Financial Literacy Index for College Students

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ABSTRACT

One of the causes of Financial Crisis is identified as lack of Financial Literacy. India is a developing country and we are entering into second phase of Financial Sector Reforms. Integration of our economy with world economy will increase further and so the risk of world crisis impacting Indian economy.

In India there is large unorganized sector and the Government is withdrawing from pension schemes even in organized sector. In absence of any social security scheme, our economy may be in, for a major instability after demographic dividend starts waning after 20/25 years. Thus improvement of financial literacy in the country is imperative for financial wellbeing of individuals as well as for the economy.

The significance of financial literacy as a transformation agent on the financial inclusion agenda of the nation is undisputed in academic as well as practitioner's circle. This paper takes a literature review of definitional and measurement aspects of financial literacy. It makes an attempt to identify the various aspects involved in defining and

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measuring Financial Literacy in Indian context. It also takes a review of Financial Literacy measures being taken in the country.

We propose to arrive at an index of Financial Literacy for college going students. It may be pointer to modification of educational inputs for improvement in Financial Literacy amongst the students.

Keywords: Financial Literacy Index, India, College Students

Introduction

Adequate level of financial literacy is required for financial wellbeing of the individual and that of the family. It impacts short term requirement like day to day money management as well as long term requirement like buying home, children education, and secure retirement. Ineffective money management can also result in behavior that makes consumers more vulnerable to a financial crisis (Braunstein and Welch, 2002).

Insurance and pension plans are important for ensuring security in retired life. This requires knowledge about the markets, financial products and also proper attitude as well as behavioral skills. These activities need budgeting, planning and involve savings and investments.

Indian economy is entering into second phase of financial sector reforms. Consequently it will be integrated with world economy at a greater pace and will face increasing risk of adverse impact of world economic crisis. In this situation, the ability of individuals to make informed financial decisions will be of crucial importance. As Klapper et al. (2012) suggested that improved financial literacy will lead to a more prudent borrower behavior that could reduce financial fragility. Well-informed consumers may also exercise innovation-enhancing demand on the financial sector and play an important role in monitoring the market. This will also help improve transparency and honesty in financial institutions.

In India, we have a large population working in informal sector. Lack of Financial literacy is identified as one of the major causes of financial exclusion by the researchers. Thus it can be inferred that financial literacy will facilitate the process of financial inclusion and bring them into formal sector. Cole et al. (2013) argue that "*drawing the individuals and firms* *working in the informal sectors into the formal financial sector would be one of the fastest ways to foster financial development in emerging markets.*"

Efforts to improve financial literacy is also an important pathway to increase saving rates and lending to the poorest and most vulnerable consumers, such as those working in informal sectors (Klapper et al., 2012). Therefore developing financial literacy in India is of paramount importance.

In India social security system is very poor and the government is withdrawing from pension schemes in organized sector. Insurance sector in India has not covered significant portion of the population. Diverse sections of the society need different kind of treatments when it comes to financial literacy. In India, there is huge diversity in terms of economic as well as social status of the individuals and community. Each of this section of society would require a different measure of financial literacy. India is having the largest young population in the world. But, education system of the country has been questioned by many researchers. We suspect that in line with general literacy, financial literacy also would be in bad shape. In order to assess the efficacy of developmental efforts, constructing a proper measure of financial literacy is necessary. Keeping this in view, we propose to construct a measure of financial literacy for college students.

Next Section takes review of literature on financial literacy and its measurement. It discusses various measures taken by different stakeholders to promote financial literacy in India. In third section, methodology for developing financial literacy index is discussed and this is followed by discussions in last section.

Literature Review

Definitions of Financial Literacy

In literature the term Financial Literacy is interchangeably used with financial capability and economic literacy (Lusardi, and Mitchell, 2014). Some researchers consider it as a necessary skill which is regarded as ability to get and use financial information, which can be measured through understanding of financial concepts and through financial performance (Mason and Wilson, 2000). According to Murray (2010), it is a set of capabilities such as general literacy, problem solving ability, numerical ability applied to personal finance. Financial Literacy is relative in the sense that it is specific to socioeconomic conditions of the people and is linked to their specific problems such as exclusion.

Atkinson and Messy (2011), define Financial literacy as "*a combination of awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing*" However, levels of Financial Literacy can be considered as basic and beyond. Once a person attains basic level, he requires ability, skills, and attitude along with access to financial services for making sound decisions.

