Does Financial Literacy Influence Financial Planning? – A Study among Rural and Urban Households

Surendar Gade[1*] and Subramanya Sarma[2]

[1*] Post-Doctoral Fellow, Under DSRPDFHS, University Grants Commission, India,
Dept. of Commerce & Business Management, Kakatiya University,Warangal, Telangana State, India
[2] Head, Dept. of Commerce & Business Management, Kakatiya University, Warangal, Telangana Sate, India
*Corresponding author, e-mail: surendargade@gmail.com

Abstract

In this paper we report findings about financial literacy and financial planning behavior among rural and urban households based on surveys and analyses. The researchers evaluated survey responses using 45 statements which were structured as a schedule to measure financial literacy and financial planning. Pearson-product moment correlation coefficient was used to test the significant relationship between financial literacy and personal financial planning along with descriptive statistics. Further, independent sample t-test was applied to determine whether two population means were different or the same. To reach the objective and test the hypothesis, multiple regressions has been used. The researchers found that there is a significant relationship between financial literacy and personal financial planning among rural and urban households. Further, we found that there is significant effect of financial literacy on personal planning among rural and urban households.

Keywords: *financial literacy, personal financial planning, rural & urban households*

1. Introduction

Financial literacy plays an important role in increasing the savings and investment attitudes among households and leads better personal financial management. Creating awareness on financial literacy can play a critical role in equipping the individual with the information, fundamental knowledge, and skills to evaluate their options and enables them to understand the implications of alternative financial decisions. For an individual, understanding basic principles of finance and their application is a must for financial well being (Surendar & Sarma, 2017), "unfortunately, many people have a weak grasp of basic personal finance principles. General attitudes toward spending and saving behavior are troubling as well. What is lacking is not information, but rather the ability to interpret the information" (Lerman & Bell, 2006).

In India, from the last decade, all the regulatory bodies are working towards boosting financial literacy, mainly the Reserve Bank of India (RBI), National Institute of Securities Markets (NISM), Insurance Regulatory and Development Authority (IRDA), Securities Exchange Board of India (SEBI) and Banks and Asset Management Companies (AMC) are working towards boosting financial literacy. Having promoted the investor awareness programs across India, now they have realized the importance of financial literacy education at school level. This enables future generations to manage their finances very well and avert problems while investing their money. A study on Global Financial Literacy indicated that 'India has ranked 23rd out of 28 markets on VISA 2012 Global Financial Literacy Barometer'. The study pointed out that Indians are very conscious regarding their savings and show highest saving rates among its global peers, but the awareness in households about investments is very low. According to the Reserve Bank of India project 'Project Financial Literacy', the status of financial literacy in India is not very good. Further, the condition in rural areas is very poor. Same is the case with women. Moreover, their literacy percentage is not good. It shows the importance of promoting financial literacy.

Financial planning allows individuals to control their financial position. For this purpose, individuals need to recognize and set their priorities. Having a plan for spending, saving, and investing money make a difference in how well financial needs and goals will be met. Meeting those goals requires financial planning that considers all aspects of financial life (Kapoor, Dlabay, & Hughes, 2014) like budgeting and managing taxes, liabilities, purchasing decisions, managing insurance, managing investment, retirement and estate planning.

What is Financial Literacy?

Financial literacy is the application of knowledge and skills to administer financial resources efficiently in an individual's life for his/her financial well being. An individual will understand his/her financial condition and find out how he can strengthen it. It instills financial behavior like savings, budgeting, planning and guides appropriate financial decisions in individual's life.

What is Personal Financial Planning?

Personal financial planning is the process of managing money to achieve personal economic satisfaction. Both financial and personal satisfactions are the results of an organized process that is commonly referred to as personal money management or personal financial planning (Kapoor et al., 2014).

Review of Literature: There are studies in India and abroad which are stating the financial literacy levels and its effect on personal financial planning. Devi (2016) studied financial literacy among rural and urban women. Data were collected through a 16-item questionnaire on financial literacy and analyzed using descriptive statistics and a 't' test. A study found that financial literacy levels are satisfactory but still is not at equal level among rural and urban women. Malti (2014) studied the impact of high financial literacy on personal financial planning among Working Women in Pune. She found that Indian women have financial knowledge, but they are still financially illiterate. But it was found that women in urban areas do have financial freedom to take decisions not only with respect to their personal investments but also for the family as a whole. Minakshi (2009) revealed that financial literacy encourages poor people to contribute more actively to their personal economic development. Jariwala (2017) assessed the financial literacy level of retail individual investors (RIIs) of Gujarat, India. The performance test was used as a data collection instrument to measure the financial literacy level RIIs. The effect of investors' demographic and socio-economic variables on their financial literacy was measured through binomial logistic regression. The study found that investors' gender, age, monthly income, stage of life cycle, type of workplace activity, number of times shop around, and years of investment experience are found to be significant predictors of their financial literacy. Current education levels is found to be non-significant predictor of financial literacy. This specific finding asks policy makers and government to educate the investors on the topic of personal finance.

Naidu (2015) conducted a study with an objective to study the level of financial literacy in India by using literature based analysis. He concluded that to achieve the financial objectives one has to possess basic financial skills, awareness, knowledge, attitude and good demonstrated behaviour. Babu (2015) conducted a study to know the level of financial literacy among rural households in Krishna District, Andhra Pradesh. Target populations for the study in Krishna District are households of agricultural daily wage earners. Taking population as a base, 25 mandals are selected for the survey. For each mandal, 30 respondents are approached as these mandals have the highest population in their respective belts. A study found that from his study that financial literacy is making people aware of what they can and should expect from the banking sector, as their right. Shawn,Thomas & Ramakrishnan (2012) concluded that financial education is important not only for individuals, but also for the whole society and economy. Empowered consumers make better choices for their individual well-being, which in turn will increase overall welfare.

