IMPACT OF FINANCIAL LITERACY ON YOUNG ADULTS' SPENDING HABITS

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Abstract

With the rise of the internet dominating almost every area of finance, it is crucial to keep learning financial literacy. Today's young adults often disregard the importance of gaining financial education to effectively manage their finances despite the continuous development of online banking, simplified credit options, and macroeconomic influences. The young people of today must realize that in economies that are always changing and growing, they cannot maintain a healthy lifestyle by relying just on their salaries. Since job stability is declining, financial literacy is crucial to promoting saving, investing, and having enough money to get by in the event of a financial crisis. This study examines how financial literacy shapes saving and spending patterns as well as how young adults perceive money in an increasingly complex and digitized financial environment. This paper integrates several financial literacy highlights, including a survey analysis and literature review that demonstrates the glaring lack of formal financial education, the problems associated with a lack of financial education, such as impulsive buying decisions and debt cycles, and, conversely, the positive effects of financial literacy, such as budgeting and saving practices. The findings of the survey and the results of the analysis prove that making wise financial decisions and preserving financial well-being over the long run may be significantly enhanced by including organized financial education in the academic program and promoting practical money management skills.

***Keywords**: Financial Literacy, Education, Young adults*

Introduction

Financial literacy does play a vital role in changing spending behaviors, especially that of young adults, due to the increasingly rapid growth in today's economy. Advancements in the areas of access to means of finance like digital payments, credit, and investments increase the complexity associated with financial decisions. We cannot, however, ignore the fact that most young adults in today's time lack financial literacy and the ability to manage their money very well and end up getting consumed by a cycle of credit and debt, impulsive spending, and unwise budgeting. To develop responsible management of money, finances, and long-term finnt early in life will provide us with enough funds and savings for retirement, preventing us from being financially dependable.

Financial literacy includes a wide array of skills, such as understanding debt and credit management, budgeting, investing, and saving. It equips young adults to make informed decisions about finances so that they do not become victims of typical financial mistakes. Young adults lack knowledge about the balancing of income and expenses which makes them liable to financial stress and instability time and again. Transition from dependence to independence is more likely to be associated with vulnerability over financial hurdles. It, therefore, represents one of the very important steps for the improvement in the financial well-being of young adults to investigate the level of financial literacy within them and the effects it may hold on their expenditure patterns. When such people enter employment, there would be new responsibilities towards their incomes in paying bills, repaying loans from student expenses, making purchases, etc, and this lack of the proper financial knowledge at this time can lead them to overspend, become dependent on credit cards, take loans too soon, and have trouble saving for the future. Analysing how financial literacy and knowledge affect their spending habits and purchase decisions can provide us with insights into developing effective and functional strategies for improving financial decision-making. One of the vital aspects affecting financial literacy is the amount of financial education provided in schools and homes. Only a few schools with a certain type of curriculum include personal finance literacy in the syllabus. However, the majority of young adults learn to manage their finances by consulting with their parents, social media, or through personal experience. It can be said that these knowledge gaps can help better design education courses and programs. Young adults' spending patterns have become impulsive and complex due to easy access to credit cards, zero down payment options, EMI options, internet shopping, and a growing reliance on digital banking and payment systems. This has further contributed to the buildup of debt. Understanding the long- term effects highlights the importance of developing financial literacy.

The impact of financial literacy on young adults and their spending habits could be very enlightening to educators and policy makers. Further plans regarding good programs for financial education can be developed, which may further help in the enhancement of financial education, by identifying the gaps. Schools, universities, and educational centers may play a more significant role in equipping young individuals with the necessary skills to navigate through their economic futures. Young adults need the necessary skills as financial markets continue growing and evolving. The following study is meant to uncover the relationship and impact of financial literacy on the spending habits of young adults, key challenges, and potential areas for improvement.

Objectives

To investigate to level of financial literacy among young adults.

