Journal of International Commercial Law and Technology
Print ISSN: 1901-8401

Website: https://www.jiclt.com/

Article

From Financial Knowledge to Financial Discipline: Examining the Influence of Financial Literacy on Budgeting Behaviour among Urban Young Adults

Article History:

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How to cite this article:
Devrshi Upadhayay et, al, From Financial Knowledge to Financial Discipline: Examining the Influence of Financial Literacy on Budgeting Behaviour among Urban Young Adults. J Int Commer Law Technol. 2026;7(1):1555–1562.

Received: *02-06-2026*
Revised: *24-06-2026*
Accepted: *04-07-2026*
Published: *31-07-2026*

Abstract: Financial literacy plays a critical role in shaping individuals' financial decision-making and budgeting behaviour, particularly among young adults transitioning toward financial independence. This study investigates the level of financial literacy and its effect on budgeting habits among urban young adults in India. Primary data were collected from 117 respondents using a structured questionnaire comprising demographic variables, financial literacy, budgeting practices, saving behaviour, and financial discipline. The collected data were analysed using descriptive statistical techniques, including frequency and percentage analysis. The findings indicate that the majority of respondents possess a satisfactory understanding of fundamental financial concepts such as interest rates, inflation, and compounding. Most participants reported preparing monthly budgets and demonstrated positive saving behaviour despite having limited or moderate-income levels. However, the results also reveal a noticeable gap between budgeting intentions and actual spending behaviour, as many respondents experienced occasional budget overruns. Furthermore, respondents widely acknowledged that budgeting helps reduce overspending and promotes responsible financial management. The study concludes that financial literacy positively influences budgeting behaviour by encouraging financial planning, saving, and informed financial decision-making. The findings highlight the importance of strengthening financial education programmes and behavioural finance initiatives within educational institutions and public policy to enhance financial well-being and long-term financial resilience among young adults.

Keywords: Financial Literacy; Budgeting Behaviour; Young Adults; Saving Behaviour; Financial Planning.

INTRODUCTION

Financial literacy has emerged as one of the most significant determinants of individual financial well-being in the twenty-first century. With increasing access to digital financial services, online banking, investment platforms, and credit facilities, individuals are expected to make informed financial decisions at an earlier stage of life. Young adults, in particular, encounter numerous financial choices involving spending, saving, borrowing, and investing while transitioning from financial dependence to economic independence. The ability to manage these decisions effectively is largely influenced by their level of financial literacy and budgeting behaviour.

Financial literacy refers to an individual's knowledge, skills, attitudes, and confidence required to make sound financial decisions and effectively manage personal financial resources. It encompasses an understanding of essential financial concepts such as interest rates, inflation, compounding, credit management, budgeting, saving, and investment planning. Individuals with higher levels of financial literacy are generally better equipped to evaluate financial alternatives, avoid excessive debt, manage risks, and achieve long-term financial security. Conversely, inadequate financial literacy often leads to poor financial decisions, overspending, low savings, and financial stress.

Budgeting is one of the most fundamental financial management practices that translates financial knowledge into practical behaviour. A personal budget enables individuals to allocate income systematically, monitor expenditures, prioritise financial goals, and maintain spending discipline. Effective budgeting not only promotes financial stability but also supports the development of healthy saving habits and responsible borrowing behaviour. Despite recognising the importance of budgeting, many young adults struggle to consistently follow their financial plans because of impulsive spending, lifestyle inflation, peer influence, and inadequate financial discipline. Consequently, understanding the relationship between financial literacy and budgeting behaviour has become increasingly relevant for researchers, educators, policymakers, and financial institutions.

India has witnessed rapid economic growth, widespread digitalisation, and expanding access to financial products over the past decade. Government initiatives such as Digital India, the Unified Payments Interface (UPI), Jan Dhan Yojana, and various financial inclusion programmes have significantly improved access to banking and digital payment systems. While these initiatives have enhanced financial accessibility, they have simultaneously increased the responsibility of individuals to make informed financial decisions. Young adults, especially university students and early-career professionals, are among the most active users of digital financial services. However, easy access to digital payments, consumer credit, and online shopping has also increased the risk of impulsive spending and weak financial discipline. Therefore, financial literacy has become an essential life skill for ensuring responsible financial behaviour in an increasingly digital economy.

