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Understanding the Relationship Between Financial Literacy and Spending Habits in University Students

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Abstract
Younger generations in Malaysia are increasingly exhibiting reckless spending habits. They tend to spend without restriction, causing shifts in lifestyle and spending habits. As a result, it is extremely important to evaluate how well our country's children understand various financial practices and services especially students in university. Students should not only learn financial knowledge, but also apply it in their daily life. This study intends to investigate the relationship between financial literacy and spending habits among university students. The Statistical Package for Social Sciences (SPSS) version 26.0 was used to analyses the data. The strength and trend of the linear relationship between spending habits and financial literacy are measured by the Pearson correlation coefficient, or R. The results show that there is a positive relationship between UiTM students' habits of spending and financial literacy, implying that when students learn more about money, they are more likely to make good financial choices.
Keywords: Spending Habits, Financial Literacy, University Students, Relationship, Pearson Correlation Coefficient.

Introduction

In daily life, effective financial management plays a crucial role in ensuring the sustainability of one's livelihood, encompassing the ability to cover daily expenses and fulfil personal needs. The level of financial literacy significantly impacts an individual's financial behaviour, as it equips them with the knowledge and confidence to make sound financial decisions across various life stages. For instance, having adequate insurance coverage is preferable for individuals who are financially secure and in good health.

Unfortunately, the financial literacy among young individuals, especially university students, remains alarmingly low. According to Mohamad (2020), approximately 47 percent of young people in Malaysia accumulate high levels of credit debt, often leading to bankruptcy. Presently, inadequate financial literacy poses a significant challenge, particularly within the Malaysian university student population. Additionally, Awang Zaki et al. (2020) found that a lack of discipline and financial management skills contributes to numerous financial problems among young individuals. Various factors, including age, income, gender, ethnicity, family background, and personality traits, influence individuals' spending habits.

Many students lack sufficient knowledge about what constitutes adequate savings, and limited exposure to personal finance education exacerbates the issue. Unfortunately, financial management remains a taboo subject in many Malaysian households, further hindering students' ability to develop essential financial skills. Therefore, the primary objective of this study is to examine the spending habits of Malaysian university students and their correlation with financial literacy levels. Specifically, the study aims to investigate whether a significant correlation exists between financial literacy levels and spending habits among college students.

Literature Review

The term ‘financial literacy’ encompasses an individual's mindset, beliefs, and considerations regarding their financial matters (Humaira & Sagoro, 2018). Positive financial attitudes are reflected in attitudes towards cash flow management, investments, and financial planning (Budiono, 2020). These attitudes can be influenced by factors such as economic status, psychological well-being, career aspirations, and lifestyle (Abdullah et al., 2019). According to (Yap et al., 2018) financial literacy significantly impact financial behavior and decision-making processes. Attitudes towards money influence the financial behaviors of college students. Those with positive attitudes are more adept at planning monthly expenses, adhering to budgets, and effectively managing savings for the future. Sabri et al. (2021) support this notion, suggesting that individuals with positive financial attitudes exhibit prudent spending habits, characterized by meticulous budgeting and strategic planning for future financial requirements.

Considering self-control as a determinant in a student's financial conduct encompasses the ability to recognize and manage emotions as well as the desire to spend. Some students receive financial support from parents or external sources, granting them to make their own financial decisions (Ida et al., 2020). This results to an increase in purchasing power among students. However, lack of parental oversight may lead to overspending, surpassing earned income. Budgeting holds paramount significance universally, including at the national level, where annual budgets provide insights into revenue, expenditure, and financial projections for the upcoming year (Kassim et al., 2018). Likewise, for university students, budgeting serves as a tool for evaluating financial planning effectiveness and ensuring smooth cash flow, enabling them to align lifestyle with financial capacity.

