Saving behaviour of malaysian university students

The purpose of doing this research is to determine the factors that influence the saving behavior towards private and public university students in Malaysia. There is an introduction regarding the research background about the factors influence the saving behavior towards private and public university students in Malaysia. For information, it determines the objectives of entire research and also justifies significant of research which outlines the purpose of this research. In addition, it also provided the definition for important terms throughout the research.

With the rapid development of the financial system and the broader array of financial products and services available to consumers, there is an increasing need for Malaysians to make wise savings and investment decisions that will have lasting implications for their financial well-being. Due to the many people's lack of the skill to manage their financial status, financial problems increase day by day. As a result, the understanding of the important of saving behavior and a clear picture of this matter is an important element to us. We are required to get a full answer from the problem. Previously there are a lot of researches had been done by other researcher. However, the studied is not well enough to give an insight or the key for the problem.

The research is going to identify research problems by gathering all relevant and appropriate sources to support the statements and see how other researchers have perceived regarding the topic area. All data collected from previous studies are used to demonstrate the relationship between independent and dependent variables and it will show how independent variables make impact on the dependent variable.

Chapter 2 Literature Review

2. 2 Independent Variables

2. 2. 1 Demographic Factors

Soo (2009) explained that demographic variables played a significant role in explaining attitude toward saving. However, when demographic variables were not considered, characteristics of saving goals and individual regulatory orientation were significantly related to attitude toward saving. In addition, the effect of saving goals was moderated by a household’s regulatory orientation. Moreover, it was concluded that saving goals affect attitude towards saving and saving behavior among peoples. Based on Jehad (2007), understanding the demographic problem behind the saving patterns is benefits for designing effective public policy.

Age

According with Joe, Hadley & Balasundram (2002), many college students were unworried about their own financial status, future wealth, and retirement planning. Thus, the attitudes of the preschool children toward saving can consider an important personal characteristic because it may give an impact to them for their future life. (John & Andrew, 2002).

Nowadays young generation have low level of financial literacy, which due to their uncontrolled expenditure behavior. In the advancing ages, it would be quite difficult for an individual to develop the habit of systematic manage their financial planning (Pillai, Rozita & Rachel, 2010). Due to the age factor, youth lack of the skill of financial literacy compared to middle-aged and older adults who have more experienced in financial planning (Pillai et. al., 2010).

Besides, based on Elsa, Annamaria & Chiara (2009), older individuals may have little discretionary saving the reason is because the amount of saving is already providing for their future retirement needs. From the research of Mohamad & Maurice (2010), students who had late enrolled in their childhood consumer experience were considerably less likely to report financial problems.

Moreover, Students are never required to educate themselves on personal finance. Once they enter the workforce, they will likely not take the time to become more financially literate and will not adequately prepare for their retirement (Chris & Oliver, 2011).

In contrast, the younger generation and the elderly save very little primarily due to their lower income, respectively. Thus, the life cycle hypothesis implies that private saving rises with a higher percentage of the working population, and falls with a higher percentage of the younger generation and aging population . According to the life cycle hypothesis, the middle age groups were categories to be the best in managing their saving. The life cycle hypothesis also suggests that young and old groups are the least likely to save because of their situation (Jehad 2007).

A positive relationship between age and saving has been reported in many studies (Chang, 1994; Johnson & Widdows, 1985; Browning & Lusardi, 1996). Browning andLusardi documented a complex relationship between age and saving. Using crosssectional data, they concluded that elderly savings can be complicated by a cohort effect. Generally, people reaching maturity at different times might vary their attitude toward risk and borrowing, consequently affecting their saving rate. Using panel data, Hurd (1990) reported a decline in wealth among the elderly, suggesting a negative relationship between age and saving. Other studies compared the actual saving rate of different age groups with the expected saving rate based on economic models. Browning and Crossley (2001) concluded that while the elderly dissave, their actual dissaving rate is not as large as that predicted by an economic model. Avery and Kennickell (1991) found that age groups older than 65 saved more than what would be expected based on an economic model.

Gender

According with Maria & Stephanie (2002), studies in the field of psychometrics had found out that female attitude toward risk differs from male and demonstrates that gender is a powerful determinant of risk attitudes and judgments. The Study of John & Andrew (2002) had show that the mothers' attitudes are systematically both more important and than man. It can be said that female students were more likely to engage in savings behavior than male students (Maria et. al., 2002)

In addition, according from Mohamad, Maurice, Jariah, Tahira & Mohd (2008), female students had greater financial well-being than male students. From Angela, Urvi & Erik (2008), it stated that women wealth has historically been lower than men. Moreover, the results of the current study had showed that there has an existing of the differences within saving behaviors between men and women (Angela et. al., 2008).

Patti (2010) had reported that women who were in poor health condition were seldom to make their saving in the short period, while poor health condition did not significantly influence the short term saving of men.

