, 2008). Financial prudence and literacy could go a long way in reducing this anomaly. This study examines whether young adults were financially aware and whether they exhibited financial prudence in making financial decisions.

Financial prudence is an important attribute of personal discipline. The reckless expenditure habits manifest unsustainable financial practices. Financial prudence is discussed as the acceptance of a degree of caution in the exercise of judgment needed when making required estimates under conditions of uncertainty. In other words, it refers to the practice of making well-informed financial decisions and ensuring that expenditure is never in excess of earning capacity of an individual. Our conventional wisdom reminds us to be parsimonious in spending money. The frugal spending habit, in turn, will help enhance savings, which, of course, can be invested into returnable diversified financial portfolios and with credible institutions.

## **I. Background of the Study**

In today's age of consumerism and knowledge explosion, young adults seem to be the most highly targeted group by professional marketers and big organizations. Financial prudence paves the way into a bright and safe future among the youth, generating wealth, and avoiding debt and wasteful spending ultimately leading to financial soundness. It can make a noteworthy difference not only in the quality of life of young adults but also rescue them

from unwanted and gruesome contingencies so that they can enjoy a stately life after retirement. Financial literacy also helps in building up the skills and confidence of the youth to become more aware of financial opportunities and risks, improve their knowledge of financial markets, concepts and products and assist them in making informed decisions how to generate and maintain a steady balance between their cash inflows and outflows. This is why a great deal of in depth study and research has been carried out with respect to importance of financial prudence among the youth and their implications consumer educators, financial counselors and academicians. This is why governments around the world especially in USA are promoting the importance of practicing financial prudence by providing free literature materials, books and financial courses to schools, colleges and universities.

The study, originally conducted as part of an academic requirement, attempted to uncover financial preparedness of graduate students - prospective entrants into job market - and young working adults within the age group of 20 to 30 years of age. It was also attempted to understand how financial prudence could lead to increased debt avoidance behaviour (Hibbert et al, 2004). This study provides suggestions as to how financial prudence must be encouraged among children to ensure that they become financially responsible adults which will, in turn, ensure that they develop debt avoidance behaviour and increase their savings to meet any contingencies. It also rendered valuable input that can aid corporate policymakers seeking to devise interventions aimed at young consumers. Financial corporate houses have also devised specific financial products that assist young people in managing their money. One of the most premier examples in this regard, is VISA's 'Financial Me' savings plan for the youth that assists them in saving for particular purposes, such as a vacation or university education. Furthermore, banks across the world have introduced youth and kids savings accounts accepting deposits as little as \$5 charging no fees for their services.

Today's multifaceted financial services industry presents consumers with an extensive assortment of financial products to assist them in planning out their future finances. Apart from their objective to maximize their own profitability, these corporate giants have only made it easier for the common man to manage his money more easily and effectively. However, as described earlier, proper grooming and instruction needs to be supplied to individuals while they are young. In recent times, the availability of financial literary

resources has become so easy unlike never before and financial preparedness will well equip the youth of this generation towards formulating a safe and healthy economic future.

## **II. Aims and Objectives of the study**

Young generation, in the contemporary society, is seemed to have alarmingly low level of financial literacy, which is manifested in their reckless expenditure behaviour and bleak saving behaviour. In the advancing ages, it would be quite difficult for an individual to inculcate the habit of systematic financial planning, because it is purely human nature to master a habit, whether good or bad while one is a child or a youth. This is why it is essential for an individual to cultivate a savings oriented approach in money management right from his prime age. Moreover, in terms of investments and returns management, financial experts have articulated about the massive returns that can be generated in the later years if one learnt to invest in the right manner from a very young age. Take the example of Warren Buffet, one of the richest men in the world who started practicing the habit of financial prudence and investment from the age of 11. It seems logical to comprehend that education on financial planning and discipline in terms of practicing a strict pattern of savings and spending can be imbibed easily from a very young age, the study focuses particularly on financial prudence among young people. Keeping this in mind, the present study attempts to explore the extent of financial literacy and prudence of youth, who are supposed to be current and future wealth managers of the society.

