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Rich student, happy student: The case study of Croatia

SVEUČILIŠTE U ZAGREBU

Rich student, happy student: The case study of Croatia

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Abstract

This research paper delves into a comprehensive analysis of the financial and life satisfaction levels among the youth in Croatia, with a keen focus on understanding the intricate relationship between these two constructs. The primary objective of this study is to assess the significance of individual financial satisfaction as a key predictor of overall happiness and satisfaction levels. By leveraging a robust dataset collected from both university and high-school students in Croatia, and employing rigorous regression analysis techniques, we have uncovered compelling evidence that underscores the substantial influence of financial satisfaction on bolstering one's life satisfaction. Our findings underscore the critical role of improving financial satisfaction and exercising effective control over personal finances in augmenting overall happiness levels. Through a nuanced exploration of these dimensions, this study paves the way for actionable insights and strategies to enhance well-being among the youth in Croatia.

Key words

financial satisfaction, happiness, life satisfaction, students

JEL classification

I31, D14, P46, C01

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I. INTRODUCTION

Personal finances have become a crucial aspect of individuals' lives in contemporary society. Numerous studies have explored the impact of life satisfaction, including financial satisfaction, on quality of life and standard of living (Michalos, 2007). However, limited research has specifically examined the relationship between financial satisfaction, money management skills, and overall happiness. Only a few studies have investigated the connection between financial satisfaction and happiness (Spuhler & Dew, 2019; Xiao et al., 2007; Xiao et al., 2009; Michalos & Orlando, 2006; Mugenda et al., 1990) leaving a considerable gap in the literature on this subject.

While some studies consider financial satisfaction as a predictor of general happiness or well-being (Van Praag et al., 2003), the association between income and individual happiness is complex. Although empirical research suggests that money can contribute to happiness to some extent (Diener et al., 1985; Stevenson & Wolfers, 2013), income itself is rarely a direct source of individual utility or happiness.

People do not express their happiness levels solely in terms of their nominal income (Diener, 1984). Instead, the way individuals manage their money may have a stronger correlation with happiness than the amount of money they possess. Individuals with different money management styles may experience varying levels of satisfaction. For instance, someone who saves a portion of their salary may be happier than someone earning the same amount but spending it entirely on conspicuous consumption (Spuhler & Dew, 2019).

This study aims to contribute to future research by examining the conceptualization of financial satisfaction as a component of overall life satisfaction (happiness). We explore the relationship between financial satisfaction and individual life satisfaction to determine the significance of money and personal money management in the happiness of students. While previous research on students has focused on academic performance, financial literacy, and financial habits, limited attention has been given to the financial satisfaction and life satisfaction of students (Michalos, 1991; Michalos, 2007; Xiao et al., 2009). To the best of our knowledge, no previous studies have investigated the relationship between financial satisfaction and life satisfaction among both university and high school students, thereby addressing this research gap.

II. LITERATURE REVIEW

Life satisfaction serves as a vital indicator of subjective well-being, emphasizing its significance in assessing individuals' overall contentment (Diener,1984; Pavot & Diener, 1993). However, within the field of economics, limited attention has been given to the specific topic of financial satisfaction and its connection to life satisfaction. Nonetheless, utility theory suggests that individuals strive to increase their income to optimize their utility and future happiness, making the level of happiness derived from one's financial circumstances a crucial indicator of future happiness (Vera-Toscano et al., 2006).

The relationship between money and individual happiness has long been a subject of debate, with certain studies affirming a positive correlation between income and happiness (Van Praag, 1968), Easterlin, 1974; Hagenaars, 1986; Van Praag & Kapteyn, 1973; Diener et al., 1985; Frey & Stutzer, 2002). Notably, studies have observed that extremely wealthy individuals tend to report slightly higher levels of happiness, implying that money can alleviate concerns related to physiological needs and security happiness.

The study of Diener et al. (1985) confirmed the correlation between money and happiness. They studied the differences in the level of happiness of extremely wealthy people when compared to “normal citizens". They found that a very wealthy group reported slightly higher levels of happiness than any other subgroup. Their findings suggest that money “does free individuals to some extent from certain worries, and from a strong concern for physiological and security needs”. They concluded that wealth or lack of money may be very large sources of happiness or unhappiness for certain individuals, however there are also many other factors contributing to the level of individual happiness, such as self-esteem and self-actualization. According to Schyns (2001)., the link between income and life satisfaction is complicated. In a previous review study, it was discovered that money is linked to happiness via mediating variables (Cummins, 2000). Following that, Diener & Biswas-Diener (2002) reviewed studies on the relationship between income and subjective well-being and concluded that there are only minor correlations between income and subjective well-being, and that people who value material goals are less happy than those who do not, unless they are wealthy. Diener & Biswas-Diener (2002) also suggested that income could have a direct or indirect impact on subjective well-being through financial satisfaction. In their more detailed examination of the relationship between income and happiness inside and across nations, Arthaud-Day and Near in 2005 came to similar conclusions. A subsequent study based on data from five nations found that income and non-durable consumption have an impact on life satisfaction (Headey et al., 2008).

