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Towards the practical evaluation of financial literacy: Latvian survey

Guna Ciemleja^{a*}, Natalja Lace^b, Jelena Titko^c

^{a, b, c} Riga Technical University, Latvia

Abstract

Financial literacy of individuals, the factors contributing to the level of financial knowledge, as well as tools for improving financial competence are frequently discussed topics in the academic papers. Most attention is paid to the measuring issues, because this is an initial step of developing a national strategy to enhance citizens' financial literacy level. Measuring process requires a clear understanding of the concept, underlying components and an appropriate evaluation instrument. The current paper reflects the results of the authors' conducted survey, based on the sample of 169 respondents. A set of 12 questions on financial matters was developed to detect perceived importance and complexity of financial literacy components, as well as to get financial literacy self-assessment scores. Data was processed by means of SPSS 20.0, applying such methods, as analysis of means, analysis of frequencies and independent samples t-test. Received results assist to precise the content and wording of questions to be included into the questionnaire for evaluation financial literacy level of Latvian citizens.

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1. Introduction

Financial literacy (FL), its importance, measuring issues, implementation of financial education programmes and related topics are frequently discussed in academic and public environment. High level of financial literacy makes a large contribution to the financial well-being of individuals, because financially literate individuals are more likely

* Corresponding author. Tel.: +37129192678.

E-mail address: guna.ciemleja@rtu.lv

to plan for retirement (Almenberg & Save-Soderbergh, 2011), more likely to participate in financial markets and perform better on their portfolio choice (van Rooij, Lusardi & Alessie, 2011) and more likely to accumulate higher amounts of wealth (Lusardi & Mitchell, 2011). In turn „lack of financial literacy was one of the factors contributing to ill-informed financial decisions and that these decisions could, in turn, have tremendous negative spill-over” (PISA/OECD, 2012). In many countries governments are increasingly concerned about financial illiteracy of their citizens.

Considering the increasing need for financial literacy, public authorities in many countries initiated a process of development and implementation of National strategies (NS) to enhance financial literacy level. Based on Organisation of Economic Cooperation and Development (OECD) data (as for 2012), 23 countries all over the world “have implemented a NS or have approved one and are moving to implementation” and 24 countries (including Latvia) „have started considering and/or designing a NS” (Grifoni & Messy, 2012). An important step in defining a national strategy is measuring of a current level of financial literacy, because it provides an evidence of the issues faced by different socio-demographic groups, enables policymakers to identify the needs of the population, provides a baseline for designing educational programmes, and etc. In turn, measuring process requires a clear understanding of financial literacy concept and an appropriate evaluation instrument. In order to build a theoretical foundation for development of the methodology of financial literacy evaluation, the explorative research on defining financial literacy and its components was conducted (Titko & Lace, 2013). The results were expressed in the conceptual model of financial literacy.

Knowing the components of financial literacy is the first step in the process of designing a questionnaire to measure a level of financial literacy. Another important issue in measuring process is a proper wording of questions. Sometimes “low scores are due to not understanding the questions being asked, rather than understanding the question but answering it incorrectly” (Capuano & Ramsay, 2011). Thus, the questions should be properly formulated. Besides, it is necessary to weight questions according its complexity to detect a relevant contribution of each question to the overall index of financial literacy. There are different opinions among the researchers about self-assessment questions. These questions should be used in surveys with cautions, because people tend to overestimate their knowledge (Guiso & Jappelli, 2008; Capuano & Ramsay, 2011). However, high self-evaluation is related to the financial self-efficacy that, in turn, correlates with financial literacy scores (ANZ/The Social Research Center, 2011). To consider all the important aspects and to precise the content and structure of the questionnaire, the authors conducted a current study that was aimed: (1) evaluate perceived importance of financial literacy components from the viewpoint of different respondent groups; (2) evaluate respondents’ perceived complexity of financial literacy components; and (3) test self-assessed level of financial literacy of respondents. The section headings are arranged by numbers, bold and 10 pt. Here follows further instructions for authors.

2. Method

To achieve the research objectives, the authors conducted a survey, using the own developed instrument containing 12 questions on financial matters – 2 questions for each component of the conceptual model. For research purposes the questions were labelled with an appropriate combinations of words (see Table 1).

Table 1. Design of the questionnaire for the pilot study

No.	FL component	Question’s label
Q1	Savings and borrowings	Loans
Q2		Deposits
Q3	Personal budgeting	Spending
Q4		Balance sheet
Q5	Economic issues	Employment and inflation
Q6		Purchasing power
Q7	Financial concepts	Time value of money
Q8		Risk and return
Q9	Financial services	Payment cards
Q10		Online banking services
Q11	Investing	Stocks and bonds
Q12		Diversification

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