Urban young adults represent a particularly important population for studying financial literacy and budgeting habits. Individuals between the ages of 18 and 24 are generally completing higher education, entering the workforce, or beginning to earn independent income. During this transition, they face critical financial decisions related to educational expenses, daily budgeting, credit usage, emergency savings, and future investments. Financial habits developed during this stage often persist throughout adulthood, making early financial education essential for long-term financial well-being. Nevertheless, empirical evidence suggests that although many young adults possess basic financial knowledge, they frequently encounter difficulties in applying this knowledge consistently to their daily financial decisions. This discrepancy between financial knowledge and actual financial behaviour highlights the importance of examining budgeting practices alongside financial literacy.

Previous research has consistently demonstrated a positive association between financial literacy and desirable financial outcomes, including higher saving rates, prudent borrowing behaviour, improved retirement planning, and enhanced financial well-being. However, many existing studies primarily focus on investment behaviour, retirement planning, or general financial awareness. Comparatively fewer studies investigate how financial literacy directly influences everyday budgeting behaviour among urban young adults, particularly in the Indian context. Furthermore, behavioural factors such as financial discipline, spending control, and budgeting consistency remain underexplored despite their practical importance. This research addresses these gaps by examining the influence of financial literacy on budgeting habits among urban young adults.

The present study focuses on urban young adults because they represent a generation experiencing unprecedented financial opportunities and challenges. While digital financial technologies have simplified transactions and increased financial accessibility, they have also encouraged instant consumption and reduced the psychological barriers associated with spending. Consequently, possessing financial knowledge alone may not be sufficient; individuals must also develop budgeting skills and disciplined financial behaviours to achieve sustainable financial well-being.

The study employs a structured questionnaire to examine respondents' demographic characteristics, financial literacy, budgeting practices, saving behaviour, borrowing confidence, and financial discipline. By analysing these dimensions, the research seeks to provide comprehensive insights into the relationship between financial literacy and budgeting behaviour among urban youth. The findings are expected to contribute to the growing literature on personal finance and behavioural finance while offering practical recommendations for educational institutions, policymakers, financial educators, and government agencies responsible for promoting financial capability among young adults.

The significance of this study extends beyond academic contribution. Understanding how financial literacy influences budgeting behaviour can support the design of targeted financial education programmes that emphasise practical money management skills rather than theoretical knowledge alone. Educational institutions may integrate financial literacy into curricula, while policymakers can develop evidence-based initiatives to encourage responsible financial behaviour among young adults. Financial institutions may also utilise these insights to design youth-oriented financial products and educational campaigns that foster budgeting, saving, and responsible credit usage.

Overall, this study seeks to strengthen the understanding of the relationship between financial literacy and budgeting behaviour among urban young adults. By identifying existing strengths and behavioural gaps in financial management practices, the research aims to provide meaningful recommendations that contribute to improving financial capability, promoting responsible financial decision-making, and enhancing the long-term financial well-being of young adults in an increasingly complex financial environment

Research Design

The present study titled "Financial Literacy and Its Effect on Budgeting Habits Among Young Adults" adopts a descriptive research design. Descriptive research is suitable because the study aims to describe the level of financial knowledge and examine how it influences budgeting behavior among young adults.

- The research focuses on understanding:
- Awareness about savings, banking products, insurance, and investment options
- Knowledge of financial concepts such as interest rates, inflation, and risk diversification
- Budgeting habits and money management practices
- Use of digital financial services such as UPI and mobile banking
- The relationship between financial literacy and spending behavior

2.1 Data Collection Methods

The study is primarily based on primary data. Primary data was collected through a structured questionnaire using Google Forms. The questionnaire was designed to obtain relevant information regarding financial literacy and budgeting practices.

