

The Macrotheme Review

A multidisciplinary journal of global macro trends

The Hungarian youngsters attitude towards the financial decisions based on a questionnaire research

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Abstract

The financial culture and knowledge of Hungarian people have been widely criticized. Numerous analyses, researches and presentations have explained the incredibly high indebtedness of households and the population, and the wrong approach to financial decisions by the lack of financial knowledge. The credit boom of the years preceding the crisis has restricted the financial position of the Hungarian population for years. The spreading of consumer and real estate loans and the collapse of their majority has changed the approach towards taking out loans and financial matters. The aim of this study is to examine how the previously described situation has changed the background of the financial decisions of the younger population; to present their approach to banks and banking services, the collection and use of necessary information for their decisions, in order to have an overview whether the presiding views are going to improve due to the younger generations, who are more conscious financially.

Keywords: financial decisions, bank services, information

1. Introduction

Our everyday financial culture, our approach to financial services has gone through significant changes during the past years and decades. Banks and financial institutions have become a part of our everyday lives, since we pay with plastic, we have a credit limit to our accounts, we consume and purchase from credit, and increase the value of our surplus money in several kinds of services. The financial markets provide and sell more and more new bank and financial products and services to exploit these processes. The financial way of thinking and its development of average people cannot cope with the development of bank services. It is typical of all societies, therefore Hungarian households as well that the financial culture of the population is underdeveloped, and cannot keep up with the fast development of the financial world and financial products.

Several studies have dealt with the indebtedness of the population after the millennium as one of the causes of the crisis of 2008. Lentner-Szigeti-Borzán outlines the role in the breakout and escalation in the financial markets of the following interest groups:

- The supplying banks and other financial enterprises
- Enterprises and households in demand of credit
- The government, national bank and supervisory board having a controlling role

There are some who consider the American financial governance responsible, since they left the markets without control in the name of financial liberalisation and market fundamentalism, creating a worldwide abundance of money, generating an unnatural credit demand, which reached and dishevelled all economies of the world (Soros, 2008). Sahlman drew attention to the risk of financial innovations, which create and maintain competition on one hand, and on the other, exist, on the markets as uncontrollable elements generating risk.

Unfortunately the latter, disadvantageous part of his opinion has been practically proven. Claessens and partners have named four causes for the breakout of the crisis:

- the excessive and sudden increase of asset price
- the credit boom generating serious masses of debt
- excessive credit-taking activity
- the failure of the regulatory activities of the financial supervisory authority

Allen and partners are also looking for those responsible on the regulatory side, who allowed the liberalisation of financial markets, thus suppressing the prices of credit services, giving way to artificially pumped-up demand of credit. According to Simai (2009) after the breakout of crises public opinion and professional literature tend to blame certain people, institutions and methods, as we did this time in connection with various credit services provided with high interest rates. In Simai's opinion the main problem should be sought in the operational mechanisms of economies, which is proven by the unusual rate of development of developing countries before the crisis. This, by itself, is an event which increases prices and boosts credit demand. Several theories and studies could be listed in which the role of those who take out credit can be mentioned directly or indirectly.

In our opinion, when examining the 2008 crisis we should not forget those who take out credit as well as those who supply it. Those households and companies who took out loans only possess little or no knowledge about the risks of their obligation. The financial knowledge and culture of the population, and its relationship to risk is basically defined by its previous financial knowledge. OECD (2005) carried out researches several times in several countries on the financial culture of their population, coming to the unfortunate conclusion that neither the financial background knowledge, nor the financial concept of knowledge of those interviewed was appropriate.

