

Personal finance and subjective well-being – A multi-dimensional analysis

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Abstract

People consider personal finance as a fundamental aspect of their lives, and they dedicate a significant part of their lives towards personal finance to meet their various needs and wants. However, it questions how personal finance contributes to well-being. The present study brings conclusive findings on how individuals' personal finance contributes to their subjective well-being. The study created a model based on Amartya Sen's Capability approach and analysed the influence of personal finance on the subjective well-being of U.S. adults through three distinct dimensions of personal finance: objective financial well-being, subjective financial well-being and financial capability. The relationship has been analysed by taking 4705 U.S. adults' data extracted from the 2016 National Financial Well-Being Survey (NFWBS) conducted by the Consumer Financial Protection Bureau (CFPB). Structural equation modelling was used to analyse the relationships. The results reveal that subjective financial well-being significantly contributes to subjective well-being, whereas objective financial well-being does not. However, it is found that objective financial well-being has an indirect significant positive effect on subjective well-being through subjective financial well-being (full mediation). Further, the results show that financial capability positively influences objective financial well-being, subjective financial well-being, and subjective well-being. A serial mediating relationship was found between financial capability and subjective well-being through objective financial well-being and subjective financial well-being. The study offers valuable implications for regulators and policymakers in making significant efforts to raise people's financial capability. An increase in financial capability will lead to effectively utilising and managing their financial situations, thereby experiencing financial security and financial freedom, which will eventually help them achieve higher subjective well-being.

Keywords: Subjective well-being, Financial well-being, Financial capability, Financial behaviour, Financial skill, Financial knowledge

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