Financial literacy involves ability for judgment and discretion (Piprek et al., 2004). Basic financial literacy includes understanding of terms like savings, credit, insurance and budgeting. Financial Literacy means acquiring knowledge, skills, values and habits for successfully managing finances of individuals and family which includes managing earning, spending, saving, borrowing and investing. In essence financial literacy helps people in framing proper responses to situations involving risk and opportunities. It enables people to take informed decisions resulting into financial wellbeing.

National Council on Economic Education (NCEE, 2005) mentions Financial Literacy as "familiarity with basic economic principles, knowledge about the U.S. economy, and understanding of some key economic terms."

OECD (2005) defines Financial Literacy "as *a combination of financial awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being." People achieve financial literacy through a process of financial education.* The organization defines Financial education as *"the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being".*

Lusardi and Tufano (2009) mentions debt literacy with reference to financial illiteracy meaning lack of knowledge in respect of risk mitigation, about financial instruments such as shares and bonds and inability for numerical calculations.

The President's Advisory Council on Financial Literacy (PACFL, 2008) defined it, as "*the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being*". This definition appears to be inadequate as literature reveals the following as its essential features of financial literacy.

1. Knowledge, 2. Skills for application of that knowledge, 3. Perceived knowledge, 4. Financial behavior, and 5. Financial experiences.

Moreover financial behavior is influenced, not only by knowledge and skills but also by financial experiences and perceived knowledge. Financial experiences in turn impact knowledge, skills and perceived knowledge.

Draft of National Strategy on Financial Education (2012), by Indian Government mentions that *"The main components of financial education are understanding the key financial products one may need throughout one's life; understanding basic financial concepts; developing skills and confidence to be aware of financial risks and opportunities and to benefit from them; making sound financial choices about saving, spending, insurance, investing; and managing debt throughout one's life."*

Importance of Financial Literacy

Poor people in the society are more vulnerable to health risk and risk of loss of livelihood. Financial literacy helps the poor in avoiding such eventualities and to avoid financial exploitation. In this sense it an important capability for the poor to prevent them from getting into the trap of poverty. "*Financial literacy and financial inclusion are integral to each other and are important because they are integral to attacking poverty. They are two elements of an integral strategy; while financial inclusion provides access, financial literacy provides awareness*" D. Subbarao (2013).

It improves ability of the people in, availing financial services, planning their own finances and optimal utilization of resources which in turn promotes economic development. (Patel, 2005). It is a lifelong process, related to the knowledge and to life situations (Engelbrecht, 2008). Its main characteristic is that basics of it can be improved through teaching

(Cohen et al., 2004). Financial literacy increases confidence and self-control of the people, which in turn facilitates their participation in the formal economic system. It will finally lead to empowerment and well-being.

Lusardi (2004) concludes that financial education programmes for older people have positive impact on their wealth after retirement. The study which is based on data analysis of older households shows that many families which are on the verge of retirement, possess very less or no assets. The study further concluded that retirement seminars can increase level of their savings and assets; especially in respect of those, who are less educated and whose savings are on lower side.

Researchers have concluded that financial literacy is necessary for wellbeing of individuals and for development of economy. However, Willis (2008) has taken contrary view arguing that, there is no a consensus, on the definition of financial literacy as well as on the method of its measurement. Therefore outcome of the studies cannot be taken as a benchmark. Moreover financial literacy programme are entailed with the costs. On the other hand, effectiveness of these programmes is not supported by empirical evidence. The cost benefit analysis of these studies and programmes is required to be done. The cost of running these programs outweighs benefits, because given the complex nature of financial industry; consumers require multidisciplinary knowledge to make them capable enough to take the decision. Financial education will increase the knowledge of consumers, which is may be actual or perceived. Actual knowledge promotes such desirable behavior as explained above. However, perceived financial knowledge is an illusion of being aware and would also promote the same desirable behavior that may result in bad decisions and irreversible financial mistakes.

Contrary view apart, there is a lack of consensus amongst the researchers, as to what constitutes financial literacy. So also relationships between financial education, financial literacy and financial behavior are not fully known. In ultimate analysis, the financial behavior is important. It is an outcome of additional factors such as attitudes and experiences which are personal in nature. In addition to the complexity of financial behavior, the knowledge gaps exist, about the mutual relationship between these factors.

The lack of appropriate data is a major hindrance in understanding the process leading to financial behavior.

