

## **Report on : Students expenditure and the economic recession**

Kerim Hadziabdic

*Inetnatial Burch University Sarajevo, Bosnia and Herzegovina*

### **Abstract**

All subjects were selected from International Islamic University Malaysia (IIUM), data was collected using questionnaire which is attached to the research paper. There are two types of data which is local student's data and foreign student's data. The findings from research are representing that foreign students as well as local students are affected by current economic recession.

### **1.INTRODUCTION**

THE ECONOMIC recession which had taken place on 2008-2009 had a global implication all around the world. Like any other economic recessions before, it had been triggered by a widespread contraction succeeding an economic bubble. As for the case of 2008-2009, the bubble that blew before the event was the increasing number of subprime mortgages and lending of individuals due to low interests. It had mainly originated from the United States, and when it had a dire critical economic meltdown, no other country in the world could escape the repercussions. Contingency ripple took place and country as far as Malaysia too were well effected by the economic recession.

An economic recession is a phenomena of which it effects almost any if not every aspect of individuals who rely on money and the common market. Thus students, like any other individuals are part of this economic equation and are subject to impact to any economic circumstances. Malaysia has over 900,000 students currently enrolled in public and private higher education institutions (Ministry of Higher Education, 2009). This number includes foreign students who had become part and element of the Malaysian financial market. Both students wether local or foreign are well included in economic activities, either by saving money in banks, selling or buying things, or spending on services provided by the higher institutions. The great number of university students thus cannot be easily overlooked in the implications of the economic recession. The economic crisis has had an impact on their family's finances and many have felt an effect on their own financial lives. The crisis also ultimately affected students' confidence, behavior, trust in financial institutions and overall well-being.

### **2.SELECTION OF PROBLEM**

The economic recession may had happened almost two years ago, but no one could deny the economic repercussions still lingers today. Students engaged in many economic activities on a daily basis. Many like foreign students that recite at IIUM deal with money transactions that involve external as well local curacies. The global economic crisis 2008-2010 influences these transactions in many ways. Whilst Malaysians claim they were not badly affected by global economic crisis which originates mainly in US and Europe none the less on a longer time scale it would have altered the economic behavior of locals. The issue

here is how economic recession indirectly have an impact on the students pockets beat it the local students or foreign students of IIUM. Both types of students leave in a quiet similar and controlled environment and even consume common life style. What should differ on these students is their source of savings or money gotten of their parents whom would be more directly affected by the economic recession. Thus, the study aims to look into aspects of expenditure on a much localised scenario. It would be interesting to note how this particular phenomenon would have direct or indirect implication on student's expenditure of various backgrounds.

### **2.1.Objective of study**

This paper tries to examine the two main components which are the type of student of IIUM and the level of changes on their expenditure habits after the global economic recession. These students which are between ages 18 to 30 are at their beginning of financial maturity and independence. Many of which decide their own economic decisions. However they still rely on a given source of income weather it is from their parents, scholarships or any other forms of financial assistance. By identifying the students of these various backgrounds it is possible for us to analyse the indirect impact of current economic recession on the students, furthermore they are also the factor of foreign and local students of IIUM who may act differently on the level of economic implications they meet with. This study also hopes to identify whether the economic behavior of students on the account of their expenditure are influenced by where they are from (foreign or local) in the event of an economic recession. The findings of this research would help in many ways of decision making of related authorities such as the university, or even at a personal financial management on a similar economic circumstances.

### **2.2.Research Questions**

Are student's spending habits effected by an economic recession?

Which type of student is more responsive towards the change in an economic recession, the locals or foreign?