Singh (2016) conducted a study with a purpose to understand and study the financial literacy and its impact on investors for effective financial planning for future. He used descriptive and causal research having 150 MCD school teachers as respondents for the study. The data was analyzed using the descriptive statistics, rank order & chi square test to check the impact of certain key attributes of financial literacy & investment behaviour. He found that financial literacy plays a very crucial role for making an investment decision for a particular financial instrument. Nejati, Ahmadi & Lali (2015) investigated the effect of financial literacy on retirement planning and household wealth. The research population for the study consists of all master students of business administration (financial trends) entering Islamic Azad University of Abhar in 2012 and being still studying in the university at the time of research (spring, 2014) i.e., 59 people. Hypotheses have been tested using the Pearson's correlation coefficient and the regression analysis. The results showed that risk diversification, retirement and savings planning, and creating tools for self- mastering and controlling directly and positively affect financial literacy. Mwathi, Kubasu & Akuno (2017) carried out a study to establish the effect of financial literacy on personal financial decisions among Egerton University employees. The study was guided by the general objective of examining the effects of financial literacy on personal financial decisions. A sample of 320 respondents was drawn proportionately from each management level i.e, top, middle and lower level. A random sample from each stratum was taken in a number proportional to the stratum's size when compared to the population. Findings revealed that financial literacy was found to have a positive statistically significant relationship with personal financial decisions. Jamal, Ramlan, Karim, Mohidin & Osman (2011) stated that lack of financial literacy has been found to be a widespread phenomenon at a global level including developed economies. Individuals, who have lower level of financial literacy do not accept innovative financial products, do not have sound financial planning and they do not take financial plans with serious consideration and commitment.

Boon, Yee &Ting (2011) linked the financial literacy level of individuals with their engagement in personal financial planning. Primary data was collected within Klang Valley via self-administered questionnaire survey, and the relationship was examined using the cross tabulation method. The findings suggest that in contrast to their non-financially literate counterparts, the readiness of the financially literate individuals is reflected in their involvement in the multiple aspects of personal financial planning Agarwal, Gene, Ben, Souphala & Evanoff (2015) found from their study that the probability of getting correct answers with regard to financial literacy is higher for male respondents than female. It increases with education level and the aggressiveness of the individual. They found that the vast majority of respondents appear to be financially literate based on their answers to questions concerning interest rates (numeracy), inflation, and risk/diversification. Schuchardt et al. (2009) reviewed literature of the last decade on financial literacy and found that a significant research has been done on impact of financial education. They found that financial education leads to increase in financial knowledge, positive changes in financial attitude, motivation and planned behavior of an individual.

In contrary to the above literature, few studies evidenced that financial literacy need not exhibit good financial planning. Jason (2012) showed that financially literate individuals need not necessarily exhibit good financial behavior. Agarwal, Gene, Ben, Souphala & Evanoff (2010) revealed that though the majority of respondents of his study showed to be financially literate, yet most of them are unable to meet their financial goals. Lewis and Linda (2009) found that financial management course could not make any difference among the students with regard to financial literacy and financial management in comparison to those who have not done the course.

Research Gap: The review of literature revealed that a significant research has been done on financial literacy and its effect on personal financial planning. It is found that very little research has been done to study the financial literacy on households. Further, these studies were conducted either on urban or rural people in India. But, no studies were found in India or abroad to compare financial literacy and its effect on personal financial planning among rural and urban households. Therefore, an attempt is made to study the levels of financial literacy and to know the relationship and effect of financial literacy on financial planning among rural and urban households.

This paper examines the financial literacy among rural and urban household respondents and how that reflects the individuals' readiness in pursuing personal financial planning. Specifically, this study aims to (1) examine the relationship of personal financial literacy and financial planning; and (2) on the basis of the existing financial literacy level, to explore public perceptions on the major aspects of personal financial planning among selected sample.

The study is useful in many folds. First, it creates an understanding among households about what constitutes personal financial planning and need for financial literacy to achieve better lifestyle. Second, it provides useful insights to industry professionals in designing effective ways to convey financial knowledge and product information to their clients so as to deliver better financial services to them. Third, it highlights existing gaps to policy makers and enable them to bring needed changes in the existing policy framework to improve the existing practice in the personal financial planning industry.

2. Objectives

1. To know the financial literacy levels among rural and urban households
2. To study the relationship between financial literacy and personal financial planning among rural and urban households
3. To determine the effect of financial literacy on personal financial planning among rural and urban households

Hypothesis: Based on objectives of the study, the following hypotheses are formed.

1. Financial literacy levels among of rural and urban households are same.
2. There is no significant relationship between financial literacy and personal financial planning among rural and urban households.
3. Financial literacy has no effect on personal financial Planning in terms financial knowledge, behavior and attitude.