Focused specifically on tertiary education students who rely on financial support from education loans and parents, there is a pressing need for them to enhance their financial management skills. Prior research underscores the significant impact of financial literacy on an individual's financial conduct. Zahari & Wahid (2020) found that individuals with poor financial literacy levels are more susceptible to debt problems. Conversely, those with higher financial literacy are better equipped to gauge appropriate debt levels, accumulate less debt, and make sound credit decisions. This highlights how insufficient financial literacy may lead to excessive spending, often resulting in financial strain by semester's end. In cases where students struggle to manage their available funding sources, they may resort to part-time employment to supplement their income. According to Hartono (2022), financial literacy is pivotal in fostering saving behavior. However, saving behavior is influenced by various factors such as parental upbringing, peer influence, and self-discipline. This study contributes new insights into the relationship between financial literacy and students' saving habits, offering valuable underlying data.

According to Sazana et al. (2018), financial education not only benefits individuals but also contributes to improving economic status, especially in light of ongoing economic transformations. They emphasize the crucial role of younger generations as drivers of sustainable development. Despite being in advanced countries, the level of financial skills and knowledge among the youth remains relatively low. In the United States, a significant issue is the prevalence of high consumer credit card debt. Similarly, the study suggests that Islamic financial literacy among Malaysian students remains insufficient. Therefore, there is a pressing need to incorporate financial education into school and university curricula to cultivate positive financial management attitudes among students, thus better preparing them for entry into the job market.

Lee et al. (2019) highlight that young adults are viewed as the future generation and the driving force behind the country's growth. However, they note that the prevalent accessibility of credit cards and loans has led to a culture of debt among young adults, posing challenges for their long-term financial planning. The level of financial knowledge and literacy significantly impacts personal financial planning. They find that young working adults aged between 20 to 30 years exhibit a positive attitude towards effective financial planning when they possess higher levels of financial literacy. These individuals are inclined to make substantial investments and allocate their investment plans into appropriate vehicles to achieve their future income objectives and goals satisfactorily. Additionally, they may seek guidance from financial planners to enhance their financial planning strategies.

Zulfaris et al. (2020) emphasize that financial literacy is important for understanding the importance of having savings and planning for retirement. It helps individuals make better money management decisions and avoid financial problems. Those with good financial literacy are more aware of how to handle money and are less likely to face debt issues. On the other hand, people with low financial literacy often struggle with debts and lack financial security. Good financial literacy also influences how people manage their credit payments, budget their spending, and handle financial stress. Overall, being financially literate not only benefits individuals but also contributes to a stable and secure society.

Methodology

The study targeted students from Universiti Teknologi MARA, Pulau Pinang, with the survey exclusively conducted online. Using stratified random sampling, which divides the population into smaller groups according to factors including gender, age, education level, kind of institution, and parent's income, the researchers were able to guarantee a representative sample. This strategy attempted to reduce the possibility of a low response rate and expedite the process of gathering data.

Measurement scales, primarily the Likert-Five scale, were utilized due to their compatibility with a large sample size. Employing an online survey facilitated a faster and more efficient data collection process. Distributed via WhatsApp groups, the questionnaire was received by

all eligible students on campus. Three major components comprised the data collection process: (i) Demographic Profile; (ii) Dependent Variable (Spending Habits); and (iii) Independent Variable (Financial Literacy).
Statistical Package for Social Sciences (SPSS) version 26.0 was employed to code and analyze the data. Appropriate descriptive statistics, reliability analysis, and correlation analysis were all part of the analysis step. The measuring scale, the quantity of variables, and the type of questions asked all influenced the statistical procedures that were chosen. A frequency distribution was acquired for every category variable, which includes demographic information. Correlation analysis (Sekaran, 2003) was used to assess the strength of the association between the dependent and independent variables, specifically the relationship between the dependent variable (spending habits) and the independent variable (financial literacy). A correlation value of one (r=1) denotes a perfect relationship between the dependent and independent variables, whereas a value of zero (r=0) denotes no association between the variables.

Results and Discussion
This section summarizes the findings and discussions from the descriptive, reliability, and correlation analyses done on the relationship between UiTM Pulau Pinang students' spending patterns and financial literacy. By analyzing and interpreting the collected data and applying Pearson's correlation coefficient, or R, the researchers were able to ascertain a relationship between the two variables.
The respondents' gender and age group were displayed as a pie chart in Figure 1. Out of all the respondents, 26 people, or 45.6% of them, were men. On the other hand, 31 responders, or 54.4% of the total, were female. With 56.1% of the total number of students, the majority are between the ages of 21 and 23. Individuals between the ages of 24 and 26 represent the second-largest group, accounting for 22.8% of all responses. The largest group of respondents, comprising 3.5% of the total, are those between the ages of 27 and 30, while 17.5% of respondents are between the ages of 18 and 20.