### **3.Literature Review**

Malaysia had its bumpy road in facing the uncertainties of modern global economy. Global economic crisis of recession, inflation, bubble burst, and oil crisis are the examples of problem faced by Malaysia and without exception, most countries in the world. The global economic recession of 2008-2009 like any others before had effected considerably on all aspects of life of the public. What had actually caught my attention is that how many had undermined the role of young adults , typically students had anything at all to do with such global economic crisis. Many argue that students; whom may still heavily rely on parents or government in funding them, are best unaffected by the greater economic phenomenon. Students simply don't care, since they do not work or earn for money and oblivious to the hardship of their parents. Of course, these are generalization and a well attained myth of ungrateful sons and daughters who would plunder the money of their parents if not the tax payers money. The truth is that students are at a great stage of transitional period to financial

and psychological maturity. They've begin to deal problems and issues identical to those faced by working adults and had become a more responsible individual part of a greater society. Issues of monetary crisis that may had happened on a greater international and state level definitely trickles down to the general public and to students with no exception.

Malaysia has over 900,000 students currently enrolled to both private and public universities (a good 3% of the population of Malaysia as of 2010) and a number that much could not escape any of the country's economic equation. The well known by-product of any economic recession is the increasing number of unemployment as well as prices of goods, followed by the mass withdrawal from ordinary expenditure. Replicating this at the very micro level, a student has as much to worry about it than any other regular working adult. The scarcity of jobs offered by the market and the constant struggle of fresh graduates with existing unemployed workforce had become a nightmare of students who yearns for a sense of approval from the society and parents. While enrollment was related directly to salaries and employment opportunities for college graduates, it was related inversely to wage and employment opportunities for non college graduates (Freeman 1975; Handa and Skolnik 1975; and Mattila 1982).

Whilst many studies focuses on the financial troubles faced by students who intends to pursue their studies ( i.e unaffordable tuition fees ) and prospect of working after graduating, little attention had been laid on financial difficulties faced when they are still enroled to a particular university. A review of university choice studies examined the differences changes in student responses to five key components of university cost: tuition, room and board(hostels), travel, cost of foregone earnings, and financial aid ( Leslie and Brinkman 1987, pp 195-197 ). These variables are the focus of a students financial planning, and come what may an economic recession or financial abysmal that may had befallen them, this issues still holds a primary importance.

However, on an account of an economic recession may well effect how students handle their money, on a fixed cost ( i.e. books, transport, food ) or for leisures. An assessment done by National Institute of Endowment for Financial education on how a recession impact cripples student's finances, they've concluded that 93% of students have felt and effect on their own financial lives. The crisis also ultimately affected student's confidence, behaviour, trust in financial institutions and overall well being. This data stems from the landmark study Arizona Pathways to Life Success in University Students (APLUS), funded by the National Endowment for Financial Education. At the height of the economic crisis (February 2009 to April 2009), researchers at the University of Arizona completed Wave 1.5 of a longitudinal study of how young adults develop financial attitudes and behaviors.\*

In addition to that, this study stresses on how the economic recession of 2008-2009 would have direct or indirect implication on student's expenditure and it would have to be addressing to students enrolled to local Malaysian university. IIUM fits in this category and boasts to have almost 13,000 students studying there. By implicating the idea of students difficulties in their finances (which is more or less covered under their expenditure behaviour) I hope to define not just how a student's pocket can relate to an economic

recession but also on what are the common patterns that drive a typical students expenditure on day to day basis. By principle, a student will face either shortage of financial funds from their parents (as parents too had to reshuffle their expenditure planning due to an economic recession ) or the scarcity of financial aids from the government ( loans, endowments PTPTNs). This will deliberately alter their lifestyle and expenditure (ie, going less outings, and reside on cheap hostel food). I have also noticed that under the administration of Prime Minister Najib Tun Razak, much emphasis had been focused on students financial aids and welfare. According to his speech in introducing the supplementary supply (2009) bill, he mentions that the Government is willing to provide various subsidies, incentives and assistance for fuel consumption, food security, scholarships and educational assistance as well as social welfare programs. The allocation for subsidies and other assistance in 2008 totaled RM 34.1 billion or 22% of total operating expenditure and RM6 billion is accounted for helping students (Najib, 2009; Supplementary Supply (2009) Bill ).