The specific objectives of the study were:

- i) To discover the magnitude of financial literacy among youth.
- ii) To identify and analyze the spending and saving habits of young people.
- iii) To gain a greater insight into the sources from which the youth obtain financial information.
- iv) To understand the influence of family and friends on expenditure.

## **III. Study Methods**

The study followed an exploratory method by attempting to understand the magnitude of financial prudence among youth, spanning across the age group of 18-30 years. The sample covered both employed and unemployed young adults. The sampling technique was a

combination of judgment sampling and quota sampling. This study used a comprehensive questionnaire designed to cover major aspects of personal financial prudence. The questions were divided into four categories namely financial literacy, savings and spending habits, credit card usage and borrowing, and financial planning. The questions comprised of multiple-choice questions, attitudinal rating questions and semi-closed ended questions.

Questionnaires were supported by discussions with the target group. In addition, research journals, related books, and working papers in the related field, publications and reports etc. formed a part of our data sources.

#### **IV. Survey of Literature**

The fantasy of Materialistic living seems to be engulfing the young generation today. Living a luxurious life which includes owning high-status possessions and expensive homes, having the right body image, and acquiring high-end jobs with fat salaries were the aspirations of many adolescents in the United States (Beutler *et. al.*, 2008). Studies (Bachman, 1983; 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.'

Chen & Volpe (1998) attempt to investigate college students' knowledge on personal finance, establish a relationship between personal financial literacy and respondents' demographics such as academic discipline, gender, and experience and the impact of the

literacy on students' opinions and decisions. There has been a perennial debate over the problems college students have in handling their credit cards. The media have proliferated the notion that students are awash in debt, victims of persistent marketing by credit card companies and powerless against the temptation to use their credit cards (Staten & Barron, 2002). Consumer debt on college campuses is a burgeoning predicament that plagues a large number of students.

Excessive credit card usage amid youth in the Western hemisphere is not an uncommon habit. Although many researchers have undertaken numerous studies on the number and types of credit cards held by students, very few had attempted to investigate the underlying behaviors and attitudes manifested in the spending habits and financial decisions of the young. Financial literacy is the comprehension of financial products and concepts and the ability to assess financial risks and opportunities in order to make informed financial choices. It is a dynamic process and communication holds the key to empowering consumers to take steps to augment their financial well-being. Financial literacy is imperative for the prevention of over-indebtedness, especially in light of the recent financial crisis and helps in promoting ideal financial behaviors such as saving, budgeting, or using credit wisely, thus, helping consumers to be prepared for financial contingencies. An investigation was conducted (Miller et al, 2009) to obtain empirical evidence on the practicality of financial literacy programs and the importance of further research to determine the most effective financial literacy tools, programs, and public policies, especially from the perspective of a developing country.

## **V. Analysis and Discussion**

### **V. 1. Magnitude of Financial Literacy among youth**

In this section, we explore the multiple benefits of financial literacy as opted by respondents, and their knowledge on basic financial concepts like simple interest calculation, definition of net worth, their investment approaches, reasons for purchasing insurance, personal money management and the like. Almost 50% of respondents signified that financial literacy offers a combination of all the mentioned benefits, that is, healthy spending habits, a right approach to invest, the right kind of insurance and being defensive in crisis. Around 40% respondents felt that being financially literate would enlighten them on adopting the best investment



approach (22%) and maintain healthy spending habits (17%). Very few were of the opinion that financial literacy would save them from a crisis situation or help them in buying the right kind of insurance. This provides a clear indication that the youth are aware of the importance of financial literacy.

In this age of information-intensive and knowledge explosion, where a sea of information is available through various sources, particularly the internet, which attracts the youth, we cannot over look the capacity of present generation in taking financial decisions.

In today's world with soaring prices of food, accommodation, fuel etc, it is impossible for the working man, to live solely on his regular salary. That is why companies have come up with innovative financial products designed for the next generation. But to invest appropriately, adequate knowledge on returns on investment is required. While only around 18% of the young respondents were of the notion that it was better to invest in a single company's stock rather than a diverse portfolio (mutual fund), there was a close competition between those respondents who disagreed with the statement (42%) and those who had no idea at all (40%) about the choice of investment that would generate safe returns. A mutual fund refers to a portfolio of investments managed by professionals and A diverse portfolio indicates that risk would be evenly spread across different financial products as compared to a single investment where risk is concentrated and cannot be spread, and as can be seen, a large number of respondents were quite well aware of this notion indicating their disagreement that investing in a single company's stock was better than a mutual fund investment. Choosing to invest can be quite a baffling war ground especially for beginners, young people in particular who have insufficient experience in choosing profitable investments.