OECD outlines the importance of financial education and the development of financial culture in the after mentioned document, based on the following reasons:

- the increase of the complexity of bank and financial products
- the increase of the number of financial products

- the increase of the expected lifespan of the population
- the changes occurring in the pension system
- the lack of basic financial knowledge

There have been researches carried out within the framework of the Hungarian National Bank (2012), using the methodology of OECD. According to the main statements of this background material:

- less than two thirds are acquainted with the methodology of counting the interest rate
- the correlation between yield and risk is basically known
- there is a serious lack of knowledge in financial foundations

The study outlines that according to the findings of the researches there is a definitely positive relationship between financial knowledge and culture and educational level. Another interesting statement is that female subjects had less financial knowledge than men who appeared in the sample. Other studies, like Nagy-Jackel (2009) also prove these statements. Their hypothesis that an average citizen possesses little financial knowledge was proven, which can be traced back to the lack of information and basic knowledge. Due to these reasons the latest concept of the National Core Curriculum treats business and financial education as a main priority, starting from grades 5-8, and continuing in grades 9-12. The aim of this study is to examine the financial culture of one of the largest layers of credit-takers that of households based on statistical correlations; through the correct or incorrect interpretation of some basic financial definitions. Young adults above the age of twenty belong to a segment that can make financial decisions individually, who is able to take out loans, have savings; therefore they can be expected to be aware of basic financial definitions.

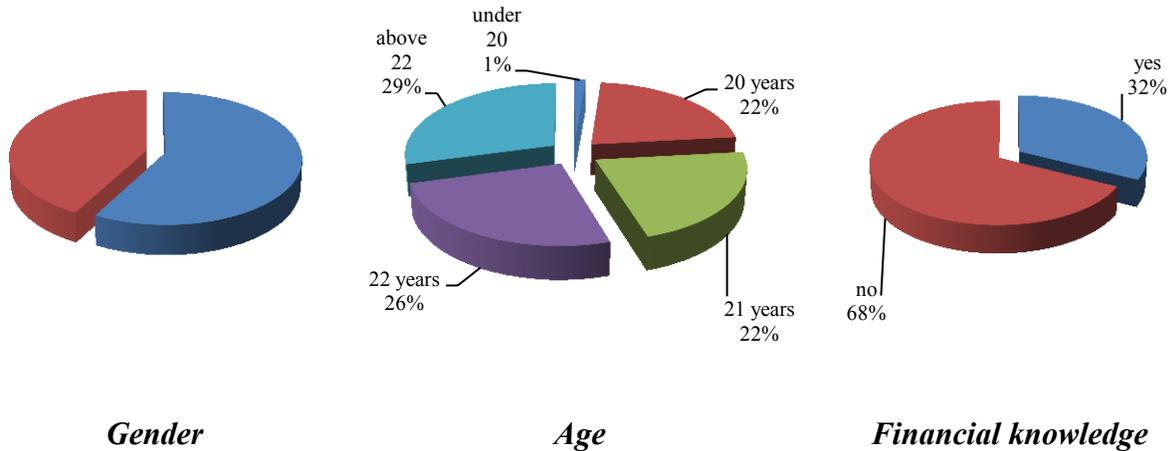
2. Material and method

The research was carried out with the help of a standardised written questionnaire which was completed by 219 young people in their twenties in February 2013, preliminary to their financial tuition. This also made possible the research of how much financial knowledge they had from other sources outside the educational system. The knowledge of financial products and the characteristics of financial approach, similarly to other products based on trust, are not only defined by learned elements but other factors influencing consumer behaviour, like family, educational level, social class. (Fodor et.al, 2011)

The questionnaire did not contain open questions. Furthermore, we were also careful not to include questions which would restrict or stop the respondents from answering, and not to harm their personality rights. We tried to get answers to questions which are necessary for managing in the financial environment, which are able to assess the basic financial knowledge of respondents, and which reflect their personal opinions and experience. The answers were processed with the help of Microsoft Excel 2007 and SPSS 14.0 programmes. The following pie charts show the sample.

The respondents' gender: women 42%, men 58%, the respondents' age: above 20 years old- 29%, under 20 years old-1%, 22 years old-26%, 20 years old-22%, 21 years old- 22%, previous financial studies: yes-68%, no-32%.

