

# **The Expenditure Behavior of the Economic Literates**

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## **Abstract**

The main purpose of this study is to explore students' expenditure behavior and their effectiveness in managing their budget. The respondents are comprised of local university students from Business and Economics disciplines, whom are considered as economically and financially literates.<sup>1</sup> In order to meet the objectives, three analyses; the income, expenditure and saving analyses, are carried out. The effectiveness of budget management is identified through the saving level. All analyses employ descriptive tests. The results of the first analysis recorded an average income worth RM889.66, while the spending level is RM1077.12 per month. The difference between the average income and spending level is -RM187.46. This difference is the value of the saving level. The finding provides indication that the university students have inclination to overspend. We these findings we may conclude, in terms of behavior, students have high inclination to spend more than their level of income, and this type of behavior implies university students' financial management is ineffective.

## **Keywords:**

Economics, Financial Management, Income, Expenditure and Saving

## **INTRODUCTION**

Managing expenditure; or budget (also known as financial management) is very important at all levels of economic units, be it at national, state, organization, household and/or individual levels. At individual level, effective budget planning is closely associated with the success and comfort of one's life. This is because, adopting a proper and effective budget system helps to ensure a person's total expenditure does not exceed the total income earned. Moreover, it may also function as a mechanism in preventing oneself from being trapped in debt and/or ensuring oneself to have enough saving for future use. This statement is supported by the Gitman and Joehnk (2002) who proclaimed that, through knowledge (practice) of financial management, people are able to acquire, use, and control of financial resources more effectively.

Economic units consist of various groups. Apart from states, firms and households, the university students also contribute significantly to economic activities. This group of economic unit is no longer considered small as their contribution to the economy is now officially recognized. Report of the Economic Planning Unit (EPU, 2006) states that, the development of education in Malaysia which grew three times in the size of students in two recent centuries had made this group of economic unit an important consumer market segment.

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<sup>1</sup> In terms of definition, literates literally means having or showing knowledge of literatures, writing and learned.

In relating to this, the current research aims to investigate this issue in detail by conducting an exploratory study that focuses on students expenditure behavior, which then implies respondents' effectiveness in managing their financial resources. Throughout the process, the study undergoes several analyses which aim to identify the income levels and expenditure behavior, and from the two analyses the saving analysis (status) is determined, which in turn reflects students effectiveness in financial management.

## **LITERATURE REVIEW**

This section focuses on the findings of previous studies which suits the theme of the current study. The discussion on this topic is related to a number of associated factors namely: literacy (knowledge) factor, the demographic influence, academic performance, awareness issue, and income-expenditure behavior.

Goetz et al. (2008) put specific focus on financial management behavior of the college students and relate it with academic performance. They figured that, students who initially had scholarships but lost them were less likely to use recommended financial practices and had higher credit card debt and student loan debt balances than those who retained the scholarships, and thus appear to be more financially vulnerable. The findings suggest that, college students who struggle academically may be more likely to struggle with financial management. Therefore, there is a need for financial education for student population, where courses and programs are designed to teach at-risk college students study skills and time management that include financial education component.

It's a true fact that bad financial practice results in many problems. The root of financial mismanagement obviously comes from the spending behavior of the people (students). Many studies associate the problem with low degree of literacy (knowledge) and awareness. With regards to this, Davidson (2006) who study on this matter suggests the need to instill the knowledge of financial management immediately starting from the age as students. He makes an assertion that the need to conduct training and guidance starting from high school level should be followed by a more comprehensive knowledge dissemination program when they enter university. This finding is supported by the finding of Danes, Huddleston, and Boyce (1999). Danes et al. also proclaim that, spending behavior of the college students is based on instinct (impulse).

However, the findings by Robb and Sharpe (2009) appears to contradict Davidson (2006). Their findings lead them to conclude that students who have high level of financial knowledge, have a direct relationship with high credit card debt. This finding implies financial knowledge acquired by students with has no relationship with the effectiveness of their financial management.

Bad financial practices which is claimed to have association with poor financial awareness will lead to high debt burden (Goet et al., 2008). This in return has significant societal implications as college graduates may have less flexibility in the types of jobs they are able to accept. Additionally, decisions about marriage, family, and home purchase may also be effected (Boushey, 2005). Palmer (2010), through his expenditure tracking project, pays specific focus on understanding students expenditure behavior and come up with recommendation and effective intervention programs to solve the problem. Qualitative analysis of participants' self-reflection papers revealed that awareness of spending behaviors increased universally among participants. Increased awareness of spending behavior, combined with other processes of change from the Transtheoretical Model of behavior

change, resulted in a significant proportion of students modifying spending behaviors to more closely conform to personal values. Participants consistently reported the importance of spending management tools.

