Financial Culture among Albanian Young People and Its Impact on the Economy

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Abstract

In the context of massive changes happening globally in the financial market, nowadays, the issue of financial knowledge of the consumer has been awarded an ever-increasing importance. The economic crisis and quotidian changes add to the complexity of the decisions individuals have to make. On that vein, financial literacy becomes a very important element that directly influences the economic growth of a country. Thus, individuals with relevant financial knowledge will make more responsible decisions that will affect not only the personal and familiar economic growth but also the whole country's well-being. Financial education affords us positive long-term results in a country's economy. This study has been focused on testing of the financial education of Albanian students, a target-group that in near future will represent the family man and the consumer on a societal basis. Nowadays the youths need to face and handle financial situations that are arguably tougher than the ones faced by their parents at the same age. Our paper is based on an empirical model. This model will show how their financial knowledge is related to different socio-demographic variables. Furthermore, descriptive analysis will analytically provide a resume on the nature, levels, problems and deficits of the Albanian youth's financial literacy.

Keywords: Financial education, students, financial products, financial concepts

1. Introduction

Individuals should learn to how care about their finances upon them starting to individually manage their money. The monetary system has nowadays strengthened the connections between consumer and money and this is the main reason why young people should learn how money is gained, how it can be saved or even invested. In the meantime, the financial world is moving forward with giant steps, becoming more complex to understand by people, especially those who do not come from economic background. The world of financial services for businesses and families has changed considerably in the recent years. Globalization has connected the financial markets throughout the world, resulting not only into a higher number of providers but also a higher number of financial products and services varying from the simplest to the more complex ones. It is often times impossible for consumers to understand what these financial products and services represent and which are the benefits they bring to consumers. Individuals are not only faced with the choice between different types of products but also between different providers. The big number of providers and the variety of products that they bring to the market cause potential consumers to face with a difficult choice. And the difficulty of the choice is directly affected by the level of information that these consumers have. Financial education is the best means to equip individuals with the financial knowledge they need and to drive them to put such knowledge to use when choosing between financial products and services, this way making the most efficient choice. This knowledge should be induced at an early age as it is very important to educate the youngsters who will be the future financial consumers of the country.

In this research paper the financial culture among Albanian students will be put to test.

2. Overview on the Existing Culture

There are different definitions of financial culture encountered in various publications; for this research paper the definition developed by the OECD has been used:

"Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being".¹

¹ OECD; Book: "Improving Financial Literacy: Analysis of Issues and Policies" Pg 13

Many research papers and academic studies have shown that financial culture, consumer behavior and the financial market are a very important trinome that affects increase of wellbeing of the individuals therefore affecting the economic growth of the country.

Financial culture affects consumers' behavior. (Hilgert, Hogarth and Beverly 2003) confirms the very strong connection between financial culture and every day decision making related to management of finances. The same theory was demonstrated by Hilgert, Schuchardt (2002) through a research that confirmed existence of a direct correlation between financial knowledge of the consumers and the chances for developing positive behaviors in terms of financial management and use of financial products and services. In her research paper (Lusardi 2008), she recognizes that the capability of individuals to make informed financial decisions is very important to the development of one's personal finances, thus contributing to more efficient allocation of financial resources and to higher economic stability at micro and macro levels. Information and knowledge reduce vulnerability of the individuals against hoaxing financial schemes.

At the beginning of the 90's Albania entered a transition period, moving from a centralized economy into the market economy. The majority of the population had little or no knowledge of financial markets and its institutions. Therefore, during 1996 – 97, Albania saw the rise and falls of Pyramid Schemes. In his research "The Rise and Fall of Albania's Pyramid Schemes" (Jarvis, 1999) states that the low financial awareness of Albanians was one of the causes of the crisis taking place.

Today, the financial sector in Albania is still in its beginnings. In the IX conference of the Bank of Albania, the experts agreed that increase of the level of financial information available, increase of information in general and increase of the level of transparency are the milestones for development of markets. These are very important as they affect the financial wellbeing of Albanians. There is a certain asymmetry of information which is advantageous to the financial institutions. Such asymmetry is harmful to the consumers that do not possess the adequate knowledge to fully assess the terms and conditions of their financial products. Klapper, Lusardi and Panos (2012) states that informed consumers may bring innovation by increasing demand in the financial market and may play an important monitoring role that helps improving transparency and honesty of financial institutions. The willingness to save and invest causes increase of the demand in the financial market thus bringing innovation, transparency and honesty. According to Christelis, Jappelli, and Padula (2010) and Lusardi (2008) individuals with high financial culture tend to participate in the financial market and invest in shares. Ignoring of the basic financial concepts may relate to lack of pension saving schemes and non-participation in the financial market. It is therefore very important that every one acquires information and knowledge on the various possibilities that the financial market offers.