Figure 1: The sample according to gender, age, and previous financial knowledge



Source: own research, 2013, N = 219

3. Results

This study examines the knowledge of basic financial definitions. We were looking for some kind of correlation between precise knowledge of the definitions of central bank, commercial bank, exchange rate risk, grace period, mortgage, selling rate, or the base interest rate and the gender, age and the previous financial knowledge of the respondents. There was only one correct answer out of the 4 choices to all the questions of the questionnaire. We examined the statistical relationships between the correct understanding of the definitions and the groups' specific features with the help of the Pearson's Chi-square, whose figures are shown in the following table.

Table 1: Pearson's Chi-square test according to the examined definitions and criteria

	Gender	Age	Previous financial knowledge
Definition of central bank	0,16	0,24	0,73
Definition of commercial bank	0,17	0,02	0,28
Definition of exchange rate risk	0,00	0,41	0,05
Definition of grace period	0,19	0,06	0,22
Definition of mortgage	0,04	0,00	0,06
Definition of selling rate	0,31	0,02	0,83
Definition of base interest rate	0,35	0,01	0,75

Source: own research, 2013, N = 219

70% of respondents understood the definition of **central bank** correctly. 61% of the correct answers came from men. The definition of the definition was understood the best by 22 years old or older respondents, their proportion was 28% and 31%, which made out over half of the correct answers. Interestingly, the lack of previous financial education did not influence the answers, since correct answers came 67% from those who had not taken part in previous financial education. There was no statistically proven relationship between the knowledge of the definition of central bank and the grouping features.

The definition of **commercial bank** was understood by 76% of respondents. The correct answers were dominated again by men, at 55%. Previous financial knowledge did not count here either, since the 66% of correct answers were dominated by those who had not studied financial subjects before filling out the questionnaire. There is a statistically proven correlation between age and correct answers according to the Chi square figures. Based on the adjusted standardised residual values of the table below we can say that those who were under 20 years of age gave less correct answers than expected.

Table 2: Understanding the definition of commercial bank according to groups of age

		Under 20	20 years	21 years	22 years	Above 22 years	Total
Wrong	Percentage in proportion of wrong answers	5,66	18,87	28,30	20,75	26,42	100,00
	Percentage in proportion of age	100,00	20,83	31,25	19,64	21,88	24,20
	Incorrect answers in proportion of total answers	1,37	4,57	6,85	5,02	6,39	24,20
	Adjusted residual (AdjR)	3,09	-0,62	1,29	-0,92	-0,52	
Correct	Percentage in proportion of correct answers	0,00	22,89	19,88	27,11	30,12	100,00
	Percentage according to age	0,00	79,17	68,75	80,36	78,13	75,80
	Correct answers in proportion of total answers	0,00	17,35	15,07	20,55	22,83	75,80
	Adjusted residual (AdjR)	-3,09	0,62	-1,29	0,92	0,52	

Source: own research, 2013, N = 219

The definition of **exchange rate risk** was outstandingly well-known by respondents, by 95 correct answers of the sample. Men represented a higher number of correct answers again, with 60%. The Chi-square value shows a statistical correlation between the understanding of the definition and the gender of the respondents. It can be seen in the residual values shown by the following table that men performed better than expected, and women worse

Table 3: Understanding the definition of exchange rate risk according to

		Male	Female	Total
Wrong	Percentage in proportion of wrong answers	16,67	83,33	100,00
	Percentage in proportion of gender	1,57	10,87	5,48
	Incorrect answers in proportion of total answers	0,91	4,57	5,48
	Adjusted residual (AdjR)	-2,98	2,98	
Correct	Percentage in proportion of correct answers	60,39	39,61	100,00
	Percentage in proportion of gender	98,43	89,13	94,52
	Correct answers in proportion of total answers	57,08	37,44	94,52
	Adjusted residual (AdjR)	2,98	-2,98	

Source: own research, 2013, N = 219

According to age the definition of the question was correctly understood by the highest age group, that of over 22 years old, in 28%. Except for the first age group, which is due to their being under-represented in the sample, the other age groups understood the question in the same proportions. There is a statistical correlation according to the Chi-square value between previous financial knowledge and the understanding of the definition of exchange rate risk, but this relationship is rather weak (0,0485). According to expectations, those who had studied financial subjects misunderstood the definition in bigger proportions than those who had not.