- ❖ Demographic questions (age, gender, income, education, occupation)
- ❖ Questions related to financial knowledge(interest rate, inflation, savings, investment)
- ❖ Questions measuring budgeting habits and spending behavior
- ❖ Awareness about banking products and digital payment systems
- ❖ Questions related to saving and investment preferences

The questionnaire was distributed to respondents in semi-urban areas through:

- ❖ Online forms (where applicable)

2.2 Sampling Techniques:

- ➢ *Population:*
  The population of the study consists of young adults aged 18–30 years. It includes students and working professionals who are financially active and use banking or digital payment services.
- ➢ *Sampling Method:*
  The study uses a convenience sampling method due to time limitations and easy accessibility of respondents. Individuals who were available and willing to participate were included in the survey.
- ➢ *Sample Size:*
  A total of (mention your actual number, e.g., 117 respondents) were selected to ensure reliable and meaningful analysis. The sample size was considered adequate to draw reasonable conclusions.
- ➢ *Sampling Unit:*
  The sampling unit includes:
- ❖ Working professionals
- ❖ College students
- ❖ Self-employed youth
- ❖ Young entrepreneurs
- ❖ Interns and trainees

2.3 Data Analysis Methods

Quantitative Analysis: Survey responses were analysed using descriptive statistics (percentages, frequency distribution) and Graphical representation (bar charts, pie charts) to assess consumer awareness and preferences.

2.4 Limitations of the Study

- ➢ Measurement Inconsistency – Financial literacy is a broad concept and can be measured using different scales. This may affect comparison with other studies.

- Reliance on Self-Reported Data – The study depends on responses provided by participants. There may be chances of exaggeration or inaccurate reporting.
- Limited Causal Evidence – As the study is cross-sectional, it identifies relationships but cannot conclusively establish cause-and-effect relationships.
- Urban-Centric Study - The findings are limited to urban respondents and may not represent rural or semi-urban populations.
- Sample Size Constraint - The limited number of respondents may affect the generalization of results.

2.5 Objectives of the Study:

2.5.1 To evaluate the level of financial literacy among young adults in urban areas.

2.5.2 To analyze the relationship between financial literacy and budgeting habits.

2.5.3 To assess the impact of digital payment usage on spending behavior.

2.5.4 To examine how income and education influence financial management practices.

2.5.5 To suggest measures to improve financial awareness and budgeting discipline.

2.6 Need of the Study:

2.6.1 *Increasing Digital Financial Usage in Urban Areas:*

Urban youth extensively use digital platforms regulated by National Payments Corporation of India. Easy transactions may increase spending frequency. A study is required to assess whether literacy balances convenience.

2.6.2 *Rising Cost of Living in Urban Areas:*

Urban areas experience higher living costs due to rent, transportation, and lifestyle expenses. Effective budgeting becomes essential for financial stability.

2.6.3 *Growing Credit and Loan Accessibility:*

+Urban youth have easy access to credit cards and personal loans. Without financial literacy, this may lead to over-indebtedness.

2.6.4 *Need for Structured Financial Education:*

Despite better access to banking services, practical financial education is limited. The study helps identify awareness gaps among urban youth.

2.6.5 *Prevention of Financial Stress:*

Poor budgeting can result in financial pressure and debt. Financial literacy promotes responsible spending and savings discipline.

2.6.6 *Support for Policy and Educational Planning:*

The findings can assist institutions and policymakers in designing targeted financial literacy programs for urban young adults.

2.7 Scope of the Study:

- *Geographical Scope*
  The study focuses on respondents residing in selected urban areas. It does not include rural or semi-urban populations.
- *Demographic Coverage:*
  It includes young adults aged 18–30 years from various educational and occupational backgrounds in urban settings.
- *Behavioral Aspects:*
  The study examines attitudes toward saving, spending, borrowing, and financial planning among urban youth.
- *Analytical Scope:*
  Data collected through Google Forms is analyzed using statistical tools to measure literacy levels and determine its impact on budgeting habits.