3. Materials and Methods

The study is conducted during the second of half of the year, 2017. A descriptive research design was undertaken to meet the objectives of the study. The population for this study was rural and urban households. For the purpose of the study, sample is taken from two districts of Telangana State, India, viz., Warangal Urban and Warangal Rural of Telangana State. Telangana is a new state formed on 2nd June, 2014. It is one of the progressive states of India. According to the population census of India (Government of India, 2011), the literacy rate in Telangana is 66.46%. Male literacy and female literacy are 74.95% and 57.92%, respectively. Warangal rural has two divisions which consist of 15 mandals, where as Warangal Urban district has one revenue division with 11 mandals. For the study purpose 4 mandals from each district have been selected. To determine the sample size, study has taken 95 per cent level of confidence at 5 per cent tolerance error as population was unknown. Applying the Cochran formula of n= p (1—p) (z/e)2, it was found that required sample size was 385. The purposive sampling technique was chosen. Households (above the age of 20 years) were considered as a population for this study. Sampling unit is an object for which the data being gathered. For this study, all households in the selected mandals of districts were considered as sampling unit. To counter either non-responses or partial responses more number of schedules have been administered. Finally 400 schedules were found useful in all respects, 50 samples from each from 4 mandals of rural and urban. Therefore, sample respondents from rural are 200 and urban are 200 together total 400 samples are fixed as sample size.

To collect the relevant information from the respondents, a survey methodology is used with a structured schedule. The financial literacy level is measured in terms of a) financial knowledge, b) financial behavior and c) financial attitudes and financial planning is measured in terms of a) budgeting and tax planning, b) managing liquidity c) financing large purchases, d) protecting life and assets, e) investing savings and f) planning retirement and estate. The study is intended to know the effect of financial literacy (independent variable) on financial planning (dependent variable). For this purpose Forty Five statements were asked. The responses were measured by taking likert scale with five points, while entering the strongly disagree option was assigned a weight of one and strongly agree was assigned a weight of five. In between these two extremes, other levels such as disagree, neither disagree nor agree and agree were assigned weights of two, three and four respectively. Data collected is evaluated and cleared from errors before being analyzed using SPSS and presented in the form of tables. Descriptive statistics such as frequencies, percentages, means and standard deviation are used. Further, study used the Pearson-product moment correlation coefficient to test the significant relationship between financial literacy of sample respondents and components of personal financial planning. To measure the strength of association between two variables Pearson-product coefficient has been used. Further, independent sample t-test is applied to determine whether two population means are different or same.

To reach the objective and test the hypothesis multiple regressions has been used between independent variable and dependent variables i.e., effect financial literacy (financial knowledge, financial behavior and financial attitude) on personal financial planning among rural and urban household respondents.

4. Results and Discussion

Financial literacy among rural and urban households and its impact on their financial planning are studied and results are presented in the following:

Demographic Profile of the Respondents:

The study sought to determine the respondents' demographic information and this included gender, marital status, age, educational qualifications, occupation and annual income (Table 1). The study found that the majority of the respondents (69.25%) were male whereas 30.75% were female. It is found that around three fourth of the respondents were married; around 20% were not married. The highest proportion of respondents was composed of people and who are between 30-40 years consisting 29% followed by above 50 years and 40 – 50 years age group. It is found that most of the respondents are college graduates (42.5%) followed by high schooling (20.25%). Around 43% of respondents are salaried followed by agriculture 21.5% and business with 20.25% as occupation. Half of the respondents are falling in the income group of Rs.2 lakhs to Rs.4 lakhs followed by Rs.4 lakhs to Rs.6 lakhs and upto Rs. 2 lakhs with 22% and 20.75%. These demographics indicate that most of the respondents have a good education, income and socially some status.

Table 1 Demographic profile of the respondents

Demographic	Item	Rural	%	Urban	%	Total	%
Sex	Male	141	70.5	136	68	277	69.25
	Female	59	29.5	64	32	123	30.75
Age in Years	21-30	25	12.5	54	27	79	19.75
	31-40	46	23	70	35	116	29
	41-50	58	29	43	21.5	101	25.25
	51 and above	71	35.5	33	16.5	104	26
Marital Status	Single	35	17.5	44	22	79	19.75
	Married	152	76	137	68.5	289	72.25
	Separated/Diversified	13	6.5	19	9.5	32	8
Education Qualifications	Primary Schooling	32	15.5	11	5.5	43	10.5
	High Schooling	58	29	23	11.5	81	20.25
	10+2	30	15	15	7.5	45	11.25
	Graduation	61	30.5	109	54.5	170	42.5
	Post Graduation	15	7.5	39	19.5	54	13.5
	Others	4	2	3	1.5	7	1.75
Occupation	Salaried	38	19	133	66.5	171	42.75
	Business	35	17.5	46	23	81	20.25
	Self Employed	41	20.5	21	10.5	62	15.5
	Agriculture & allied	86	43	0	0	86	21.5
Annual Income in Rupees	Below Rs. 2 lakhs	48	24	35	17.5	83	20.75
	2-4 lakhs	112	56	87	42	199	49
	4-6 lakhs	33	16.5	55	27.5	88	22
	Above 6 lakhs	7	3.5	23	11.5	30	7.5
	N	200	100	200	100	400	100

Financial Literacy Levels among Rural and Urban Households:

The level of financial literacy among rural and urban households found in terms of a) financial knowledge b) financial behavior c) financial attitude. For this purpose, respondents were asked some specific questions with the help of structured schedule.

