

# A Study of the Impact of Parental Financial Behaviour on Individual Financial Literacy in Ludhiana

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## ABSTRACT

This study investigates the link between parental financial behaviour and the financial literacy of young adults in Ludhiana, India. Understanding the "financial legacies" is crucial for promoting financial well-being across generations. The research explores how parental saving habits, investment choices, budgeting methods, and financial communication styles influence young adults' financial knowledge. Data analysis includes Correlation and Regression tests to assess relationships between variables, ANOVA to explore impact of financial literacy of parents on their children's financial behaviour, and t-tests to find differences. The study aims to identify specific approach by which parents transmit financial knowledge and skills to their children. By illuminating the intergenerational transmission of financial literacy, the findings can inform the development of targeted interventions and programs to enhance financial literacy from an early age. Ultimately, this research contributes to a more comprehensive understanding of how families shape young adults' financial decision-making, empowering individuals to achieve financial stability and well-being. This study shows parents strongly influence their children's financial habits and literacy. Open communication about money leads to better financial decisions by young adults. Parents should discuss budgeting, saving, debt, credit, and investing. Younger adults are more aware of investing.

**Keywords:** Ludhiana, Financial Legacy, Parental Financial Behaviour, Financial Literacy of Youth, Financial Upbringing, Money Management Habits

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## INTRODUCTION

Financial socialisation involves acquiring values, attitudes, norms, and behaviours essential for financial well-being. Children learn financial concepts explicitly, through direct instruction, and implicitly, through observations and interactions with parents. Over the past two decades, financial markets have grown more intricate. Nowadays, individuals bear more significant responsibility for their financial welfare than before. Making intelligent and timely choices regarding saving and investments can be crucial in ensuring financial stability.

### Financial Legacy

"Financial legacy" can be defined as the collective impact of financial attitudes, behaviours, and practices passed down from one generation to the next within a family or social group. This includes the transmission of financial knowledge, values, habits, and assets that shape individuals' financial well-being and decision-making over time. Financial legacies can encompass various factors, such as saving and investing patterns, debt management strategies, estate planning practices, and overall financial philosophies that influence how wealth is accumulated, preserved, and distributed across generations

### Financial Literacy

Financial literacy is often called 'financial capability,' signifying the capacity and chance to effectively utilise one's financial knowledge. Financial literacy is the ability of an individual to plan their finances, plan for debt and retirement and maintain wealth (Lusardi & Mitchell, 2014).

Financial literacy involves reading, analysing, managing, and discussing personal financial matters that impact one's well-being. It also includes the ability to make sound financial choices, talk about money comfortably, plan for the future, and competently handle life events affecting daily financial decisions and the economy. Financial literacy also includes the capability to utilise knowledge, manage resources, and secure long-term financial well-being by making informed decisions amid changing economic conditions.

### Parental Influence on Financial Behaviour of Children

Effective parenting practices, such as teaching and demonstrating financial concepts, impact financial literacy from childhood to adolescence. Family discussions and tracking allowance or gift income influence knowledge and shape attitudes, values, and money-related behaviours. Parents transmit their values and beliefs to children, shaping their financial attitudes and behaviours. Although the exact mechanisms are unclear, parents, being primary influencers, significantly impact young adults' financial knowledge, attitudes, and money-related behaviours.

### REVIEW OF LITERATURE

The research undertaken by **Afsar et al. (2018)** focused on understanding the impact of financial literacy and parental socialisation on the saving behaviour of university-level students in Azad Jammu and Kashmir, Pakistan. The study, involving 400 Master of Business Administration students from four universities. The findings revealed positive associations between financial literacy, parental socialisation, and students' saving behaviour.

The study by **Alsemgeest, L. (2014)** highlights the importance of discussing money as a taboo subject within the family context, emphasising the need for responsible financial communication to shape financial attitudes and behaviours later in life. It suggests that addressing the underlying issues and feelings that money brings forth in parents can foster financial well-being in the family.