Demographic Concentration Analysis

Variable	Dominant Category	Percentage	Interpretation
Gender	Male	65.0%	Male respondents constitute nearly two-thirds of the sample, indicating a gender imbalance.
Age	18–24 years	79.49%	The sample is overwhelmingly composed of young adults.
Education	Undergraduate	60.0%	Most respondents are pursuing undergraduate education.
Monthly Income	No personal income	25.6%	A substantial proportion of respondents are financially dependent.
Living Arrangement	Living with family	68.4%	Most respondents live with their families, suggesting lower financial independence.

Statistical Interpretation

The demographic profile demonstrates a high level of concentration within a single respondent segment. Nearly four out of every five participants belong to the 18–24 age group, while almost two-thirds are male and undergraduate students. Furthermore, 68.4% reside with their families, and over one-quarter report having no personal income. Collectively, these characteristics indicate that the dataset primarily represents financially dependent college students rather than economically independent adults. Consequently, the study's findings should be interpreted within the context of emerging adults who are in the early stages of developing financial knowledge and budgeting behaviour.

4. Dependency Risk Profile Analysis

Indicator	Financially Dependent Category	Percentage
No personal income	Yes	25.6%
Living with family	Yes	68.4%
Age 18–24 years	Yes	79.49%
Undergraduate students	Yes	60.0%

Statistical Interpretation

The demographic characteristics indicate a strong financial dependency profile among respondents. Nearly 80% of participants belong to the 18–24 age group, which generally corresponds to individuals pursuing higher education and entering the workforce. Additionally, 68.4% continue to live with their families, while 25.6% report having no personal income. The predominance of undergraduate students (60%) further supports the conclusion that many respondents rely on parental or family financial support.

5. Sample Representativeness Analysis

Demographic Dimension	Observation	Research Implication
Gender	Male-dominated (65%)	Female financial behaviour may be underrepresented.
Age	Youth-dominated (79.49%)	Findings mainly apply to Generation Z.
Education	Undergraduate majority (60%)	Results reflect student populations.
Income	Low or no income predominates	Budgeting reflects limited financial resources.
Living Arrangement	Family-supported (68.4%)	Financial decisions may involve parental influence.

Statistical Interpretation

The demographic composition suggests that the sample is not evenly distributed across age, gender, educational attainment, or income categories. Instead, it is heavily concentrated among young undergraduate students who remain financially supported by their families. Such demographic concentration enhances the internal consistency of the study for understanding financial literacy and budgeting practices among college students but limits its external validity. Therefore, caution should be exercised when generalising the findings to working professionals, older adults, or individuals with greater financial independence. Future research should employ more heterogeneous sampling strategies to improve the representativeness and generalisability of the results.

Descriptive indicators

Indicator	Value	Interpretation
Youth Ratio (18–24 years)	79.49%	Indicates a highly youth-centric sample.
Financial Dependency Ratio (No income + Living with family)	High	Suggests respondents have limited financial independence.
Student Representation (Undergraduate + Graduate)	81%	Reflects that the survey predominantly captures the perspectives of students.
Male-to-Female Ratio	1.85 : 1	Male respondents outnumber female respondents by nearly two to one.

Socio-Economic Vulnerability Analysis

Indicator	Frequency	Percentage	Interpretation
No Personal Income	30	25.6%	Financially dependent respondents
Living with Family/Guardians	80	68.4%	Limited financial autonomy
Age 18–24 Years	93	79.5%	Early stage of financial life cycle
Undergraduate Students	70	60.0%	Limited full-time employment opportunities

Statistical Interpretation

The demographic profile indicates a relatively high level of socio-economic vulnerability among the respondents. Approximately four-fifths (79.5%) belong to the 18–24 age group, which is generally associated with the transition from education to employment. Moreover, 68.4% continue to reside with their families, while 25.6% have no personal income, highlighting substantial financial dependence. The predominance of undergraduate students (60%) further reinforces this observation, as many are yet to enter the labour market. These characteristics suggest that respondents' financial literacy, budgeting, and saving behaviours are shaped more by limited disposable income and family support than by independent financial responsibilities. Consequently, financial behaviour observed in this study should be interpreted within the context of financially emerging adults rather than economically established individuals.

