

## FACTORS AFFECTING YOUTH BANKRUPTCY IN MALAYSIA

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### ABSTRACT

The aim of this study is to determine factors affecting youth bankruptcy in Malaysia. This study provides theoretical evidences that will benefit the financial institutions in the improvement of borrowing and lending by avoiding excessive debt among customers. In addition, it will expand the current knowledge and increase awareness of bankruptcy among youth. Thus, this research paper pursues two objectives: to provide a statistical profile of youth bankruptcy and to investigate factors affecting youth bankruptcy in Malaysia. An overview of statistical youth filing for bankruptcy was acquired from the Malaysia Department of Insolvency (MDI). The interviews were performed and questionnaires were distributed to 140 individual who filed for bankruptcy in the Malaysia Department of Insolvency (MDI) and Credit Counseling and Debt Management Agency (AKPK). There are seven hypotheses used in testing study aspects, namely gender, race, education, marital status, occupation, work experience, and loans. Hence, result of regression analysis shows that six out of seven variables are significant to the dependent variable. The lack of discipline regarding financial management is why many youth in Malaysians today carry major debts and face a high probability of going bankrupt.

Keywords: Bankruptcy, Youth, Malaysia.

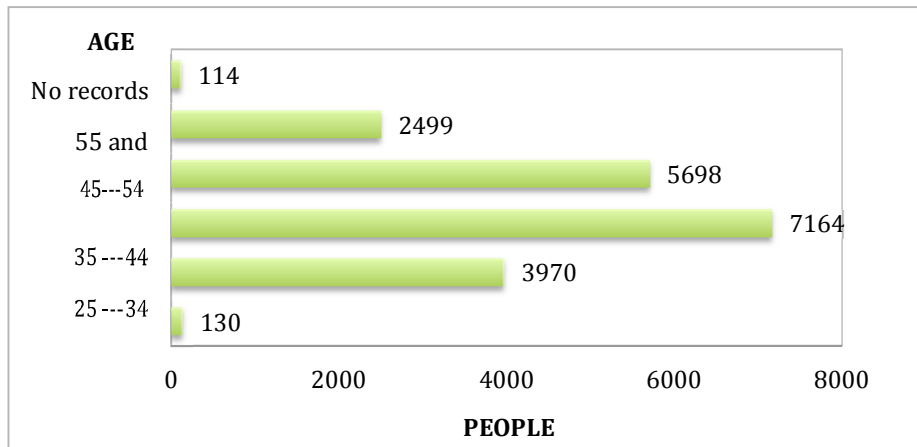
## INTRODUCTION

Bankruptcy is a legal remedy to the overwhelming financial indebtedness that can be invoked voluntarily by the debtor (Sullivan, Waren & Westbrook, 1989). According to the Malaysia Department of Insolvency, a bankrupt person is someone who has officially been declared that he unable to pay what he owes. In other words, bankruptcy is the legal status of an individual or other entity that cannot repay the debts it owes to creditors. In more jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor. In Malaysia, if the bankrupt party fails to notify the issuing bank or finance company, he will be deemed to be committed an offense under the Bankruptcy Act 1967. Based on this research, we emphasize the individual bankruptcy. An individual will declare a bankrupt to an Adjudication Order made by the High Court against the debtor if he is unable to pay his debts of at least RM 30,000.00. The court may be the result of a creditor commencing a bankruptcy proceeding by presenting a creditor's petition or a person voluntarily seeking to be made bankrupt by presenting a debtor's petition.

Today, bankruptcy cases have become a major problem in Malaysia. In an article in the *New Straits Times* dated 18 February 2013, The Finance Ministry discussed the problem with the Department of Insolvency to resolve the problems of bankruptcy among youth. About 240,000 people declared bankruptcy quarterly in 2013, one percent of them aged below 25. The government views bankruptcy among youth as a serious problem not only for the individual, but also regarding the loss to the country. Fortunately, bankruptcy is no longer a taboo subject in society. It is not unusual today to be declared bankrupt before 30 years old. The reckless spending and the pressure to obtain a luxurious lifestyle have been identified among the factors that trigger this problem. A person individually becomes more materialistic and often creates the mentality that encourages people to try to outdo each other with expensive vehicles, larger houses and the latest fashion items.