However, the relationship between income and life satisfaction is multifaceted, with other factors such as self-esteem and self-actualization also contributing significantly to an individual's overall happiness. Some scholars argue that happiness can be deconstructed into satisfaction with various aspects of life, including employment, health, and financial circumstances (Campbell et al., 1976). Other authors have argued that happiness may be viewed as an aggregate category that can be broken down into individual satisfaction with various aspects of life, such as employment, health and financial circumstances (Van Praag et al., 2003). In the so-called Leyden School, Van Praag, Kapteyn, and Hagenaars were among the first to pursue this line of inquiry. They presumed that income satisfaction was equivalent to welfare or well-being. In other words, the Leyden School was primarily concerned with the level of individuals' financial satisfaction (Van Praag et al., 2003). This logic makes sense because general satisfaction is influenced by a variety of important aspects that are unrelated to money, whereas financial satisfaction should include income as a major determinant. This shows that financial satisfaction may be closer to general satisfaction in the chain of events than income (Diener & Biswas-Diener, 2002). Economic analysis has gained fresh insights thanks to the measuring of financial satisfaction. Traditional economic theory has taken a "objectivist" stance, based on individuals' visible selections (revealed preferences) guided by the rational maximization process of unobserved utility (Mas-Colell, 1977; Samuelson, 1947). Nevertheless, it ignores the fact that aspects other than the achievement of tangible goods and services drive such individual observed behavior; several arising problems can be overcome by considering a subjective approach. A subjective approach can assist in the resolution of a variety of situations. It is a method of studying individual behavior and satisfaction that is both psychologically and sociologically valid. Unobserved indirect utility for a specific financial situation is referred to as a "latent variable," but observed individual financial satisfaction can be used as an ordinal measure of genuine financial satisfaction, with higher reported financial satisfaction corresponding to higher true financial satisfaction. As a result, asking individuals direct questions about their financial well-being is the most prevalent strategy for assessing subjective well-being or individual happiness with income.

Individuals can thus assess their level of well-being based on a variety of factors such as past experiences, objectives, future expectations, social standards, and so on (Diener, 1984; Veenhoven, 1993). Therefore, it is worth investing some attention to the idea of financial satisfaction. At first glance, it seems reasonable to declare that a sense of financial satisfaction is influenced by more than just objective socioeconomic and demographic factors, especially given the importance of personality and human nature (Crawford Solber et al., 2002). Furthermore, it is how individuals view their income – in the broader context of assets that make up a "financial situation" – as adequate to meet their requirements that counts most, not the exact level of income (Diener, 1984). People also utilize standards such as references to the past, wants, and social comparisons to evaluate how well they are doing when recognizing their needs and their wants (Campbell, et al., 1976; Michalos, 1991).

Mugenda et al. (1990) investigated the relationship between financial satisfaction and life satisfaction and found that financial satisfaction is associated with overall satisfaction of quality of life. Bowling, & Windsor (2001) also concluded that financial satisfaction contributes to life satisfaction. Data compiled from a sample of college students in Canada indicate that financial satisfaction is associated with three out of four variables related to life satisfaction (Michalos & Orlando, 2006). Xiao et al. (2009) showed that financial satisfaction, together with financial behaviors and academic performance, contribute to life satisfaction of college students.

In summary, comprehending the concept of financial satisfaction and its relationship with life satisfaction provides valuable insights into subjective well-being and individual happiness. Such understanding contributes to a broader understanding of personal finance and the assessment of well-being.

III. MODEL AND METHODOLOGY

3.1 The survey

In our study, data collection was primarily conducted through a web-based survey. The survey targeted a random sample of students from various universities and high schools in the Republic of Croatia during the years 2019 and 2020. To ensure the survey's quality, input was gathered from professionals, students, and relevant literature, which helped in the development and pretesting of the survey. Professionals provided valuable insights regarding the survey items, while students contributed helpful ideas to enhance the survey's readability, language, and question sequencing.

To encourage participation, the survey was a prerequisite for attending a complimentary financial literacy workshop, which was promoted through national newspapers, television, radio, and social media platforms. The survey was accessible online on the educational program's website (www.efficacy.com.hr). In total, 970 students participated in the survey, and out of these respondents, 738 completed all the survey questions. Among the participants, 43% were university students, while 57% were high school students. Additionally, 26% of the respondents were male students, and 74% were female students.