In the research by **Antoni et al. in 2019**, aimed to identify the specific techniques parents use to influence responsible financial behaviour in their children and bridge the existing gap in the literature regarding this subject. Despite the significance of parental influence, the study noted a lack of effective money management education from parents. Consequently, the research aimed to pinpoint the financial socialisation techniques that significantly shape responsible financial behaviour in students.

**In their 2000 study, Aunola et al.** delved into the intricate relationship between adolescents' academic strategies and the parenting styles prevalent within their families. In this study, 354 fourteen-year-old adolescents participated, completing a Strategy and Attribution Questionnaire along with their parents. The findings were revealing. Adolescents raised in authoritative families exhibited the most adaptive strategies, low failure expectations, task-focused behaviour, assertiveness, and positive self-assessments.

The study conducted by **Furnham and Milner in 2017** explored parents' beliefs about educating their children regarding money and economic behaviour. Utilizing questionnaires and statistical analyses, the study identified key determinants influencing parents' attitudes, including gender, religious orientation, and political beliefs.

**Asaad's 2015** article investigates the impact of financial literacy, encompassing both actual financial knowledge and perceived financial confidence, on financial decision-making. The study advocates for a holistic approach in financial literacy initiatives, stressing the necessity of nurturing factual understanding and confidence to enable individuals to prudently navigate their financial futures.

In their **2010 study, Norvilits and MacLean** delved into the intricate dynamics of parental influence on college students' financial behaviours and attitudes, specifically focusing on the connection between parental teaching and modeling of financial concepts and college students' credit card debt. The study shed light on the critical role of parents in shaping responsible financial behaviours among college students.

### RESEARCH METHODOLOGY

Research methodology is the core of a research problem. To a great extent, the findings of a research problem depend upon sufficiency and accuracy of the methodology of the research adopted.

#### Need of The Study

The rationale behind this study is rooted in the belief that unravelling the financial legacies within families holds the key to enhancing financial literacy on a broader scale. By identifying the mechanisms through which parental financial behaviour impacts the financial knowledge and behaviour of young adults, policymakers, educators, and parents can develop targeted interventions that foster financial literacy from an early age.

#### Objectives of the Study

1. To investigate the relationship between parental age and the financial independency of young adults.
2. To study the relationship of Parental Income and the financial Independency of Young adults.
3. To provide insights into parental efforts for generational influences on saving, planning and investment behaviour of young adults.
4. To study the Impact of Parental Financial behaviour and Financial Literacy of Youth.

**Hypothesis:** There is significant correlation between specific parental financial behaviours (such as responsible budgeting, saving habits, investment decisions, and debt management) and the financial literacy levels of individuals.

**Scope of The Study**

This research project aims to contribute to a more comprehensive understanding of how parental financial behaviour shapes individual financial literacy. While acknowledging the established correlation, the study focuses on unpacking the mechanisms and nuances of this relationship.

**Population:** The study will target [youth in Ludhiana between the age of 10-25 years and parents in Ludhiana above 20 years

**TOOLS USED**

**Questionnaires:** The questionnaire was circulated containing questions related to the subject matter of the study, i.e., parental financial behaviour, including spending habits, saving practices, investment choices, debt management, and overall financial attitudes.

**Computer Software:** The data collected throughout this research study has passed through several applications spanning various functions relevant to this research. To analyses the data, we have utilized the following tools:

**Excel:** To input and analyses the data for our interpretations. It also allows fundamental statistical elucidation.

**SPSS Software:** It will assist in advanced analytics of the data. These represent tried and tested methods of processing data, enabling us to accurately categories, compute, store, and present the data gathered in this research study. Statistical Tools: Several statistical tools have been employed to draw conclusions and reinforce the Researchers' stance on the research problem.

1. **Correlation and Regression:** It has been used to find relationship between parental and youth financial behaviour and also between different socioeconomic factors.