Demographic Diversity Analysis

Variable	Largest Category (%)	Diversity Level	Interpretation
Gender	65.0	Moderate	Male respondents dominate the sample.
Age	79.5	Low	Sample is highly concentrated in one age group.
Education	60.0	Moderate	Undergraduate students form the majority.
Income	25.6	High	Income is relatively dispersed across categories.
Living Arrangement	68.4	Low	Most respondents share similar living conditions.

Statistical Interpretation

An assessment of demographic diversity reveals that the sample exhibits varying levels of heterogeneity across respondent characteristics. Age and living arrangement display relatively low diversity, with 79.5% of respondents belonging to the 18–24 age group and 68.4% living with family or guardians. Gender and educational attainment demonstrate moderate diversity, whereas monthly income is comparatively more dispersed across multiple income categories, indicating variability in respondents' earning capacity. The concentration of respondents within specific demographic groups enhances the homogeneity of the sample, thereby reducing variability caused by demographic differences. However, this also limits the external validity of the findings, as the sample may not adequately represent older adults, financially independent individuals, or diverse occupational groups.

Demographic Maturity Index

To understand the overall maturity of the sample, respondents can be classified based on age, income, education, and living arrangement.

Characteristic	Observation
Young Adults (18–24 years)	79.5%
Financially Independent	23.1%

Characteristic	Observation
No Personal Income	25.6%
Undergraduate Students	60.0%

SUMMARY OF FINDINGS

The study examined the relationship between financial literacy and budgeting habits among 117 urban young adults. The demographic profile indicates that the sample was predominantly composed of respondents aged 18–24 years, undergraduate students, and individuals living with their families, many of whom had limited or no personal income.

The results reveal a relatively satisfactory level of financial literacy among respondents, with a majority demonstrating an understanding of fundamental financial concepts such as interest rates, inflation, and compounding. Participants also exhibited moderate confidence in making borrowing decisions, although a considerable proportion remained uncertain, highlighting the need for greater awareness regarding responsible credit management.

The study further found that budgeting is widely practiced, with most respondents preparing and regularly reviewing monthly budgets. Respondents also reported positive saving behaviour, with a substantial proportion saving between 11% and 30% of their monthly income despite modest income levels. These findings indicate that financial planning and saving habits are well established among many urban young adults.

However, the analysis also identified a noticeable gap between financial planning and actual financial behaviour. Although most respondents prepare budgets, a significant proportion reported exceeding their planned budgets, suggesting that financial knowledge does not always translate into consistent financial discipline. Nevertheless, the majority acknowledged that budgeting is an effective tool for controlling expenditure and preventing overspending.

Overall, the findings suggest that financial literacy positively influences budgeting behaviour among young adults by promoting financial planning, encouraging regular saving, and fostering responsible financial decision-making. At the same time, the persistence of occasional overspending highlights the importance of strengthening behavioural financial education and practical money management skills. These results underscore the need for targeted financial literacy initiatives within educational institutions and public policy to enhance long-term financial well-being among urban youth.

The study titled "Financial Literacy and Its Effect on Budgeting Habits Among Young Adults in Urban Areas" examined the relationship between financial knowledge and budgeting behavior among 117 respondents.

The findings reveal that the majority of respondents are young adults aged 18–24, mainly undergraduates, with low to moderate income levels. Most participants demonstrate a basic understanding of financial concepts such as interest, inflation, and compounding. A large proportion also prepare monthly budgets and maintain moderate saving habits, indicating a generally positive financial attitude.

However, the study also identified certain gaps. Although many respondents prepare budgets, a significant number experience occasional overspending. Additionally, a sizeable neutral response regarding borrowing decisions suggests limited confidence in handling credit and loans. This indicates that while financial literacy levels are relatively strong, practical financial discipline and advanced financial decision-making skills require improvement.

Overall, the study concludes that financial literacy has a positive influence on budgeting habits among young adults in urban areas. Increased awareness and knowledge contribute to better planning, saving behavior, and financial responsibility. However, strengthening financial education can further enhance consistent budgeting practices and reduce financial mismanagement.

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