Measures Being Taken in India

India has large proportion of financially excluded population. There is also financially included population participating in financial as well in consumer markets. Therefore different approaches are needed depending on the sector of population. The programmes for excluded section are basic and aim at avoidance of exploitation and over indebtedness and eradication of money lending practices in the country.

The areas identified for included sector are; banking, securities market, insurance and retirement planning. In addition to basic knowledge, features of market products are also the learning objectives.

The project "Financial literacy" is undertaken by Reserve Bank of India (R.B.I.) for school and university students, women and senior citizens, in addition to financially excluded section of society. Banks in India have started Financial Literacy Centers (FLCs) throughout the country. In addition to banks, Self Help Groups, Micro Finance Institutions are also involved in promotion of financial literacy through their learning material and websites.

The Insurance Regulatory and Development Authority (IRDA) has launched awareness programme for policy holders giving information about rights and duties of policy holders; and has put in place grievance redressal mechanism. It also organizes seminars for benefit of policy holders.

The Securities Exchange Board of India (SEBI) has been offering certification courses on various market related subjects. It organizes workshops throughout the country on various topics such as, investment, financial planning, risk management and retirement planning. The Pension Fund Regulatory and Development Authority (PFRDA) have opened FAQ section on its website. It has also appointed aggregators for creating awareness in public about pension schemes.

Table 1: Initiatives by Different Stakeholders

Organizations	*Initiatives*
Reserve Bank of India	• National strategy for financial education • Materials for financial literacy • Directing banks for various initiatives related with financial literacy
Banks	• BC/BF Model • Credit counseling centers
NGOs/MFIs	• SEWA has developed manual for financial literacy, FINO
Educational institutes	• Inclusion of material related with financial literacy in syllabus
Insurance Regulatory Authority of India	• Awareness programmes and Simple messages about the rights and duties of policyholders on television and radio • Annual seminar on policy holder protection and welfare • 'Policyholder Handbooks' as well as a comic book series on insurance • Integrated Grievance Management System (IGMS)
Securities and Exchange Board of India	• Nationwide campaign • Empanelment and training of Resource Persons throughout India • Workshops to these target segments • Investor education programs • Seminars through various stakeholders • Dedicated website for investor education • Study materials
The Pension Fund Regulatory and Development Authority (PFRDA)	• Developed FAQ on pension related topics on its web • Appointment of intermediaries called Aggregators for pension awareness mostly in vernacular languages

Source: Adapted from Singh and Venkataramani, 2014.

Financial education strategy in India, envisages ways of creating awareness and educating consumers about access to financial services, the various types of products and their features, expanding skills to translate knowledge into responsible financial behavior and teaching consumers about their rights and obligations. It aims at enabling informed decision making and for undertaking retirement planning. The ultimate objective is; active, informed and responsible participation by the people in financial markets.

Measurement of Financial Literacy

Financial literacy is related socio economic environment of the people and culture and general level of literacy. It is also related to their personal finances.

As per Lusardi and Mitchell (2011) financial literacy levels of adults around the world have been measured based on three basic concepts, i.e. understanding and calculation of interest rates, understanding of inflation, and risk diversification knowledge. They have designed a standard set of questions around these ideas and implemented them in numerous surveys in the United States and abroad. The questions have been designed on the basis of four criteria namely simplicity, relevance, brevity and capacity to differentiate, meaning and the rationale behind them is given in Table 2.

Table 2: Details of Criteria Used by Lusardi and Mitchell (2011)

Criteria	*Meaning/Rationale*
Simplicity	The questions should measure knowledge of the building blocks fundamental to decision making in an inter temporal setting.
Relevance	The questions should relate to concepts pertinent to peoples' day-to-day financial decisions over the life cycle; moreover, they must capture general, rather than context-specific, ideas.
Brevity	The number of questions must be kept short to secure widespread adoption.
Capacity to differentiate	The questions should differentiate financial knowledge to permit comparisons across people.

In order to facilitate the sharing of experiences and competence, OECD has set up International Framework for Financial Education. It has developed a method of survey through INFE for measurement of financial literacy amongst adults across the world. The questionnaire contained 19 questions covering knowledge, attitude and behavior. Out of these; substantial number constituted questions on financial knowledge. These related simple or compound interest rates, risk of investment and diversification, inflation .The questions on simple type of financial products were also included. In order to even out the level of difficulty of questions, hard questions were given multiple choices for answers whereas simple questions were kept open ended. The option of “do not know” was also given.