3. Analysis of the Survey; Econometric Model

To get a better picture of the financial culture of young people in Albania, OECD conducted a survey tailored to the target group in question.

The survey was sampled to 400 students with the below traits:

- Group age: 18 – 25 years old, Bachelor or Master students
- 200 students of Economic Studies and 200 students for other majors other Economic Studies.
- 59% students in Tirana and the rest from other districts.
- 81,8% of the students not employed and 18,2% employed/involved in work relationships.

Table (1): Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,386 ^a	,149	,111	,472

Table (2): ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	3,478	4	,870	3,898	,006 ^a
Residual	19,852	89	,223		
Total	23,330	93			

a. Predictors: (Constant), work relations, major, district, gender

Table (3)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Std. Error	Beta		
(Constant)	,202	,108		1,874	,064
Gender	,248	,105	,248	2,358	,021
District	,102	,106	,101	,962	,338
Major	,280	,102	,281	2,747	,007
Work relations	-,262	,132	-,207	-1,991	,052

a. Dependent Variable: Financial culture

From the multiple linear regression, the below mathematical equation is derived to explain the model:

$$Y = 0.202 + 0.248X_1 + 0.102X_2 + 0.280X_3 - 0.262X_4$$

Y – indicates the students with financial culture (Y=1) or not (Y=0)

X₁ – indicates the gender of the student male (X₁=1) or female (X₁=0)

X₂ – indicates whether students are from Tirana (X₂=1) or other districts (X₂=0)

X₃ – indicates whether student is studying economy (X₃=1) or another field(X₃=0)

X₄ – indicates whether student is employed (X₄=1) or not (X₄=0)

This model explains the phenomenon in an essential method statistically wise, where 11,1% of the financial culture the students possess is explained with the factors examined in this model (TABLE 1).

TABLE (2) indicates that independent variables affect the dependent variable (Sig. = ,006^a)

The first factor that produces impact – gender of the student – indicates that there is increased probability with 24,8% among male students to possess financial culture as compared to female students, in the conditions when the other factors are kept constant. This means that higher chances for individuals possessing financial culture are found among men rather than women.

For our model, the second factor, whether students are from Tirana or other districts, does not have any considerable impact on the model statistically wise, but it improves the model

(p = ,338 > ,05)

The third factor of this model – whether the student studies economy or another field – indicates that when the factor receives the value of 1, thus the student is studying economy, when the other factors remain constant, there is increased probability with 28% for the individual to possess financial culture. This is easily explained with the fact that students of economic studies have received better education and understanding of the financial market.

We see that the fourth factor of the model, whether the students are involved or not in employment relationship, indicates a decrease of the probability with 26,2% for the target group but it does not impact whatsoever statistically wise the entire population (p = 5,2% > 5%).

4. Results According to Field of Study of the Students

Regression build in this research paper has shown that one of the factors impacting the econometric model is the field that the student is studying. Therefore, to concretize this result, a comparison was made between the results derived from the students of economy and students of other majors for 2 important components of this research: familiarization with financial products and the most important financial concepts. The results are reflected in the charts.

We can observe that in almost all cases it is the students of economy that have a better understanding/familiarization with the financial products as compared to students of other fields. This result is more than predictable and understandable considering that economy students, as compared to other students, have continuous contact with such products and have examined such topics in detail in the course of their studies.

On the other hand, this result is not so justifiable since the financial products examined in the research play a major and vital role in the financial wellbeing of the population in its entirety, not only on the economy.

Chart 1. Knowledge on financial products

Source: Survey conducted with students – Which of the following financial products do you know?²

However, during the research it was observed that the students were not so clear about the role that each of the financial products plays. They are familiar with the terms as they had heard them frequently but the majority of them were not able to define the role that and use of these financial products. To the question on which of the financial product they know is their family using, only 40% responded the debit card as compared to 57,9% who responded the credit card. This is strange enough if we consider that almost all employed individuals have a current account and a debit card for withdrawal from ATMs.

Obviously the number of persons using a debit card should be higher or at least equal to the number of persons using a credit card. It is obvious that the above result is however not impossible since everything depends on the random selection of the target group. However, it may be assumed that young people do confuse debit card with the credit card.

Students were questioned also on some of the most important financial concepts, laid under the form of exercises and statements. Even in this case, the difference was made clear between students of economics and students of other fields. The results are reflected in chart 2.

Chart 2. Knowledge about financial concepts

Source: Survey conducted with students³

² Survey conducted by the author in June 2013 with college students

It can be seen that the financial concepts are better known among the students of economic sciences rather than students of other fields. This result is comprehensible since students of economic studies have examined and dealt with such topics and concepts often during their Bachelor or Master study programs. The questions addressed to them have been selected so that they address different aspects of financial culture and range between different difficulty scales.

However, the questions are not particularly complex and do not require any expert or professional background. Therefore, the misbalance between responses from students of economy and responses from students of other fields is not entirely justifiable.