2. **T-Test:** The study involves finding a relation between the various biases and their effects on the group of investors involved by comparing their means.

**ANALYSIS AND INTERPRETATION**

**Parental Income and Independency of Children for Financial Decision Making**

**Table 1: Parental Income and Independency of Children for Financial Decision Making**

Income Level (p.a.)	Permission to Children to make their Own Financial Decisions with their Allowance		
	Yes	No	Grand Total
< 5 lacs	55.56%	44.44%	100.00%
5-10 lacs	84.38%	15.63%	100.00%
10-20 lacs	75.00%	25.00%	100.00%
> 20 lacs	100.00%	0.00%	100.00%
<b>Grand Total</b>	<b>78.48%</b>	<b>21.52%</b>	<b>100.00%</b>

The data suggests a potential association between income level and parental attitudes towards fostering financial independence in children. Parents with higher incomes appear more likely to grant their children permission to make choices about their allowance.

A clear trend emerged, with a significant increase in the rate of permission granted as income level rose. In the lowest income bracket (< 5 lakh), only 55.56% of parents allowed their children to make independent financial decisions. This percentage progressively increased to 100% in the highest income bracket (> 20 lakh).

### Parental Age and Independency of Children for Financial Decision Making

Table 2: Parental Age and Independency of Children for Financial Decision Making

Age Range	Permission to Children to make their Own Financial Decisions with their Allowance		
	Yes	No	Grand Total
< 40 years	59.09%	40.91%	100.00%
41-50 years	82.35%	17.65%	100.00%
> 50 years	91.30%	8.70%	100.00%
<b>Grand Total</b>	<b>78.48%</b>	<b>21.52%</b>	<b>100.00%</b>

The data suggests a potential association between parental age and their approach to fostering financial independence in children. Older parents appear more likely to grant their children permission to make choices about their allowance. A clear trend emerged, with the rate of permission granted increasing with parental age. Parents under 40 years old were least likely (59.09%) to allow independent financial decisions, while those above 50 years were most likely (91.30%). This trend could be explained by several factors. Older parents might have raised children in an era with a stronger emphasis on financial literacy or independence.

### Parents' Observation of Children' Financial Engagement

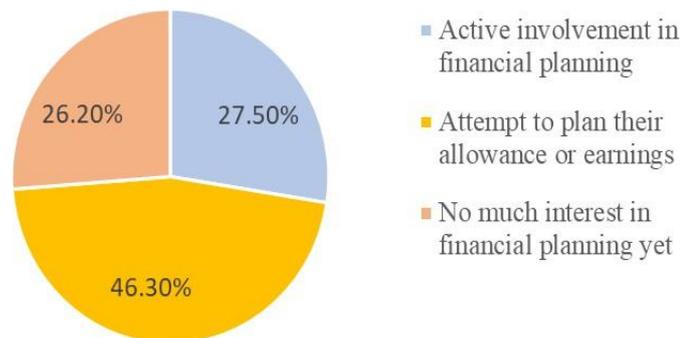
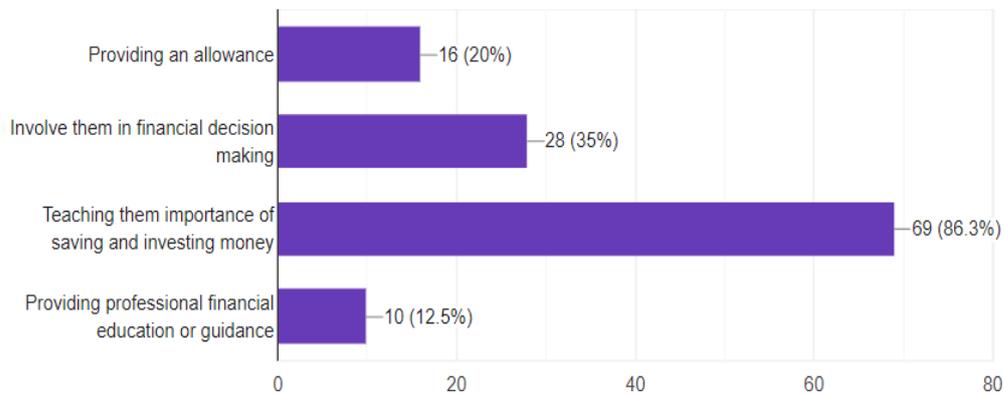