When respondents were asked to indicate their degree of agreement as to whether it was better own a diverse portfolio of investments rather than locking their savings in a single avenue, majority of the respondents (32%) strongly agreed, which were followed by just agreeable and neutral responses. Around 13% of the respondents strongly disagreed to the statement put forth. The youth seemed to be quite aware of the risks of putting all their eggs in one basket.

Maintaining regular financial records helps one to develop disciplined spending habits. From the field data collected, it was discovered that nearly half of the respondents (45%) interviewed maintained very minimal records while 30% did not maintain any records at all and only a fraction of the sample (25%) maintained detailed financial records. Keeping personal financial records makes one to keep track of his/her various expenses and also develop the qualities of a cautious spender because one is constantly aware of how much he/she has spent probably during the last week, month or year. This implies an important proposition for financial counselors and educators who must consider training students on creation and maintenance of basic financial records.

In order to store up enough in the barn for future expenses such as higher education, buying a car, getting a house, managing a family and ultimately living a healthy retirement life, it is crucial for the young to develop a disciplined habit of managing their money. Out of the total respondents surveyed, 33% of the participants presumed themselves to be efficient money managers, having a good understanding of all what is required to be known in personal money management. About 20% respondents felt the need to be well-educated with respect to this subject while 13% respondents believed themselves to be excellent in managing money. This provides an apparent signal that the youth are quite confident in their abilities to handle money matters. As the saying goes "*Prevention is better than cure,*" so also insurance represents an important precautionary financial tool that provides a cushion in the event of loss.

It was estimated that 30% of the respondents felt that buying insurance would protect them from tragic losses as well as incidental losses. Only about 13% felt that insurance would give them coverage against a loss recently occurred. The common notion of a lay man about purchasing insurance is to protect him from tragic losses such as accidents, damages due to fire/theft or to cover his own personal life. This explains why many of the respondents chose to purchase insurance to cover tragic losses. Now that the reasons for purchasing insurance have been thrown into the limelight, it only becomes fitting to examine the types of insurance the survey participants preferred to purchase.

Exactly 30% of the sample indicated that they would purchase life insurance from an agent while 20% respondents were not interested in buying life insurance. A considerable number

of participants preferred to buy term policies (14%) and flight insurance for each flight travelled (13%). The reason why a certain fraction of respondents chose not to purchase insurance could be their lack of knowledge regarding the same. They might have failed to understand the significance of insurance as a tool that provides financial security, as it is an indirect form of investment. In the final part of this section, we analyze the reasoning skills of their respondents regarding the self-generation of wealth. Respondents were asked about their opinions on whether wealth was something that could be self-generated by taking correct financial decisions right from a young age.

Not every person in this world is born with a silver spoon in his mouth. The millionaires of today including Richard Branson, Donald Trump and Warren Buffet were simple people who thought differently and spent wisely. In discovering the attitudes of young people towards self-generation of wealth, it was found that 44% of the respondents merely agreed to the statement. While 27% strongly agreed. 16% respondents disagreed on the subject that wealth could be self-generated by taking correct financial decisions right from a young age. About just a fraction of the sample (11%) were neutral on the topic. Today there exists sweeping generalizations among the youth that financial management is rocket science, when, in fact, it is quite simple if practiced from a young age.

## **V. 2. Financial Planning**

An important activity in today's unstable and uncertain market scenario, financial planning helps manage income, build assets and also enables an individual to live a comfortable life, post retirement. According to Wikipedia, the broad definition of personal financial planning can be stated as, "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 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. It is estimated that a

comfortable majority of the respondents (55%) do not have a financial plan while the remaining (45%) possess a personal financial plan for the future. This shows that a majority of the youth are not prepared financially for the future. This revelation is seemed to be inconsistent with their level of awareness. Despite of their good level of financial literacy, they have almost neglected the idea of financial planning.

