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Financial Literacy Level And Socio-Economic Factors Of Business Students In District Peshawar, Pakistan

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Abstract: *The need for financial literacy has increased due to the proliferation of innovative financial services and products in the financial markets. It is both an art and a science that promotes improved money management by imparting sound financial planning concepts and budgeting techniques, thereby protecting people's financial security. Thus, this article attempts to assess the financial literacy levels of business students of Commerce Colleges in the district Peshawar, using a sample of 200 respondents. The primary data were obtained by collecting information through questionnaires. The association between financial literacy level and socio-economic characteristics is examined using the chi-square test. The study's results show that financial literacy is significantly influenced by socio-economic factors. The research study revealed that students' understanding of fundamental financial concepts is quite low and have difficulty in managing their finances, even they are studying commerce. The respondents' age and educational background have a significant impact on how financially literate they are. To promote financial literacy, a foundational course covering a range of financial ideas ought to be included in the curriculum and made required for all academic programs.*

KEYWORDS: Financial Literacy, Commerce Students, Socio-economic factors, Chi-Square test

INTRODUCTION

Over the past few years, scholars and decision-makers from Pakistan and other nations have focused mostly on financial literacy. Every nation's desire to raise social welfare standards and promote prudent financial management in society is what sets it off [17]. One of the

cornerstones of society's financial health on both a micro and macro level is financial literacy. Humans are capable of managing financial resources and the crucial financial reform initiatives to combat poverty because they comprehend financial concepts and abilities [3]. They also possess financial resilience, which allows them to weather the crisis [20]. Additionally, people's incapacity to select the best alternative for them is a result of a lack of financial literacy [24]. Plenty of problems with the economy might arise from a society lacking financial literacy. Accordingly, several studies have identified a major contributing factor to expensive borrowing and high debt because of a lack of financial literacy [8]. Poor and insufficient retirement planning [11]; limited involvement in the formal financial sector and stock market [4]. Furthermore, it illustrates how financial market inefficiency can impede efforts to achieve economic growth..

Pakistan's economy is rapidly improving in terms of the high-caliber education that is sorely needed for its future development. Pakistan has the largest youngster population in the world and youngsters bulge section at the moment. Suppose the nation modernizes and develops its educational system. In that case, it can use this demographic shift to its advantage by helping young people acquire the necessary financial skills, thereby raising their level of financial literacy and aiding in the country's economic development. Better financial services accessibility is essential for lowering poverty, increasing prosperity, and guaranteeing the nation's intended development [18]. The importance of financial literacy cannot be overstated for both genders and all young people. Their financial literacy makes them competent decision-makers by giving them a deep comprehension of the principles of personal finance and teaching them how to handle their cash [5]. Youth who have increased their financial literacy can become more informed decision-makers. Thus, the purpose of this study is to ascertain how commerce students' financial literacy levels and their socio-economic situation relate to one another.

Socio-economics can be characterized as an individual's position in the community that may be connected to other people based on affiliation, accomplishments, rights, and responsibilities. According to [7], who reviewed pertinent literature, financial literacy is associated with several variables that can be used as socio-economic assessment methods, including income, work, and education. According to [2], a person's occupation, age, education level, gender, geographic distribution, and income may all be used as demographic references to determine their level of financial literacy.

According to [6], demographic characteristics, including sex, marital status, living arrangements and household composition, language, ethnic background, health and disability, education and training, employment status and occupation, income and household consumption, population densities, and urban and rural residence. Several socio-economic factors are mentioned by [10], including household

property, assets, income, employment, housing, health, education, and housing. A number of prior studies used socio-economic and demographic parameters to examine the relationship between two or more variables, even though they are commonly used to define the profiles of the respondents. According to [15], two primary elements influence financial literacy: internal and external influences. Conditions of the economic environment, such as interest rates and inflation, are referred to as external factors. Conversely, demographic characteristics including age, sex, race, education, and socio-economic factors (income and occupation) are referred to as internal factors.

