RATIONAL GOVERNING OF PERSONAL FINANCES AS A RESULT OF TEACHING PROCESS

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Abstract: Personal finances are the financial field of study underestimated by the financial theoreticians from Croatia. The contemporary study programs for students from field of economy in Croatia and majority of European countries don’t deal with this subject. This kind of treatment of subject in question has to be changed, especially at economies in transition. Economies in transition have passed true fast and invasive changes which led to completely different positioning of general public segment in all contexts. Changes are very visible in roles division and division of responsibility in banking industry. Banks from communistic history of Croatia were public property and their orientation was less profit driven than it is for the banks of today. On the other hand the financial market in Croatia has grown in its volume and diversity of products in offer. Since the social goals are not primer to financial institutions it becomes very important for general public to understand all benefits and threats that can be accepted from usage of certain financial instruments. Lack of institutional support makes this segment of society vulnerable. Our mission as HE teachers from the field of finances should be to equip our students with theoretical and practical tools that should help them to be successful in their future career. The aim of this survey is to emphasize that we as HE teachers are obliged to do more. We should prepare them to live stable financial future by rational governing of personal finances as a result of teaching process. The purpose of this paper is to diagnose what kind of implication has our contemporary program on the level of knowledge from the field of personal finance of our students. By measuring the level of knowledge, from this particular field of study, of our students on the first year of our program and those from third year we will measure the knowledge we transferred.

Keywords: personal finances, social responsibility, HE, general public

1. Personal finances and HE

Teaching of Personal finances is not an easy task. There are several basic approaches or frameworks used in theoretical studying and teaching of subject in question. Usually used are neo-classical frameworks; classical utility maximization, goal-directed financial planning, risk management and family cycle (Robinson C., 2000). Majority of HE teachers and theoreticians use one of these frameworks but contemporary development of this field of study shows that more efficiency is obtained by combining these frameworks. The main goal for all teachers from field of finances should be to transfer as much useful and applicable knowledge as they are capable taking in consideration the limited time they have at disposal. Majority of teachers have to deal with specific parts of finances such as: Business Finances, Public Finances, Corporate Finances, Financial Institutions and Markets and other parts of finances, so they don’t have sufficient time to devote it to Personal Finances. And if we take into consideration some articles from Croatian Constitution (Croatian Government, 2001) we can see that among other liberties the financial liberty is also guaranteed to all Croatian citizens. Similar provisions are to be found in the Constitutions of majority of countries. But how can one person reach financial liberty if basic perquisites don’t exist? The main prerequisite for each person to become financially free is to have possibility to earn decent income and to have a sufficient knowledge on how to allocate earned money in most efficient way to provide certain level of quality life for each individual and person living in its household. Since governments and financial
institutions don’t take a responsibility (Buljan Barbača D., Matošić Radić M., Rimac Smiljanić A., 2009) in educating and advising general public including our students how to make good financial decisions, maybe we teachers of finances from the field or finances are obliged to do so. Of course some prerequisites should exist in order to make the teaching of Personal Finances a efficient teaching process: more teachers should be sub specialized in this particular field of study, the Personal finances make the part of finances less explored in European countries, especially transitional countries, such as Croatia. In more developed countries, especially USA, Canada and Australia exists a tradition of teaching Personal finances in all University programs. In mentioned countries professors are encouraged to work together to find optimal solutions for their students. In recent time very famous collaboration has been established between three professors from different countries and universities. Professor Morrison from University of Queensland, teaching at Faculty of Law, professor emeritus Gitman from San Diego State University and professor emeritus Joehnk from Arizona State University have published a book “Personal Financial Planning”. This text has been designed to make the material relevant and accessible. The aim of the book is to provide students with the tools they need to prepare personal financial plans that serve as ‘road maps for goal achievement’. The text emphasizes the dynamics of the personal financial planning process by considering the impact of life changes such as birth, marriage, divorce, job and career, and death. There is also valuable book published in UK by three professors (Callaghan G., Fribbance I., Higginson M., 2007) from Open University. Their book “Personal Finance” is the first major personal finance textbook to combine practical financial planning skills with an analysis of the wider economic and social picture, situating students’ understanding of financial matters in a relevant, holistic context. The chapters covering retirement planning and caring, for example, discuss underlying demographic trends, while those on housing and investments not only examine mortgage and investment products but also explore how changes in economic conditions can impact them. Concepts such liberalisation, regulation, and the consumer society are considered. This broader, academic approach equips students with a much deeper understanding of personal finance issues than has been available until now.