In order to understand the predictive power of age, gender, nationality, education, marital status, employment status and family life cycle stage in financial planning, multiple regression analysis was carried out. The regression model is as follows:

$$Y = \beta_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + \varepsilon$$

Where,  $\beta_0$  = Beta coefficient (constant)

$b_1$  = Coefficient of Age

$b_2$  = Coefficient of Gender

$b_3$  = Coefficient of Nationality

$b_4$  = Coefficient of Education

$b_5$  = Coefficient of Marital status

$b_6$  = Coefficient of Employment status

$b_7$  = Coefficient of Family life cycle stage

Y = Coefficient of Financial Planning

$\varepsilon$  = Error term

The estimated result (*for details see annexure 1*) of multiple regression line can be written as below:

$$Y = 0.949 - 0.129 x_1 + 0.255 x_2 + 0.193 x_3 + 0.020 x_4 - 0.387 x_5 + 0.108 x_6 + 0.33 x_7 + \varepsilon$$

Using this model it was found that among all the demographic parameters, only “family life cycle stage” was positively correlated (0.333) with financial planning. This indicates that as people shift to the later stages of the family life cycle, they are burdened with more responsibilities and hence attach more importance to planning their finances. It was also observed that the age parameter had a negative correlation (-0.129) with financial planning. This signifies that as people grow older, they plan less. But this result seems to be quite contradictory to the correlation between family life cycle parameter and financial planning.

Despite the worldwide pension crisis and a growing acceptance that they must plan and save for their retirement, the harsh reality is that the youth are not saving nearly enough. They must follow the popular adage “Don’t put off today what you can’t afford to do tomorrow!” The importance of retirement planning cannot be overstated. Retirement planning begins with setting clearly defined life goals and putting together a financial plan to achieve those goals upon retirement. Young adults must begin to plan early in order to take advantage of compound interest and avoid financial risk. The greatest risk to a good retirement is the prospect of outliving your money.

About 35% of the respondents participated in the survey consider building up a savings account at a government insured bank is a wiser approach towards saving for their retirement. An almost identical number of respondents prefer to save for retirement through investment in either long-term insurance policies (23%) or diversified growth mutual funds (28%). The rest of the respondents deem that investing in certificates of deposit (14%) is a better approach to retirement planning. Another important aspect of financial planning for the youth is determining ways to improve current financial health. The respondents were asked what they would do to improve their financial health if they had to pay off an education loan. They were provided with five options – cut back expenses and use their savings to pay down debt, keep the same spending pattern as in the past, apply for a consumer loan for a new car, eliminate debt by filing for personal bankruptcy, use their credit card to pay for a vacation.

It was observed that a significant number of respondents (71%) are of the opinion that cutting back expenses and using their savings to pay down the debt is the best course of action. A few respondents consider that maintaining the same spending pattern as in the past (15%), taking a consumer loan to buy durables (5%), filing for personal bankruptcy (7%) and using their credit cards to make purchases (2%) can help them improve their financial circumstances.

Majority of the respondents express that maintaining adequate financial records and spending less than their income was of the utmost importance when it came to practicing financial prudence. Investing regularly and maintaining adequate insurance coverage were deemed to be only somewhat important for financial health. Subsequently, we attempted to

analyze how the youth rated themselves in terms of financial planning. The participants in the survey were asked how they assess themselves with regard to their personal financial planning skills. It is estimated that 53% of the respondents consider themselves efficient when it comes to financial planning, even though they lack the habit in their personal life. Nearly a quarter of the respondents (27%) feel that they are not very efficient financial planners. Even though a negligible proportion (12%) of the respondents feels that they do not possess any proficiency at all in matters of financial planning.

### **V. 3. Spending and Saving Habits**

In this section, we attempt to understand how young adults manage their income or allowance. The spending and saving behavior of the respondents are analyzed to gain a greater insight into the extent to which financial discipline is practiced by the youth in Bahrain.

