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FINANCIAL LITERACY: EMPIRICAL SOCIOLOGICAL APPROACHES

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The recent financial crises that started in the USA and spread all over Europe highlighted the importance of research in the field of financial culture. A variety of research projects pointed out that the general population's financial literacy is lacking basic knowledge. The ever changing economic climate, demographic changes, tendencies in the financial processing sector and the acceleration in product innovation put considerable pressure on the everyday decision making process of a household. The overview of the international and national research on the subject proves that the improving of the population's, especially the young people's financial literacy is a priority both in leading economic countries and in Hungary, too. The idea of financial culture is as complex as the variety of research into the topic proves it. This article aims to point out the complicated nature of the notion and the variety of research that has been inserted into it.

Keywords: financial culture/financial literacy, social structure, economic and financial decisions, financial crises

There is a great variety of research approaches related to the issue of financial culture. Similarly, there is a variety of descriptions of different financial notions. When we set out to create our own definitions, we need to consider the various approaches in the study of financial culture. We ought to look at our research the same way the mountain climber looks at the mountain (Bager, 2008). The most important question is not whether he will succeed or not -this is obviously not an ignorable consideration-, but the reaction his actions will trigger. In our case, it is the research itself and its results. Today's knowledge-based economy and society is the "mountain" for all economists and sociologists. As long as they manage to climb the first important peak, the path is opened up for the others to follow on.

Material and methods

According to Beres (2013), the different descriptions of financial cultural concepts depend on the research approach. He explained the different aspects (Hung, Parker and Yoong, 2009) which were established by the researchers:

A. financial literacy/knowledge,
B. understanding of financial processes,
C. the ability to use financial knowledge and gain experience,
D. understanding of financial co-relations and definitions,
E. the ability to make considered financial decisions,
F. understanding of the most basic financial terms,
G. the ability to make basic financial decisions,
H. understanding of simple financial terms.

In Hungary, the MNB's (Hungarian National Bank) definition suggests the complexity of the idea of financial culture: the level of financial literacy and ability which enables the individual to identify basic information necessary to make conscious decisions; the ability to analyze this information and make decisions while considering future financial and general consequences (Beres, 2013).

In this paper, we will attempt to describe a few researches focusing on the complex notion of financial culture from various angles.

Results and discussion

The ability to make financial decisions

Human life is a series of decision-making tasks. In the case of our research, it is making financial decisions on a daily basis (Gera, 2008). During the student years, some financial decisions are made, but it is from the start of the working years-entering LIFE with capital letters-, when people start a family and eventually retire that these decisions become crucial. If we manage to maintain a well-functioning financial strategy in our lives, one that supports our aspirations, our plans can be realized and the smooth running of our household is also secured.

A research conducted in Singapore (Koh and Lee, 2010) looked at the characteristics of children's financial decision-making process. The Singapore government decided to prepare the country's students to the demands of the 21st century, to make them competitive in today's fast changing world. One of the main aims was to strengthen their confidence in decision-making. The research examined the characteristics of the students' financial decision-making

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from two angles: the practical and the theoretical aspects. The practical aspect is important so that a program can be designed which would help in everyday life. The theoretical aspect is important so that the researchers can understand the logic behind the students' reasoning when making financial decisions. Jonassen (2004, 2007) lists eleven research problem categories which all differ in terms of structure, complexity and dynamics. One type of a problem in terms of decision-making affects the child's everyday life. (for instance making friends, studying time, etc.) Making decisions can be very complex, especially in everyday life. It can often be chaotic which makes the research difficult. The Singapore research was initially conducted in six primary schools involving 136 fifth-year children. Out of the children interviewed, eight were selected for further questioning as they all made recent financial decisions. They had 10 to 15 minutes to think, they were given paper and pencil and encouraged to draw diagrams to explain their financial decisions. After this, the children explained everything in words and analyzed their drawings together with the researchers. There were a few critical points identified:

1. When a child decided to buy something, he or she considered a variety of factors. For instance, where the money was coming from? If the child had enough pocket money or savings, the decision was made in accordance with his or her spending habits. He or she either bought it or not, being either an impulse buyer or a considerate one. If the child did not have enough money, a much more complex decision had to be made. He or she had to ask for help either from the parents or friends, or compare prices in different shops. If parents refused their help, in most cases the child decided to continue saving. A lot of them did not ask parents, as they were certain of not receiving help. It was interesting to see that none of the children made decisions with the help of the Internet for instance.
2. Learning from experience, especially negative ones. These strongly affected the children. For example, the realization that a decision was made too quickly, that the purchased item was not as good as they hoped it would be, that they ran out of money, etc.
3. The researchers observed the different levels of self-knowledge. This was very different within the children. Some children realized that being young meant that not a lot of money had to be spent on them. Some even understood that the parents might be experiencing financial problems due to the recent recession. There were children who were able to learn from their own or from the parents' mistakes and change their spending habits.
4. The parents' influence is the strongest. As a child financially depends on a parent, the parent is the most influential adviser to the child. If the parents' influence is strong, the child will first ask for permission. During this process, the parent will probably have a talk with the child and give advice about the purchase. The other important role the parents have is that of rewarding the child for good results or work.

The conclusion of the research was that making financial decisions is a very complex process for children especially when not enough money is available as the child is forced to think and compare. Some children even managed to learn from their past mistakes. The researchers suggested that concepts around financial behavior, like choosing between "need" and "wish", should become part of financial education. This would help the children later on in their lives when faced with financial decisions in their everyday lives. The parents' role is crucial in learning to make decisions but the school can have an influencing role too.

When people make financial decisions, they have to consider their advantages, disadvantages and consequences. In most cases, this is difficult and requires a lot of consideration. The roots of financial decision-making originate in the early stages of life. According to Grinstein-Weiss (2011), it is clear that people's financial literacy and ability to acquire financial knowledge stems from childhood experiences and behaviour around money.

Financial literacy basically depends on what we see at home as children. Children learn at a very early age about saving and spending and the attitude towards money in the family. There is a scope for change later on in life (Koh and Lee, 2010). (Shim et al., 2009) suggested a conceptual model for the examination of financial culture and well-being. In this model, the most important factors are the participants' values, attitudes and knowledge. All the different aspects of this model are well researched and the results are clear. According to the path analysis, the strongest connection is between parental input and financial knowledge. The possible effect of parental misguidance and the level of university students' credit card debt were proved by the Norvilitis and MacLean research.

An important target of all programs aiming at improving financial culture is that of lower income families. Widening their knowledge and changing their attitudes towards money issues can often improve these families' financial stability. However (Zhan et al., 2006) point out that real change can only be expected when programs aiming at the poorer section of society take their real needs and requirements into account. In other words, programs aimed at average income families will not be sufficient. We also agree with their observation that all programs aiming at the improvement of financial literacy should be incorporated in general social education and practice.

Despite the results of several research projects and the consequent introduction of educational programs, despite legal initiatives and regulations, a considerable gap exists in the financial culture of American society. This is especially true of disadvantages sections of society and of young people of this background (Grinstein-Weiss et al., 2011). According to 2009 statistics, there are about sixty million Americans who have none or very low level bank activity. As much as 54% of Black American households, 45% of Native American and 43% of Hispanic households belong into this category (Parliamentary Entry: 1257. 2010, April 20.)

Scientific research and practical examination show that all programs need to be conducted incorporating three co-related aspects of financial knowledge. These are the support of financial education, the access to financial institutions and the improvement of saving behaviour (Johnson and Sherraden, 2007).

The ability to use financial knowledge and experience

The world including the world of finance changes fast. People need to examine ideas about managing their money, their own and the family's income, the relations between incomings and outgoings on a regular basis. The maintenance of the cash flow in general is crucial. Creating financial security that will enable the achievement of short term and long term life goals is a great challenge. Lacking enough financial knowledge, people make wrong decisions. This can affect their trust in the financial sector and endanger stability. As the financial products and services become more complex people find it harder to understand them. Without basic financial literacy, understanding new knowledge becomes difficult and households put themselves into risky situations (too much debt, insufficient and non-diversified savings). Negative or unexpected events can reduce the spending of an individual households which can eventually lead to general stagnation in national spending.

A very important part of today's young population's future and life strategy is the creation of financial security and the planning of an expected income (Kulcsar, 2006). This is proved by the increase in the average age of starting a family. It seems that having a stable financial background and a career has become very important.