Finally, the study sets to look at the differences of expenditure behaviour that exists between local and foreign students on similar economic condition. IIUM is well known to have a great number of foreign students which stays for the average period of 3 - 5 years to complete a course. Given the long tenure of these students in Malaysia, foreign students may endure similar economic activities just as the locals do. However, there are many more variables that may influence their behaviour of spending, for which this study is trying to analyse. In comparison to the local students, a foreign student is expected to be more responsive to an economic recession. Thus , I am determined to have a full study of behaviour of the students expenditure on a given economic climate, namely due to the economic recession of 2008-2009 and discuss how local and foreign students cope up with it.

## THEORETICAL FRAMEWORK

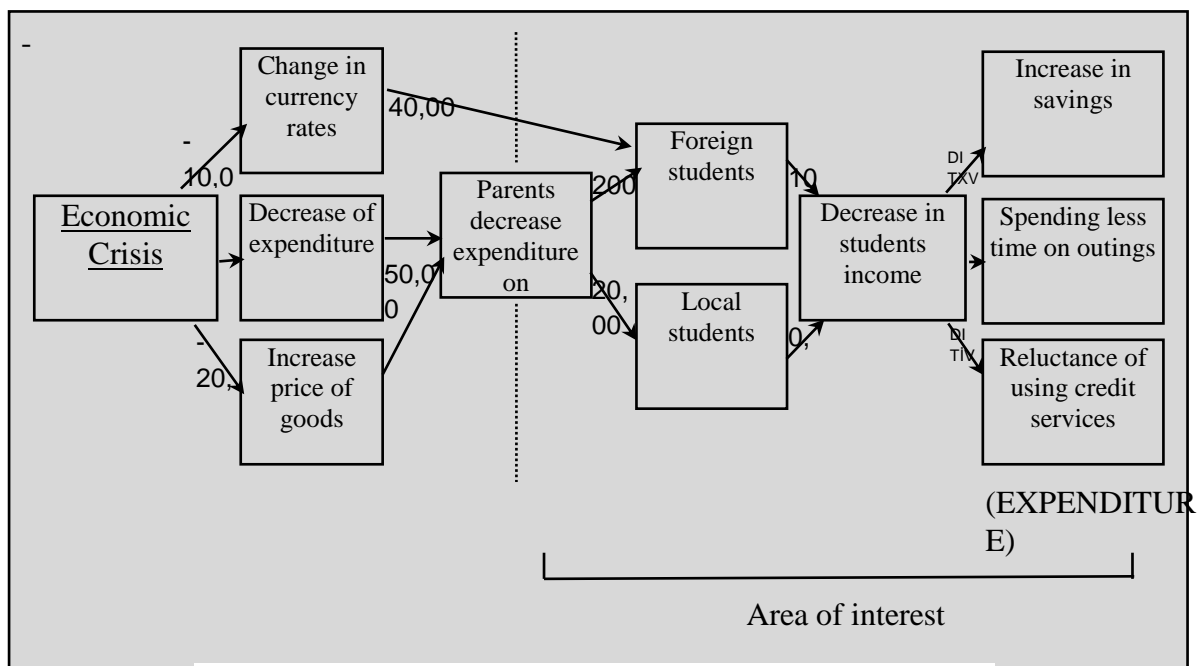


Fig. 1.1 - A model of Students expenditure and the economic University of Arizona completing a longitudinal study of how young adults develop financial

attitudes and behaviors. However, due to limited sources and time frame given this study seeks to carry a vertical cross-section of a given number of students of IIUM in a single survey.

It is, perhaps, easier to understand the nature and function of a theoretical framework if it is viewed as the answer to two basic questions:

1. What is the problem?

- Why is this study's approach a feasible solution?

Starting with the sample, it should be noted that this study is conducted on a short semester period, and that the number of students enrolled for the semester is considerably much lower than of a normal long semester. Nonetheless, this study aims to produce a set of sample of students replicable to the population of students in IIUM.