Figure 1: Parents' Observation of Children' Financial Engagement

This chart highlights that while a significant number of children are beginning to engage with financial planning, there is still a considerable proportion who are either very engaged or not yet interested.

1. Active involvement in financial planning (27.5%): This segment represents parents who observe that their children are actively engaged in managing and planning their finances. These children likely take an interest in budgeting, saving, or understanding financial matters.
2. Attempt to plan their allowance or earnings (46.3%): This is the largest segment, indicating that many children are trying to plan how they use their allowance or earnings. They might not be fully engaged in financial planning but are showing an interest in managing their money.
3. No much interest in financial planning yet (26.2%): This portion represents children who currently show little to no interest in financial planning. These children may not be involved in managing their finances or may lack awareness of the importance of financial planning.

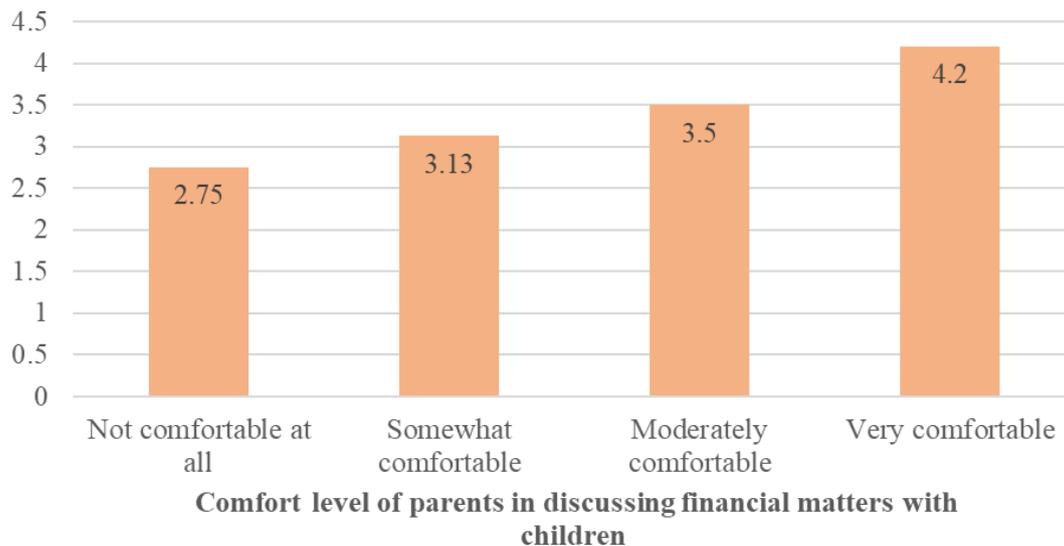
### Mechanism followed by Parents to Teach Financial Literacy to Their Children



**Figure 2: Mechanism followed By Parents to Teach Financial Literacy to Their Children**

The chart above illustrates various methods employed by parents to teach financial literacy to their children. It's evident that multiple strategies were often utilized. The most prevalent approach was teaching the importance of saving and investing money, closely followed by involving children in financial decision-making processes. While less frequently employed, other methods included providing an allowance and arranging for professional financial education.