A number of studies have examined how demographic characteristics affect financial literacy [21]; [23];[14]. According to [13], financial literacy varies depending on demographic factors such age, sex, education level, and income. This assertion is in line with [26].findings that different demographic groups have varying degrees of financial literacy, with adults and men having the highest levels. Lastly, [19] demonstrated a correlation between economic and demographic variables and variations in financial literacy.

The relationship between education level and financial literacy has been the subject of extensive empirical research. [22], found that individuals with higher education levels displayed a better understanding of compound interest, inflation, and risk diversification. [7], reported that female students often have lower self-assessed and actual financial literacy, despite equivalent education levels, emphasizing the need for tailored financial education strategies. Age was a demographic component that significantly impacted financial literacy, according to [12]. Studies consistently show that students from higher-income families tend to exhibit higher levels of financial literacy. This is attributed to increased access to financial resources, exposure to financial concepts, and access to quality education. Parents with higher incomes often engage in financial discussions, provide allowances, or involve children in budgeting, fostering financial literacy. Research by [14], indicates that high school students from wealthy families score significantly higher on financial literacy tests than their peers from low-income backgrounds. Furthermore, [9] and [16] showed that economic conditions significantly impacted financial literacy. According to [27], one of the main determinants of an individual's financial decision-making is their marital status, a demographic component. Age and place of residence can impact financial literacy [25]. Based on the literature, the following hypotheses have been developed.

H_1: There is an association between educational status and financial literacy level.

H_2: There is an association between gender and financial literacy level.

H_3: There is an association between income level and financial literacy level.

H_4: There is an association between location/residence and financial literacy level.

H_5: There is an association between age and financial literacy level.

METHODOLOGY

For the current study, a quantitative approach was used since it allows the researcher to collect the opinions of a large number of people. Additionally, this method increases the likelihood of impartiality and validity, enabling the results to be more broadly applied. Because of their central location in the district, the two colleges chosen for this study were Govt. Alamzeb Shaheed College of Commerce (women) and Govt. College of Management Sciences Peshawar in the district Peshawar, Khyber-Pakhtunkhwa. In the Peshawar district, this area acts as a center for colleges. Given limitations including time, money, and population accessibility, 200 participants were considered sufficient to provide significant findings [11]. Additionally, the sample responses were chosen using a simple random sampling procedure that included proportions from each college [19]. A self-administered questionnaire was also used to collect cross-sectional data from the students. Descriptive and chi-square tests [2] were used for hypothesis testing, allowing for a thorough investigation of the gathered data and the production of trustworthy findings. Statistical software (SPSS ver. 28) was used for data analysis. Throughout the research procedure, ethical issues were of utmost importance.

FINDING AND DISCUSSION

Demographic Characteristics of the Respondents

Table -01 depicted that 120 (60%) males and 80(40%) females out of 200 respondents were considered for the study. Almost 145 (72%) out of 200 respondents' parents have no financial education while only 28 percent students have basic financial education. The qualification from various candidates was categorized in D.COM, BS Commerce (1-4 semester), BS Commerce (5-8 semester), BBA(Hon) (1-4 semester), BBA(Hon) (5-8 semester), their participation in the study is clearly shown in the above table in which 85% were graduate (BS commerce and BBA (Hon)) and only 15% were D.COM students. In addition, the monthly income of the selected respondents was divided into four categories in which 60 (30%) out of 200 respondents have a monthly income between thirty thousand to forty thousand. In contrast, 40 (20%) belong to the first and last categories of income level as shown in the table. Moreover, almost 19% of the respondent's parents' education was below SSC while 59% were above HHSC.