This study assumes that there shall be no expenditure differences between male and female students on a given economic circumstances, although these numbers should be well noted. In addition to that, variables such as student's ethnicity, home of residence, and their GPAs are well accounted for analyzation. The data collection method preferred in the study is survey questionnaire, which respondents can complete in less then 10 minutes about their family financial environment, attitudes and behaviour on the recent economic crisis and etc. Figure 1.1 demonstrates how variables should relate to one another, forming the proposed research question;

*Would students spend less following an economic crisis, if so are foreign students more responsive in such circumstances?*

Taking the economic crisis of 2008-2009 as a starting point, it led to several foreseeable effect, namely decrease of expenditure in the public and the increase price of goods. As stated earlier, the sample is taken from within the student population of IIUM; the university is thus a controlled environment for which all students reside. All students are assumed to be financially dependent on their parents, at least on the term of student's monthly additional income.

Decrease in students income should indicate the following effect of parents decreasing the amount spent on their university enrolled child. I am therefore to generalize the spending habits of students narrowing them down to increase of savings, spending less time on outings, and or reluctance of using credit services all of which signifies student's expenditure. Note  
303

also there is an added variable to foreign students, for which involves in transnational financial transaction and should be responsive to the change of currency rates of their country to Malaysia.

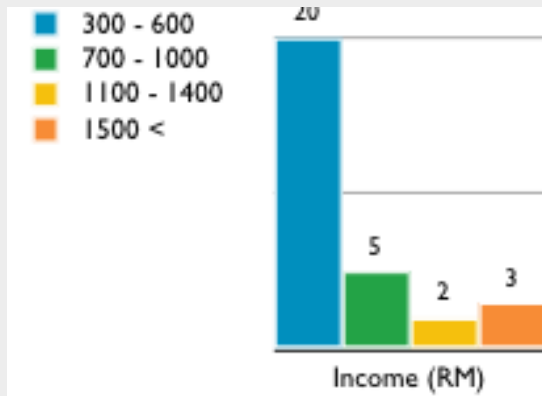
### **Data collection**

A questionnaire survey of 30 respondents had been carried out through a non probability sampling method. They had been approached at random, however, the research is conducted under quota sampling method. In order to match the real representation of the student population of IIUM, the study restricts the number of foreign students respondents to 7 out of 30 bringing the percentage to 23,3 % of the whole sample. This number reflect closely to the ratio of foreign student to local students in IIUM. Sample questionnaire is attached to Appendix.

## Data analysis

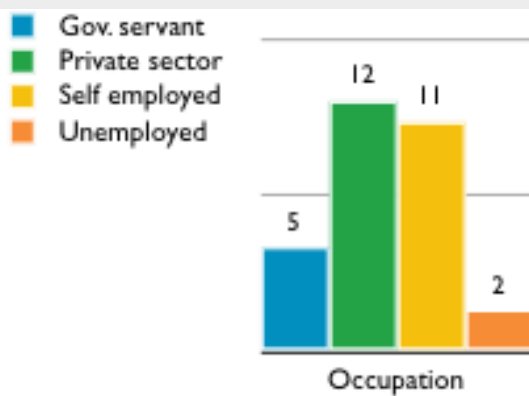
### Data analysis of respondents identity

Figure 1.5 Student's monthly



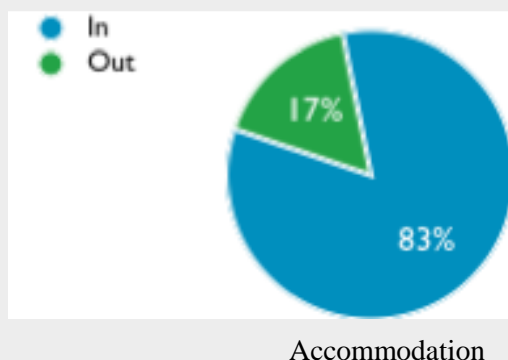
We can see that in figure 1.5, most students receive in an average monthly income of Rm300 to Rm600. However, for the top range of students monthly income of Rm700 and above is received by all foreign students. This importantly signifies that foreign students needs more money than local students.

Figure 1.6 Occupation of Guardian



It is important to also note the minimal background of students by knowing how their guardian is employed and financing them. 12 students out of 30 answered that their guardians are in private sector followed by 11 whom are self employed. This data signifies that average of students comes from a middle income families.