There is a huge need for saving among youth because such savings could protect young people against future economic shocks as well as pay for relevant services like healthcare and higher education. As youth transition to adulthood, their ability to save and accumulate assets becomes very important as they begin to accept financial responsibilities and plan for the future. In order to assess their saving habits, the participants in the survey were asked to divulge what proportion of their income or allowance was saved each month. Subsequently, it was discovered that 32% of the respondents saved 40 - 60% of their allowance or income. While 12% of young adults were found to be saving practically the entire sum of their earnings, another 13% demonstrated spendthrift tendencies spending virtually all of their allowance or income. It was found that an equivalent number of respondents saved either 20-40% or 60 - 80% percent of their income. The remaining respondents managed to save only up to 20% of their earnings. It is clear that a majority of the participants in the survey have successfully managed to put aside nearly 40 - 60% of their earnings as savings. The survey revealed that 14% of the respondents were non-savers, that is, they had no intention to save any part of their regular income. Out of the remaining respondents, 27% were irregular savers, 14% were regular savers.

The respondents were then asked for how long they intended to save all or part of their earnings. Even though the will to save and invest is impressive, the respondents' portfolio

plans are not promising. The field data disclose that 30% of the respondents preferred a medium-term period of 1 to 3 years and another 30% preferred short-term planning of less than a year. Only around 18% opted to plan for a very long term covering more than 10 years. The reason for their short-duration portfolio plans is known to be their confidence in the uninterrupted income earning prospects. It was found that a majority of the respondents (37%) indicated that they would save to meet for emergency situations while only very few (9%) planned to save for retirement. The rest of respondents indicated that they save money for major purchases (15%), fulfilling parental obligations (10%), investment purposes (13%), buying a new home (10%), other reasons (6%). Whatever they set aside at present is for various such purposes as settling down with family, property ownership, higher studies, vacation etc. This is an indication that young adults are not very forward thinking for not saving for a period longer than five years. In order to have a financially secure life, it is necessary that the youth start planning their saving activities for a period longer than 10 years. This will enable them to retire early and enjoy their senior years. Saving by itself is not enough, it is necessary for the youth to have a goal for saving to keep them on track and to ensure that they do not spend beyond their means.

It was observed that more than half of the respondents (57%) indicated that they plan well before going on a shopping trip and know exactly what they want to purchase. While a considerable portion of the sample (28%) resorted to impulsive buying, only around 15% of the respondents were cautious in their shopping behavior. In order to determine the extent of financial prudence exercised by the youth, the respondents were asked to consider an imaginary scenario of windfall gains in which they had won the lottery and what they would have done with the money. It was manifested that a majority of the sample (47%) indicated their inclination to save more and spend less of the amount. An almost equivalent number of respondents gave a total opposite response – spend more and save less, while a small fraction of the sample (6%) indicated that they would spend the entire amount.

The social commitment of the respondents is also impressive as a majority of the respondents (68%) indicated that they donate to charity while the rest of the sample (32%) does not make any donations to charitable causes. This is an indication that young adults are socially responsible and spend a portion of their income to support social causes. The respondents were then asked what proportion of their earnings or allowance was given to

charity. While a considerable number of respondents (50%) donated a random amount to charity, a few respondents donated a fixed percentage to charity. A minority donated a fixed amount of their income regularly.

Spending in excess of their earnings is one of the most common problems faced by young adults today. The youth are following the “I want” philosophy, that is, they are more interested in accumulating material possessions than saving money and this leads to the domino effect of making impulsive purchasing decisions resulting in overspending and shortage of money. The participants in the survey were asked how often in the last year did they run out of money before the new money arrived. Majority of the respondents (40%) ran out of money only occasionally before the new money arrived. A large section of the respondents (25%) divulged that they rarely ran out of money. The remainder of the respondents ran out of money always (10%), ran out of money frequently (17%) or never faced a shortage of funds (8%).

It is important that the youth always be aware of the balance in their bank accounts before going on a spending spree. It is understood that they are not used to the balance checking with their savings account, as they have the privilege of using multiple credit cards.