On the other hand while Universities give a touch of science in the field of Personal Finances it is very interesting to see how Colleges in USA deal with subject in matter. If we take a peak into course of Personal Finances of Anne Arundel Community College we can see that they emphasize more skills and knowledge. They promise to their students to: “learn how to invest your money wisely, with the help of our non-credit personal finance classes! AACC offers a wide selection of non-credit classes geared to answering all of your financial needs. Our instructors are working in the financial field and bring their knowledge to the classroom”. (http://www.aacc.edu/finance/)

But it is not to be underestimated another source of knowledge also available for free to English speaking population. These are online courses that promise some home wonders: “How would you like to learn more about personal finance issues and economics at the college level from the comfort of your home? And wouldn’t it be nice if you could do it for free? Thanks to the power of the internet and the growing popularity of courses being offered online for free, this has become a reality.” (Generation X Finances, 2010). At this useful website (http://genxfinance.com/2009/03/16/20-free-online-finance-courses-take-money-classes-from-the-comfort-of-your-home/) you can find 20 free courses that have been offered in collaboration with famous USA universities such as Michigan State University, Open University, Carnegie Mellon University, etc.

All above mentioned efforts taken by the HE teachers from USA, Australia and other above mentioned countries are valuable starting points for HE teachers from the countries that have not yet develop any tools from this field of study, such as Croatia. We need to learn from the experience of more developed countries in order to help our students to reach their financial goals.

1.1. The case of economies in transition: Croatia

Position of Personal finances in context of HE programs in Croatia is very diverse. Only recently Faculty of Economics in Zagreb (Ivanov M., Lovrinović I., 2009.) has recognized the need to focus on this subject in question. But unfortunately there is a lack of concrete support from scientists and theoreticians which results in lack of relevant research and relevant literature from this specific field of study. It looks like the financial experts from Croatia have completely underestimated the importance of Personal finances. Reasons are probably historical. Before the last decade of 20th century Croatia as all transitional countries was under the communistic regime. From the position of household investment and allocation of income it wasn’t much to be done. The possibilities and
options for the free allocation of income was almost none. The general public didn’t have the opportunity to use majority of financial instruments present on today’s Croatian financial market. But when the changes took place transformation of economic environment most scared enterprises and they were the first ones who asked for help and new theoretical frameworks to help them survive this new financial situation. In mean time general public was left on its own. After the decades of consumption hunger “the doors of heaven opened”. Everyone was buying, investing and becoming more and more dependent upon banking loans.

But why should we even bother with the subject in question? If we take a look into the data shown in Table 1 and Table 2 we will become aware that something went wrong! The distribution of loans issued to general public in Croatia differs completely from the structure of loans issued to households in Euro Area.

| Table 1. Distribution of Banks' loans to households in Euro Area at the end of 2008 |
|------------------|---------------------|
| Bank Facilities  | Percents (%)        |
| 1 Loans for house | 65,06 %             |
| 2 Consumer credit | 13,16 %             |
| 3 Other loans    | 21,77 %             |


| Table 2. Distribution of Banks' loans to households in Croatia at the end of 2008 |
|------------------|---------------------|
| Bank Facilities  | Percents (%)        |
| 1 Loans for house | 42,32 %             |
| 2 Mortgage loans  | 2,46 %              |
| 3 Car loans       | 7,70 %              |
| 4 Credit card debt| 4,44 %              |
| 5 Other loans     | 43,08 %             |

Source: Croatian National Bank, Online Statistical data of banking institutions, October 2009,
http://www.hnb.hr/statistika/estatistika.htm

If we compare data from these two tables we can say that the structure of the loans for general public in Euro Area and Croatia are significantly different. The share of housing loans at the end of 2008 in Euro Area is 65,06%. “Consumer loans” represent less than 15% of loans to general public and little more than 20% is to be spent on different goods in Euro Area. Distribution of banks loans to households in Croatia looks much different; housing loans take only little bit more than 40% of the whole amount that is distributed for loans to general public, and what is even more scaring is that “consumers’ loans” take more than 43% of all loans to general public. Reason of this “consummation hunger” could be found in a sudden opening of the market in Croatia to export of the different goods that were not so easily accessible before in times of socialism (D.Buljan Barbača, 2007).