Figure 1.7 Campus status

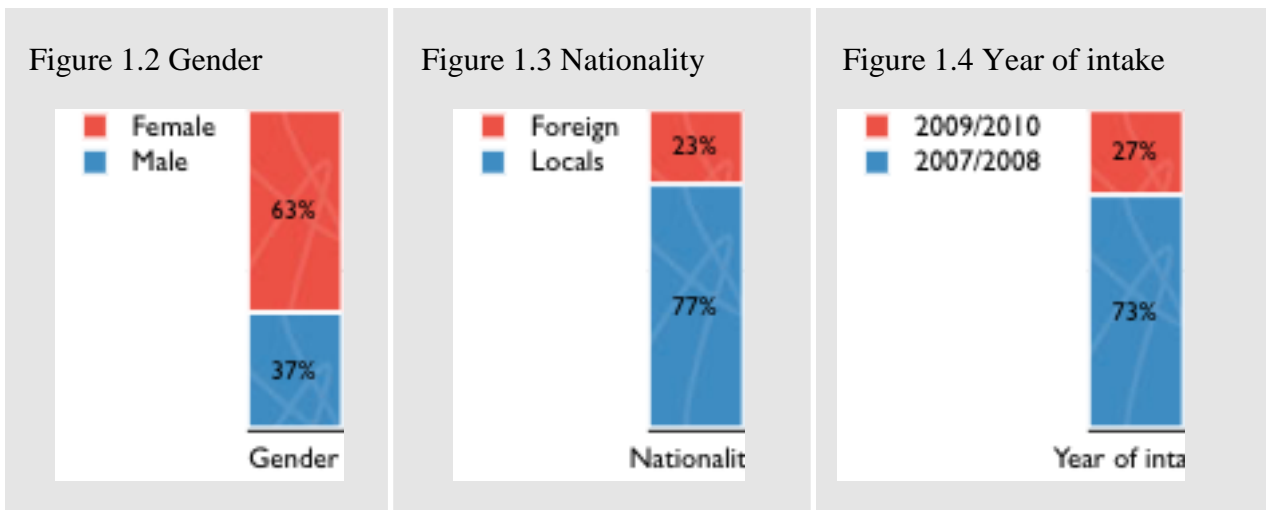


As shown on figure 1.7, we can see that it correlates with figure 1.5, of students monthly income. The major 83% of students whom stays in-campus has the average income of 300-600rm. Many can rely on this minimal income because lifestyle is considerably cheaper by living in campus.

Gathering the data, we could see on figure 1.2, that the respondents consists of more female than male. As stated earlier, there shall be no distinctions between the expenditure habit of male or female.

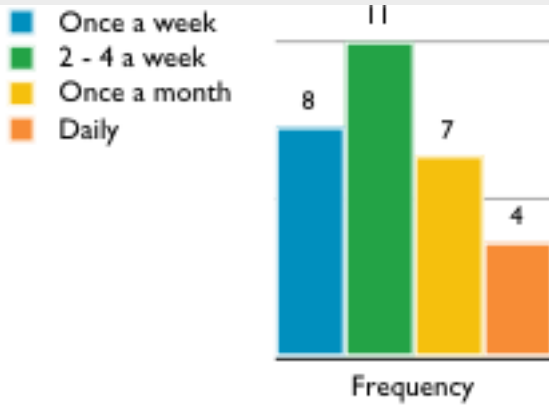
In figure 1.3, the ratio is maintained to reflect the original student population of IIUM.

The significance of year of intake tell us that there are more senior students compared to juniors. The fact is senior students would have much more financial awareness and experiences in managing their monthly income.