Table 2 Financial literacy levels among rural and urban households

		Rural		Urban		Total	
	Financial Knowledge:	Mean	SD	Mean	SD	Mean	SD
1	Fundamental knowledge of finance helped me for effective economic decision making (Financial Knowledge)	3.72	0.74	4.13	0.77	3.92	0.78
2	Money received today worth more than the same amount of money received in the future (Time Value of Money)	3.55	1.18	3.77	1.48	3.66	1.35
3	Inflation does shrink the value of money over time (Inflation)	3.58	0.9	4.22	1.05	3.9	0.97
4	Investing money into multiple avenues keeps me safer rather investing into single avenue (Risk Diversification)	4.2	0.84	4.45	0.91	4.33	0.88
5	I know the difference among a pension fund, an investment account, an insurance policy and a credit card (Differential Uses)	2.85	0.78	4.27	0.84	3.56	0.81
6	I know about interest rates charged by bank, borrowing rates charged by financial institution, Credit ratings done by companies and why it is done (Cost of finance)	2.23	0.91	3.92	0.9	3.07	0.91
	Financial Behavior:						
7	I have my financial goals in terms of short-term(less than one year)/long-term (more than a year)(Financial Goal)	3.2	0.89	4.37	0.73	3.78	0.79
8	I have my own financial plan and I strictly go accordingly (Financial Planning)	2.93	0.98	3.93	0.89	3.43	0.94
9	Before I buy something I consider whether I can afford it (Affordability)	4.5	0.83	4.38	0.82	4.44	0.82
10	I consider several products from different sellers before making the decision to buy (Identification of Alternatives)	4.08	0.94	4.35	0.73	4.21	0.84
11	I keep close personal watch on my financial affairs (Control)	4.38	0.81	3.9	1.02	4.14	0.92
	Financial Attitudes:						
12	I find more satisfying to spend than save money for the future (Spending V/s Savings)	2.12	0.78	2.68	1.02	2.4	0.9
13	I believe in developing a regular pattern of saving and stick to it (Pattern of Savings)	3.05	0.88	3.52	1.12	3.28	1.02
14	Money is to be spent, Saving is not important.(Spending)	1.73	1.04	1.82	1.04	1.77	1.04
15	As long as I meet monthly payments, there is no need to worry about the length of time it will take me to pay off outstanding debts (Short term vision)	2.12	1.04	2.93	1.3	2.53	1.17
16	It does not matter how much I save as long as I do save (Quality of Savings)	2.17	1.19	2.8	1.32	2.48	1.27

Financial Knowledge: From the study it is found that rural and urban households agreed with a average mean of 3.92 that financial knowledge helps them in effective economic decision making. In case of ‘Time value of money’ there is not much difference in their opinion with an average mean of 3.66. With reference to ‘Inflation’ they agreed that inflation does shrink the value of money over time with a mean of 3.9. Respondents felt that investing money into multiple avenues keeps them safer rather investing into ‘Single Avenue’ with mean of 4.33. In case of different uses of financial products and cost of finance, urban respondents agreed that they know the difference among financial products and cost of finance with a mean 4.27 and 3.92 respectively, whereas rural respondents neither agreed nor disagreed with a mean is of 2.85 and 2.25 respectively. The study shows that rural households are shown less financial knowledge in comparison to the urban respondents. It might be due to less accessibility of various financial products and information.

Financial Behavior: Urban respondents agreed that they have their financial goals in terms of short-term and long-term and financial plan and they strictly go accordingly with mean rating of 4.37 and 3.93 respectively. For the same variables rural respondents neither agreed nor disagreed with mean of 3.2 and 2.93 respectively. With reference to statements related to affordability, identification of alternatives and control of expenses, there is not much difference among rural and urban household respondents. Both respondents agreed the above three statements with high average mean of 4.44, 4.21 and 4.14 respectively. Overall rural and urban respondents’ financial behavior not showed much difference except two cases.

Financial Attitude: Both respondents neither disagreed nor agreed that they believe in developing a regular pattern of saving and sticking to it (Pattern of Savings). They believe in developing a regular pattern of saving and stick to it with an average mean rating of 3.28. It means both categories of respondents are having similar opinions with respect to said variable. Respondents of rural and urban disagreed that they find it more satisfying to spend than save money for the future (Spending V/s Savings), regular pattern of saving and stick to it (Pattern of Savings), money is to be spent, saving is not important (Spending), no need of ‘short term vision’ and ‘quality of savings’ with a average mean of 2.4, 1.77, 2.53 and 2.48 respectively.

Financial Planning among Rural and Urban Households:

The evaluation of rural and urban households’ behavior has been done towards personal financial planning in terms of 1) budgeting and tax planning 2) managing liquidity 3) financing large purchases 4) protecting life and assets 5) investing savings and 6) planning retirement and estate.

Table 3 Financial planning among rural and urban households

		Rural		Urban		Total	
	Budgeting And Tax Planning:	Mean	SD	Mean	SD	Mean	SD
1	I have a realistic budget for my current financial situation (Realistic Budget)	4.22	1.01	3.5	0.83	3.86	0.92
2	A written budget is absolutely essential for successful financial management (Written Budget)	3.78	0.94	3.9	1.03	3.84	0.99
3	I make specific financial plans for achieving an improved career situation and reduce my tax (Financial Plan)	3.58	0.89	4.32	0.83	3.95	0.86
4	My tax situation is appropriate to my level and type of income (Tax Planning)	3.62	1.12	4.13	0.88	3.87	1
5	Planning for spending money is essential to successfully managing my life (Financial Management)	4.27	0.86	4.3	1.04	4.28	0.95
	Managing Liquidity:						
6	Maintaining appropriate liquid assets are must for every individual (Appropriate Liquid Assets)	4.02	1.12	4.26	0.871	4.14	0.99
7	I have a adequate emergency fund (Emergency Fund)	3.25	1.05	3.73	1	3.49	1.02