Guste Santini, a Croatian professor from Faculty of Economics in Zagreb has tried to do something useful. He published several reference books dealing with different questions regarding the Personal finances. Main ideas and information on financial instruments and true practical examples have been shown in his reference book “Guide for understanding the Personal finances” (Santini, G., Bebek, S.2005). In his latest publication, from this line of publications, “Guide for understanding the Household Budget and Accounting” (Santini, G., 2008) he attempted to develop the skills of households in planning and monitoring the Household Budget. His books deal with practical financial problems and give to interested reader possibility to increase its understanding what are the consequences of certain financial decisions. By giving very interesting examples of different financial behavior of two exemplary households he follows a lifecycle of family finances where all short term decisions imply lifelong consequences. Unfortunately his publications are not listed as course books, probably because they are more practically then scientifically orientated.

Lack of knowledge and skills when it comes to dealing with financial products is very visible from before mentioned distribution of household loans. But since the lack of knowledge is not a valuable excuse when the annuity comes to payment we need to do more as a HE teachers from the
field of finances. We can also try to learn from experience of other countries such as USA which has a long tradition in dealing with Personal finances.

1.2. Personal finances in USA

Completely opposite than Croatian example is the example of USA when it comes to Personal finance. The American authors are intensively working on the subject in matter. Scientists are paying a special attention on Personal finances dealing with this segment of finances as a integrated part of the investment chain (Weagley R.O., Gannon C.F., 1991). Message is loud and clear: the money of our citizens is a valuable source of investment. The experts from different field of study are dealing with this problem and depending on to which basic branch they belong to they explore a different prospective. Experts from the field of Marketing are more focused to Consumption function and effects of Personal consumption on global marketing trends (Caliendo, Frank and Huang, Kevin X. D., 2007). If Management expert is to focus on Personal finances it is inevitable that he will deal with objectives of personal portfolios (Ramaswami s.n., Srivastava, R.K., McInish T.H., 2009) and a hierarchy of financial needs (Xiao J.J., Noring F.E., 1994). Collaboration of the experts from Finances, Marketing and Management was also very fruitful and has resulted with extension of tools used for research in the field of finances (Shim S., Xiao J.J., Barber B. L., Lyons A. C., 2009). The Lifecycle model has become a very useful tool in the field of Personal finances and it frequently helps to investigate correlation between belonging to specific life stages and habit of saving and investing (Xiao J.J., 1995).

But American authors have also handled a practical part of the problem of dealing with Personal finances (Kiyosaki R. T., Lechter S. L., 2002). Majority of these authors are giving practical advices from their own experience (Kiyosaki R. T., Lechter S. L., 2006) which makes the main prerequisite to become the member of this club of authors, to have impressive personal wealth on your own.

It is also necessary to underline that all different kinds of computers and other useful tools for general public are available free of any charge on all respectable web-sites that deal with financial subjects.

The result of all mentioned activities is very well known to educated general public in USA. It is visible from Table 3. that the structure of loans issued to general public in USA looks completely different than the structure in Croatia, but it is similar to the structure in Euro Area.

<table>
<thead>
<tr>
<th>Bank Facilities</th>
<th>Percents (%)</th>
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<tbody>
<tr>
<td>1 Housing loans</td>
<td>66,70 %</td>
</tr>
<tr>
<td>2 Personal loans</td>
<td>14,80 %</td>
</tr>
<tr>
<td>3 Other loans</td>
<td>18,50 %</td>
</tr>
</tbody>
</table>


It is obvious that general public in Croatia has a problem of dealing with financial products in offer. The reasons are probably to be found in history but if we want to make a progress than we must learn from good experience of developed countries. What better place of transferring this package of knowledge and skills to our general public is than University programs?