3.2 Variables

Assessing a student's financial situation using income poses a significant challenge due to its complexity. Students' income typically stems from various sources, including parental support, personal employment, and student loans. Consequently, relying on income as a metric becomes inadequate. Similarly, wealth fails to provide a suitable measure in this context. Alternatively, non-durable consumption emerges as a viable option; however, obtaining precise data for this metric proves challenging. Hence, we employed the following question to gauge students' financial satisfaction: "On a scale of 1 (very poor) to 7 (excellent), how would you rate your current financial situation?". To measure life satisfaction or happiness, we employed two items: “The conditions I live in are excellent”.

IV. RESULTS

Using principal component analysis, one principal component is extracted out if two items which refer to life satisfaction. The total variance explained is shown in Table 1. The cumulative percentage of variance explained equals 78,279%.

Table I. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1,566	78,279	78,279	1,566	78,279	78,279
2	,434	21,721	100,000			

Furthermore, the Cronbach's alpha for two items referring to life satisfaction equals 0,72, what is considered acceptable (George & Mallery, 2003), especially considering that the scale consists of 2 items.

The regression model is estimated using the previously extracting component for life satisfaction as independent variable and financial satisfaction as the dependent. The following regression equation is estimated (with t-statistics in brackets):

$$\underset{(102.337)}{FS = 4.606} + \underset{(14.169)}{0.638\ LS} \qquad (1)$$

The estimated model indicates that life satisfaction has positive statistically significant impact on financial satisfaction, what is in line with previous research.

The coefficient of determination R2 equals 0.2143, indicating that 21.43% of the total variation in life satisfaction can be explained by the estimated model. Furthermore, heteroskedasticity of residuals is not present, since the White heteroskedasticity testF statistic equals 1.228 with p-value of 0.2683. The Breusch-Godfrey Serial Correlation LM Test F statistic equals 0.0502 with p-value of 0.9511, indicating that residual autocorrelation problem is not present in the model.

V. CONCLUSION

The present study aimed to examine the relationship between financial satisfaction and life satisfaction among university and high school students in Croatia. By analyzing a comprehensive dataset collected through a web-based survey, we obtained valuable insights into the impact of financial satisfaction on overall happiness levels.

Our findings confirm the significance of financial satisfaction as a key predictor of individuals' happiness. The regression analysis revealed a positive and statistically significant relationship between life satisfaction and financial satisfaction, aligning with previous research in this area. This implies that an individual's perception of their financial situation plays a crucial role in determining their overall satisfaction with life.

The results also highlight the multifaceted nature of the relationship between income and life satisfaction. While income alone does not directly translate into happiness, our study emphasizes that effective management of personal finances and achieving a sense of financial satisfaction contribute significantly to overall well-being.

The study contributes to the existing literature by addressing a research gap regarding the relationship between financial satisfaction and life satisfaction among students. Previous studies primarily focused on academic performance, financial literacy, and financial habits, neglecting the exploration of financial satisfaction and its impact on life satisfaction. Our research expands the understanding of the role of financial satisfaction in the happiness of students, providing valuable insights for policymakers, educators, and individuals seeking to enhance well-being among the youth.

The findings underscore the importance of promoting financial literacy and effective money management skills among students, as it can directly impact their overall happiness and life satisfaction. Educators and policymakers can utilize these insights to develop targeted interventions, programs, and educational initiatives that empower students to improve their financial well-being and enhance their overall quality of life.

It is important to note that our study has certain limitations. The data collected were self-reported, which may introduce response biases and potential inaccuracies. Additionally, the survey was conducted within a specific time frame and geographical location, limiting the generalizability of the findings to other populations and contexts. Future research could consider longitudinal studies and include diverse demographic groups to further explore the complex relationship between financial satisfaction, life satisfaction, and well-being. Also, future studies should draw samples from student populations from larger and even international pools. Finally, this study only focused on the effects of financial satisfaction on life satisfaction so future research should consider including additional domains and variables into the model. The social relationship domain and psychological domain, for example, might be important to students.

In conclusion, this study sheds light on the intricate connection between financial satisfaction and life satisfaction among students in Croatia. By highlighting the significance of financial satisfaction in promoting overall happiness, our research provides actionable insights for policymakers and educators to foster financial well-being and enhance the quality of life among the youth. The findings contribute to the broader understanding of personal finance and subjective well-being, paving the way for future research and interventions aimed at improving the well-being of individuals.

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