			Rural	Urban	Total		
8	I am attempting to reduce my level of short term debt (Debt reduction)	4.15	0.92	3.97	1	4.06	0.96
9	Reducing level of short term (below one year) debt increases liquidity	3.57	0.9	4.3	0.95	3.93	0.93
10	I have good balance between short-term and long-term investments(Liquidity balancing)	3.15	0.95	4.12	0.93	3.63	0.94
	Financing Large Purchases:						
11	I plan purchases with the best price, quality, and service in mind (Purchasing Parameters)	3.73	0.83	4.29	0.82	4.01	0.82
12	I purchase durables that are appropriate to my financial situation (Financial capacity)	4.08	0.76	4.12	0.9	4.1	0.83
13	Majority of my durables have been purchased through loans (Debt)	2.13	1.11	2.17	1.06	2.15	1.08
14	I have specific savings for specific durables and I do not depend on loans (Savings)	3.78	1.15	3.17	1.25	3.47	1.2
15	Appropriate mix of Debt and Savings increase the affordability and reduce the risk in debt (Mix of Debt and Savings)	3.38	1.1	4.22	0.92	3.8	1.01
16	I have adequate insurance protection for my life, health and my possession (Adequate Protection)	2.27	1.3	3.6	1.18	2.93	1.24
17	Life, Health and Property must be insured (Need of insurance)	3.18	1.03	4.27	0.81	3.72	0.92
18	I can distinguish the different types of insurance policies offered in the market (Distinction of Insurance products)	2.48	1.04	3.95	0.87	3.21	0.96
19	Making my property is insured against reasonable risks are necessary for successful financial management. (Financial Management)	3.08	0.81	3.97	0.8	3.52	0.8
	Investing Savings:						
20	My investments are appropriate to my income (Appropriateness of Investments)	3.93	0.89	4.23	1.02	4.08	0.96
21	I know the differences between long term and short term investments and its importance in personal financial planning (Personal financial planning)	3.28	1.06	4.12	0.73	3.7	0.9
22	I can assess the risk of my various investments (Risk assessments)	3.45	1.09	3.83	0.717	3.64	0.9
23	I continually reassess my investment portfolio (Portfolio review)	2.98	0.96	3.93	0.98	3.45	0.97
24	I invest my money based on the opinions of others i.e. friends and family (Opinion of others)	2.23	1.17	3.52	1.12	2.87	1.14
	Planning Retirement And Estate:						
25	I have made plans for an adequate retirement income (Retirement planning)	2.87	1.27	3.35	1.13	3.11	1.2
26	I have started executing retirement plan (Retirement planning execution)	2.43	1.17	3.03	0.99	2.73	1.08

		Rural		Urban		Total	
27	Having an estate planning leaves me with peace of mind if I were to pass away anytime (Estate planning)	4.18	1.13	3.92	0.9	4.05	1.02
28	My house planning is already made (Estate planning Execution)	3.67	1.24	3.83	1.18	3.75	1.21
29	Investing on (House) is waste of money, since its value varies in future (Variation in house value)	2.38	1.26	1.97	1.17	2.17	1.22

Budgeting and Tax Planning: Respondents from rural and urban areas have a realistic budget for their current financial situation with mean rating of 4.22 and 3.5 respectively but rural respondents are strong than urban. They felt that a written budget is essential for successful financial management with mean rating of 3.75 and 3.9 respectively. They make specific financial plans for achieving an improved career situation and reduce their tax with mean of 3.58 and 4.32 respectively; in this case urban respondents are more assertive than rural ones. Respondents felt that their tax situation is appropriate to their level and type of income with mean rating of 3.62 and 3.83 respectively and also agreed that planning for spending money is a must to successful management of life with mean of 4.27 and 4.3 respectively.

Managing Liquidity: The study revealed that a majority of respondents of rural and urban households have agreed that maintaining appropriate liquid assets is a must for every individual with a mean of 4.02 and 4.26 respectively. They felt that they have adequate emergency funds with a mean rating of 3.25 and 3.73 respectively, they are attempting to reduce their level of short term debt with a mean rating of 4.15 and 3.97 respectively. They agreed that reducing the level of short term (below one year) debt increases liquidity with a mean rating of 3.57 and 4.3 respectively, and they also agreed that they have a good balance between short-term and long-term investment(liquidity balancing)with mean rating of 3.15 and 4.12 respectively. It seems that urban households are more caring about short debt reduction and maintain liquidity balancing than rural households.

Financing Large Purchases: Majority respondents from rural and urban opined that they plan purchases with the best price, quality, and service in mind with mean rating of 3.73 and 4.29 respectively, and they purchase durables that are appropriate to their financial situation with a mean rating of4.08 and 4.12 respectively. They have specific savings for specific durables and they do not depend on loans with a mean rating of 3.78 and 3.17 respectively. They opined that appropriate mix of debt and savings increase the affordability and reduce the risk in debt with a mean rating of 3.38 and 4.22 respectively. Majority respondents disagreed that their durables have been purchased through loans (debt) with a mean rating of 2.13 and 2.17 respectively. It seems that rural and urban households had similar knowledge and opinions with regard to financing large purchase except a statement 'debt and savings increase the affordability and reduce the risk in debt'. In this case urban respondents have shown stronger opinions than rural ones.