Heenkkenda (2014) has used: (1) Saving Behavior, (2) Investment and payment mechanisms, (3) Awareness on financial products, (4) Risk Management & pension funds, and (5) Money Management Financial planning Knowledge in measuring financial literacy in Sri Lanka. It revealed that financial literacy is very much diverse across type of settlements. There is diversity across domain knowledge. Scores were high on financial knowledge but scores on risk management were low. It was found that financial literacy was higher amongst male as compared to female. Better the income or literacy levels; higher were the scores. Amongst different age groups scores were higher in age group of 25-34 years. Married people showed higher scores, so also the urban sectors. High level of financial literacy was found amongst families which had only one source of income. The persons having no dependents also scored high. The score were low amongst female, lower income groups and older people.

Behrman et al. (2012), have studied financial literacy amongst Chilean population. In this study, they have added questions regarding Chilean retirement system in addition to the set of questions used by Lusardi and Mitchell (2011), which were used in several international surveys. It was found that the respondents had little knowledge about basic concepts or retirement system. However, the study revealed that financial literacy increases the possibility of contribution to pension savings.

Attempts have been made in the U.S. to measure financial literacy and to understand the cause and effect relationship between financial literacy, education and behavior; amongst college students, adults and older people. It was found that various sections of US population lack different financial skills. Lusardi and Mitchell (2011) observed that financial illiteracy is widespread even in the developed economies and is not related to stage of economic development. They identified facilitators of financial literacy like (1) good at mathematics, (2) experiences, (3) age, (4) gender, (5) occupation, (6) education, (7) ethnicity, and (8) urbanization. Apart from this, different patterns were observed on the basis of self-assessment of financial literacy. Older people rate themselves higher and self-assessment of younger population is near to the actual. So also, Americans rate themselves higher whereas Japanese tend to rate themselves low.

However there are many discrepancies in the financial literacy measured by these methods. The report of the Financial Literacy and Education Commission (2006) mentions that, "*a systematic method of evaluation of financial literacy programs does not exist*." Huston (2010) also has identified three major difficulties in developing a standard measure.

1. Lack of common construct.
2. Lack of comprehensive set of questions covering all components of Financial literacy.
3. Lack of guidance for interpretation of the measure.

Methodology

It is revealed through literature that many researchers have concentrated only on knowledge component of financial literacy. However, it is financial behavior which ultimately matters and knowledge as well as attitude influence behavior. This study takes into consideration three aspects of Financial literacy namely, knowledge, attitude and behavior. We have included questions representing all three aspects.

Volpe et al. (2002) have classified the questions as easy, medium and difficult to measure the financial literacy. However different weightages were not given to these questions depending on level of difficulty, meaning there by that level of questions have no bearing on level of financial literacy; which appears to be incorrect. We have adapted their questionnaire and contextualized it to Indian situation.

In order to even out the level of difficulty of questions; Atkinson and Messy (2011) had given hard questions multiple choices for answers whereas simple questions were kept open ended and the option of "do not know" was also given. However these measures do not properly address the issue of "unequal level difficulty" of questions.

In order to resolve this issue, it is necessary to give different weightages to questions depending on the level of difficulty. Respondent correctly answering difficult questions has a better knowledge than the one answering equal number of easy questions and thus should be rated higher.

If different weightages are not given, difficult questions will get equal value as easier ones and justifying the same would be difficult. Categorization of respondents on this basis will thus be incorrect.

We have included questions on knowledge, behavior and attitude and have given different weightage to the knowledge related questions based on their level of difficulty. There are 30 questions (Annexure) on knowledge aspect, and we have given 1, 1.5 and 2 marks to easy, medium and difficult questions respectively.

Table 3: Classification of Knowledge Related Questions as Per Level of Difficulty

Level	*Easy*	*Medium*	*Difficult*
Question Number	6,7,14,15,16,19,22,23, 24,26,30,32,33,34,35	8,10,11,12, 18,21, 25,28,37,40	9,13,17,20,27,29, 31,36,38,39
Total Number of Questions	15	10	10
Wight Assigned	1	1.5	2
Marks	15	15	20

Similarly, there are 5 questions each on attitude and behavior and each question carries maximum 5 marks.

