

# Financial literacy as an important aspect of economic education

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**Abstract:** Today almost every decision is affected by or connected with finances. For this reason importance of the concept of financial literacy is increasing. This issue is related not only to individuals who make decisions about their future but also to society as a whole. The paper deals with a brief description of the concept of financial literacy and presents results of surveys of financial literacy that have been undertaken in recent years. In conclusion paper presents results of our own research, which was aimed to identification of level of financial literacy among residents of Slovakia.

**Key words:** financial literacy, financial education, national financial literacy standard

**JEL:** G00; G14; I22; P46

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## 1. Introduction

Financial sector is becoming increasingly sophisticated and complex system. There is an increasing amount of information relating to the area of finance and economy. Some pressure is on all of us to know at least basic knowledge in the field of financial literacy. Poor financial literacy entails a risk not only for personal finances but also has a social impact.

Financial literacy is regarded as a specialized part of the economic literacy. In addition to financial literacy the economic literacy also includes the ability to ensure your income, the ability to consider consequences of our decisions, the ability to decide on personal expenses or the ability to focus on the labour market etc. In economic literacy it is also possible to include macroeconomic aspects (knowledge of basic macroeconomic indicators such as gross domestic product, inflation, interest rate, etc.).

## 2. Literature review

Financial literacy is defined by National standards of financial literacy (NŠFG) as the ability to use knowledge and skills to effectively manage their own resources in order to ensure a lifelong financial security.

Financial literacy cannot be seen as an absolute condition, but as a continuous continuum of capabilities that are conditioned by many variables – age, family, culture or place of residence). Financial literacy is a state of constant evolution which allows individuals to respond effectively to new events and constantly changing economic environment (MINEDU, 2012).

Bertl (2012) sees financial literacy as the ability to read, analysed and manage personal financial resources which have an impact on material security. It also includes the ability to navigate between financing decisions, the ability to plan future action and appropriate responses to life events that have an impact on everyday life.

Financial literacy constitutes one of the core competencies of economic literacy, this means that financially literate citizen should possess such knowledge, skills and values and attitudes to be able to apply in contemporary society.

Financial literacy has three components:

- Cash literacy, consisting of competencies necessary to work with cash and noncash money. It also includes working with tools designed to work with money (current account, credit cards, etc.);
- Price literacy which includes competences necessary for understanding price mechanism and inflation (price of money changes over time, difference between nominal and real interest rates);
- Budget literacy, which is understood as the competences necessary to manage your personal or family budget and the ability to handle different situations in life financially (e.g. the ability to manage financial assets and financial liabilities) (Sivák, 2011).

## 3. The current state of financial literacy in Slovakia

The first survey of financial literacy in Slovakia was realized by Slovak Banking Association in 2007. The aim of survey "Financial literacy Slovak consumers" was to determine level of financial literacy, identify level of information about financial products and opinions on financial education. The survey was conducted on a sample of 1107 respondents and questionnaire as main method was used. The questionnaire contained 50 questions. Part of survey which focuses on financial literacy contained 10 items. The average level of financial literacy was found. It was also found that the financial literacy index is proportionally influenced by education and income level. Age and employment affect the financial literacy index inversely proportional.

Based on this survey, which clearly points to lack of society-wide level of financial literacy in Slovakia, was approved National financial literacy standard version 1.0. For its implementation were primary and secondary schools asked to include new topics in general and vocational subjects since September 2009.

International measurement of financial literacy in the framework of PISA (Programme for International Students Assessment) was first realized in 2012. PISA is coordinated by OECD. This is an electronic testing of literacy and numeracy and problem solving. Testing was attended by 13 countries in total were tested 29 000 students. Slovakia also participated (1 059 pupils). Testing was realized by National institute for certified educational measurements. The aim was to assess knowledge and skills of 15-year old pupils. The average results of pupils by country are shown in table 1. Pupils from Slovakia ranked 16, which places them below the OECD average.