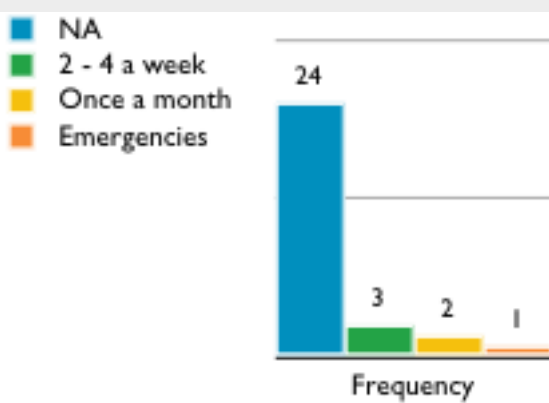


**Figure 1.8 Social outings**



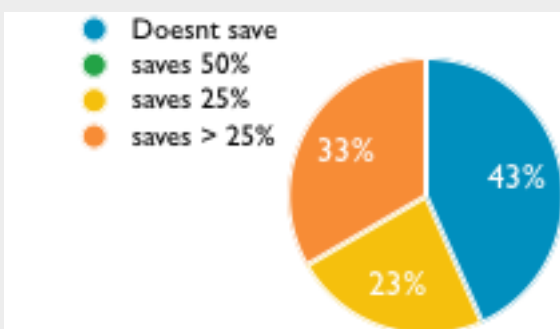
However, it is interesting to note that despite most having only up to 600rm to spend on monthly basis, still there are many students (11 of them ) who enjoys a good social outings for 2 to 4 times a week. It just shows that , come what may, economic recession or not, socializing is still the main primary importance in a student’s life.

**Figure 1.9 Use of credit/debit card**



Most of the students does not use or own a credit or debit card. This number represents the number of local students whom rely mostly on cash based transactions whilst the rest (mostly foreign students) are dealing with credit/debit cards.

**Figure 2.0 Savings**



A lot of students find it unimportant to save if they have just enough cash for the monthly expenditure. However, there are students who would reserve not more than 25% of their monthly income for savings. If you could relate to figure 2.3 of students interest in part time employment, it goes to say that many are interested to have a minimal saving whilst increasing their monthly income.

Figure 2.1 Students perception towards price of goods

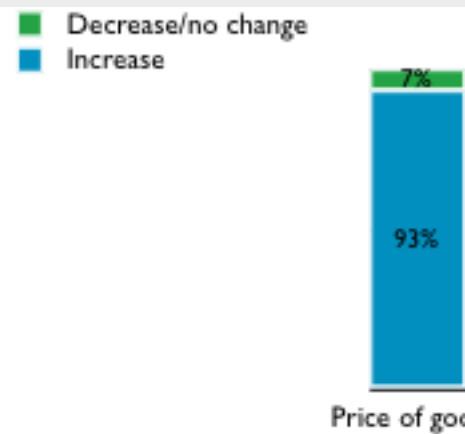
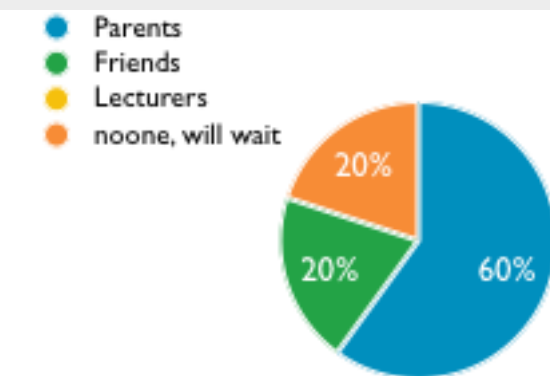


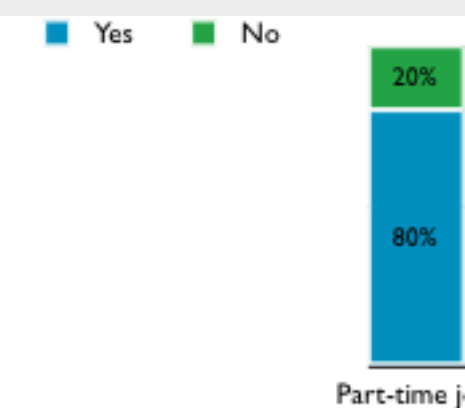
Figure 2.1 explains that the economic recession has a greater and prolonged effect. Up to 93% of students believe that prices of goods are getting much expensive than before.

