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FEATURES OF FINANCIAL DECISION MAKING BY MODERN YOUTH

The present study examines features of financial decision making by modern youth by comparison the level of financial literacy and decision-making ability of individuals of different ages.

K e y w o r d s: financial decision, decision making, age, financial literacy.

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ОСОБЕННОСТИ ПРИНЯТИЯ ФИНАНСОВЫХ РЕШЕНИЙ СОВРЕМЕННОЙ МОЛОДЕЖЬЮ

В настоящем исследовании рассматриваются особенности принятия финансовых решений современной молодежью путем сравнения уровня финансовой грамотности и способности принятия финансовых решений лицами разного возраста.

К л ю ч е в ы е с л о в а: финансовое решение, принятие решений, возраст, финансовая грамотность.

Typically, there is a situation where an individual or a group of people faces the need to select one of several possible options for action. The result of this choice will be their decision. Every day each of us dozens of times has the experience of developing the abilities and skills in decision making. Man took various decisions throughout his life in ancient times, people had to make various decisions – to find their own food, to build a house, to resolve disputes. Modern man makes decisions more intelligently and orderly. But there is a real difference between individual or private decisions and financial decisions. It should be seen as a constantly changing state of plans, knowledge and skills, which are influenced by age, family, culture and even the location. Financial goals are differentiated in individual people; they are motivated by life situation and socio-economic status of the person.

Youth all over the world are facing an increasingly complex and risky financial situation. Undoubtedly, due to the features of the historical

development of the post-Soviet countries, youth not only has little understanding of the principles of the functioning of financial markets and investment opportunities for them, but also experiencing a colossal mistrust of institutions of the financial markets. It is important for people of all ages to be capable of making effective financial decisions. A person who each month pays off his/her credit card balance in full because of the knowledge of the effect of high interest rates and the consequences of debt, demonstrates effective financial decision making. The factors and experiences that shape individual financial decision making differ and develop over the life course.

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, and we consume and purchase from credit, and increase the value of our surplus money in several kinds of services.

Effective financial decision making and the skills required to make such decisions are not static concepts, rather, they are better conceptualized as an expanding set of knowledge, skills and strategies, which individuals build on throughout life, rather than as a fixed quantity. It is also critical to understand the social contexts and influencing factors that impact on financial decision-making.

A better understanding of the contexts in which young people make financial decisions, and their experience of financial decision making will provide important and useful information. The core goal of it is to ensure that all youth is able to make confident financial decisions in comparison with old people.

Financial decision making is recognized as a key factor for long-term financial wellbeing. Financial wellbeing is integral for social inclusion, it is about enabling people to fully participate in society [13, p. 456]. In order to understand more deeply features of financial decision making, we need to determine what finance as itself is.

Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function – is the procurement of funds and their effective utilization in business concerns. The concept of finance includes capital, funds,

money and amount. Financial decision is one of the integral and important parts of financial management in any kind of business concern.

Making good financial decisions requires not only thinking about the possible actions that one might take, but also accurately and thoroughly assessing the likelihood and desirability of the possible actions and their consequences [18, p. 27]. Decision structuring is the ability to generate options, determine which consequences to consider, and identify the relevant probabilities and importance of events [8, p. 46]. Thorough structuring of a decision problem is a critical initial step in decision making because decisions need to be based on an accurate assessment of the world and the relevant consequences of alternative decision options.

Decision making, as well as the exchange of information has been an integral part of our life. The need for decision making occurs at all stages of the life-cycle [5]. It is therefore important to understand the true essence of the decision itself. There are several steps that must be followed in order to arrive at a decision: one must realize that it is going to be necessary to make a decision, determine the goals to be achieved, generate alternatives that lead to attaining the proposed goals, evaluate whether these alternatives meet one's expectations and, lastly, select the best alternative, the one that implies an efficient global result [11]. This entire process is affected by personal and environmental variables.

According to J. A. Cannon-Bowers, E. Salas, and J. S. Pruitt [2], the aforementioned characteristics, along with others, comprise the essential traits of a decision, which these authors classify into three groups of variables: (a) task factors associated with the nature of the decision, such as the uncertainty involved in each alternative, time and money pressure, quantity and quality of the information, expected goals, and possible consequences of the decisions; (b) internal decision maker factors, such as motivation, emotions, exhaustive information processing, experience, and regulation of the decision process stages; (c) factors of the environment in which the decision is made, although they are not a direct part of the decision itself, such as social influence, coercion of close persons, and work demands.