Table 4: Category (area) Wise Marks to Questions

Area (Question number)	*Marks*
Knowledge (6-35)	50
Attitude (36-40)	25
Behavior (41-45)	25

As the questionnaire is designed for students, the knowledge component is given more weightage as compared to attitude and behavior. Majority of students in India are dependent of their parents for financial support and their financial attitude and behavior are in early stage of life cycle.

The questionnaire emphasizes on four areas namely General personal finance knowledge, Savings and Borrowings, Insurance and Investment. The questions are related to Indian situation and pertain to banking, securities market, insurance and retirement planning. These are the areas, envisaged under national strategy on financial education.

Conclusion

The level of financial literacy worldwide is observed to be low. Considering the education system in India, we suspect that financial literacy here must be at low level. Moreover, we have a large unbanked population; financial literacy will help in bringing them in formal financial fold. It will favorably affect not only economic aspects of individuals but also social aspects. There are many malpractices and frauds taking place in financial sector. Financial literacy will help the people by preventing them in getting in to those traps. It will act as preventive as well as curative measure for the consumers.

This highlights the need for basic level financial education in the school curriculum and also suitable inputs at college level depending upon their level of financial literacy. The inputs should address attitude and behavioral aspects in addition to knowledge.

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Annexure-1: Questionnaire

Survey of Personal Financial Literacy

I. *About Yourself*

1. Name:……………………………..

2. What is your age?
   A. 18-23
   B. 24-29
   C. 30-35
   D. 36-40
   E. Above 40.

3. What is your sex? A. Male, B. Female, C. Do not want to disclose.

4. What is your educational qualification:
   A. Secondary (10^{th} Standard)
   B. Under-Graduate
   C. Graduate
   D. Post-Graduate
   E. Ph.D.

5. Which best describes your or your family's personal income last year?
   A. Below 2.5 Lakh
   B. 2.5 to 5 Lakh
   C. 5 to 7.5 Lakh
   D. 7.5 to 10 Lakh
   E. Above 10 Lakh.

II. *General Personal Finance Knowledge*

Note: Level of difficulty for questions: (E: Easy, M: Medium, D: Difficult) (Answer **Bold** marked are right answers)

6. Personal finance literacy can help you (E)
   A. Avoid being victimized by financial scams.
   B. Buy the right kind of insurance to protect you from catastrophic risk.

C. Learn the right approach to invest for your future needs.
D. Lead a financially secure life through forming healthy spending habits.
E. Do all of the above.

7. Personal financial planning involves (E)
   A. Establishing an adequate financial record keeping.
   B. Minimizing expenses.
   C. Preparing plans for future financial needs and goals.
   D. Both A and C.
   E. All of these.

8. The most liquid asset is (M)
   A. Money in a fixed deposit account.
   B. Money in a saving account.
   C. A car.
   D. A computer.
   E. A house.

9. Your net worth isthe difference between your (D)
   A. Expenditures and income.
   B. Liabilities and assets.
   C. Cash inflow and outflow.
   D. Bank borrowings and savings.
   E. None of the above.

10. You are not overspending if (M)
    A. You issue cheques for more than what you have in your account.
    B. Your monthly wages are Rs. 3,000 and you are spending Rs. 3,500.
    C. You frequently receive calls from debtors.
    D. Your monthly debt payment is 30% of your take-home pay.
    E. None of these.

11. ……….is not a cost of taking an apartment on lease (M)
    A. Security deposit.
    B. Monthly rental payment.
    C. Expenses incurred for non-compliance of lease terms.
    D. Medical expenses of your friend who fell and broke his arm in the apartment.

E. Security deposit retained by the landlord for damages to property beyond normal wear and tear.

12. If you signed a twelve month lease for Rs. 3,000/month but never occupied the apartment. Notice of one month is given as per the contract. You legally owe the landlord: (M)
    A. Your security deposit.
    B. Your first month's rent of Rs. 3,000.
    C. Your twelve month's rent of Rs. 36,000.
    D. Nothing.
    E. Whatever the landlord requires.

13. Bank account reconciliation involves (D)
    A. Balancing bank statement with your checkbook records to determine if there are errors.
    B. Reconciling current bank statement with the previous month's statement to determine if there are errors.
    C. Subtracting outstanding checks to your checkbook balance to determine if your checks have been properly processed.
    D. Adding outstanding checks to your checkbook balance to improve your credit standing.
    E. None of the above.

III. *Savings and Borrowing*

14. Suppose you had Rs. 100 in a savings account and the interest rate was 4% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? (E)
    A. More than Rs. 104
    B. Exactly Rs. 104
    C. Less than Rs. 104
    D. Do not know
    E. Refuse to answer.