Studies which also put focus on this area are Coalition (2008) and Mandell (2004). Both studies figure that when new students enter college; many of them have poor financial literacy. They often make mistakes in financial management and likely to get exposed to financial stress (Henry, Weber and Yarbrough 2001; Joo, Grable, and Bagwell, 2003). The final results of their experimental studies provide indication that as time goes by all participants in the study had reported an increased in awareness of their spending behavior. Bailey et al. (2007) studied the expenditure pattern of college students and relate it with demographic factors. Their findings figure that the two factors are significantly related. Lance, Joseph and Diann (2010) study and assess the effectiveness of financial management. This study aims to increase awareness among student by employing Transtheoretical model. In this experimental study, an increased awareness of spending behavior combined with Transtheoretical Model of change (TTM) is detected to have significant correlation with the spending behavior. Another study that link awareness factor is by Marriott et al. (2010). In particular they conducted a study to analyze the relationship between financial management awareness with the ability to make a budget, debt levels, and the time period factors. The overall findings revealed low awareness level in financial management of the university students; as it turns out, almost all university students in the study were not interested in the financial management and were not interested in making a budget. This condition supports the findings of Eccles and Bird (2004) and Mandell and Klein (2007).

Based on the reviewed literatures, we may conclude that there are numerous ways to explore financial management behavior . Therefore it opens doors to this topic for further studies. In light of this, we are interested to extend the study on financial management but put specific focus on students' expenditure behavior. The findings of the study may contribute in a number of ways, particularly provides and enrichment to the existing literatures and also also serve as a source of information to policy makers in formulating and implementing future national policies.

## **METHODOLOGY**

This study is mainly quantitative and involves primary data collection. The method of data collection is "non-random". The population of this study is public university students in the Klang valley, while the sample of the study focused on two selective public universities; namely UiTM and UKM. At UKM, respondents are among the students under the Faculty of Business (Finance, Marketing, Management) and the Faculty of Economics and Management (Economics, Islamic Economics and Accounting), while the data from UiTM are obtained from students under the Faculty of Management and Business (accounting, Business Management, Hotel and Hotel Management, and Information Management). The instrument used for data collection is questionnaire set. This method is preferable because it can minimize problems of giving inaccurate answers, dishonesty in completing the questionnaire, and not being serious in the process of answering questions. The questionnaire is divided into four parts. Part A is the demographic information, Part B is information on income, Part C, is the expenditure, and Part D is the savings. After all questionnaires were completed, data processing and results generation employ Statistical Package for Social Science version 17.0 (SPSS 17.0).

For analysis 1, 2 and 3, all data are analyzed by using descriptive statistics analysis only. The main aim is to identify the frequency and the mean value of the target factor namely; source and level of income, spending pattern and levels, saving level and behavior. Data analysis is in aggregate form, in which all respondents in the two universities are treated as a group and are not separated.

Analysis 3 involves a sub analysis on saving habit. In this analysis, 4 types of saving habits are observed to capture the actual saving status of the students. They are namely; the Sweepers, the In-N-Out, the Hippie and the Magician. In particular, the Sweepers are those who Do regular/fix saving and rarely do withdrawal, the In-N-Out are those who Do regular/fix saving but regularly do withdrawals, the Hippie are those who Do not save regularly but rarely do withdrawals and the Magician are those who rarely do saving and regularly do withdrawals.

Before starting data collection for the actual study, a pilot study was conducted at UPSI involving 50 students under the Faculty of Management and Economics. The generated Cronbach Alpha value for this test is 0.75. This result gives an indication that the reliability of the existing questionnaire is good and we proceed with the data collection for the actual study.

## **FINDINGS OF STUDY**

This section is divided into four sub-parts, the profile of the respondents; and the results of the income, expenditure and saving analyses.

### **Profile of the respondents**

Table 1 shows the general profile of the respondents who participate in this study. The total number of respondents is 214, of which 112 are students of UKM, while the others are from UiTM. Details on the age of the students show majority (51.4%) of them are among those who aged between 19-21 years, 40.6% are in the age range of 22-23 years and the remaining 8% are students aged between 24-25 years. In terms of gender, 80.4% are female students and 19.6% are the male students. Information on marital status showed, majority of them are single (212 people). In terms of race, 83.2% are the Malays, 14.0% Chinese, 0.5% Indian, and the other 2.3% are the Bumiputera. By religion, 84.6% Muslim, 11.2% Buddhist, 3.3% Christian, and 0.9% Hindus.