2. Analytical framework: Research Hypotheses, methodology and data

In order to improve the status of Personal finances as a HE subject we will begin by diagnosing the current situation on our own institution. We will try to determine how much impact our current program has on basic knowledge of our students in field of Personal finances.

The authors wish to provoke discussion on this subject and to suggest what the first steps to be taken are.

2.1 Research Hypotheses

Personal finances as a subject in university programs of University Centre for the Professional Studies in Split do not exist. Our basic working hypothesis is that our current program for the students of Commercial Business and the students of Accounting and Finances does not give them sufficient
knowledge from this specific field. We expect to find that they have learned something about Personal finances from other financial subjects, but that there is still possibility of some major improvement.

Since the students of Commercial Business and the students of Accounting and Finances at the University of Split, University Centre for the Professional Studies, represent population with very wide general characteristics; regarding to their interests, previous education, age and current professional occupation, we can say that their opinion of the subject in matter is to be considered as very relevant.

2.2 Methodology and data

This survey is focused on two groups of students. The first group of students is at first year, and the second group at the third year of the three-year program of Commercial Business and the students of Accounting and Finances at the University of Split, University Centre for the Professional Studies. Identical research was applied on both groups. Written questionnaire with 7 questions was distributed among these two groups. Students were asked to give some general information about them (age, agenda, work status), to determine what financial instruments do they use in their everyday life, to define the distribution channels that they utilize to inform themselves about financial instruments and also to express how they perceive their knowledge on lending and investing practice. By comparing the results of 1st group with those of the 2nd group we will try to withdraw our conclusion.

The survey results presented in this paper are based on the written answers of the students which agreed to participate. Total number of examinees is 170 students.

The number of the responses precludes strong statistical conclusions.

3. Results and analyses

The results obtained by this research have proved the working hypotheses. The presumption that there is necessary to induce Personal finances as a subject to our HE institution has been confirmed. We will present the results that emphasize this conclusion.

The analysis defines elementary properties of our sample.

Table 4

<table>
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<th>students on the first year of study</th>
<th>students on the third year of study</th>
<th>all students in sample</th>
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<tbody>
<tr>
<td>Number of examinees</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1 Female</td>
<td>72</td>
<td>60</td>
<td>132</td>
</tr>
<tr>
<td>2 Male</td>
<td>14</td>
<td>24</td>
<td>38</td>
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Results presented in Table 4 show the structure of the sample by the agenda criteria. The share of female students in sample make 78%, and the rest 22% makes male students.

Table 5

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<th>students on the first year of study</th>
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<th>all students in sample</th>
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<tbody>
<tr>
<td>Number of examinees</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1 Employed</td>
<td>20</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>2 Unemployed</td>
<td>66</td>
<td>64</td>
<td>130</td>
</tr>
</tbody>
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As shown in Table 5, 24% of all participants in survey are employed and 76% are unemployed. The results are similar also on the first and third year of study.

Along with the sex of the students in the sample and their employment we asked all participants in survey to fill their age.

Average age of students in the sample is 22.5 years.
Further analysis of the results consists in Table 6. show that 47% of all participants in survey have income earnings and 53% don’t. 
54% of students on third year of study income earnings, and on the first year of study this number is 41%.

Table 7. presents most frequent used financial instruments like: current account, giro account, savings deposit, loans, stocks, bonds, insurance and credit cards. Students on the first years of study use the most current or giro account, then credit cards, some of the have saving deposits but least 5% use purpose loans as financial instrument.
Students on the third year of study use almost in the same percentage accounts and credit cards but 17% of them are using life insurance policy as financial instrument, more than the students on the first year of study.