Furthermore, Patti et. al., (2010) has shown that the economic wellbeing and financial behaviors of male and female differ significantly. Female hold lower levels of wealth and have significantly lower earnings than male. Gender based differences in behavior that are systematic and widespread can influence consumptions, savings, investment and the level of risk taking at aggregate level were mentioned by (Szekeres et. al., 2010). The researches on developing countries proved that women may have a stronger preference than men for buying goods and services that contribute to the human capital of their children, such as food, education, and health care (Valeria, 2010). The study of Szekeres (2010) show that the term of gender refers to socially learned behaviors that are associated with females and males.

Parents Marital Status

David (2010) the analysis indicates that marital-status transitions play an important role that can impacts on personal saving decisions especially in the cases of widowhood and divorce. It stated that, when people get married, form a family, or separate through divorce or widowhood, they can experience dramatic changes in their financial positions.

Therefore, the marital status and children almost certainly affect household resources, preferences, and background risk, and these elements lie at the heart of any analysis of optimal asset allocation and wealth buildup over the life cycle. In addition, households experience an increase in wealth due to the merging of the spouses' assets after they marriage. Moreover, household heads of each gender must engage one of five states at the beginning of each age. They can be married, divorced, widowed, never married, or deceased.

According to Berkay (2010), it suggested that the legalization of divorce led to a significant increase in the propensity to save by married individuals, which is consistent with individuals saving more as a response to the increase in the probability of marital breakup. Moreover, from the same research, some theoretical work has made a challenge to introduce marriage and divorce explicitly in a model of savings. It argued that different channels through which marital transitions can have an effect on consumption and savings.

Avery and Kennickell (1991) reported that during a three-year period the wealth of those married or single (for the entire period) increased, which indicated saving. However, wealth decreased for those whose status changed between 1983 and 1986. Rha, Montalto, and Hanna (2006) discovered that households with single heads and children, households with married heads and children, and households with single female heads without children were less likely to save, relative to households with single male heads without children. Households with children tend to save less

(Douthitt & Fedyk, 1989; Bosworth et al. 1991; Browning & Crossley, 2001; Freyland, 2004; Deaton, 2005).

Ethnicity

According to Yusof, Erik & Bart (2000), there were large fraction of the ethnic Malay work in low-wage industries, whereas the ethnic Chinese and Indians frequently work in high-wage industries. For information, Mohamad & Maurice (2010) were found that it has a negative coefficient indicating that Chinese students were substantially less likely to have effective financial behavior than the reference category such as Malay, Indian and others.

Perry and Morris (2005) used data from the 1999 Freddie Mac Consumer Credit Survey to examine responsible financial behaviors, such as saving money. They found low-income African Americans were more likely to engage in responsible financial behaviors than their low-income White counterparts. The research did not find a significant interaction effect between race and income with respect to responsible financial behaviors for the Asian and Hispanic groups. Rha, Montalto, and Hanna (2006) found that households with a White respondent were more likely to save than those with Black or Hispanic respondents. They also found that Black households were significantly less likely to save than White households. However, Hogarth and Anguelov (2003) found that Hispanics were more likely than Whites to be savers. Their results showed no differences among Blacks, Whites, and other races in likelihood of being a saver.

2. 1. 2 Family Structure

An additional child might cause a negative influence on a family's ability to save while. On the other hand, it may boost up the parents' desire to save more (Tim, Sandra, Roslyn, Robert, 2006). The studies of Kathy (2009) had mentioned that the geographical redistribution of financial infrastructure, away from lower income communities, has resulted in geographical pockets of financial exclusion, economic decline, poverty and deprivation, as low-income households often do not have access to financial institutions and savings incentives.

Additionally, low-income consumers often have to suffice with lower quality goods and services. They may have no choice but to purchase second hand goods, an option that is almost always viewed as second best (Joseph et. al., 2009). Besides, Additionally one can speculate about whether students from wealthy families might have had more and earlier consumer experience and greater financial socialization, so that those who scored higher on those predictors might also be able to rely more on their parents to assist them after graduation (Mohamad & Maurice, 2010)

From the research of John & Andrew (2002), it shows that parents' wealth residuals are correlated to children's wealth residuals. In other words, parents who save more than expected are more likely to have children who also save more than expected even after controlling for parental wealth. In addition, the first prediction of the model of the research were the savings behavior of children should be similar to that of their parents, controlling for income, age and other demographic variables. Thus, children observe parents' consumption and planning behavior and may learn, or simply absorb, particular attitudes that affect savings behavior. Furthermore, homogeneity within communities and heterogeneity across communities could lead to relationships between parent's and children's behaviors. In between, the parental wealth may have direct effects on children's behavior.