Table 3: Understanding the definition of exchange rate risk according to previous financial studies

		Yes	No	Total
Wrong	Percentage in proportion of wrong answers	58,33	41,67	100,00
	Percentage in proportion of knowledge	9,86	3,38	5,48
	Wrong answers in proportion of total answers	3,20	2,28	5,48
	Adjusted residual (AdjR)	2,07	-2,07	
Correct	Percentage in proportion of correct answers	30,92	69,08	100,00
	Percentage in proportion of knowledge	90,14	96,62	94,52
	Correct answers in proportion of total	29,22	65,30	94,52
	Adjusted residual (AdjR)	-2,07	2,07	

Source: own research, 2013, N = 219

There is no statistical correlation between the knowledge of **grace period** and the grouping features. Surprisingly, very few respondents were able to define the definition correctly, which means of 31% of respondents, even though the definition carries cardinal importance with respect to credit contracts. The majority of respondents understood the grace period as a period when nothing needs to be paid back, not even the instalments of capital. The ratio of men and women is about the same in the correct understanding of the definition, and according to age, 20, and over 22 years old are more aware of the definition. 62% of correct answers came from the group who had not studied finance before.

The definition of **mortgage** was understood correctly by two thirds of the sample. There is a statistical correlation between gender and the definition, according to the table below, men gave more correct answers than expected, while women less.

Table 4: Understanding the definition of mortgage according to gender of respondents

		Male	Female	Total
Wrong	Percentage in proportion of wrong answers	47,89	52,11	100,00
	Percentage in proportion of gender	26,98	40,22	32,57
	Wrong answers in proportion of total answers	15,60	16,97	32,57
	Adjusted residual (AdjR)	-2,06	2,06	
Correct	Percentage in proportion of correct answers	62,59	37,41	100,00
	Percentage in proportion of gender	73,02	59,78	67,43
	Correct answers in proportion of total answers	42,20	25,23	67,43
	Adjusted residual (AdjR)	2,06	-2,06	

Source: own research, 2013, N = 219

There is a statistically proven correlation between the understanding of the definition and the age of respondents. Based on adjusted standardised residual value it can be stated that the 22-year-old respondents achieved more correct answers. Those who are over 22 also had more than expected correct answers. 20, and 21years old also achieved better than expected, but in their case the answers were mainly incorrect.

Table 5: Understanding the definition of mortgage according to age groups

		Under 20 years	20 years	21 years	22 years	Above 22	Total
Wrong	Percentage in proportion of wrong answers	2,82	30,99	30,99	12,68	22,54	100,00
	Percentage in proportion of correct answers	66,67	45,83	46,81	16,07	25,00	32,57
	Wrong answers in proportion of total answers	0,92	10,09	10,09	4,13	7,34	32,57
	Adjusted residual (AdjR)	1,27	2,22	2,35	-3,06	-1,54	
Correct	Percentage in proportion of correct answers	0,68	17,69	17,01	31,97	32,65	100,00
	Percentage in proportion of age	33,33	54,17	53,19	83,93	75,00	67,43
	Correct answers in proportion of total answers	0,46	11,93	11,47	21,56	22,02	67,43
	Adjusted residual (AdjR)	-1,27	-2,22	-2,35	3,06	1,54	

Source: own research, 2013, N = 219

Previous financial studies were not important in the correct answers, since 63% of the came from those respondents who had not had this earlier.