In order to properly justify the features of financial decision-making of modern youth we need to consider past experience, the experience of the past generation.

History

More than 70 years of the development of the USSR within the framework of the socialist economic model and ideology have virtually wiped out in the majority of Kazakhstani citizens even some idea of relatively straightforward financial products and services. Transition to a market economy has found the majority of Kazakhstani people totally unprepared for the modern concepts of financial markets, and being not able to make the right financial decisions. The situation was sharpening by the monetary reforms carried out by the state in the early 90s of the twentieth century, when many pyramid schemes and the financial crisis in August 1998 happened. 17 years of the development of the market economy in Kazakhstan did not lead to a radical increase in the level of practical financial literacy. Financial knowledge and skills spread very unevenly. The population that lived in the socialist time was just not ready for radical changes. And the country faced a lot of problems such as:

– lack of planning of the family budget, lack of family planning strategies, income/expenses;

– the inability of the population to make informed, based on an analysis of all available information in the decision concerning the use of a particular product or service, the spontaneity of financial decision-making;

– continuing population paternalistic stereotype, the desire to shift responsibility for their financial decisions on the state;

– lack of awareness of investment opportunities and conduct of operations in the financial markets;

– lack of legal knowledge in the field of consumer protection in the financial markets;

– lack of access to the majority of citizens of professional financial advisory services;

– absence of clear and accessible information on the pension reform, the lack of habit and skill retirement savings plan.

And what we have in present. Successfully overcoming the acute crisis of the 90s of the twentieth century, the Republic of Kazakhstan confidently entered a new stage of its development: market economy, associated with both the public and private property, and complementary to each other. In Kazakhstan for the twenty years of its independence

the system of economic and social relations has been completely changed. Since the beginning of the 1994 global economic reform achieved financial stabilization to a relatively large extent, privatization of all state property is nearing completion, there has been a rise in production. State, developing economic and social programs for up to 2030, 2020, and entry into the 50 most developed countries of the world, strongly supported by the private Kazakhstani entrepreneurs, led to limiting inspections of small and middle businesses by all sorts of officials [16]. There have been almost complete liberalization of prices and removal of most restrictions on foreign trade.

Considering all of this information, we can easily divide the Kazakhstani population to those who are caught Soviet period of time, as well as those who were born in the period of rapidly developing market economy. We can distinguish two categories, youth from age 20–30 and older adults after 60.

Population of old generation were the heirs of the times of the socialist period, when families met restrained disabilities in financial planning, consumption and income was relatively stable. The result was a practical inability to benefit from the financial sector. A striking example is the statistics of the payment documents published by National Bank of Kazakhstan, as of 1 January 2016, according to which the visible high proportion of payment cards in quantity and low – on transaction volume, which is characterized by the use of this payment instrument primarily for the removal of small amounts of cash. One should take into account that not all installed POS-terminals worked, which leads to difficulties in the operation of payment cards. Another important factor is the lack of confidence of the population to all market instruments of financial services. The population still believes that to keep money in cash is better rather than in plastic cards. There are services for utility bills online, but old people do not trust online transaction and go to the bank, stand in line and pay over the counter. On the other hand, this category of people more deliberately invests finances, based mainly on experience and logical calculation.

In addition, cognition declines with age, and several recent studies have assessed the effect of cognitive decline on financial decision making [1]. One study finds that financial literacy scores decline by about

1 percent per year after age 60 [6]. Other studies find declines in financial decision making, whereby older individuals exhibit less investment skill in one instance and suboptimal credit behavior in another [10].

In contrast, people aged about 20 years and above belong to generation who was brought up in a society where market economy reigned, with experience of offering discounts, installment loans. A striking example is the wedding loans, car loans or other «behavioral trap». Often young people for the sake of self-affirmation buy cars on credit, to be like everyone else. As a result many of young people fail to serve their own debts, plan their own budget, and ensure their own financial security. Behavioral traps – this is only part of our daily lives, but if they are not fixed, there can be serious consequences. With regard to investment, this category of the population relies more on their ambition, emotion, sometimes resulting in a good, but too often in a worst results.