**Tab. 1 Average results of pupils by country**

Country	Average result
Shanghai (China)	603
Belgium	541
Estonia	529
Australia	526
New Zealand	520
Czech Republic	513
Poland	510
Latvia	501
.....	.....
Slovakia	470

SAV implemented in cooperation with Institute of experimental psychology and FOCUS Agency representative survey of financial literacy of our population in 2012. Survey respondents (1 014) answered 33 questions relating to financial knowledge and knowledge of the rules of pension system in Slovakia. Part of this research focused on financial knowledge tested basic financial literacy through three standard questions. These questions were constructed by Annamaria Lusardi (USA) and they are used practically in each survey in the World. Slovaks compared to seven countries in the world are mediocre. We are a little less literate than Germans and Dutch, but better than Americans or Japanese. (Baláz, 2013)

The international PISA 2015 testing was carried out during period April 4 – April 30 2015 on 292 primary and secondary schools. In testing participated approximately 6 400 of pupils. The test results will be known in December 2016.

#### 4. Material a methods

On data collection questionnaire was used. Respondents were asked 15 questions of financial literacy, both theoretical and practical character. The questionnaire was distributed electronically via e-mail, allowing simple and fast data collection. Data were analysed and processed by MS Excel. We contacted 260 respondents. 71 questionnaires were filled in correctly. Respondents were stratified by age, gender, educational attainment and economic status. The major part of respondents was women (52 %).

#### 5. Results and discussion

The survey shows that the overall level of financial literacy can be assessed as an average. The proportion of correct responses at questions aimed on financial literacy was around 50%. Similar results were also obtained on questions focusing on the practical application of knowledge in real life situations. Given that 93% of people interviewed use a variety of financial products, the average level of financial literacy appears to be insufficient. More

than half of them showed interest to increase their financial literacy. In the framework of the realized survey we focus on some of questions asked.

On the question 10 (what is inflation) respondents were asked to choose from three options. Correct option (devaluation of money over time) was chosen in more than 73 % of total responds. It does not care on gender of population. The most correct answers (80%) were recorded in group up to 25 years. The worst rating was achieved by group over 50 year's respondents. The difference is also found among respondents with secondary and university education. Respondents with secondary education correct answered in 73 % responds. Respondents with university education correct answered in 86 %. The difference between economically active respondents and economically inactive respondents was not significant.

**Table 2. Overview of responses to question 10**

	Gender		Age				Education		Econ. activity	
	Men	Women	to 25	26-35	36-49	over 50	Second.	Uni.	active	inactive
Option 1	27	27	24	18	5	7	42	12	25	29
Option 2	1	5	2	4	0	0	5	1	1	5
Option 3	6	5	4	2	2	3	10	1	8	3

For next question (no. 12) participants were asked what the interest is. Respondents were asked to choose one from three options again. The correct answer was a fee paid by the debtor to the creditor. Right answer was marked only by 53 % of respondents. The difference between men and women was not significant (56 % women, 54 % men). Better evaluations were achieved by university educated respondents and economically active respondents.

**Table 3. Overview of responses to question 12**

	Gender		Age				Education		Econ. activity	
	Men	Women	to 25	26-35	36-49	over 50	Second.	Uni.	active	inactive
Option 1	19	20	13	14	4	8	30	9	23	16
Option 2	14	16	16	9	3	2	25	5	11	19
Option 3	1	1	1	1	0	0	2	0	0	2

The Question no. 14 was focused on practical use of knowledge in the field of financial literacy - simple interest and impact of inflation. Respondents had at their disposal four options. Right choice was marked in 54 % of answers. Men were more successful as women (62 % vs. 46 %).

**Table 4. Overview of responses to question 14**

	Gender		Age				Education		Econ. activity	
	Men	Women	to 25	26-35	36-49	over 50	Second.	Uni.	active	inactive
More	4	5	0	5	1	3	7	2	5	4
Less	21	17	19	11	3	5	28	10	18	20
Equally	1	3	3	1	0	0	4	0	0	4
I do not know	8	12	8	7	03	2	18	2	11	9

## 6. Conclusions

The overall level of financial literacy in Slovakia has long been rated as average, as evidenced by a survey that was realized. We see problem in the lack of awareness of population about financial literacy. Ministry of education has published National standard of financial literacy a few years ago. This document provides a material for teaching financial literacy. It is only partially included, in some cases not at all. To improve this situation it is necessary to implement financial education at all levels of education in Slovakia. It is also required to disclosure information about these financial issues among public at large.

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