The significance of financial self-efficacy in explaining women’s personal finance behaviour

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A B S T R A C T

Much policy attention has been placed on enhancing individuals’ financial knowledge and literacy, chiefly through financial education programs. However, managing one’s personal finances takes more than financial knowledge and literacy: an individual also needs a sense of self-assuredness, or ‘self-belief’, in their own capabilities. This personal attribute is known within the psychology literature as ‘self-efficacy’. This paper examines the significance of an individual’s financial self-efficacy in explaining their personal finance behaviour, through the application of a psychometric instrument. Using a 2013 survey of Australian women, financial self-efficacy emerges as one of the strongest predictors of the type and number of financial products that a woman holds. Specifically, our analysis reveals that women with higher financial self-efficacy – that is, with greater self-assuredness in their financial management capacities – are more likely to hold investment and savings products, and less likely to hold debt-related products. Even alongside other important factors – such as education, financial risk preferences, age and household income – the explanatory power of financial self-efficacy is found to be significant at the 1% critical level. Moreover, the significance of financial self-efficacy is independently identified from that of financial literacy factors, which bears important implications for the development of policies aiming to improve financial outcomes.

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1. Introduction and background

The past decade has seen governments in many countries establish national financial literacy strategies in an attempt to improve the financial wellbeing of their citizens. Chiefly, these strategies have sought to improve financial literacy through financial education programs (Asian Development Bank, 2013; Australian Securities and Investment Commission, 2013; Financial Literacy and Education Commission, 2011; Financial Services Authority, 2006; Hira, 2010; OECD, 2012, 2013b). In many instances, sub-groups of the population who are more vulnerable to financial disadvantage, such as women, have been afforded particular policy attention (OECD, 2013c, 2013d). Despite these heavy investments in financial education, most countries have experienced little observable improvements in financial literacy (OECD, 2013a). Furthermore, it appears that the effectiveness of many of these financial education programs has not been adequately evaluated (Fox & Bartholomae,
Jozkowski, Malhotra, & Shapero, 2008). From another perspective, other studies have looked at the extent to which an individual’s engagement with financial planning is affected by their level of self-esteem – a somewhat similar yet still distinct instance, Amatucci & Crawley, 2011; Danes & Haberman, 2007; Engelberg, 2007; Gutter, Copur, & Garrison, 2009; Sizoo, Mortimer, 2001), there appear to be even fewer studies that have similarly tested the explanatory power of the financial self-efficacy scale developed and validated by Lown (2011). This scale was derived from the generalised scale of self-efficacy established by Schwarzer and Jerusalem (1995) and is consistent with the principles for constructing self-efficacy scales advised by Bandura (2006a). We demonstrate the econometric applicability of this financial self-efficacy instrument in a standard model of economic behaviour, employing it as an explanatory variable to assess its significance in predicting observed behavioural outcomes. While we are aware of a small number of previous studies that have assessed the explanatory power of the related concepts of ‘investment self-efficacy’ (Forbes & Kara, 2010), ‘entrepreneurial self-efficacy’ (Kickul, Wilson, Marlino, & Barbosa, 2008) and ‘economic self-efficacy’ (Grabowski, Call, & Mortimer, 2001), there appear to be even fewer studies that have similarly tested the explanatory power of the financial self-efficacy scale: Dietz, Carrozza, and Ritchey (2003) offer one example where the financial self-efficacy scale has been applied as an explanatory variable, to explore the use of retirement plans. Most previous studies in the field of personal finance have simply focused on validating the internal consistency of the financial self-efficacy scale or examining measures of correlation between the scale and personal characteristics or other psychological or behavioural outcomes of interest (for instance, Amatucci & Crawley, 2011; Danes & Haberman, 2007; Engelberg, 2007; Gutter, Copur, & Garrison, 2009; Sizoo, Jozkowski, Malhotra, & Shapero, 2008). From another perspective, other studies have looked at the extent to which an individual’s engagement with financial planning is affected by their level of self-esteem – a somewhat similar yet still distinct concept from financial self-efficacy (Neymotin, 2010).

In our study, we assess the direct explanatory power of the FSES instrument by examining the relationship between an individual’s level of financial self-efficacy and observable aspects of their personal finance behaviour. Specifically, we look at the types of financial products that an individual holds, and draw an inference that their engagement with financial products reflects how well they are managing their personal finances and how financially responsible and forward-thinking they are. This inference is consistent with other studies that posit that certain actions – namely, budgeting, saving and demonstrating control over one’s spending – are indicators of forward-thinking and responsible financial behaviour, which ultimately results in better financial outcomes for the individual (Perry & Morris, 2005). We hypothesise that the types of financial products that are likely to enhance an individual’s financial security and financial outcomes in the future – namely, investments in shares and property, mortgages, savings and insurance – are indicative of an individual having greater capacity to manage their finances and to plan for the future, while the accumulation of liabilities such as loans and credit cards are indicative of an individual struggling in their capacity to plan ahead and manage their finances. We therefore hypothesise that the higher an individual’s level of financial self-efficacy, the more likely they are to have acquired investments in shares.
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