An American study conducted among university students (Norvilitis and Maclean, 2010) examined the relationship between parental education and example and the level of credit card debt. Immediate parental guidance (mentoring) is strongly related to low levels of debt. Whether parents have debt issues or not seem to have an effect on the student's accumulation of debt. However, whether the parents talk about their finances or not does have an effect. The student's belief that the parents will help out with money is also related to lower level of debt. Using a credit card has become a way of life for many students and many of them are able to deal with the debt. A high level of debt can be very stressful for people. The aim of the research was to find the common characteristics among the students who were prone to accumulating debt. These characteristics can be divided into the three categories:

1. Situational and demographic differences: the older the student is the easier it is to tolerate the debt. The level of debt does not depend on the student's gender and academic attainments.
2. Financial knowledge: university students do not know more about financial things than secondary school students. However, they are better at making financial decisions. Generally speaking, there is a lack of knowledge (e.g. they do not know what interest is). Students seem unable to judge the level of their debt and the length it would take to pay it back.
3. Personal characteristics: those with self-control spend less and save more. The research clearly highlights that students get the most knowledge from their parents. The greater parental influence the lower the credit card debt is.

The aim of this research was to examine the effect of the parenting (discussing family finance, planning the child's financial future, etc.) on the level of student debt and the problems it comes with. Almost 200 (173) of a medium sized US university students (19–26 year old boys and girls, mixed ethnicity, mixed year groups) filled out a questionnaire about the level of parental input into their finances, their credit card spending and debt, their financial well-being. The researchers examined the students' behavior in connection with credit card usage. They wanted to know to what extent a student is prone to retail therapy (wanting to feel better from impulse shopping). It was concluded that financial literacy is strongly related to parental example. Almost 50% of the students believed that the parents would help them out if they got into money trouble. Interestingly, believing in help from the parents came with lower levels of debt (Of course, there is a possibility that students who had lower debt and believed in parental help already had received financial help.). Most students learnt the most from their parents; media and finally personal experience followed this. To sum up, direct parental help has the strongest influence on credit card debt. The more a child is involved in the finances of the family (decision making, shopping together, discussing money issues, etc.) the better his or her handling of money will be later on in life. Students have less need to cheer themselves up with shopping, so impulse buying is less frequent. Parental secrecy about money contributes to debt issues. The most important task of parents is direct education about money; hands on mentoring.

Financial knowledge; understanding financial processes

The American media and educational journals have been greatly occupied with the lack of financial knowledge among university students. A 2002 research (Adams, 2006) showed that final year secondary school students achieved 50.2% results on average in a test about financial literacy. This equals fail (F) in American practice. It is even more alarming though, that 65% of the same students believed that they were capable of managing their finances without any problems. The number of young people under the age of 25 becoming bankrupt was 15,000 in 1995. By 2000 the number rose to 150,000.

University students seem to have slightly better financial literacy than secondary school students, but as Norvilitis and MacLean point out (2010), there is a problem of them having more freedom when it comes to financial decision making and this ultimately increases risk. Between starting a university and receiving a degree, the level of credit card debt doubles and the number of credit cards triples (Bowen and Jones, 2006). Some students, however, consciously avoid contacts with the financial system; they do not have credit cards for instance.

Consequently, educating young adults about finances is crucial. In the University of Penn State (Pennsylvania), freshmen are offered a course on financial culture. Other well-known universities, like the University of Wisconsin-Madison, provide a variety of programs to prepare students for money management. The students are asked to prepare study cases and financial plans for their friends; they pick their own lecturers etc. (Goetz et al., 2005). Eitel and Martin (2009) point out in their paper that between the financial knowledge and ability of first generation female university students and the demands of real life, a massive gap exists. Ideally, this gap needs to be eradicated during the university years when the primary socializing factor of the family is not present anymore.

Entrepreneurial education is gaining more and more relevance in both primary and secondary education. According to Code (2006), these educational programs clearly improve the level of financial knowledge amongst children and young adults. Here is an example from personal experience:

In his paper, Code talks about a school program – "Yes!? Mini-Society" – devised for American primary school children which involved almost 700 children. This program successfully decreased the disadvantages originating from less socialized backgrounds.