Table – 01: Demographic Profile of the Students

		Frequency	Percentage
Gender	Male	120	60.0
	Female	80	40.0
		200	**100.0**
Parents Fin. Edu.	Yes	55	27.5
	No	145	72.5
		200	**100.0**
Education level	D.COM	30	15.0
	BS (1-4)	40	20.0
	BS (5-8)	48	24.0
	BBA (1-4)	32	16.0
	BBA (5-8)	50	25.0
		200	**100.0**
Income level	10000 - 20000	40	20.0
	20000 - 30000	50	25.0
	30000 – 40000	60	30.0
	Above 40000	40	20
	Total	**200**	**100.0**
Parental Education	Below SSC	37	18.5
	HSSC	45	22.5
	Above HSSC	118	59
	Total	**200**	**100.0**

Source: Field Survey

Financial literacy level

Students' financial literacy was assessed using a series of questions. These questions aimed to gauge their comprehension of important financial ideas including inflation, compound interest, and time value of money, risk diversification, and return yield on different securities. The financial literacy level consisted of ten questions assessing students understanding of fundamental financial concepts such as sales, discounts and interest rates, time worth of money, investments, bonds, inflation, and saving. The test scores of the students served as a measure of their financial literacy and provided insight into their financial understanding. Furthermore, the surveys asked participants to furnish details regarding their demographic attributes. A financial literacy score, which goes from 1 to 10 and represents various literacy levels, was created based on test responses and is displayed in Table-02

Table – 02: Financial literacy level

Level of financial literacy	Correct answers
High level	7 -10
Medium level	3 – 6
Low level	0 – 2

Source: Authors own calculation

Cross Tabulation of the student's Financial Literacy Level with their Socio-economic characteristics

The relationship between the socio-economic characteristics and the financial literacy level of the students are shown in the table-03. According to the table, Chi-square value (15.31) for students' education level indicates a notable divergence between observed and expected frequencies, supporting the association. Since the p-value is 0.005(< 0.05), is less than the significance level (α=0.05), indicating a statistically significant association between students' education level and their financial literacy level**.** Therefore we reject the null hypothesis and conclude that students' education level impacts their financial literacy. For instance, higher education levels might correspond to higher financial literacy. The results are in line with the results of [22].

For the variable gender, the chi-square value (15.388) indicates a meaningful difference between observed and expected frequencies supporting the association. The p-value (0.000) is much smaller than the significance level (α=0.05), indicating strong evidence to reject the null hypothesis. A statistically significant association exists between gender and students' financial literacy level**.** This suggests that gender differences are associated with variations in financial literacy levels.

In the case of Income level, the chi-square value (15.153) reflects a measurable deviation between observed and expected frequencies in the contingency table and confirms the existence of an association between the variables. The p-value (0.019) indicates a statistically significant association between income level and financial literacy. The probability of observing this association by random chance is just 1.9%, which is lower than the typical threshold (α=0.05) for statistical significance.

The p-value is less than the significance level **(**α=0.05**)** for the residence of the respondents depicted statistically significant results. This means that students' location and their financial literacy are likely associated, and the observed differences are unlikely due to random chance. This implies that location is likely a factor influencing students' financial literacy and concludes that students in urban locations have higher financial literacy levels due to better access to financial resources.

A higher Chi-square value (15.031) of the variable students age indicates a greater divergence between observed and expected frequencies, suggesting a stronger association. The p-value (0.000) is less than the chosen significance level (α=0.05), and the result is statistically significant. This indicates that students' age and their financial literacy levels are likely associated, and the observed differences are not due to chance.