By analyzing the literature it was found that only few studies have examined age differences in decision strategy selection. The only exception is the work of G. Chasseigne [4]. It was found that compared with younger adults (20–30 years), older adults (> 60 years) used simpler strategies in decisions about a cellar boiler when one cue was inversely related to the criterion. Apparently, older adults selected a decision strategy that did not integrate information about the inverse cue with the other cues because, in contrast to learning a direct relation, learning an inverse relation between a criterion and a cue would have placed a greater burden on working memory. In general, older adults tend to rely more than younger adults on simple, no compensatory decision strategies [12]. Consequently, an older adult may appear competent on simple decision problems using a non-compensatory approach to processing information, but may appear less competent when facing complex information that requires in-depth analysis.

Declines in basic cognitive abilities and greater reliance on simpler strategies among older adults may make them more ready than younger adults to influence from the way information is presented and thus more likely to display inconsistency in decision making.

From the other point of view, if we omit age, we can observe that personality types and traits also have impact on the decision making in lifestyle choices. Drawing jointly on the literature on student debt

and that of the psychology of personality [3; 15], two personality types offer and answer to the question of why students borrow money.

Extraversion is an expression of an outgoing and sociable personality that thrives on the company of others, the opposite being introversion. Specific traits commonly associated with extraversion include warmth, self-confidence, assertiveness and positivity.

Neuroticism describes individuals who are prone to anxiety, depression or mood swings, the opposite generally being rendered as «emotional stability». Other commonly associated traits include self-consciousness, impulsiveness and hostility.

There is relatively new information on the relationship between personality and financial decision-making; what does exist being focused mainly on consumption and savings rather than borrowing. B. Roberts and R. Robins [20] find that the students with extravert personalities are more likely to have economic and hedonistic life goals, while T. Mooradin and J. Olver's [17] research on shopping behaviours find that both extraversion and neuroticism are powerful predictors, with the former being related to social goals and conspicuous consumption and the latter being related to personal happiness and mood management. A. Furnham [9] reports that people with extravert tendencies seek social interaction and physical activity in their leisure time; activities which are likely to incur additional costs. R. McClure [14] finds that extraverts have a tendency towards extravagant lifestyle decisions, while those prone to neuroticism are more concerned about money and its ramifications.

The existing body of literature therefore suggests that extraversion and neuroticism are useful concepts in probing patterns of spending and borrowing. Individuals who tend towards extraversion are more likely to incur additional social expenditures, seeking out new experiences, interacting with friends.

The process of decision making is one of the most complex mechanisms of human thinking, as various factors and courses of action intervene in it, with different results. But in this case we tried to observe the financial culture of one of the largest layers of credit-takers – youth in contrast with old people. 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 and old people who have huge experience in the past. Taking

into account the aforementioned proposals, the goal of the present study was to assess the basic financial knowledge of respondents, and which reflect their personal opinions and experience.

Method

The research was carried out with the help of a standardized online questionnaire which was completed by 42 young and 38 older adults in October 2016. It also was possible to reveal the level of 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 behavior, like family, educational level, social class [7]. The questionnaire contains open questions. Furthermore, we have decided not to include questions which would restrict or stop the respondents from answering, and not to harm their personality rights.

Results

The following pie charts show the sample (fig. 1 – according to gender, fig. 2 – age, fig. 3 – financial knowledge).

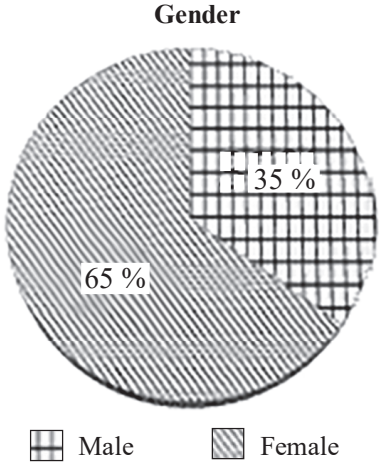

Fig. 1. The sample according to gender (% of each gender)