Protecting Life and Assets: Respondents from urban households have adequate insurance protection for their life, health and their possessions with a mean rating of 3.6, whereas rural respondents have expressed that they don't have adequate insurance protection with a mean of 2.27. Urban respondents have agreed that life, health and property must be insured with a mean rating of 4.27, whereas rural respondents neither agreed nor disagreed with a mean of 3.18. Urban respondents opined that they can differentiate the various types of insurance policies offered in the market with a mean rating 3.95, whereas rural respondents were towards neither agree nor disagree with a mean of 2.48. Urban respondents also agreed that making their property insured against reasonable risks is necessary for successful financial management with a mean of 3.97, whereas rural respondents were towards neither agree nor disagree with a mean of 3.08.

Investing Savings: Respondents from rural and urban households agreed that their investments are appropriate to their income with a mean rating 3.93 and 4.23 respectively. Urban respondents agreed that they know the differences between long term and short term investments and its importance in personal financial planning with a mean rating of 4.12 respectively, whereas rural respondents towards neither agree nor disagree in this case with a mean of 3.28. Respondents can assess the risk of their various investments with a mean rating of 3.45 and 3.83 respectively. But, in case of continuous review of investment portfolio urban respondents a head with a mean of 3.93, whereas rural respondents have 2.98 mean which is towards neither agree nor disagree. With reference to statement 'I invest my money based on the opinions of others like friends and family members', rural respondents have a disagreement with a mean of 2.23, whereas urban respondents neither disagree nor agree with a mean of 3.52 . Therefore as far as 'investing savings' are concerned urban people are a head than rural people with high mean.

Planning Retirement and Estate: The study revealed that respondents from rural and urban households neither disagreed nor agreed that they have made plans for an adequate retirement income with a mean rating of 2.87 and 3.35 respectively. In case of retirement planning execution urban respondents neither disagreed nor agreed with a mean rating of 3.03, whereas rural respondents towards disagreed with a mean of 2.43. Further, majority respondents were agreed that having an estate planning leaves them with peace of mind if they were to pass away anytime with a mean rating of 4.18 and 3.92 respectively. With reference to 'estate planning execution', both categories of respondents towards agreeing with a mean of 3.67 and 3.83. It was established that majority respondents from rural and urban have disagreed that 'investing on estate is waste of money, since its value varies in future' with a mean of 2.38 and1.97.

Table 4 Overall means and standard deviations of financial literacy and personal financial planning variables with independent't' test

Respondents/Variables		I	II	III	IV	V	VI	VII	VIII	IX
Rural Households	Mean	3.355	3.818	2.238	3.894	3.628	3.42	2.752	3.174	3.106
	SD	0.58431	0.45943	0.58431	0.64452	0.73726	0.57318	0.79834	0.69419	0.91345
Urban Households	Mean	4.126	4.186	2.75	4.03	4.076	3.594	3.9475	3.926	3.22
	SD	0.57504	0.5777	0.57504	0.67641	0.64044	0.53246	0.62657	0.54493	0.59124
't'test	Sig(2-tailed	.000	.094	0.079	.680	.003	.601	.940	.312	.214
Total	Mean	3.74	4.01	2.492	3.962	3.852	3.507	3.35	3.55	3.163
	N	400	400	400	400	400	400	400	400	400
	SD	0.57787	0.54908	0.57787	0.65788	0.699	0.55285	0.71594	0.62285	0.77002

I-Financial Knowledge, II-Financial Behavior, III-Financial Attitude, IV- Budgeting & Tax planning, V-Managing Liquidity, VI-Financing Large Purchases, VII-Protecting Life and Assets, VIII-Investing Savings and IX-Planning Retirement

Table 4 (overall means) shows that the majority of urban respondents have a high level of financial literacy in terms of financial knowledge, financial behavior and financial attitude. The financial behavior and financial knowledge have a high rating mean of 4.186 and 4.126 respectively while the financial attitude have an average rating mean of 2.75. Respondents from rural households also have good amount of financial literacy in terms of financial knowledge and financial behavior with a mean of 3.818 and 3.355 respectively while the financial attitude is low with average rating mean of 2.238. The study showed that there is not much difference between respondents of rural and urban households in terms financial literacy.

Various aspects on personal financial planning shows that the majority respondents from rural households with a mean of 3.89 and urban with a mean of 4.03 have agreed that 'budgeting and tax planning' is required. In case of 'managing liquidity' mean is 3.62 and 4.07 respectively for rural and urban households and overall mean is 3.71 which shows respondents have agreed that liquidity management is a must. With reference to 'financing large purchases' mean is 3.42 and 3.59 respectively with overall mean of 3.50 which indicates respondents have appropriate finance planning to large purchases, with a regard to 'protecting life and assets' rural respondents more towards neither agree nor disagree with mean of 2.75 and urban respondents have agreed that protection for life and assets is must with a mean of 3.94. In case of 'investing savings' rural respondents mean is 3.17 which is more towards neither agree nor disagree and urban respondents agreed with a mean is 3.92. For the variable 'planning retirement and estate' they neither disagree nor agree with a mean of 3.106 and 3.22 respectively with overall mean of 3.16.

To test whether there is any significant differences exist between two mean of Rural and Urban samples Independent 't'test has been executed. Based on the results the following interpretation has been developed.