**Table 1: Respondents' Profile**

		Frequency	Percent
No. of students	UiTM	102	47.7
	UKM	112	52.3
	Total	214	100.0
Age	19-21	110	51.4
	22-23	87	40.6
	24-25	17	8.0
	Total	214	100
Gender	Female	172	80.4
	Male	42	19.6
	Total	214	100.0
Marital Status	Single	212	99.1
	Married	2	.9
	Total	214	100

Race	Malay	178	83.2
	Chinese	30	14.0
	Indian	1	.5
	Natives (Bumiputera)	5	2.3
	Total	214	100
Religion	Islam	181	84.6
	Hindu	2	.9
	Buddha	24	11.2
	Christian	7	3.3
	Total	214	100

### **Income analysis**

Table 2 displays the results of the income analysis. The results show, the average income level for students is RM952.30 per month. The level of income extends from minimum of RM87.50 to maximum of RM9812.50. Details on income earned by categories shows, majority ( 46.7%) obtains medium-low level (500 <Y <1000), 24.8% achieve moderate level (1000 <y <1500), and the other 20.6% only attain Low income level (Y <500). Less than 10% earn more than RM1500. Although the composition of the income level in the Medium High and High categories are small, this finding is still relevant after considering the status of the respondents as students, who basically do not have fix income and they heavily rely on financial assistance from the government or other financial institution. Statistics on sources of income report the highest percent (67%) comes from PTPTN, while the rest obtain their sources from parents, Scholarship, salary, credit cards and others than that stated in the list.

**Table 2: Descriptive Statistics of Students Income Analysis**

Income Level	Minimum	Maximum	Mean
Y (per month)	87.50	9812.50	952.3014
Income Categories	Frequency	Percent	Cum.Percent
Low ( Y < 500)	44	20.6	20.6
Medium Low ( 500 < Y < 1000)	100	46.7	67.3
Medium (1000 < Y < 1500)	53	24.8	92.1
Medium High ( 1500 < Y<2000)	9	4.2	96.3
High ( Y > 2000)	8	3.7	100.0
Total	214	100.0	

### **Expenditure analysis**

Table 3 displays the types of expenditures for university students in Malaysia. Based on the findings in Table 4.3, highest expenditure which exceed RM200, concentrates on food item (RM295.56 per month), followed by studying fee (RM274.75), books and stationery (RM247.67), and cost for clothing and footwear (RM231 .64). The expenditures that cost RM200 are; expenses on personal items (RM192.34), entertainment (RM152.52) and accommodation (RM111.43). Expenses for items that worth less than RM100 are; petrol, telephone, internet costs, and utility costs.

**Table 3: Types of Expenditures**

Item (Costs)	Mean
Study fee	274.75
Rent (House/hostel)	111.43
utilities	19.06
Food and beverages	295.56
petrol	41.50

Books and stationery	247.67
Clothing and shoes	231.64
entertainment	152.52
Other private expenses	192.34
Wireless and broadband	56.69
top-up (line) for mobile hand phone	56.28
(n = 214)	

Detail information on students’ spending level is displayed in Table 4. The findings in Table 4.4 reported the average expenditure level is RM1047.60; with the minimum and maximum value of RM168 and RM3158. By category, the highest and second highest percent are documented at Medium-Low (42.1%) and medium (35%) levels, which are within the range of (500 <AE <1000) and (1000 <AE <1500). A total of 15.4% is documented at the spending level exceeding RM1500 while the composition of respondents who spend less than RM500 is 16 people or 7.5%.

**Table 4: Students’ spending level**

Expenditure (AE)	Minimum	Maximum	Mean
AE (per month)	168	3158	1047.60
Categories of expenditure level	Frequency	Percent	Cum. Percent
Low: (AE < 500)	16	7.5	7.5
Medium Low: ( 500 < AE <1000)	90	42.1	49.5
Medium:.(1000 < AE < 1500)	75	35.0	84.6
Medium High: (1500 < AE < 2000)	23	10.7	95.3
High : ( AE > 2000)	10	4.7	100.0
Total	214	100.0	

**Saving analysis**

This section displays the results of the saving analyses. It is divided in three analyses namely; the saving analysis by perception, the actual saving analysis and the analysis on the saving habit.

*The analysis of saving by perception*

The results for saving analysis by perception are displayed in Table 5. The finding of this analysis is based on individual perception or self proclamation. From the results displayed, the average saving level is RM80.25 per month with the minimum and the maximum rates extended from 0 to RM1000. By category, majority of the respondents (62.1%) recorded monthly saving rates by the amount of 0 while the other (27.7%), recorded monthly saving rates by the value of less than RM300 to RM100. The rest 10.3% saves by the rate between RM51-RM99 per month.