An effective financial education will not only improve the financial culture of a society, but also children's general attitude and abilities. This will be beneficial when they start working in any work sector they enter. Before the 2006 research (MNB-GALLUP 2006), there was no extensive survey about the nation's financial culture including that of young people. However, various financial events and some research indicated that the level of financial knowledge in Hungary would be low. The 2006 nationwide survey commissioned by the MNB (Magyar Nemzeti Bank/ Hungarian National Bank) focused on aspects related to financial stability. The ultimate goal of this survey was to find a way of improving young Hungarians' financial literacy. There were two age groups questioned (14–17 and 18–30 year olds) about the source of their financial knowledge, what knowledge and experience they had about financial products, about financial services and its employees. They were questioned about their motivations and viewpoints when it came to making decisions concerning financial products, services and providers. The researchers wanted to see the most important gaps in the financial literacy of young people in order to be able to create future educational programs for this age group. Due to the age difference of the two groups, there were substantial differences between their financial literacy and experience too. There were two phases in the research process. In the first, qualitative phase, a moderator was conducting talks in focus groups about the young adults' financial experience and attitude. In the second, quantitative phase, during individual interview situations, a questionnaire was filled out. Altogether 2015 people were questioned, 1006 from the 14–17 age group and 1009 from the 18–30 age group. It was concluded that when it comes to financial products and services, people seem to behave the same way as they do when for instance buying a mobile phone or a pair of shoes. There is a considerable competition amongst banks for the clients. It is crucial that people receive reliable information about financial products and services and the risks involved. It is important that people make conscious decisions when choosing a bank, that they are actively involved in the decision-making process. People need to be encouraged to pay attention to the characteristics of certain financial products and have the ability to compare them. It is important to educate people on the advantages of using bankcards and checking the balance on a regular basis. Young adults should be educated on the basic notions related to credit, the facts they need to consider when taking out credit and the level of risk involved in.

The research paper concluded that secondary school students, university students and young working adults all display a general disinterest in finances and lack information (Kulcsar and Henye, 2011). Similarly to the results of international surveys, the financial behaviour of young Hungarian people proves to be fundamentally determined by their social background. Parental input is crucial when it comes to financial decisions and it will eventually contribute to the continuation of both social disadvantages and advantages. This seems to indicate the widening of the gap between different social groups amongst young people. Similarly to the results of international surveys, young Hungarians lack adequate information on finances. The total of 65% of secondary school students thought of themselves as uninformed and even amongst older students, this number was very high at 44%. According to the MNB research, less than a half of young Hungarians questioned think that having financial literacy is important. Less than a quarter understands it and less than 10% is interested in it. The research conducted in 1997 amongst primary and secondary school students showed a very different picture (Kérdések és válaszok, 1998). The paper indicated that financial literacy in the above-mentioned age group is high and that the children answered almost all the questions. The 2011 research, which depicts a negative picture of young people's financial knowledge, is somewhat contradictory to this finding. Nevertheless, it is agreed that the family's influence on the development of financial literacy is crucial. It is obvious that if a child is involved in the financial running of the family, he or she will almost unconsciously acquire the knowledge, behavior and value system necessary for household financial culture.

On the basis of gathered data and information, the researchers concluded, as briefly mentioned above, that it is necessary to provide young people with trustworthy knowledge on financial matters. It is also crucial that they understand the basic and life stage relevant financial notions and ideas. The research pointed out that a specific publication aimed at a secondary school student, and some educational material on secondary school level would help to improve the low level of financial literacy. This process will be long and difficult, as indicated by the inadequate social behaviour during the years of the recent financial crises. This behaviour seems to enable the non-existence of a financial culture. It seems that financial education is not yet a part of the school system and consequently, the gap between the different social groups is not getting any smaller. It needs to be remembered that education is still one of the most important accelerating factors, which directly and indirectly affects economy. The direct results of financial education are that participants of economy become cleverer and more cautious when it comes to money issues. This results in a better functioning economy where more advanced technologies can be introduced and efficiency is improved. However, the indirect results of financial education are even more important (Chikan, 1998); as the general cultural level of the society is increased, people have a better understanding of the society they live in and hopefully consider themselves integral parts of it.

Conclusion

The overview of the international and national research on the subject proves that the improving of young people's financial literacy is a priority both in leading economic countries and in Hungary, too. Adequate financial competency increases a person's intellectual value. Mistakes made during the financial decision-making process can affect the individual's wealth, which will eventually have an effect on all participants of the economy (Huston, 2010). Becoming factually knowledgeable is a difficult process, not just in the field of economics and finance (Bager, 2008). Fully understanding and using knowledge is not obviously available for everybody. When we encounter new phenomena – it could be economical, social or political –, we attempt to analyze and explain them. Ordinary people try to understand these phenomena through experience and the effect they have on their lives. It often takes a long time for new ideas and notions to gain a clear meaning, for different points of views to come together until a consensus is reached amongst experts. This is especially true in social sciences. And this is exactly the case today in the field of financial culture.

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