15. Imagine that the interest rate on your savings account was 4% per year and inflation was 6% per year. After 1 year, how much would you be able to buy with the money in this account? (E)
    A. More than today
    B. Exactly the same

C. Less than today
D. Do not know
E. Refuse to answer.

16. You have just graduated from college and found a job earning Rs. 4,00,000 per year. You will pay Rs. 6,000 per month for five years for education loans. What should you do to improve your financialhealth? (E)
    A. Cut expenses and use your savings to pay down debt.
    B. Keep the same spending pattern as in the past.
    C. Apply for a consumer loan for a new car.
    D. Use your credit card to pay for a vacation in the Switzerland.
    E. None of the above.

17. Your savings accounts in a Public Sector bank are insured by (D)
    A. Deposit Insurance Corporation to the maximum amount of Rs. 1,00,000 per depositor.
    B. LIC to the maximum amount of Rs. 100,000.
    C. GIC to the maximum amount of Rs. 50,000 per account.
    D. IRDA to the maximum amount of Rs. 100,000.
    E. None of these.

18. If you invest Rs. 1,000 today at 8% for a year, your balance in a year will be (M)
    A. Higher if the interest is compounded daily rather than monthly.
    B. Higher if the interest is compounded quarterly rather than weekly.
    C. Higher if the interest is compounded yearly rather than quarterly.
    D. Rs. 1,040 no matter how the interest is computed.
    E. Rs. 1,000 no matter how the interest is computed.

19. Which of the following investments require that you keep your money invested for a specified period or face an early withdrawal penalty? (E)
    A. Fixed deposit.
    B. Savings Accounts.
    C. National Saving Certificates.
    D. Current Accounts.
    E. None of these.

20. Which of the following statements is TRUE about the floating rate on housing loan? (D)

A. It is the actual rate of interest paid over the life of the loan.
B. It is fixed for a year.
C. It is a good measure of comparing loan costs.
D. It takes into account all charges on loan account,
E. None of the above.

21. You can receive your credit report from (M)
    A. CIBIL
    B. A commercial bank
    C. Post Office
    D. University
    E. Retail Store.

22. Which is FALSE concerning credit cards? (E)
    A. You can use your credit card to receive a cash advance.
    B. If your credit limit is Rs. 10,000, and you utilize a credit Rs. 4,000, then interest would be charged on Rs. 10,000.
    C. The rate of interest on your credit card is normally higher than you can earn on a deposit.
    D. A credit card company will not charge you interest if you pay off the entire balance by the due date.
    E. You cannot spend more than your line of credit.

23. An overdraft (E)
    A. Occurs when you write a Rs. 1,000 cheque when you have Rs. 500 in your account.
    B. Is a stop-payment order written by the payee.
    C. Will result in fines.
    D. All of the above.
    E. Both A and C.

24. You will improve your creditworthiness by (E)
    A. Visiting your local commercial bank.
    B. Showing no record of defaults.
    C. Paying cash for all goods and services.
    D. Borrowing large amounts of money from your friends.
    E. Donating money to charity.

25. If you co-sign a loan for a friend, then (M)
    A. You become responsible for the loan payments if your friend defaults.

B. It means that your friend cannot receive the loan by himself.
C. You are entitled to receive part of the loan.
D. Both A and B.
E. Both A and C.

IV. *Insurance*

26. The main reason to purchase insurance is to (E)
    A. Protect you from a loss recently incurred.
    B. Provide you with excellent investment returns.
    C. Protect you from sustaining a future loss.
    D. Decrease the chances of accidents.
    E. Improve your standard of living by filing fraudulent claims.

27. Auto insurance companies determine your premium based on (D)
    A. Age of insured.
    B. Record of accidents.
    C. Type and age of vehicle.
    D. Completion of a driver education course.
    E. All of the above.

28. The main reason to purchase medical insurance is to (M)
    A. After buying medical insurance, you are normally covered for pre-existing conditions.
    B. You have a better chance to choose doctors.
    C. Compensate for the future medical expenses.
    D. A policy purchased by the individual is cheaper than one purchased through a group.
    E. None of the above.

29. ....would not ordinarily be covered under a homeowners policy. (D)
    A. War
    B. Earthquake
    C. Flood
    D. Your being sued by someone for slander
    E. All of the above.