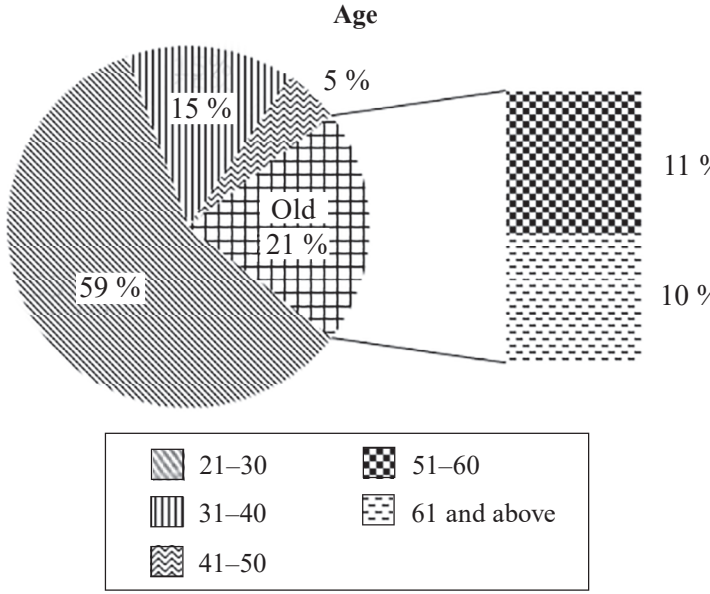

Fig. 2. The sample according to age (% of each age)

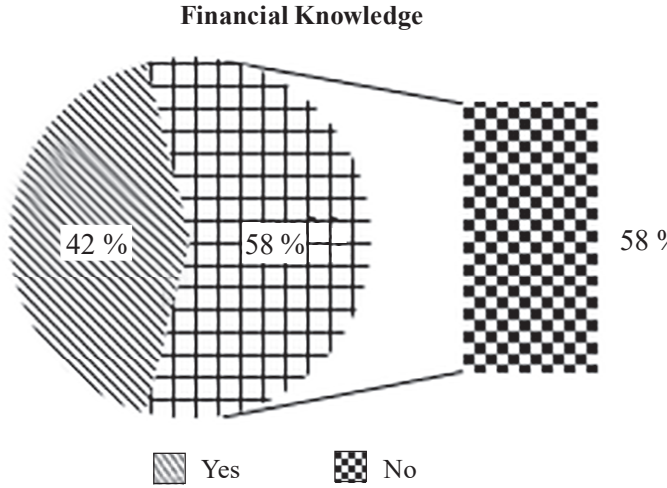

Fig. 3. The sample according financial knowledge
(% of each answer yes/no)

There were 32 questions; these questions examined the background of financial decision making, the process of gathering information, financial consciousness and the basic attitude to financial matters.

According to the results to the question: «If a citizen has a deposit in a Kazakhstani bank and this bank becomes bankrupt, do you know what maximum level of a deposit is entirely insured by the government?» 54,76 % of respondents find it difficult to answer, that totally prove our statement about lack of knowledge in the field of consumer protection. Only 19,05 % answered 5 million KZT, that was the right answer.

Examining the sample according to age it can be stated that the youngest respondents age 20–30 trust advertisements and rely more on their acquaintances and friends' opinions more than the majority of respondents. A further curiosity of the responses is that 20–30-year old sample was that they always monitor state of their finance (66 %), but according to the next results it was seen that they do not save money and spend it on everyday expenditures, so that they haven't got money to invest it in the bank deposit at an interest rate.

Conclusion

Interesting result of the survey is that we can analyze two different «generational» groups, whose economic behavior is formed in different social and economic conditions. By analyzing the whole survey, we can absolutely state that attitude to money of youth is characterized by the desire to get rich, to get a «good life». However many of them see the path to financial success by raising their educational and cultural status. A generation of parents sees money like a giving confidence and independence. For elderly people money – is an opportunity to live peaceful and quiet life, with a effective pension fund.

This research shows that there are significant age differences in the decision processes of the participants of this study. That is depending on their age, the participants do not behave in the same way when they make decisions, because the relevance they allocate to the task, the decision maker, and the environmental factors that determine the resolution process is different in some aspects. With regard to age, answer comparisons indicate that the youth felt significant pressure from emotional and social aspects in their decisions, while the older adults and the retired people

to a lesser extent. One the of the big feature of financial decision making is lack of information, so that youth insufficiently motivated, or are unclear of the relevance and value of financial literacy to their lives.

The concept of «financial decision making literacy» goes beyond political, geographical and socio-economic borders and the need for financial education of population increases exponentially. Financial literacy helps young people to change their attitude to money, management, makes us think about our future and plan our life cycle. A good level of financial literacy is required for each person not only to achieve their personal financial goals, but also to ensure the life cycle. Whatever the specific purpose, gains from financial literacy will increase the standard of living and confidence in the future stability and prosperity of the economy and youth as a whole. The general aim of the research can be formulated for example creation of a mental schema for researchers in the field of economy and finance and practicing professionals [19]. Psychological recommendations for both groups of financial decision makers could be compiled.

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