According to Chatterjee, Satyajit, Corbae, Dean, Rios and Jose (2005), having a bad

credit history not only limits a person’s supply of unsecured credit, but also has a negative effect on the cost of secured debts, like a mortgage or a car loan. It even has negative consequences for job opportunities, insurance and rental costs, since the potential employers, insurance companies and landlords have access to their applicants’ credit histories. Apart from loans like car and housing loans, most young adults don’t pay their study loans upon graduating from university, which may lead to bad record credit or being blacklisted in Malaysia. As said by our Minister in the Prime Minister’s Department, Nancy Shukri, in the article in *The Star* dated 20 October 2014, “This younger generation are supposed to be the next leaders. Instead, we have those who are already facing financial difficulties at a very young age.”



Source: Malaysia Department of Insolvency

Figure 1: Bankruptcy Cases in 2012 (Age)

Figure 1 shows the age of bankruptcy cases in 2012 gathered from the Malaysia Department of Insolvency. The age groups of young people are 44 and below, which in other words is the age group that dominates the total bankruptcy in Malaysia. The bar chart shows that the highest number of cases of bankruptcy is 11,264 people in the range age of 44 years and below. This is because, at this point in time during which an individual has started employment, marriage, undertaking business or starting families, he or she faces great commitment in life. The total participants in the oldest age group of 45 years old and above number are 8,197 people. This is followed by another 114 people who are counted as having no records and, perhaps, dead or have

fled the country.

Furthermore, youth play a role in a development country. Asnarulkhadi (2009) stated that, demographically, youth are categorized as an individual age group of 15 until 40 years old. This is significant group numerically as translated into power sources, and youth are positively influential towards nation formation, from politic (voters), social (unity) and economic (human capital) perspectives. Figure 1 shows that the youth are the most experienced in bankruptcy. This problem among youth needs to be addressed, as it might adversely affect the economic performance of the developing country in the long term. In addition, based on an article in *The Star* dated 20 October 2014 state by the Malaysia Department of Insolvency, the total cases of bankruptcy in the year 2013 were nearly 22,000, much higher compared to the year 2012 and in the first six months in the year of 2014, more than 12,300 young Malaysians declared bankruptcy. Leach, Hayhoe and Turner (1999) define that early exposure to financial management is important for the younger generation, because they have various obligations and learning how to save, budget and invest may take years. Furthermore, if they have never had substantial amounts of money previously, they may never have learned these essential financial management skills. Hence, this paper examines the factors affecting bankruptcy among youth in Malaysia. Specifically, the objectives of this research are to provide a statistical profile of youth bankruptcy in Malaysia and to investigate factors affecting youth bankruptcy in Malaysia.

## LITERATURE REVIEW

There are several views about bankruptcy that have been exposed in the past. According to Lockett (1988), the word *bankruptcy* is derived from the Latin words for “bench” and “break”. Thus, the literal meaning of bankrupt is “broken bench” and previously, creditors would physically break the debtor’s workbench after gathering together and dividing up the debtor’s assets. The broken workbench served as both a

punishment and a warning to other debtors. Satisfaction of the claims of creditors and punishment of the debtors were the objectives of the earlier law. Bankrupt persons were often deprived of their civil rights. Other societies required bankrupt persons to dress in distinctive garb.

According to Sullivan, Warren and Westbrook (2000), bankruptcy involves people who were once solidly middle class but then fall into the lower class. Declaring bankruptcy allowed them to shed debt, recover from pressing medical bills and otherwise free up their income so that they can concentrate on their current bills as well as on their outstanding mortgages, car loans and taxes. On the other hand, Zywicki (2005) and Virmani (2002) state that bankruptcy is seen as a largely involuntary act, a “last resort” to deal with insoluble financial problems brought on by exogenous factors such as heavy indebtedness or sudden and unexpected income or expense shocks, such as unemployment, medical problems or divorce. In the traditional model, bankruptcy is a form of social insurance, allowing individuals to “smooth” unexpected income or expense shocks. Thus, increasing numbers of consumers are choosing bankruptcy as a first response to financial problems instead of seeking other options, such as reducing their spending. However, Jacoby (2006) found that bankruptcy now formally recognizes that some people who file for bankruptcy may be struggling with illness, injury, disabilities and the associated costs and even those who are presently in good health may have ongoing medical costs that should be taken into account. Many medical related bankruptcy cases involve people with chronic problems who will be facing additional consequences for years to come. Although the bankruptcy process may help some households adjust to long-term change, its one-shot nature is not necessarily the ideal approach.

