The Effect of Financial Literacy On Saving
(A study on Malaysian population)

Saleh Tabiani
CGA070182

Supervisor:
Dr. Nurul Shahnaz Ahmad Mahdzan

Submitted to the Graduate School of Business Faculty of Business and Accountancy
University of Malaya, in partial fulfillment of the Requirements for the degree of
Master of Business Administration

December 2010
Abstract:

Personal saving is valuable for the whole nation. Saving of today, affects the consumption of future, because the saved money is invested in financial assets and goes through investments in industries, factories, prosperities, and other kinds of investment that is necessary for country’s growth. Saving also can help the country recover from financial crisis more easily.

In this study the factors that are likely to increase personal saving are measured. These factors include the financial literacy of individuals, saving motivation, and socio-demographic characteristics such as, age, gender, ethnicity, number of children, nationality, income, and education level.

The main focus of this study is to examine the effect of financial literacy on saving amongst individuals, which is found to be very important. Results also show that different saving motivations increase saving. Moreover age, gender and number of children were found significant factors which can improve saving.
Acknowledgments:

I am sincerely thankful to my supervisor, Dr. Nurul Shahnaz, whose encouragement; supervision and support from introducing this new and interesting topic to the concluding level enabled me to develop an understanding of the subject. Secondly I regard those respondents who participated in this survey by filling and submitting the questionnaire.

I hope this research can encourage people to increase saving by revealing the importance of financial literacy in today’s life.

Saleh Tabiani
# Table of Contents

Abstract: ........................................................................................................................................ 2  
Acknowledgments: ...................................................................................................................... 3  
List of Figures .............................................................................................................................. 6  
List of Tables ............................................................................................................................... 7  
Chapter 1: Introduction .............................................................................................................. 8  
  1.1. Background: ...................................................................................................................... 8  
  1.2. Problem statement .............................................................................................................. 9  
  1.3. Objectives of the Study: .................................................................................................... 10  
  1.4. Significance of Study ........................................................................................................ 11  
  1.5. Scope of study .................................................................................................................. 12  
Chapter 2: Literature Review ..................................................................................................... 14  
  2.1 Literature on Financial Literacy ........................................................................................ 14  
  2.2 Literature on Saving ........................................................................................................... 18  
Chapter 3: Research Methodology ............................................................................................. 22  
  3.1. Development of Hypotheses ............................................................................................ 22  
  3.2 Sampling Design ............................................................................................................... 28  
  3.3 Data Collection Procedure ............................................................................................... 28  
  3.4 Measurement of Variables ............................................................................................... 29  
    3.4.1 Financial Literacy ........................................................................................................ 29  
    3.4.2 Demographics .............................................................................................................. 30  
    3.4.3 Individual Saving ........................................................................................................ 30  
    3.4.4 Saving Motives ........................................................................................................... 31  
    3.4.5 Risk-Taking Behavior ................................................................................................. 31  
Chapter 4: Research Results ...................................................................................................... 33
4.1. Summary Statistics .............................................................................................................. 33
  4.1.1. Demographics ........................................................................................................ 33
  4.1.2. Financial Literacy: .............................................................................................. 36
  4.1.3. Saving Behavior ..................................................................................................... 39
4.2. Testing Hypotheses ............................................................................................................ 42
  4.2.1. Bivariate Correlation test .................................................................................... 42
  4.2.2 Multivariate Analysis: Probit Regression .............................................................. 43
4.3. Summary of Research Results ......................................................................................... 51

Chapter 5: Conclusion and Recommendations ........................................................................ 54
  5.1 Summary and Conclusion: .......................................................................................... 54
  5.2 Limitations of the Study: ............................................................................................. 55
  5.3 Suggestions for future research: .................................................................................. 56

Bibliography ............................................................................................................................... 58
Appendix: .................................................................................................................................... 61
  A) Questionnaire ................................................................................................................ 61
List of Figures

Figure 1 Theoretical framework........................................................................................................ 23

Figure 2 Respondents’ Ethnic Groups............................................................................................. 34

Figure 3 Respondents Occupation Percentages .............................................................................. 34

Figure 4 Respondents’ Gross Annual Income ................................................................................. 35

Figure 5 Percentage of Education Level among Respondents ....................................................... 36

Figure 6 Percentage of Different Motives among Respondents ..................................................... 40

Figure 7 Saving Regularity of Respondents..................................................................................... 41
List of Tables

Table 1 Basic Financial Literacy Answers

Table 2 Advanced Financial Literacy Answers

Table 3 Respondents' Score Summary

Table 4 Correlation between Overall Literacy and Saving

Table 5 Correlation between Basic Literacy and Saving

Table 6 Correlation between Advanced Literacy and Saving

Table 7 model results for overall Financial Literacy, Demographics and Risk Taking Behavior

Table 8 Goodness of fit for the first Model

Table 9 Probit Regression for saving motives

Table 10 Goodness of fit for saving Motivation Model

Table 11 Summary of Results