### Average Confidence Level of Parents in Their Ability to Provide Financial Literacy to Children Based on Their Comfort Level in Discussing Financial Matters with Them



**Figure 3: Comfort level of Parents in discussing financial matters with Children**

This analysis examines the association between parental comfort levels discussing financial matters with their children and their perceived confidence in providing financial literacy education (n=unknown). The data utilizes a scale ranging from 1 (not confident) to 5 (highly confident).

The data suggests a potential link between open communication about finances and parental self-efficacy in financial literacy education. Parents who feel comfortable discussing financial matters might be more likely to engage in conversations that equip their children with essential financial knowledge and skills.

This comfort level could stem from a stronger personal understanding of financial concepts, allowing them to feel confident in their ability to explain them to their children. A statistically significant positive correlation was observed between parental comfort levels and confidence in imparting financial literacy.

Parents who reported greater comfort discussing finances with their children also expressed higher levels of confidence in their ability to teach them about financial concepts.

**IMPACT OF PARENTAL FINANCIAL BEHAVIOUR ON FINANCIAL LITERACY OF YOUTH**

**Correlation between Financial Literacy of Youth and Financial Literacy of Parents**

**Table 3 Correlation between Financial Literacy of Youth and Financial Literacy of Parents**

Variable	Mean	Standard Deviation	Pearson Correlation	Sig. (2-tailed)
Financial Literacy of Youth	2.291667	0.461248	0.146	0.200
Financial Literacy of Parents	2.098101	0.345339		

Financial Literacy of Youth (FLY) and Financial Literacy of Parents FLP are two variables. The Financial Literacy of Parents (FLP) is the independent variable. Financial literacy represents the financial knowledge, skills, and attitudes of the parents of the young adults involved in the study. The measurement includes saving and expense planning, investment knowledge, insurance understanding, and retirement planning awareness.

The table shows a correlation matrix between FLY and FLP. Correlation analysis is a statistical method that explores the direction and strength of the relationship between two variables. In this case, it helps to assess the connection between the financial literacy of parents and the financial literacy of their young adult children.

Pearson Correlation Coefficient: The value is 0.146, which indicates a weak positive correlation between FLY and FLP. A positive correlation means that as the FLP increases, the FLY tends to increase as well, but the effect is weak. This means that there is a slight tendency for young adults with financially literate parents to also be financially literate themselves.

Significance (2-tailed): The p-value is 0.2, which is greater than the standard significance level of 0.05. This suggests that the observed correlation between FLY and FLP is not statistically significant relationship.

**Correlation between Financial Literacy of Youth and Teaching Methods adopted by Parents**

**Table 4: Correlation between Financial Literacy of Youth and Teaching Methods adopted by Parents**

Variable	Mean	Standard Deviation	Correlation	Sig. (2-tailed)
Financial Literacy of Youth	2.291667	0.461248	0.309	.006
Teaching Methods used by Parents	2.583685	0.438157		

Financial Literacy of Youth (FLY) is the dependent variable in the study. It represents the financial knowledge, skills, and attitudes of the young adults involved in the study. It is defined based on four areas: saving and planning expenses, investment, insurance, and retirement planning.

Parental Teaching Practices (PTP) is the independent variable. It represents the financial education methods used by the parents of the young adults involved in the study. The research considers various factors such as methods used to teach children about money management, allowing them to make their own decisions financially, and involving them in household financial decision-making, etc.

The table shows a correlation matrix between FLY and PTP. The Pearson correlation coefficient is 0.309, with a two-tailed significance of 0.006.

- A correlation coefficient of 0.309 indicates a weak positive correlation between the two variables. This means that there is a slight tendency for young adults who received more financial education from their parents to also be more financially literate themselves.
- The two-tailed significance of 0.006 is statistically significant. This means that the observed correlation is less likely due to chance, and we can be more confident that parental teaching practices have a positive influence on youth financial literacy.