Ho: There is no significance difference exist between the means of two sample

In case of 'Financial Knowledge', 'Managing liquidity' p<.05 (i.e., 0.000 and 0.002 respectively), therefore, null hypothesis rejected and alternative hypothesis accepted. It means there is significant difference exist between the means of two samples. Where as in all other cases p>.05 i.e., 'Financial Behavior (p=0.094), Financial attitude (p=0.079), Budgeting and Tax planning (p=0.680), Financing Large Purchases (p=0.601), Protecting Life and assets (p=0.940), Investing and Savings (p=0.312) and Planning and Retirement (p=0.214)'. Therefore, in these cases null hypothesis accepted. It means there is no significant difference exists between the means of two samples.

Relation between Financial Literacy and Personal Financial Planning:

Table 5 Relation between financial literacy and personal financial planning

		I	II	III	IV	V	VI	VII	VIII	IX
1	Financial Attitude									
2	Financial Knowledge	0.15*								
3	Financial Behavior	-0.068	0.312*							
4	Budgeting &Tax planning	0.103*	0.261**	0.612**						
5	Managing Liquidity	0.177*	0.381**	0.569**	0.619**					
6	Finance Large Purchasing	0.194*	0.311**	0.54**	0.485**	0.539**				
7	Protecting Life & Assets	0.149*	0.302**	0.529**	0.471**	0.472**	0.532**			
8	Investing Savings	0.211**	0.322**	0.531**	0.571**	0.563**	0.568**	0.591**		
9	Planning Retirement	0.297**	0.295**	0.34**	0.396**	0.477**	0.457**	0.503**	0.627**	

Note: N=400, *p<.05, **p<.01

Table 5 shows a correlation analysis between financial literacy and personal financial planning among rural and urban household respondents:

i. The variable 'budgeting and tax planning' has shown a positive but weak relationship with both the variables viz., 'financial knowledge' (r=0.261) and 'financial attitude'(r=0.103). This only reveals that people in general follow the flow of general intelligence to rationalize their spending with a budget and also learn to plan the tax. The positive and strong correlation with financial behavior (r=0.612) evidences this. Therefore rational spending and planning for reducing tax does not need a sound knowledge about financial aspects.

ii. Managing liquidity is moderately related to 'financial knowledge (r=0.381) and 'financial behavior' (r=0.569) with a positive relationship. This reveals that people with good financial knowledge and behavior are able to manage their liquidity in a more appropriate way. The weak but positive relationship with 'financial attitude' (r=0.177) evidences that liquidity management does not required a strong financial attitude.

iii. The variable 'financing large purchases' has shown positive but weak correlation with both variables viz., 'financial attitude'(r=0.194) and 'financial knowledge'(r=0.311). This reveals that people in general follow the flow of general aptitude to finance their large purchases. The positive and moderate relationship with 'financial behavior' (r=0.540) evidences that financing large purchases does require a good financial behavior.

iv. 'Protecting Life and Assets' has a positive relationship with 'financial attitude', 'financial knowledge' and 'financial behavior'. It is weakly correlated with financial attitude (r=0.194) and (r=0.302) and moderately correlated with financial behavior (r=0.529). It is evidenced from the study that financial attitude and financial knowledge does not need to protect life and assets. General intelligence is sufficient. But the study shows that financial attitude helps significantly for protecting life and assets.

v. The variable 'Investing Savings' is positive but weakly related with 'financial attitude' (r=0.211) and moderately related to 'financial knowledge' (r=0.322) and 'financial behavior'(r=0.531). It reveals that one's financial knowledge and behavior play a significant role in investing savings, but financial attitude does not have much role to play.

vi. The variable 'Planning and Retirement' also has positive relationship with all three financial literacy variables but weakly related with 'financial attitude' (r=0.297) and 'financial knowledge'(r=0.295) but moderately related with 'financial behavior' (r=0.340). Therefore, planning for retirement does not need sound financial knowledge but it requires moderate financial and behavior.

To know the effect financial literacy (financial knowledge, financial behavior and financial attitude) on personal financial planning among rural and urban household respondents, multiple regression analysis carried out separately and accumulatively. The results were as presented in the following tables:

Table 6 Rural households regression model summary

Model	R	R Square	Adjusted R Square	F-ANOVA	Sig.F-Change
1	.657[a]	.432	.424	47.498	0.000

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	158	.309		-.511	.610		
Financial Knowledge	.243	.055	.245	4.382	.000	.924	1.082
Financial Behaviour	.513	.059	.491	8.760	.000	.921	1.086
Financial Attitude	.214	.041	.284	5.249	.000	.991	1.009

Predictors: (Constant), Financial attitude, Financial knowledge, Financial behavior among Rural households
Dependent Variable: Personal Financial Planning among Rural households

Table 6 indicates summary regression model with regard to Rural Households. The results indicate a coefficient of determination of 0.432(R^2=0.432) the percentage variation in the dependent variable being explained by the changes in the independent variables. This implies 43 percent of the total variation in personal financial decision is explained by other factors, not captured by the model. The adjusted R^2 indicates that it is closer to the R^2 therefore there is no much variation existing between the two thus proving the coefficient of the determination. Consequently, the null hypothesis that financial literacy has no effect on personal financial planning among rural households was thus rejected.

The absolute value of Beta in table indicates the order of importance of the independent variables. The variable with the highest Beta value is relatively most important independent variable. On examining the contributions made by the independent variable in the model to the model, it was found that the financial behavior has biggest contribution in the personal financial planning with the value of (Beta=.406). It was followed by financial attitude and knowledge with determination of coefficients of 0.284 and 0.245 respectively

Based on the regression analysis results, the regression equation was obtained as it is show below.