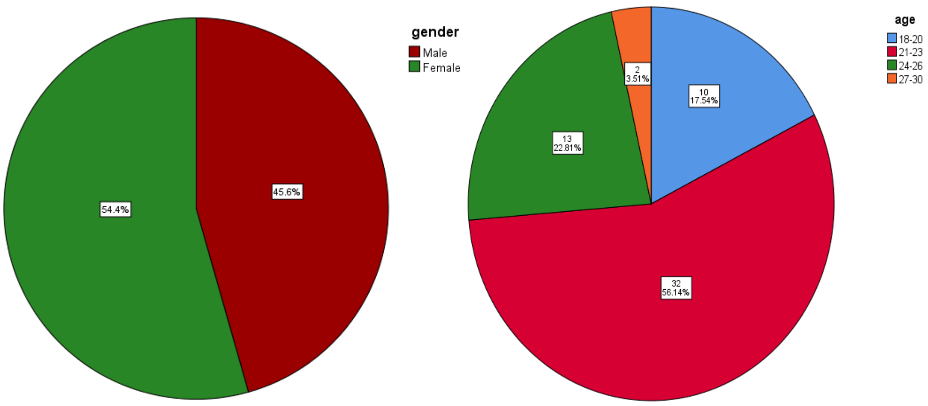

Figure 1. Pie chart for respondents' gender and age group

The bar chart illustrates the breakdown of student demographics based on family income. The largest segment, constituting 40.4% of students, hails from families earning below RM1500 monthly. Following closely, 26.3% of students come from families with incomes exceeding RM5500. Students from households earning between RM1500 and RM3500 represent 17.5% of the total, while those with family incomes falling between RM3500 and RM5500 comprise 15.8%.

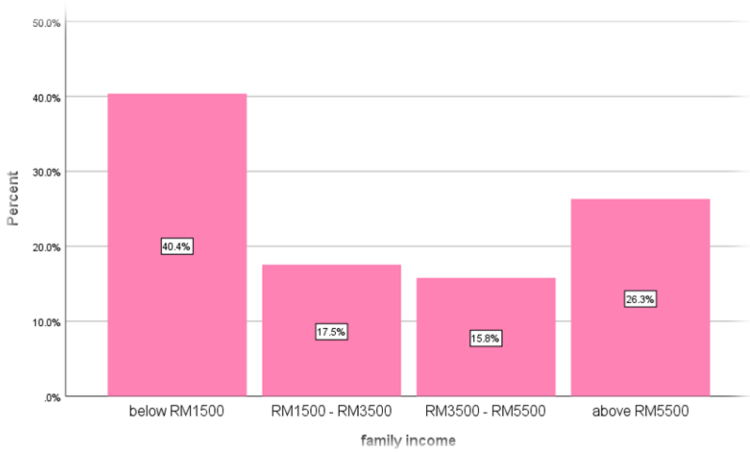

Figure 2. Bar chart for respondents' family income

The internal consistency of all variables' measurement items was assessed using Cronbach's Alpha, with values exceeding 0.80, as presented in Table 1. According to Hinton et al., (2004), a Cronbach's Alpha value above 0.50 indicates moderate reliability, while a value of 0.70 and higher suggests high reliability for both dependent and independent variables. Therefore, the Cronbach's Alpha values obtained indicate that the survey constructs consistently and reliably measure the intended aspects. This implies that the variables utilized in the study are dependable and suitable for further analysis and interpretation.