30. You have a better chance of resolving a complaint against an insurance company by bringing the issue to a government agency at the (E)

A. Court.
B. Grievance Redressal Officers, GRO, of all insurance companies.
C. Grievance Redressal Cell of the Consumer Affairs Department of IRDA.
D. All of the above.
E. None of the above.

31. Term Insurance Means (D)
    A. It is the policy wherein the insured gets death benefit if any contingency happens within the policy term.
    B. The insured is, however, not entitled to receive any survival benefit if he outlives the policy term.
    C. These plans are relatively cheaper than endowment policies, money back policies and ULIPs.
    D. All of the above.
    E. None of the above.

32. Microinsurance is meant for (E)
    A. Poor People
    B. Rural Area
    C. Urban Area
    D. Involves Small amount
    E. Both A and D.

33. Agriculture related Insurances are(E)
    A. Crop Insurance
    B. Livestock Insurance
    C. Both A and B
    D. None of the above.

V. *Investments*

34. Please tell me whether this statement is true or false. "*Buying a single company's stock usually provides a safer return than a stock mutual fund.*" *(E)*
    A. True
    B. False
    C. Do not know
    D. Refuse to answer

35. Assume you're in your early twenties and you would like to build up for a secure retirement in next 30 years. Which of the following approaches should not be in your plan? (E)
    A. Start to build up your savings account at a commercial bank.
    B. Save money in fixed deposit accounts.
    C. Put monthly savings in a diversified growth mutual fund.
    D. Invest in Pension Schemes.
    E. None of the above.

36. If interest rates rise, the price of a Government bond will (D)
    A. Increase.
    B. Decrease.
    C. Remain the same.
    D. Be impossible to predict.

37. A high-risk and high-return investment strategy would be most suitable for (M)
    A. An elderly retired couple living on a fixed income.
    B. A middle-aged couple needing funds for their children's education in two years.
    C. A young married couple without children.
    D. All of the above because they all need high return.
    E. None of the above because they are equally risk averse.

38. Which of the following is FALSE? (D)
    A. As shareholders of a mutual fund, you have a right to tell fund managers what securities to buy.
    B. A mutual fund is a diversified collection of securities used as an investment vehicle.
    C. A mutual fund is an investment corporation that raises funds from investors and purchases securities.
    D. Your ownership in a mutual fund is proportional to the number of shares you own in the fund.
    E. None of the above.

39. Which of the following is false about 'Systematic Investment Plan'? (D)
    A. It works on the principle of regular investments.

B. It is an investment strategy wherein an investor needs to invest the same amount of money in a particular mutual fund at every stipulated time period.
C. It enables an investor to buy more units when the price falls and fewer units when the price rises.
D. It is riskier than one time investment in equity market.
E. None of the above.

40. If other factors remain the same, U.S. dollar value of a Indian fund will be (M)
    A. Higher if the dollar's value rises against that of the Indian Rupee.
    B. Lower if the dollar's value rises against that of the Indian Rupee.
    C. Unchanged if the Indian Rupee's value rises against that of dollar.
    D. Lower if the Indian Rupee's value rises against that of dollar.
    E. Impossible to determine if exchange rate changes between Rupee and dollar.

VI. *Personal Finance Opinions and Decisions*

41. Do you maintain financial records?
    A. Maintain very detailed records. (5)
    B. Maintain minimal records. (2.5)
    C. Maintain no records. (0)

42. What do you do with your pocket money?
    A. Spend it fully (0)
    B. Save a portion of it in the bank (5)
    C. Save it in home (2.5)

43. How often you ask for extra money from your parents
    A. Once in a month (2.5)
    B. 2-3 times in a month (0)
    C. Never (5)

44. How often do you borrow?
    A. Never (5)
    B. Once in a month (2.5)
    C. 2-3 times in a month (0)

45. Do you intimate your parents about the expenditures at college in advance?
    A. Yes (5)
    B. No (0)
    C. Sometimes (2.5)

Using the scale given below please rank the importance of items numbered for questions 36 to 40.

A	*B*	*C*	*D*	*E*
Very Important (5)	Somewhat Important (4)	Not Sure (3)	Somewhat Unimportant (2)	Very Unimportant (1)

46. Maintaining adequate financial records. (E)
47. Spending less than your income. (E)
48. Maintaining adequate insurance coverage. (D)
49. Planning and implementing a regular investment program. (M)
50. Planning for retirement. (M)