This study emphasizes how crucial financial literacy initiatives are to enhancing kids' and teens' financial behavior and knowledge. Important elements to developing financially literate individuals include thorough, age-appropriate financial education and has widespread societal outcomes. This accentuates the urgency to give young people the required financial knowledge and skills to handle the challenges of financial environments. (Stefania Mancone, 2024)

This study found that individuals who had strong financial knowledge also had good saving habits and had a more positive attitude towards investing. Accordingly, in the frameworks of developing economies, financial literacy influences the saving behaviors of both individuals in formal sectors as well as informal spaces who use informal financial portfolios. The outcomes of the study also indicated a positive relationship between financial literacy in young adults and custodial financial behaviors that majorly influence financial habits among young adults. (Matthew, 2022)

Recent findings from a report provided by Bank of America highlighted that half of the Gen Z population rely on their family for financial support, for necessities such as rent and groceries. Despite open communication of budgeting and financial crisis among peers and friend groups, 57% of Gen Z don’t have sufficient savings or funds to cover at least three months of expenses, which indicates a need for continued financial support. (Goodwin, 2024)

The findings of this study reveal that students with higher levels of financial literacy are inclined to demonstrate responsible spending behaviour's. This was especially vital for university students who often find themselves on tight budgets and need to manage their finances effectively. The findings of the study proved that there exists a positive relationship between the spending habits of students and their degree of financial literacy. The correlation of this study highlights the importance of integrating financial education into university curriculums. (Ahmad, 2024)

In today's complex financial environment, financial literacy is crucial for young individuals, especially college students, to make informed financial decisions. The 18–25-year-old college students who are predicted to become the backbone of the economy were the focus of this investigation. The study's findings revealed that financial status, income, education, and gender Students' financial literacy is directly impacted by help. Peers were shown to have the second-highest influence on money management, after family and friends. Ninan (2021)

This study looked at how parents' and families' influence affected young adults' financial literacy, and the findings showed that these characteristics and financial literacy were positively correlated. The results are consistent with earlier studies in the subject, bolstering the idea that peer pressure and family/parental influences improve financial literacy.

Peer influence is also found to be statistically significant and positively related to financial literacy. This highlights the importance of peer influence in decision-making among young adults. (Alekam, 2018)

According to this study, acquiring basic personal finance skills—like following a budget and setting financial objectives—is also crucial for boosting one's financial self-esteem and demonstrating stable financial behavior. Additionally, it suggests that educating students about the fundamentals of money through classes, workshops, seminars, and courses can help them develop better financial habits and help them achieve long-term financial success. It claims that raising children's understanding of financial literacy will help them develop positive attitudes toward credit, financial literacy, and consumption skills. The integration of financial education into state standards, teacher training, curriculum implementation, behavioral impact verification, and the expansion of disciplinary expertise and involvement all require a plan of action. (Bhatt, 2021)

According to this study, college students' long-term success and financial stability can be greatly impacted by their ability to handle their money well. By creating a budget, tracking their spending, saving money, receiving financial education, creating an emergency fund, and creating plans to pay off their student loans, college students may effectively manage their finances and avoid costly mistakes. so that by putting money management first and developing good management habits, college students can ultimately set themselves up for financial success and stability after their undergraduate years. According to the report, once college graduates start working and earning a steady income, they must prioritize prudent money management. Additionally, this can have a major impact on the degree of financial stress reduction, financial system stability, and economic growth promotion. (Sridhar, 2023)

The analysis carried out in this paper results that spending patterns and financial literacy are positively correlated. Additionally, the strength of the relationship indicates that financial education plays a significant role in guiding GenZ toward healthier and more informed financial decisions. The findings also demonstrate that financial literacy has a significant impact on spending, meaning that increased financial literacy leads to more extravagant spending. It is crucial to cultivate sound financial habits in addition to financial knowledge since the findings also indicate that financial behavior is a significant mediating factor for how financial literacy typically manifests itself in the context of spending decisions. Additionally, these advancements in financial behavior are crucial for converting financial knowledge into real-world financial results, particularly for Gen Z. As a result, the data shows how Gen Z's financial behavior is strongly influenced by financial literacy. Thus, educating Gen Z on sound financial habits will lead to efficient spending patterns and lead to shaping their financial well-being. (Rodriguez, 2024)