The definition of **selling rate** was known by two thirds of respondents. 55% of correct answers came from men again. Previous financial education did not have an importance in the knowledge of the definition, 68% of correct answers coming from those who had had none of this. There was no statistical correlation between any of the above mentioned two features. The Chi square value was 0,02 between age and knowledge of the definition, which proves a statistical correlation. Based on the data of the table below it can be stated that with respect to correct answers 20, 22 and older respondents achieved better results than expected, while there was a reverse relationship with the incorrect answers of under 20s and 21-year-old youth.

Table 6: Understanding the definition of selling rate in age groups

		Under 20	20 years	21 years	22 years	Above 22 years	Total
Wrong	Percentage in proportion of wrong answers	4,00	21,33	30,67	21,33	22,67	100,00
	Percentage in proportion of wrong answers	100,00	33,33	47,92	28,57	26,56	34,25
	Wrong answers in proportion of total answers	1,37	7,31	10,50	7,31	7,76	34,25
	Adjusted residual (AdjR)	2,42	-0,15	2,26	-1,04	-1,54	
Correct	Percentage in proportion of correct answers	0,00	22,22	17,36	27,78	32,64	100,00
	Percentage in proportion of age	0,00	66,67	52,08	71,43	73,44	65,75
	Correct answers in proportion of total answers	0,00	14,61	11,42	18,26	21,46	65,75
	Adjusted residual (AdjR)	-2,42	0,15	-2,26	1,04	1,54	

Source: own research, 2013, N = 219

Finally, we examined the understanding of the definition of the base rate of the central bank. The proportion of respondents did not change from the previous results, since over two thirds of them could understand the definition. 60% of correct answers came from men, while 67% was answered correctly by those who had not studied finance earlier. Based on these two features, there cannot be seen a statistically proven correlation with the definition and the features. There is a statistical relationship based on age, with the Chi square value of 0,01. The first three age groups gave answers under the expected rate, while the 22-year-old and older age group above expected, as shown in the table below.

Table 7: Understanding the definition of base rate according to age groups,

		Under 20 years	20 years	21 years	22 years	Above 20 years	Total
Wrong	Percentage in proportion of wrong answers	2,82	29,58	29,58	16,90	21,13	100,00
	Percentage in proportion of age	66,67	43,75	43,75	21,43	23,44	32,42
	Wrong answers in proportion of total answers	0,91	9,59	9,59	5,48	6,85	32,42
	Adjusted residual (AdjR)	1,28	1,90	1,90	-2,04	-1,82	
Correct	Percentage in proportion of correct answers	0,68	18,24	18,24	29,73	33,11	100,00
	Percentage in proportion of age	33,33	56,25	56,25	78,57	76,56	67,58
	Correct answers in proportion of total answers	0,46	12,33	12,33	20,09	22,37	67,58
	Adjusted residual (AdjR)	-1,28	-1,90	-1,90	2,04	1,82	

Source: own research, 2013, N = 219

4. Conclusion

It can be stated, according to the research, that our financial knowledge is not wide or precise in many cases, which is proven by the understanding of the everyday financial definitions this study was examining. The basic definitions which we encounter several times, and several subjects during our studies are not clear, which is shown by the correct answers comprised by two thirds. Based on the research it can also be said that the understanding of the basic definitions is not in correlation with previous financial education. We can also add that respondents who are several years older possess much more precise knowledge, having given better than expected answers to the questions, in better proportions. This suggests bigger financial consciousness, which is a positive result compared to those experienced earlier. This latter idea conveys a negative consequence as opposed to the positive message; those young people who are around 20 years old, having reached their 18th birthday, according to domestic regulations, can take out loans in their names, become indebted, if they meet the requirements. They can do this without possessing exact knowledge about the definition of taking responsibility. It is worth thinking about for the educational system, paying greater attention to this during the years of education, which will hopefully be done by the latest directives of the National Curriculum.

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