
THE ESSENCE OF FINANCIAL LITERACY AND HOW TO DETERMINE ITS LEVEL

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ABSTRACT:

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INTRODUCTION. What is financial literacy? Financial literacy is the ability to understand and effectively use a variety of financial and budgeting skills, including daily personal finance management, household budgeting, or investing.

Financially literate people have the necessary foundation for a sound relationship with money. Financial literacy serves as a starting point for learning more complex financial issues, such as increasing personal capital with the help of complex investment instruments, stock trading.

Money plays a vital role in modern society. Based on this, financial literacy can be put on a par with a person's basic knowledge of hygiene, nutrition, and social interaction. At the same time, little attention is paid to financial literacy in school, so a person achieves it or does not achieve it through trial and error.

Given the importance of finance in modern society, a lack of financial literacy can seriously harm a person's long-term financial success. Yet financial illiteracy is widespread: A study by the Financial Industry Regulatory Authority found that $\frac{2}{3}$ of Americans are unable to answer basic financial questions. Low levels of financial literacy are not only detrimental to the individual, but can also have a negative impact on the economy.

It is important to understand your level of financial literacy. To do this, answer the following questions:

1. Do you control your budget by keeping track of your income and daily expenses?
2. Do you know how much money you need for 1, 3 and 6 months of life?
3. Does your income exceed your expenses?

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If you answered yes to all the answers, then you can move on to more complex questions and financial instruments. If most of the answers are negative, then you should pay attention to the basic principles of financial literacy.

How to improve your financial literacy

How to learn financial literacy? Forbes magazine lists 4 main sources for improving financial literacy:

- Self-study. Numerous online platforms, websites, and apps offer courses, articles, tutorials, and tools related to financial education. The main advantage of this approach is that you can choose the topics you are interested in and the pace of learning.
- Formal education. This includes school or university courses on financial literacy. You can often find various programs to raise public awareness or paid training courses.
- Professional consultation. For specific questions in the field of financial literacy, you can seek consulting. Specialists will help you understand complex financial instruments or solve any money dilemma.
- Networking. Sharing experiences is of great value. Communication with colleagues can be both informal and in formed focus groups. This approach will help to study other people's experiences and learn from other people's mistakes.

5 principles to follow to improve your financial literacy:

1. Earnings. You need to learn to live within your means, adjust your lifestyle to your income level, and actively use benefits, such as deductions.
2. Savings. Monitor and adjust your monthly expenses; instead of spending on something you can do without, save and invest your money.
3. Debt management. Always weigh the need for a loan and your future solvency; distinguish between a "good" loan (for example, for education) and a "bad" one (for example, for buying a new expensive phone).
4. Protection. Have a reserve fund for 3-6 months of life in case of job loss or disability.
5. Planning. Plan your expenses in advance, do not make spontaneous purchases, and base your purchases on the criterion of necessity, not situational desire.

How to allocate money? You can use the 50–30–20 or 80–20 methods to allocate money. The 50–30–20 budget involves allocating 50% of your income to needs, 30% to wants, and 20% to savings. The 80–20 budget involves setting aside 20% of your income first, then spending the remaining 80%.

We recommend reading books on financial literacy!

To improve your level of financial literacy, you need to read relevant literature. What books are there on financial literacy? Among the available and popular books are "The Richest Man in Babylon," "Rich Dad, Poor Dad," "Think Like a Millionaire," "Think and Grow Rich," and "Screw It. Just Do It."

"The Richest Man in Babylon"

George Clason's book was written in the 1920s. Its content is stylized as ancient parables that contain advice on improving financial literacy. The book is devoted to issues of both accumulation and further preservation of capital.

"Rich Dad, Poor Dad"

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The book by American writer and investor Robert Kiyosaki was published in 1997. The narration is in the form of short instructive stories based on the personal experience of the author himself. The book describes ways for a person to gain financial independence and is largely devoted to contrasting the thinking of poor and rich people.

"Think Like a Millionaire"

American businessman Harv Eker wrote a book about the daily practical application of knowledge in the field of financial literacy. It is based on changing a person's thinking. The author gives specific methods for accumulating and preserving money, for example, the six-jar method.

"Think and Grow Rich"

The book by American journalist and psychologist Napoleon Hill was published in 1937, during the Great Depression. The author identified 13 universal rules that can lead to financial success. The book is the result of almost two decades of work and communication with hundreds of entrepreneurs who have succeeded in business. As a result, the author gave the reader an average formula for success.

"Screw it. Get Down and Do It"

The author of the book is American entrepreneur and philanthropist Richard Branson. He is the founder of the Virgin Group corporation, which consists of several hundred diverse companies from publishing and tourism to the space industry. From the title, the author calls the reader to action. The book itself is not only a guide to financial success, but also a manifesto of the author's entire life. If you like something, take it and do it.

All books point to the need for internal transformation of a person who wants to achieve financial success. In them, you can find both general advice and specific methods for accumulating and increasing personal capital.

Financial literacy is the basis of a normal life of a modern person. Its principles are simple and understandable to everyone. Books devoted to this topic will help you get specific tools for achieving financial goals.

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