According to this study, young adults' investment behaviour is significantly influenced by their level of financial literacy, which also affects their capacity to make wise financial judgments. This study emphasizes the necessity of thorough financial education initiatives that are interesting, approachable, and pertinent to the requirements of young adults. To overcome obstacles to financial literacy, financial institutions, schools, and policymakers must work together, utilizing technology to close gaps.(Malaiya, 2025)

The relationship between university students' financial literacy and their spending patterns was further explored in this paper. The findings showed that the students' spending patterns are influenced by their attitude toward money. Additionally, the associations between spending patterns and racial groups, gender, and course of study were investigated. According to the report, students should stick to their present financial management plan and take part in workshops, seminars, and programs that will help them develop a better financial mindset, which would help them spend less money. (Obagbuwa, 2020)

This study sheds light on the intricate relationship between Indian youth investment behaviors and financial literacy. Only 46.6% of the adolescents polled exhibit enough financial literacy, according to the report, which focuses on comprehending compound interest, numeracy, inflation, and risk. This emphasizes how urgently better financial education is needed to close the knowledge gap that affects over half of the youth. Key findings show that a variety of factors, including frugality, effective allowance management, skepticism toward traditional financial institutions, budgetary constraints, ethical investment priorities, creative technology use, and varying risk appetites, have a significant impact on the investment decisions of young people. These observations depict a generation that is cautious, morally upright, tech-savvy, and eager to take advantage of new investment opportunities. Essentially, this study emphasizes how important financial literacy is for young people to make educated investing decisions. It suggests improving financial education and exhorts legislators, educators, and consultants to close the discovered knowledge gap. (C, 2024)

According to this research, financial education is undeniably beneficial. According to the data of this study, financial literacy programs can help people reduce and manage their debt. Second, financial literacy can help people become more informed about their taxes and prevent mistakes that can cost them while filing their taxes. However, the advantages of financial education extend beyond the person; when consumer policy is studied, it can also benefit the country. Ultimately, it was discovered that an optional financial education is insufficient and that the only way to ensure all the advantages would be to create a required, tested financial course, like algebra or English would be the only way to fully reap the benefits of financial literacy. (Madnaoui, 2020)

This paper similarly highlights the inadequacy of financial literacy for making informed financial decisions in today's age, such as opening a bank account, managing mortgages, investing in assets, etc. Financial literacy is founds carce, majorly among vulnerable groups, women, and low-income individuals. Most importantly, being financially literate matters as it helps make wise financial decisions, avoid being influenced, have a better understanding of information, have a better understanding of procedures like insurance and loans, and be more confident in using financial instruments. As we are emerging into the digital era, financial literacy also helps individuals deal with emerging trends and challenges in the digital financial environment, such as digital financial services, digital banking, online transfer of funds, trade of securities, etc. The effects of financial literacy extend beyond individual knowledge: it affects the macro-economy of a country as well. (Lusardi, 2023)

Analysis and Findings

- Most respondents (34%) rated their confidence level as 3 (Moderately Confident),indicating they have some understanding but may still require more knowledge.
- 25% of respondents feel confident (4), and 9% feel very confident (5), suggesting a good grasp of financial concepts among a quarter of the participants.
- However, 32% (1 and 2 combined) feel not very confident, highlighting a significant portion that may need financial literacy improvement.
- A majority (62%) of respondents have not received formal financial education, suggesting a gap in structured financial literacy training.
- Only 38% have received formal financial education, indicating that financial literacy may not be widely integrated into school curriculums or workplace training.

Lack of Formal Financial Education

The high percentage (62%) of respondents without formal training suggests that most individuals may have learned financial concepts informally, through personal experience or self-study.

Potential Knowledge Gaps

Those who answered "No" might have limited knowledge about critical financial topics such as budgeting, saving, investing, and debt management.

Correlation with Financial Confidence

If compared with confidence level responses (from the previous question), those without formal education might also be among those who rated their confidence lower (1 or 2).

- The majority (33%) track their expenses monthly, suggesting a common habit of reviewing finances at the end of each month.
- 20% track weekly, indicating they prefer more frequent monitoring.
- 13% track daily, representing a financially disciplined group that actively monitors spending.
- 24% track only occasionally, showing irregular financial tracking habits.
- 9% never track their expenses, suggesting they may not have a structured approach to financial management.