An important element financial literacy is manifested in the selection of diverse portfolio of financial assets. It becomes quite obvious for an average person ‘not to put all his eggs in to one basket’ but rather branch them out in to different profitable avenues. One of the questions in the survey asked respondents in which avenues would they invest, give they had surplus cash. Six alternatives were provided which included liquid cash, savings account, term deposits, unit linked policy, shares and mutual fund. Respondents were required to rate their percentage of preference in each alternative, so that it totaled up to 100%. With regards to liquid cash, 23% of the respondents preferred to maintain 20-40% their surplus in liquid cash probably because they felt that maintaining idle reserves is safer than taking any risk. As indicated in the above figure, it is clear that around 90% of the survey participants preferred not to invest their surplus money in shares, unit linked policy and mutual funds. Around 28% of the respondents preferred to invest in savings accounts and term deposits. With banks and financial institutions devising specialized financial products such as youth and kids savings account, explains why the percentage of youth with savings accounts are on



the increase. Multiple correlation analysis was used to explore the intimacy of the relationship between the various investment avenues (*for details see annexure 2*). It is quite evident from the analytical result that liquid cash and other investment variables except savings account have a negative correlation. This indicates that other variables are illiquid and hence, are inversely correlated while savings are somewhat liquid in nature causing its positive correlation with liquid cash. Shares and unit linked policy also share a positive correlation.

The attitude of young adults towards spending plays an important role in the sustainability perspectives of their finances (hard earned money) and is a significant variable in financial prudence. Fifteen statements pertaining to expenditure habits were identified and asked to record their magnitude of agreement and disagreement in five point scale. The Likert scale was used to analyse the data (*refer annexure 3 for analytical output*). A majority of the respondents subscribe to the epicurean philosophy of “Life is to enjoy”. This indicates that the young adults today are very materialistic and look first to the acquisition of physical assets rather than saving their income for the future. The statement that qualified for the most disagreement was “I have bought things even though, I could not afford them” indicating that young adults do not like to spend beyond their means but this statement is in stark contrast to the statement with which the respondents agreed the most. Thus, the responses are contradictory in nature. The inference that can be drawn from this contradiction is that the youth want to enjoy life but only within their means. In other words, the youth want to have fun but on a budget

#### **V. 4. Influence of Family and Friends on Expenditure Habits**

Another objective of this study was to explore the factors influencing formation of spending and saving habits among youth. It is quite indisputable that in the formative age of our life cycle some basic education must be imparted to us with regard to money management. Respondents were asked to rate the influence of these four variables (family circle, friends, media and personal experience) on the spending and saving habits of respondents, as percentage totaling to 100.

With regards to family circle, 33% of respondents felt that their family exerted moderate influence (40-60%) on their spending habits while 40% of the respondents indicated that

their family was the main drive behind their money usage (60-80%). Our study covers only Arabs and Indian respondents, and a majority of the youth living in Bahrain stay with their families. Arabs in particular live in joint families, and this could be the main reason behind the great extent of family influence. In the friends' category, 31% of the respondents consider that their friends exercise around 20 - 40% influence. This is because it is quite an obvious fact that youth are known to spend most hours of the day with their friends, particularly if they are college students.

Moreover the dawn of the mall culture, brand mania, fast food and gadget lifestyle along with peer pressure strongly influence today's youth. The media seems to have no effect on the youth of today as it can be observed that 40% of the respondents indicated a zero influence of media on their habits. This can have a strong implication for marketers in Bahrain who have selected youth as their target market. This could also imply that youth make their purchases based on word-of-mouth and family influences. In terms of the experience factor, 35% of respondents indicated that their experience exerts only about 20 - 40% influence. Probably due to the age factor, youth lack experience as compared to middle-aged and older adults who have are more experienced in money matters.

## **V. 5. Nature and Pattern of Credit Card Usage**

In recent years, credit card use habit has grown phenomenally among young adults. This increase in the number of youth holding credit cards and incurring credit card debt has generated concern that these young people are over extended and unaware of the long-term consequences associated with severe indebtedness. Credit cards promote the 'spend now and deal with the consequences later' mindset which can prove detrimental to the financial condition of youth.

It can be observed that nearly half of respondents (51%) do not own any credit cards where as the residual respondents (49%) possess at least one credit card. This is an indication that most of youth do not possess any credit card and hence, are less supposed to be prone to making rash, impulsive financial decisions. With respect to further enquiry it was understood that, despite of their non-possession of personal credit card, majority use credit card of family members to effect any purchase of their own choice. Hence it is clear that the use of credit card is not limited by the absence any personal credit cards.