Table 8. presents what are the channels students use to inform themselves of financial instruments. They choose between banks, different media, responsible ministries, family, friends and educational institutions.
No matter on which study year they are they get most information from their family and friends. Next channel is bank and this result is expected since 90-93% of students use current account or giro account in banks. The highest difference in results in Table 8 is between usage of educational institutions as information channel of financial instrument from students on third year of study and those on the first year. Since 20% of students of the third year and only 3% on the first year of study use educational institutions as information channel of financial instrument, it is obviously that students during their education on university learn more about financial instruments.
Table 9

Do you know enough about financial instruments to use them efficiently
students on the first year of study students on the third year of study
Number of examinees % Number of examinees %
1 Yes 41 48 % 48 57 %
2 No 45 52 % 36 43 %

From the difference in results we can conclude that more than half of students on the first year of study believe they don’t know enough to use efficiently financial instruments, but there are 57% of the students on the third year who are sure about their knowledge how to use efficiently financial instruments. The difference again emphasize important role of educational institutions to approach financial instruments to students.

Table 10

Counsel when making financial decisions
students on the first year of study students on the third year of study
Number of examinees % Number of examinees %
1 Bank (personal banker) 14 16 % 9 11 %
2 Financial counsel 6 7 % 4 5 %
3 Family or friends 53 62 % 37 44 %
4 Self decision 42 49 % 54 64 %

The last table present counsel when our students are making financial decision. The students of the first year of study take advice most from their family and friends, least from the official financial counsel. 49% of them decide on their own. But 64% students on the third year of study most use their own knowledge and make self decisions regarding financial questions. This high number is expected since 57% of them are certain in their usage of financial instruments.

Generally, we can say that students during the three year program evolve. We can see that their self confidence grows when it comes to making their financial choose, but we can also see that there is only a slight change in the structure of chosen financial instruments. That gives us the right to say that there is a place for improvement of our programs in the form of induction of Personal finances as a separate subject.

Conclusion

Personal finances are underestimated as a field of study in Croatia. Reasonable governing of Personal finances provides to every individual and household a long-term existence and satisfaction. As the current structure of loans to general public issued in Croatia show, we HE teachers from field of finances have to work on it. We have to educate our students to deal with their finances in rational ways. General policy should be to implement the Personal finances in every course of study, so that we educate all of our students as much as possible.

First step at our institution has already been withdrawn as we have listed the subject Personal finances to our new curriculum for students of Accounting and Finances. We are hoping that we will obtain the licence of Ministry of Education of Croatia for this new program, so we could expect to deliver the first lessons in the forthcoming academic year.

References
Anne Arundel Community College, Personal Finances course, http://www.aacc.edu/finance/, (acceded 21.3.2010.)
Rational choice theory, also called rational action theory or choice theory, is a school of thought based on the assumption that individuals choose a course of action that is most in line with their personal preferences. Rational choice theory is used to model human decision making, especially in the context of microeconomics, where it helps economists better understand the behavior of a society in terms of individual actions as explained through rationality, in which choices are consistent because they are made according to personal preference. In rational choice theory, agents are described by their unchanging sets of preferences over all conceivable global outcomes.

5 Keys to Successfully Managing Your Personal Finances.

A second job can help speed up the process and can be necessary if you want to make fast or lasting changes to your situation. Look for areas in which you can cut your budget to increase the cash available for your debt payments. Don’t Be Afraid to Ask for Advice.

The goal behind this paper is to present a decision making model that emerges both in literature and management practice and integrates rational analysis and intuition of the decision maker. In an attempt to accomplish this goal, the first part of the paper includes a description of rational and intuitive decision making models as well as decisions made when these models are used in practice. Then, the aforementioned models of thinking and decision making Rational decision making leverages objective data, logic, and analysis instead of subjectivity and intuition to help solve a problem or achieve a goal. It’s a step-by-step model that helps you identify a problem, pick a solution between multiple alternatives, and find an answer. Rational decision making is an important skill to possess, especially in the digital marketing industry. In today’s financial setting, the discipline of behavioral finance is an ever-changing area that continues to evolve at a rapid pace. This book takes readers through the core topics and issues as well as the latest trends, cutting-edge research developments, and real-world situations. Additionally, discussion of research on various cognitive and emotional issues is covered throughout the book.

The field of personal finance management has not enjoyed as much attention as it should in the professional and academic climes. Amongst entry-level graduates of tertiary institutions, the deficiency of this knowledge has become very evident leading to a need for this study. Entry-level employees were restricted to employees in Nigeria who have just started work in the last five years.