**Regression between Financial Literacy of Youth and Teaching Methods Used by Parents**

**Table 5: Regression between Financial Literacy of Youth and Teaching Methods Used by Parents**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Beta	Constant
1	0.309	.095	.083	.43488	0.320	1.468

**The Data Suggests:**

- A positive relationship between parental teaching practices (PTP) and financial literacy of youth (FLY).
- The regression model shows an R-squared value of 0.095, indicating a weak positive correlation between the variables.
- The correlation coefficient (0.309) also suggests a weak positive association.
- The statistically significant p-value (0.006) strengthens the evidence that this relationship is not due to chance.

**Regression Model:**

A regression model with FLY (Financial Literacy of Youth) as the dependent variable and PTP (Teaching Methods used by Parents) as the independent variable is established.

$$FLY = 1.468 + .320(TMP)$$

Where,

FLY=Financial literacy of Youth

TMP= Teaching methods used by Parents Here's a breakdown of the key components:

- **Constant (1.468):** This value represents the predicted FLY score when PTP (parental teaching methods) is zero. In simpler terms, even if parents used no teaching methods, young adults might still have a base level of financial literacy (around 1.468 based on your model).
- **Coefficient (.320):** This value represents the change in FLY for a one-unit increase in PTP. In other words, for every unit increase in the effectiveness of parental teaching methods, the model predicts a 0.320 increase in the financial literacy score of young adults.
- It can be concluded that Young adults with parents who use more effective financial teaching methods tend to have slightly higher financial literacy compared to those whose parents use fewer effective methods. However, the strength of the association is weak.

**CORRELATION BETWEEN INVESTMENT MECHANISM OF YOUTH VERSES INVESTMENT MECHANISM OF PARENTS**

**Table 6 Investment Mechanism of Youth and Investment Mechanism of Parents**

Variable	Mean	Standard Deviation	T-values	Sig. (2-tailed)
Investment Mechanism of Youth	2.277	0.541	.828	0.409
Investment Mechanism of Parents	2.219	0.399		

The table summarizes the investment behaviour of two groups: Youth and Parents. The investment mechanism is calculated as a combined mean of investment activities, retirement planning, and insurance.

**Mean Investment Mechanism:** The average investment mechanism score is slightly higher for Youth (2.277) compared to Parents (2.219).

However, the standard deviation values (0.541 for Youth and 0.399 for Parents) suggest there is more variability in investment behaviour among Youth.

T-Test is applied to find the difference in investment mechanism of youth and parents. **Statistical Significance:** The T-value (0.828) and Sig. (2-tailed) value (0.409) suggest a statistically non-significant difference between the investment mechanisms of Youth and Parents.

In other words, the observed difference in means could be due to chance, and we cannot conclude that young adults have definitively different investment behaviour than their parents.

The analysis suggests that there might be slight variations in average investment behaviour between young adults and their parents.

### FINDINGS AND CONCLUSION

1. Higher income parents are more likely to allow their children to make independent financial decisions.
2. Older parents are more likely to grant financial independence to their children.
3. As far as Children's Financial Engagement is concerned.
4. 46.3%\* attempt to plan their finances but aren't fully engaged but 26.2% show little to no interest in financial planning.
5. Parents commonly teach financial literacy through saving, investing, and involving children in financial decisions.
6. Higher comfort in discussing finances with children is linked to greater confidence in teaching financial literacy.
7. Correlation between parental and youth financial literacy is positive but weak (0.146) and not statistically significant.
8. There is a positive relationship between parental teaching practices (PTP) and the financial literacy of youth (FLY). This suggests that the teaching methods employed by parents have a positive impact on the financial literacy of their children.
9. The Regression Model derived suggest that even in the absence of parental teaching methods, youth have a baseline level of financial literacy. For every one-unit increase in the effectiveness of parental teaching methods, financial literacy in youth increases by 0.320 units.

These findings suggest that both parental income and age influence how much financial decision-making independence they grant their children, with higher income and older parents being more permissive. Additionally, effective parental teaching methods slightly enhance children's financial literacy.

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