$Y= -0.158+0.243x_1+0.513x_2+0.214x_3$

Where:

Y= Personal Financial Planning
x_1 = Financial Knowledge
x_2 =Financial Behaviour
x_3 =Financial Attitude

Table 7 Urban households regression model summary

Model	R	R Square	Adjusted R Square	F-ANOVA	Sig.F-Change
1	.680[a]	.463	.454	56.221	0.000

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.894	.231		3.862	.000		
Financial Knowledge	.069	.046	.091	1.507	.133	.746	1.341
Financial Behaviour	.523	.049	.659	10.737	.000	.729	1.373
Financial Attitude	.100	.035	.167	2.856	.005	.802	1.246

Predictors: (Constant), Financial attitude, Financial knowledge, Financial behavior among Urban households
Dependent Variable: Personal Financial Planning among Urban households

Table 7 indicates summary regression model with regard to urban households. The results indicate a coefficient of determination of 0.463(R^2=0.463) the percentage variation in the dependent variable being explained by the changes in the independent variables. This implies 46 percent of the total variation in personal financial decision is explained by other factors, not captured by the model. The adjusted R^2 indicates that it is closer to the R^2 therefore there is not much variation existing between the two thus proving the coefficient of the determination. Consequently, the null hypothesis that financial literacy has no effect on personal financial planning among urban households was thus rejected.

The absolute value of Beta in table indicates the order of importance of the independent variables. The variable with the highest Beta value is relatively the most important independent variable. On examining the contributions made by the independent variable in the model to the model, it was found that the financial behavior has biggest contribution in the personal financial planning with the value of (Beta=.659). It was followed by financial attitude with determination of coefficients of 0.167.

From the above summary the following model is developed for the study:

$Y= 0.894+0.523\ x_1+0.1000\ x_2$

Where:

Y = Personal Financial Planning
x_1 = Financial Behaviour
x_2 = Financial Attitude

Variable Financial Knowledge did not contribute to the equation (p.>0.05). This may imply that the urban households have higher knowledge than the rural ones; hence, as it contributed nothing to financial literacy and the urban has sufficient financial knowledge and it became a non-significant predictor of financial literacy.

6. Discussion

The present study used structured schedule to solicit primary data from households of rural and urban areas of two districts namely Warangal Rural and Warangal Urban of Telangana state. By arguing that households require financial literacy to pursue financial planning for themselves, the researchers structured the study and sought to identify the level of financial literacy of households and how this reflected upon personal financial planning.

The findings indicate that rural and urban households have financial literacy; urban households have a little more understanding about financial literacy than rural areas. In differentiating among households' of rural and urban personal financial planning based on their level of financial literacy, the researcher's observation suggest that financial literacy has its effect on their financial planning. The results reinforce the findings of extant research (Devi, 2016; Malti, 2014; Minakshi, 2009; Naidu, 2015; Babu, 2015; Shawn et.al, 2012; Singh, 2016; Nejati et.al, 2015& Mwathi et.al, 2017) and confirm the common phenomenon that the lack of financial literacy interrupts in individuals' decisions in financial planning.

The perception of respondents that were gathered in this study has also deepened the understanding of the current situation in this country. Study evidences that rational spending and planning for reducing tax does not need sound knowledge about financial aspects. It is evidenced that financial attitude and financial knowledge does not need to protect life and assets. General intelligence is sufficient. But the study shows that financial attitude helps significantly for protecting life and assets. It reveals that one's financial knowledge and behavior play a significant role in investing savings, but financial attitude does not have much role to play.

One caveat of the findings is that the study employed the judgmental sampling method for data collection. This method provides findings that may not be representative of the population in the country. Given that our topic of study is still at its initial stage in the country and the awareness and interest level is understandably low, it was deemed not feasible to conduct random sampling of the population. The second caveat is close-ended structured schedule might risk possible misinterpretations of the survey questions since there further clarification was not provided for. Also the approach might have solicited some biased responses as respondents could be looking for the 'right' answer or an answer that they thought would be 'acceptable' to the researchers

7. Conclusion

Despite all the above caveats, the present study enriches the understanding of personal financial planning among rural and urban households of Warangal Urban and Warangal Rural districts in Telangana State, India. Further, the study enriches our understanding of the relationship between financial literacy and personal financial planning and effect financial literacy on personal financial planning. The study found that the levels of understanding of financial literacy among both categories are at an agreeable level, urban households have shown little more understanding on some aspects of financial literacy than rural. It is also found that both sample households are aware of various aspects of personal financial planning and able to plan in their own irrespective of place of living. The study has shown that urban households are more specific than rural in personal financial planning and execution than rural. This goes on to confirm that financial literacy is useful indicators of household's financial planning decision. Households who are thinking to opt in and map their ways to financial well-being have to increase their awareness of the multiple areas of personal financial planning and be geared up with required financial knowledge. To this effect, the education level attained by the individuals provides a strong foothold for such progression. Financial planning professionals in practice would need to engage in effective communication and education when delivering their services to clients who come with differing financial literacy levels. Such good practices would enable more of the general public reap the benefits of personal financial planning. When effective personal financial planning becomes widespread in the country, economic growth will be stimulated.

In spite of the survey results presented here, further surveys should be carried out to generate more representative analysis. Apart from the study on the rural and urban households study should expand to all categories. It should aim at giving a clearer picture of individuals planning of personal finance. The results therein should aid policy makers and practitioners in formulating appropriate strategies to bridge any financial literacy gaps.

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