From general observation among the students it was observed that 94,7% of the students (379 students) were able to perform simple mathematical calculations such as divisions but only 65,3% were able to calculate the simple interest of a saving account. This indicates that 261 students of 400 were not able to calculate what the 2% interest of 100 ALL is. Particularly concerning is the high percentage of students that were not able to calculate the simple interest for one year and to identify the effect of the compound interest for 5 years. Only 36,8% of the students managed to correctly answer the question on calculation of the compound interest which in figures is 147 students of 400. The students also experienced difficulty with the questions related to inflation. The purpose of this question was to test young people's ability to identify the impact that inflation has on prices and costs of living. Respective correct answers are 44,2% and 57,9%.

These figures are relatively low considering that inflation is a very important phenomenon of our everyday life and we hear it mentioned oftentimes, everywhere.

5. Results According to Gender

From the above econometric model, which showed that gender is a statistically wise important factor for the model, we saw that from 0 to 1, where 0 is for women and 1 for men, the probability for the student to possess financial culture increases with 24,8%. Thus, to clearly indicate the impact of this factor, a comparison was made between the two genders even in the study with young people. Among 219 women interviewed, 40% thereof (88 women) resulted to have some well-built concepts of financial culture. This percentage is higher among men. Among 181 men interviewed 53% thereof (96 men) resulted to possess well build financial knowledge.

The same conclusion was reached also by the research conducted in Albania earlier two years: men appeared more likely than women to possess higher financial culture.

The Organization for Economic Co-operation and Development (OECD) conducted a survey to compare financial culture between people of different countries at international level. The same research was conducted in Albania in 2011 under the auspices of the Bank of Albania and INSTAT. The result produced according to this survey showed that in Albania women tended to possess lower financial knowledge as compared to men. 35% of women scored a considerably high result in terms of the financial knowledge they possessed compared to a much higher percentage of men that reached up to 51%.

6. Family and Financial Education

Young people gain financial management skills even before graduating from elementary school. In general, starting from this age youngsters spend money as if they were adults but without possessing any information on the real consequences that their expenses have. This is due to the changes occurring in the global financial market which add to the complexity of financial decisions that the individuals encounter.

As for any other matter, the family is the source of information for youngsters but it appears that in the Albanian family the "money" topic is still a taboo. 26,2 % of youngsters admitted to have never or very rarely had a discussion on the money topic with their family. In fact, 21.6% of them reported not being aware whether their family saved money and how they do this. 13.6% were not aware of financial products their family used and a very high number of 55.7% were not aware of the revenues of the family.

These percentages are relatively high considering also the age segment of the interviewed which varies from 18 until 25. During their life as students, youngsters are almost totally dependent on their financial decision making and management of money, in particular when it comes to students coming from other districts and living alone. As "new" managers of their money, they are inexperienced and do not have the adequate knowledge to make efficient decisions.

It is therefore very important that youngsters, as future financial consumers, benefit from the knowledge and

³ Survey conducted by the author in June 2013 with college students

experience of their parents when it comes to making effective decisions. However, some parents find it difficult to talk to their children about money and the economy of the family. The topic on management of money is often neglected by parents and it is not given adequate attention.

7. Conclusions and Recommendations

This research paper was prepared to give a picture of the current situation of the financial culture among young people in Albania. After concluding the research, we can summarize that:

- In the Albanian family discussion between parents and children on the topic of managing money is still considered a taboo. Consequently, most children are not informed on the financial decisions that the family makes.
- Students interviewed were familiar with most of the financial products mentioned but they experienced difficulty defining the role and the function of each product.
- Regarding identification of financial concepts, the students encountered difficulties to complete simple mathematical calculations such as divisions and identification of simple and compound interest of a saving account. They also experienced difficulty calculating the effects of compound interest throughout a period of few years. Problems were also encountered with the concept of inflation and its effects.
- Financial culture among Albanian students changes depending on factors such as gender of the students. Empirical results have shown that men tend to possess higher financial culture compared to women. Another factor impacting the results is the field of study: students of economy have better financial knowledge compared to students of other fields.

Taking consideration of the above-mentioned conclusions, we would like to note that it is very important to take some initiatives in order to increase economic awareness in particular among students. The banking system as the main representative of the financial market in Albania has to invest on different campaigns aiming to inject economic information. This may be accomplished through different activities ranging from distribution of leaflets and holding of workshops and lectures at schools.

Direct discussions with staff of the banks with their customers are also very efficient means. Therefore, these meetings have to be held even outside the walls of these institutions.

Besides the theoretical aspect, there must be school programs designed to incentivize children to learn more about money management. In this framework, all banks in Albania may undertake initiatives for organizing meetings with the students and for competitions focusing on financial culture.

We all know that these changes take long time to happen but we are also well aware that they will yield to positive long term results.

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