Table 1
Cronbach's Alpha Value

Variable	Cronbach's Alpha	No of Items	Result
Spending Habits	0.896	5	high reliability
Financial Literacy	0.845	5	high reliability

Correlation Analysis
A correlation analysis serves to investigate the interconnection between independent and dependent variables, while scatter plots aid in visualizing the relationship between two variables. As depicted in Figure 3, the scatter plot indicates a positive correlation between financial literacy and spending habits. It suggests that higher levels of financial literacy correspond to more prudent spending behaviors among university students. This correlation implies that students with a better understanding of financial concepts such as saving, debt management, and budgeting are more inclined to budget effectively, resist impulsive purchases, handle debt responsibly, and engage in long-term financial planning (Danial et al, 2020), (Bai, 2023). By enhancing financial literacy, educators and policymakers can empower students to make informed financial choices, thereby bolstering their financial well-being both presently and in the future.

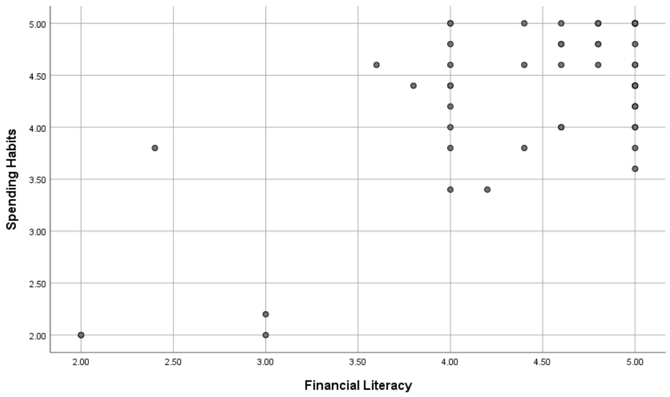

Figure 3. Scatter plot Financial Literacy versus Spending Habits

The Pearson correlation coefficient, denoted by R, measures the strength and direction of the linear relationship between two variables. Based on Table 2, the correlation coefficient between financial literacy and spending habits is 0.697. indicating a strong positive correlation. The p-value associated with this correlation is 0.000, less than 0.05, which suggests that the correlation is statistically significant at significance levels (α=0.05).

Based on these findings, students with higher levels of financial literacy are inclined to exhibit responsible spending behaviours (Mireku et al., 2023). This is particularly crucial for university students who often navigate tight budgets and need to manage their financial obligations effectively. Improving their financial literacy equips students with the knowledge necessary to make informed decisions about their expenditures, enabling them to grasp concepts such as debt management, budgeting, and savings more comprehensively (Forson, 2023).

These research findings align with those of Aydin, A.E. and Akben Selcuk (2019), who found that financial attitudes are positively related to financial behaviours among Turkish university students. This correlation underscores the importance of integrating financial education programs into university curricula. Such initiatives would equip students with the knowledge and skills necessary for responsible financial management, setting them on a trajectory toward financial well-being throughout and beyond their academic pursuits.

Table 2
Summary of Correlation Analysis

	Pearson Correlation Coefficient, R	**p-value**
Financial Literacy vs Spending Habits	0.697**	0.000

Table 3
Model Summary

R	**R Square**	**Std. Error of the estimates**
0.697	0.486	0.56268

Predictors: (Constant), Financial Literacy

Table 3 presents the model summary detailing the relationship between financial literacy and spending habits among students. With an R-squared value of 0.486, it indicates that financial literacy can explain approximately 48.6% of the variability in university students' spending habits. This underscores the significance of financial literacy in comprehending and predicting spending behaviours, as it elucidates a substantial portion of the observed variation (Setiawan et al, 2020). Factors not accounted for in the analysis, such as personal preferences, socioeconomic status, or external influences, may contribute to the remaining heterogeneity.

Conclusion

According to the findings, there exists a positive correlation between the spending habits of UiTM students and their level of financial literacy. This suggests that as students gain more knowledge about financial matters, they are inclined to make more prudent financial choices. This outcome underscores the necessity of integrating financial education into UiTM's curriculum, empowering students with the skills necessary to manage their finances effectively. By enhancing financial literacy, UiTM can equip students to make informed financial decisions that contribute to their overall financial well-being both during and after their academic pursuits.

Hence, it is advisable for future researchers to explore the concepts and ideas presented in this study in greater detail. Given the multitude of factors that may impact students' spending habits, researchers investigating this area should incorporate additional independent variables into their studies.

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