College Students' Financial Literacy in an Eastern Kentucky Regional University

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Background

Financial literacy is essential knowledge for recent college graduates to be able to manage a stable career and personal wealth.

Some key concepts in financial literacy are investing, saving, credit, and budgeting. An understanding of financial literacy helps lead one to success in saving, using credit responsibly, and running a business.

Financial literacy is essential to obtain before or while in college and can allow for better budgeting. Students will also have the knowledge that can allow them to save money and pay off loans after graduation.

Review of Literature

In a financial literacy study, Dr. Urban found that students who received financial literacy education were more likely to take out low-interest federal loans to pay for their educational costs. Additionally, while they tended to borrow more federal student loans, they also worked fewer hours during school, had higher college persistence rates, and were more likely to graduate (Zingg & Laura, 2020).

Most college students borrow to finance their education but do not understand the conditions surrounding this debt. Many students also attend college without understanding financial aid, loans, debt, credit, inflation, budgeting, or credit scores(Champlain College, 2015).

"Instead of just throwing them on a credit card, now they're thinking it through and saying, actually I need to take out more money" (Zingg & Laura, 2020).

"Less knowledgeable students tend to hold wrong opinions and make incorrect decisions. It is concluded that college students are not knowledgeable about personal finance. The low level of knowledge will limit their ability to make informed decisions" (Chen, 1998).

"There's a big need for this kind of effort. Today, only about one-third of Americans have a working understanding of interest rates, mortgage rates and financial risk, according to the Financial Industry Regulatory Authority. And this measure of financial literacy has fallen 19 percent over the past decade. This gap is estimated to have cost Americans more than $415 billion in 2020 alone" (Bryant & Mcmillon 2022).

Purpose of the study

In this study, the authors examined 107 college students' financial literacy at a regional public university in Eastern Kentucky. The authors assumed the findings would stress the importance and benefits of attending financial literacy classes.

Methodology

•107 voluntary participants (56 males, 50 females)

• Utilization of a 22-item self-created questionnaire: covering demographic information and one's awareness of: investing, saving, credit, and budgeting.

• A QR code for the online survey was distributed throughout business classes as well as many facilities on campus (such as Wellness Center and Cafeteria), to peers.

• Data collected started from late September, 2022, to early December, 2022.

Results

*Demographic Information

Classification	Number
Freshmen	20
Sophomores	24
Juniors	36
Seniors	24
Graduate Students	3

*Factor analysis on Financial Literacy Survey
(5-point Likert Scale, a low score represents an ideal outcome)

Five identified Factor (17 items)	Rated score (SD)
Factor 1. Understanding of investment Five items: (a) frequency for looking at investment information, (b) comfortability in making investment decisions, (c) confidence in understanding different forms of investments, (d) comfortability in knowing financial terms (e) understanding of personal net worth	**2.94 (0.98)**
Factor 2: Understanding of financial risk and budgeting Four items: (a) understanding of credit risk, (b) knowing what affects the credit terms, (c) knowing the risk and reward, and (d) confidence in writing a monthly budget	**2.54 (1.04)**
Factor 3: Perception about saving and spending Four items: (a) frequency of thinking about saving, (b) satisfaction with current savings, (c) confidence in spending habits, and (d) preparation for saving	**2.56 (0.85)**
Factor 4: Longing for saving and investing Two items: (a) frustration about failing to save, and (b) frequency of dreaming about saving/investing	**2.36 (1.05)**
Factor 5: Motivation for learning financial literacy Two items: (a) preference to learn financial literacy, and (b) recognition of the importance of financial literacy	**2.16 (1.01)**

Additional findings among different group-comparisons

Women's ratings on Factor 1 and 2 were significantly higher than men's ($p < .01$). This indicated that women have less confidence in understanding investments and financial risk.

Those who had not taken the financial literacy course had a higher rating on Factor 1 and 2 than those who had taken the course. This result is what we expected to observe.

There was a significant difference in Factor 3 between those who had a personal Finance Literacy course and those who had not. Those who do not have a Literacy course also had a higher rating on "perception about saving and spending.

There was no significant difference found in any factor based on academic classification.

Discussion and Conclusions

• This study highlighted the importance of financial literacy courses. Those who took the general financial literacy course had a better understanding of investment and financial risk. Individuals who had a personal financial course also had a better understanding of saving and spending.
• What causes gender differences in understanding investments and financial risk? Are male students brash and arrogant? Are female students reserved and conservative?

Suggestions:
• Adding financial literacy courses as a general education course requirement.
• Make financial literacy courses available for students in Eastern Kentucky and rural communities (with mock experience and practices).

The direction for future studies:
• Expand the study via an online survey to include more student participants. Conduct more data-analyses based on different demographic characteristics (a limitation of current study).

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