Table - 02: Cross Tabulation of the students' Financial Literacy Level with their Socio-economic Characteristics

Socio-economic factors	Financial Literacy level			
	Low level	**Med. level**	**High level**	
Educational Status (ES)				**Total**
D.Com	19(63.33)	08(26.67)	03(10.00)	30(100)
BS (1-4)	20(50.00)	12(30.00)	08(20.00)	40(100)
BS (5-8)	14(29.17)	16(33.33)	18(37.50)	48(100)
BBA (1-4)	10(31.25)	12(37.50)	10(31.25)	32(100)
BBA (5-8)	10(20.00)	20(40.00)	20(40.00)	50(100)
Total	73	68	59	200
Chi-Sq = 21.941 d.f = 8 P- value =0.005				
Gender				
Male	30(27.78)	34(31.48)	44(40.74)	108(100)
Female	43(46.74)	34(36.95)	15(16.30)	92(100)
Total	73	68	59	200
Chi-Sq = 15.388 d.f = 2 P-value=0.000,				
Income level				
10000 - 25000	20(50.00)	10(25.00)	10(25.00)	40(100)
25000 -35000	20(40.00)	16(32.00)	14(28.00)	50(100)
35000-45000	25(41.67)	20(33.33)	15(25.00)	60(100)
Above 45000	08(16.00)	22(44.00)	20(40.00)	50(100)
Total	73	68	59	200
Chi-Sq = 15.153 d.f = 6 P-value=0.019,				
Location/Residence				
Rural	18(32.27)	17(30.90)	20(36.36)	55(100)
Urban	55(37.93)	51(35.17)	39(26.90)	145(100)
Total	73	68	59	160
Chi-Sq= 15.58 d.f = 2, P- value=.002,				
Respondents Age				
16 - 18	18(60.00)	10(33.33)	02(06.67)	30(100)
18 - 20	30(41.67)	25(34.72)	17(23.61)	72(100)
Above 20	25(25.51)	33(33.67)	40(40.81)	98(100)
Total	73	68	59	160
Chi-Sq = 15.031 d.f = 4, P-value=0.000,				

CONCLUSION AND RECOMMENDATIONS

Conclusion

Students' financial literacy levels are significantly influenced by their socio-economic characteristics. Education level, gender, income, age, and location, all play a role in shaping financial literacy. Students with higher education

levels are more likely to exhibit higher financial literacy, likely due to increased exposure to financial concepts through formal education (χ^2 = 21.941, d.f = 8, P- value = 0.005)**.** Gender differences significantly influence financial literacy. Male students have better access to financial education or opportunities to practice financial skills than female students (χ^2 = 15.388, d.f = 2, P-value=0.000)**.** Students from higher income levels tend to have higher financial literacy, possibly due to better access to financial education, resources, or real-life financial decision-making opportunities. (χ^2 = 15.153 d.f = 6, P-value=0.019). Older students are likely to exhibit higher financial literacy due to more real-life financial experiences and longer exposure to financial concepts. Students from urban areas show higher financial literacy compared to those from rural areas, likely due to differences in access to financial education, resources, and exposure to financial systems (χ^2 = 15.031 d.f = 4 P-value=0.000).

Recommendation

Based on the analysis of the relationships between socio-economic characteristics (education level, gender, income level, age, and location) and financial literacy, the following targeted recommendations are proposed

- Introduce mandatory financial education courses across all education levels, starting from primary school to higher education.
- Tailor the content to align with students' developmental stages, focusing on practical financial skills (e.g., budgeting, saving, and understanding credit).
- Develop gender-sensitive financial literacy programs to ensure equal participation and engagement by all genders.
- Offer free or subsidized financial literacy programs and resources to students from low-income families.
- Implement financial literacy education starting from Secondary school level, emphasizing foundational concepts like saving and the value of money.
- Use technology (e.g., online courses and mobile apps) to overcome geographic barriers and deliver high-quality financial education.

Policy Implications

- Governments and educational institutions should mandate financial literacy programs as part of the national curriculum.
- Collaborate with financial institutions to fund and deliver financial literacy initiatives.
- Conduct further research on the specific challenges faced by socio-economically disadvantaged groups to refine and improve financial literacy programs.

Authors Contribution

- Hadiqa Saeed: Principal Author, wrote the first draft of the manuscript.
- Ilham: Collected the data and helped in conclusion
- Dr. Sajad Ali: analyzed the data and supervised the research Study

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