Figure 2.2 Financial Assistance



According to the result of the survey, up to 60% of the sample still greatly rely on their parents for financial assistance and difficulties. They feel more comfortable by gaining monetary help from their parents because it has been their primary source of income anyway. This data is followed by an equal distribution of respondents who would rely on friends or simply wait till difficulties is overcome.

Figure 2.3 Part time employment

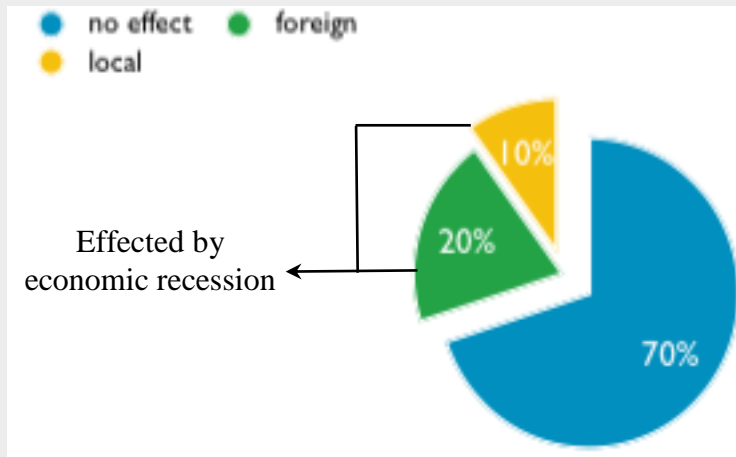


As said earlier, figure 2.3 in students perception of having a part time job whilst studying shows the correlation of student's need for extra money to cope up with the rise of price of goods. More over, many students also believe that they are mature enough to offer services to the job market, a determination to be part of the bigger society. 80 % of the students also consider that part time job would not effect their studies immensely.

The questionnaire also provides an open ended question, enquiring on how students feel the economic recession of 2008-2009 had effect on them. This question tries to sum up the overall feeling and perception towards such economic scenario where prices goes up and how it influences their monthly expenditure. Up to 70% of respondents have the impression that the economic recession has little or no impact on their lifestyle or expenditure. This leaves us the rest 30 % (which represents 9 respondents ) all of whom said that they are uneasy with the increase price of goods and thought that they ought to get more money to handle difficult situations up. 6 out of this 9 respondents are foreign students and 3 are locals. This shows that foreign students are more conscious to the changes brought by an economic recession and is determine to deal with it.

The survey continues by providing questions specifically asked on foreign students. These questions are designed to ask about activities done by foreign students in handling their finances.

Foreign students response

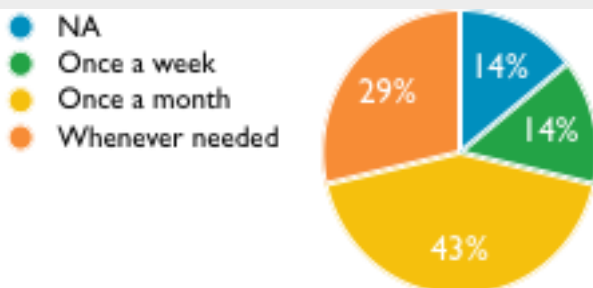


Students's response :

*“ Prices are much expensive and more pocket money is needed to maintain such current lifestyle.”*

*“ Things are getting pricier than usual, there is less to spend. “*

Figure 2.4 Frequency in dealing with international banking transaction



Almost all of foreign students deal with international banking transaction. 43% of who deals on a monthly basis. International students whom still rely on their parents who are back home get their money through international banking. International banking is one of the sector most vulnerable to economic crisis. Following this question, many students said that at the recent currency exchange, they had less to spend.