Key Insights

Regular Financial Awareness (66%)

A significant 66% (Daily, Weekly, and Monthly combined) track their finances consistently, which is a positive sign of financial responsibility.

Inconsistent or No Tracking (33%)

- 24% track sporadically, which may be a sign of a shortage of knowledge about money or fiscal discipline.
- 9% of people never keep track of their money, which suggests that they may have trouble saving or managing.

Potential Financial Impact

- Those who write a daily or weekly journal are perhaps more in control of their money usage and finances.
- People who track infrequently or never may have trouble sticking to their budget, which could result in stress or overspending.
- Significant Majority (80%) believe that financial knowledge has helped them make better spending decisions.
- 20% do not see a direct benefit, which may indicate either a lack of application of financial knowledge or insufficient financial education.

Key Insights

Positive Impact of Financial Knowledge (80%)

This implies that improved money management and spending activities are greatly impacted by financial literacy.

- Those with financial knowledge likely make more informed decisions about saving, investing, and managing expenses. Challenges Faced by 20% Some people may have financial knowledge but struggle to apply it in real- life scenarios due to factors like low income, impulsive spending habits, or financial emergencies.
- Others may not have had enough formal financial education, leading to a lack of confidence in using financial principles effectively.

Correlation with Expense Tracking

- Those who track expenses regularly (daily/weekly/monthly) may be more likely to say "Yes", while those who track finances occasionally or never may be among the "No" responses.
- Budgeting & Expense Tracking (27%) is the most commonly suggested area, indicating that young adults struggle with managing daily expenses and planning their finances effectively.
- Saving & Emergency Funds (24%) is also highly emphasized, suggesting a strong need to educate young people about financial security and planning for unexpected expenses.
- Investing & Wealth Building (20%) shows that many young adults want to

learn about growing their money, not just managing it.

- Credit & Debt Management (16%) suggests that financial programs should teach responsible borrowing, avoid credit card debt, and manage student loans.
- Taxes & Financial Planning (13%) ranks the lowest but still indicates that many young adults feel unprepared when it comes to tax filing and long-term financial strategy.

Young Adults Need Practical Financial Skills

The highest-ranked areas (Budgeting, Saving, and Investing) suggest that young people need hands-on guidance on managing money in real life.

Interest in Wealth-Building is Growing

20% of respondents want to learn about investing, indicating a shift in mindset from just saving money to growing wealth through smart financial strategies.

Debt and Credit Management is a Concern

16% want more emphasis on debt management, which could be due to concerns about student loans, credit card debt, or financial independence.

Conclusion

Financial literacy is a fundamental cornerstone for the development of healthy financial practices especially in today's multi-challenged economies, digitally growing financial platforms, and fast-paced global developments. It is evident from the analysis carried out that the most important component of entering adulthood is having sound financial knowledge. Financial Literacy is very essential and important for helping young individuals control their purchasing habits, develop saving and budgeting habits, and make wise financial judgments. The survey's results showed that young people lacked formal, structured financial education, which had serious long-term financial repercussions like debt cycles, impulsive purchasing, and unstable finances. Conversely, this implies that those who have a basic understanding of finance are more assured when it comes to handling the funds while creating wise financial decisions. These people are less susceptible to financial instability and are better prepared in the event of a financial disaster. Closing this educational gap through early, practical, and engaging financial literacy programs in homes, schools, and communities will assist in reduce reliance on credit, foster financial independence and security through saving practices, and develop young adults with financial literacy skills. Financial understanding leads to financial capacity. Having financial aptitude helps young people navigate the intricacies of the financial world as they grow into fully employed adults who must deal with and control their finances on a regular schedule. Having money literate will enable young adults to critically assess the various external factors that impact their spending decisions, including social and psychological ones, and develop spending habits that provide long-term stability instead of short-term satisfaction from impulsive spending. By producing a generation of young adults who are secure and financially literate, we can ensure a future workforce that is not only economically empowered but also resilient and driven to handle financial challenges. This study strongly supports the early introduction of financial education in order to produce a generation of young adults with better spending habits, less financial reliance, and logical financial decisions.

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