**Table 5: Saving analysis by perception**

Items	Minimum	Maximum	Mean
S (per month)	0	1000	80.25
S-Category	Frequency	Percent	Cumulative Percent
Zero (S=0)	133	62.1	62.1
Low (S<50)	10	4.7	66.8
Medium Low (50<S<100)	12	5.6	72.4
Medium (100<S<200)	10	4.7	77.1

Medium High: (200<S<300)	13	6.1	83.2
High: (S>300)	36	16.8	100.0
Total	214	100.0	

*The actual saving analysis*

Table 6 displays the results of the actual saving analysis. The actual saving value is derived from the difference between students’ total income and students’ total expenditure. The findings in Table 6 reported that the average value of monthly saving rates is -RM111.66 with minimum and maximum saving rates of -RM2005 and RM8222. By category, 62.1% recorded zero savings, while 27.7%, has saving value exceed RM100 but less than RM300 a month, and the rest 10.3% saves less than RM100 a month.

**Table 6: Actual saving analysis**

Item	Minimum	Maximum	Mean
S actual (per month)	-2005.00	8222.50	-111.66
S-Category	Frequency	Percent	Cumulative Percent
Zero (S=0)	133	62.1	62.1
Low (S<50)	10	4.7	66.8
Medium Low (50<S<100)	12	5.6	72.4
Medium (100<S<200)	10	4.7	77.1
Medium High (200<S<300)	13	6.1	83.2
High (S>300)	36	16.8	100.0
Total	214	100.0	

Comparing the results of the two analyses, the perception analysis indicates positive savings, while the actual analysis indicates a negative savings. The question here, which result is more reliable and closely reflect the real saving habits? To find the answer, we conduct the saving habit analysis.

*Saving behavior analysis*

The overall findings are displayed in Table 7. The findings in the table list four possible saving habits of the respondents in this study. The highest percent (29.4), categorize themselves in the group of people who do not do save regularly, but rarely withdraw the money, while the other group categorized themselves as saves irregularly but regularly withdraws the money. The rest 21.5% admitted to do both saving and withdrawal activities regularly. Of total, only 19.6% claim to do fix savings and rarely withdraw the money.

**Table 7: Saving Behavior Analysis**

Saving Habits	Frequency	Percent	Cum. Percent
Do regular/fix saving and rarely do withdrawal (The Sweepers)	42	19.6	19.6
Do regular/fix saving but regularly do withdrawals (The In-N-Out)	46	21.5	41.1
Do not save regularly but rarely do withdrawals (The Hippie)	63	29.4	70.6
Do saving rarely and regularly do withdrawals (The Magician)	63	29.4	100.0
Total	214	100.0	

Of the four habits, it is obvious that only 20% of savers are firm by character in their saving behavior, in which they save consistently and are not inclined to withdraw the money regularly. The other 80% of the respondents are categorized as loose savers, in which, they either do not do saving consistently and / or withdraw the money regularly. This finding provides an explanation to the results of zero or negative saving in the actual saving analysis. Here we may conclude that the results obtained in the actual saving analysis are more realistic and reliable than the results of the saving analysis by perception. The findings of zero or negative saving provides an indication that, university students, who are categorized as economically and financially literate, are practically ineffective in their financial management.

## **CONCLUSION**

The main purpose of this study is to explore students' expenditure behavior. The results in turn provides indication on their financial management efficiency. The respondents are university students from the Business and Economics disciplines. To capture the objective, three main analyses are carried out; the income, expenditure and saving analyses. The first analysis reported that the main source of income comes from PTPTN, followed by sources from parents, scholarship, salaries, credit cards and others. The findings of the expenditure analysis found that, the highest expenditure, which worth more than RM200, are on food (RM295.56), study fee (RM274.75), books and stationery (RM247.67), clothing and footwear (RM231.64). List of items that worth less than RM200; are personal items (RM192.34), entertainment (RM152.52) and accommodation (RM111.43). Expenses for items that worth less than RM100; are mobile phone, internet costs, gasoline and utility. The findings of the descriptive statistics recorded a total income and spending an average of RM1047.60 and RM952.3014 and a member indication there is any excess expenditure of RM95.30. Two saving analyses; by perception and by actual, are conducted to determine students' saving behavior. Analysis by perception reports the average savings per month is RM80.25, while the actual analysis documents the value of -RM111.66. To determine which result is more reliable, we complement these analyses with the saving behavior analysis. The results of the latter analysis indicate that, only 20% of the respondents are categorized as firm savers, while the other 80% are categorized as loose savers. This finding provides an indication that the results obtained in the actual saving analysis is more reliable. The explanation is, when students' collectively save irregularly and do withdrawal regularly, the end result is a negative saving. The findings of zero or negative saving, which is explained due to loose saving habit has provide an indication that university students, who are categorized as literates in financial matters, are ineffective in their financial management behavior.

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