## Discussion

Consistent with the research question proposed, the questionnaire conducted had intended to get as much data to prove or disprove the argument. Reviewing back to the question, are students' spending habits affected by an economic recession, it is undeniable that students do admit changes. Although, infinite factors do influence in giving such result, I am certain that economic crisis plays a big and important role in affecting the financial lives of not just working adults but students as well. There is indeed a link between students' financial management and the bigger economic picture, and we can well discard the myth that students are unaware of economic crises.

From that the study gathered how students generally feel about the economic recession. Most of the local students receive in average of Rm300-Rm600 monthly and comes from a middle income family status. I believe them having to live on around Rm 400 a month would be modest at best. Yet, with prices of goods increasing either through gradual inflation or economic crisis, they managed to maintain with that amount and many feel that they are least affected by the economic crisis, though they acknowledge their ability to spend less.

On the other hand, the foreign students have been projected to have more for their monthly income, some up to more than Rm 1500. Comparing this to the local, it shows that the locals have greater confidence in their financial securities than that of the foreign students. Local students are surrounded by elements familiar to them, whilst foreign students having to adapt to a foreign culture, may think they need more to spend.

Take for example, Ali ; a Palestinian student may not be easily accustomed to normal day to day food like rice and sambal belacan, a cheap source of food for local student. He may have to reside if not occasionally to an Arab food restaurant which is considerably more expensive. This is a classic example involving just food, though many other factors may lead as to why foreign students need more monthly income. ( communication, room, etc.)

Ironically, where both foreign and local students differ in their monthly income, they still think social outing should not be missed. Most of the respondents continue to go for social outings despite the increase in prices of goods. This agrees with such longitudinal study carried out by a research that confirms how university students spend time, 16 hours for which is dedicated to socializing (National Survey of Student Engagement, 2006; Nonis, Philhours & Hudson, 2006).

Coming to the second proposed research question, the result shows that there are no clear sign that economic recession is a direct factor to their expenditure behaviour. The study can only conclude that due to foreign students avid involvement in international banking transaction compared to local student, they are more responsive and vulnerable to global economic consequences. Foreign students also replied that due to the recent currency exchange rate, many felt that they have less to spend. This somewhat is aligned to the hypotheses proposed by this study that ultimately, foreign students are relatively more responsive to global economic conditions than local students.

### **Conclusion**

In conclusion we can say that student's expenditure is affected by current economic recession. Foreign students are affected more because of currency rates, increase of prices of basic needs, and it always more expensive to study abroad than to study at home.

There are several limitations in this study. The findings, among other things may not represent wider population of both types of students due to limited number of respondents. However, the number of respondents in this study still provides the insight indeed. As findings presented, foreign students have more expenditures compare to local student and their pockets are affected by economic recession.

### **Bibliography**

Freeman, Richard B. 1971. *The Market for College. Trained Manpower*. Cambridge, Mass.: Harvard University Press.

Handa, M.L , and Skolnik, M.L 1975 "Unemployment, Expected Returns, and the Demand for University Education in Ontario: Some Empirical Results." *Higher Education* 4: 27, 43.

Hilgert, M. A., Hogarth, J. M., & Beverly, S. G. (2003). Household Financial Management: The Connection Between Knowledge and Behavior. *Federal Reserve Bulletin July*: 309-322.

Leslie, Larry I., and Brinkman, Paul T. 1987. "Student Price Response in Higher Education: The Student Demand Studies." *Journal of Higher Education* 58(2): 181, 204.

Najib Tun Abdul Razak, 2009. "In Introducing the Supplementary Supply (2009) Bill 2009." *Ministry of Finance*. 12.

3<sup>rd</sup> International Symposium on Sustainable Development, May 31 - June 01 2012, Sarajevo

Nonis, S. A., Philhours, M. J. & Hudson, G. I. (2006). Where Does the Time Go? A Diary Approach to Business and Marketing Students' Time Use. *Journal of Marketing Education*, 28, 121-134.

Mattila, J. Peter, 1982 "Determinants of Male School Enrollments: A time Series Analysis." *Review of Economics and Statistics*. 64, 242, 51.

Ministry of Higher Education, 2009.( <http://www.mohe.gov.my/educationmsia/index.php?article=mohe> )