Household income or lifetime earnings are positively associated with increases in household savings (Browning & Lusardi, 1996; Chang, 1994; Rha, Montalto, & Hanna, 2006; Hurd & Zissimopoulus, 2003). Perry and Morris (2005) found that people with higher incomes were more likely to engage in responsible financial management behaviors, such as saving money. Avery and Kennickell (1991) reported that individuals with incomes more than $50, 000 saved more than economic theory would suggest. Chang (1994) noted that income had a positive effect on saving. Rha, Montalto, and Hanna (2006) found a positive relationship between household income and the probability of saving. Browning and Lusardi (1996) noted that households with greater income uncertainty possessed higher savings from current income.

2. 2 Spending Pattern

Pillai et. al., 2010 With availability of generous pocket money, personal credit cards, access to credit cards of family members or high-paid jobs at prime age, young people are faster becoming impulsive spenders and prove reckless often. Moreover, strategic marketers are designing products and services targeting young generation. With the ease of information access through the Internet and web technology, marketers have managed to capture a significant market of youth through online store sales. In the Asian subcontinent, new trends in fashion, electronic gadgets, sports, video games, mall culture and music are important contributors to wasteful spending among the youth. Most of today’s young adults, although smart and independent, scarcely understand the value of money because of the desire to adopt extravagant lifestyles, in addition the above mentioned factors. Young adults under the age of 30 are now the fastest growing age group filing for bankruptcy. Besides, evidences show that college students tend to spend their discretionary income on instant gratification of their wants rather than save money for their further education.

Hibbert, Beutler & Martin (2004) examine the influence of parental financial prudence on the attitude and behaviors of the next generation toward their finances. The study underscores the importance of family atmosphere to inculcate the necessity of being rational in personal financial management from the very early life of a person. Moreover, keeping personal financial records makes one to keep track of his or her various expenses and also develop the qualities of a cautious spender because one is constantly aware of how much he/she has spent probably during the last week, month or year. For information, spending in excess of their earnings is one of the most common problems faced by young adults today. The youth are following the “ I want” philosophy, that is, they are more interested in accumulating material possessions than saving money and this leads to the domino effect of making impulsive purchasing decisions resulting in overspending and shortage of money. In addition, credit card use habit has grown phenomenally among young adults. This increase in the number of youth holding credit cards and incurring credit card debt has generated concern that these young people are over extended and unaware of the long-term consequences associated with severe indebtedness.

Moreover, John & Andrew (2002) had mentioned that children are always be able to observe parent's spending and planning behavior and learn the behavior from them. Mohamad & Maurice (2010) stated that more than half of the respondents did not save any money when they received their scholarship or education loan. More than half of the students used their money for shopping. The data showed that 45 percent of them spent all their money before the end of the semester.

2. 3 Educational Qualification

It is obvious that people who are educated would be more aware about their future life. Thus, the important on saving might be one of the factors that make them taking into their consideration (Joseph, Clifford & Annette, 2011). In addition, Masud, Husniyah, Laily, Sonya (2004) had pointed out that it is possible for educators to offer a course that teaches the financial skills necessary to overcome the financial problems among university students.

For information, John & Marco (2000) explored that the parents education levels would have a causal effect on child's education. Moreover, Mohamad & Maurice (2010) stated that those students with higher financial knowledge were more likely to engage in saving behavior. Furthermore, the research said that the college-educated parents are strongly associated with higher residuals, it may effect that survives controlling for wealth (John & Andrew 2002). Angela, Urvi & Erik (2008) predictable a bargaining model of household saving behavior and found out those households where the husband had more education than the wife had lower levels of net worth.

Higher rates of tertiary education – which could perhaps be counted as another form of investment – have also contributed to increasing debt (Janice, 2007)

2. 4 Sibling Rank

Keister (2003) found that the number of siblings a person has is a significant predictor of the importance one places on saving for retirement. The more siblings one has, the less time each child has devoted exclusively to them from their parents. Parents with more children tend to save less and have less time to educate each child about saving. Also, the more siblings one has the less likely their parents are to pay for college, give them a car, or put the down payment on their first home. This causes them to have to pay for these items with no financial assistance from their parents. They are forced to start their finances off in debt and once someone is in debt, they often remain there for the rest of their lives. In addition, the more siblings one has the less likely they are to receive an inheritance when their parents pass away. In addition, it also finds that overall, the more siblings one has the less wealth accumulation they are likely to achieve.

2. 5 Place of Origin

Masud, Husniyah, Laily & Sonya (2004) had mentioned that when the place of origin was compared, a higher percentage of those from rural areas reported experiencing more problems compared to those from urban areas.

Students from rural areas may have a limited amount of resources in comparison to urban area students.

Soo(2009). A student's residential status can also influence the problems he or she faces. A higher percentage of those living off campus did not have sufficient money to last until the end of semester compared to those living on campus. Students living off campus spend more money on items that students on campus do not have to pay for, such as gasoline for commuting. Yet, a higher percentage of students living on campus reported skipping meals to save money. Since their money was not sufficient to last until the end semester, several students have to borrow money from friends. Thirty percent of males and no females indicated that they plan to pay off their debt when they get the money.