The propensity of young adults to use their credit card to pay for all their purchases can inadvertently lead them to fall in debt. It is advisable that the youth do not resort to paying by credit card unless in emergency situations. The respondents were asked how often they use the credit card to purchase items to determine the frequency of credit card usage. It is understood that about 17% use credit cards occasionally, that is, at least once a month. An equal number of respondents (12%) use credit cards either frequently or rarely. The rest of the respondents either never use their credit card (5%) or use it daily (3%). This contradicts our earlier assumption that the youth are unaware of the consequences of credit card use.

## **VI. Concluding Comments**

From this study, we found that it is not the question of financial literacy that matters, but rather the practical application of such knowledge to real-life situations. The respondents in our survey were financially literate, but were not willing to take that ‘extra’ effort or rather risk to build a robust financial backing for their future. This study has helped in generating a positive degree of the need of practicing financial prudence among respondents. Our study proved to be quite contradictory to what many researchers had to say in their findings regarding the spending and saving patterns of the youth, probably because around 90% studies on financial literacy among the youth were only restricted to the western world. This has further helped us to understand the differences in financial attitudes and behavioral patterns of Western and Asian youth. As stated in the beginning, there is no such thing as a “lack of money”, a little bit of positive thinking and extra effort would take this young and independent generation to the peak of financial success!

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### **Annexure 1: Multiple Regression Output**

#### **Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	age, gender, nationality, education, marital status, employment status, family life cycle stage	0	Enter

a. All requested variables entered.

b. Dependent Variable: Financial planning

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.451 <sup>a</sup>	.204	.095	.47814

a. Predictors: (Constant), age, gender, nationality, education, marital status, employment status and family life cycle stage

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.985	7	.426	1.865	.095 <sup>a</sup>
	Residual	11.659	51	.229		
	Total	14.644	58			

a. Predictors: (Constant), age, gender, nationality, education, marital status, employment status, family life cycle stage

b. Dependent Variable: Financial Planning

**Multiple Regression Analysis : Financial Planning – Demographic profile**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.949	.525		1.808	.077
	Age	-.129	.095	-.235	-1.363	.179
	Gender	.255	.146	.245	1.738	.088
	Nationality	.193	.176	.193	1.097	.278
	Education	.020	.108	.027	.189	.851
	Marital Status	-.387	.169	-.386	-2.293	.026
	Employment status	.108	.149	.106	.726	.471
	Family Life cycle stage	.333	.118	.642	2.821	.007

a. Dependent Variable: Financial Planning

## Annexure 2: Multiple Correlation output

**Table IV.7: Correlation between various Investment schemes**

Investment Avenues	Liquid Cash	Savings A/c	Term Deposits	Unit Linked Policy	Shares	Mutual Fund
Liquid Cash	1					
Savings A/c	<b>.088</b>	1				
Term Deposits	-.245	-.280*	1			
Unit Linked Policy	-.210	-.206	<b>.162</b>	1		
Shares	-.160	-.373**	-.040	<b>.156</b>	1	
Mutual Fund	-.285*	-.312*	.032	-.038	<b>.220</b>	1

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

### **Annexure 3 : Spending habits of Youth**

<b>Sl. No.</b>	<b>Opinions Showing Consumer Behavior</b>	<b>Mean Score</b>
1	Life is to enjoy	1.96
2	I enjoy spending money on things that gives me pleasure.	2.05
3	I have all the things I really need to enjoy life.	2.23
4	I try to keep my life simple, as far as possessions are concerned.	2.31
5	I buy something in order to make myself feel better.	2.46
6	The things I own say a lot about how well I'm doing in life.	2.55
7	I'd be happier if I could afford to buy more things.	2.78
8	It sometimes bothers me quite a bit that I can't afford to buy all the things I'd like.	2.81
9	When I have money, I cannot help but spend a part or whole of it.	2.86
10	I like to own things that impress people.	3.15
11	I'm often impulsive in my buying behaviour.	3.16
12	I'm one of those people who often respond to promotional offers.	3.18
13	As soon as I enter a shopping centre, I have an irresistible urge to go into the shop to buy something.	3.33
14	I have often brought a product that I didn't need, knowing I had very little money.	3.38
15	I have bought things even though, I could not afford them.	3.45