Previous studies have been conducted to investigate characteristics of youth and bankruptcy, which focused on Generation Y. Warren (2003) reveals that Generation Y is the most recent cohort that has participated in increasing numbers in the working sector. Researchers agree that Generation Y was born and grew up amidst a prosperous growing economy. This generation is characterized as having more opportunities and a better quality of life as compared to previous generations. The

pressure to cope with the current trend focuses on ensuring that they can meet the social expectations and “fit in” with their peers. The situation is exacerbated by their credit mentality. This study found that many identified that the credit mentality of “own now, pay later” was spreading among young people. The study found that, when faced with a situation in which a person wanted something but could not afford it, 80 percent of the respondents would find a way to buy without thinking much about it (Urbis, Rintoul, Power & Keevy, 2008). In fact, there is evidence of many graduates who have breached the contract of The National Higher Education Loan Fund (PTPTN). These trends, coupled with lack of job security due to various factors, are certainly worrisome because they could lead to a lack of financial security, deterioration of quality of life and social problems in the future that can inhibit the process of national development. Thus, when scrutinizing the situation of youth in Malaysia, most of today’s youth have a short-term focus, and in many cases, they are protected from the realities of real-world challenges.

## DATA & METHODOLOGY

The secondary data for this study are obtained from the Department of Insolvency Malaysia. The analysis is based on time series data from the period of 2008-2013. By analyzing the statistical profile of youth bankruptcy, this research can apply the seven independent variables of gender, race, education, marital status, occupation, work experience and loans that affect youth bankruptcy. This study was performed using the primary data. Hence, the primary data was obtained through interviews and questionnaires distributed to 140 bankrupt people and to the Malaysia Department of Insolvency and Credit Counseling and Debt Management Agency (AKPK). These places were selected because they are places where people who have officially declared bankruptcy go. Based on the model below, the purpose of this paper is to explore the factors affecting youth bankruptcy in Malaysia. The models specified are estimates using the survey method (primary data). The study is used to conclude whether a relationship exists and to determine whether the independent variables

explain a significant variation towards the dependent variable. This model is derived in a conventional manner, which takes the following form:

$$Y = \beta_0 + \beta_1(X1) + \beta_2(X2) + \beta_3(X3) + \beta_4(X4) + \beta_5(X5) + \beta_6(X6) + \beta_7(X7)$$

The dependent variable is set as the total amount of loans. This is because the total amount of loans is the causes that lead people to bankruptcy. For instance, the total amount of individual loans of about RM30,000 often drove an individual to declare bankruptcy. The independent variables are as follows:

- Y = Total amount of loans causing bankruptcy
- X1 = Gender (1=male and 0=female)
- X2 = Race (1=Malay, 2=Chinese, 3=Indian and 4=more)
- X3 = Education (1=Basic (UPSR, PMR and SPM), 2=STPM, diploma and certificate skills education, 3=undergraduate level (Degree) and 4=postgraduate level (Master, PhD))
- X4 = Marital Status (1=single, 2=married, 3=divorced and 4=other)
- X5 = Occupation (1=government servant, 2=private sector, 3-self-employed, and 4=other)
- X6 = Work Experience (1=less than 1 year, 2=1 – 3 years, 3=3 – 6 years, 4=6 – 9 years, and 5=more than 9 years)
- X7 = Types of Loans (1=vehicle loan, 2=housing loan, 3=guarantor, 4=credit card debt, 5=scholarship/personal loan, and 6=other)

The hypotheses of this study are as follows:

- H1: There is a relationship between gender and bankruptcy among youth in Malaysia.
- H2: There is a relationship between race and bankruptcy among youth in Malaysia.
- H3: There is a relationship between education and bankruptcy among youth in Malaysia.
- H4: There is a relationship between marital status and bankruptcy among youth in Malaysia.

H5: There is a relationship between occupation and bankruptcy among youth in Malaysia.

H6: There is a relationship between work experience and bankruptcy among youth in Malaysia.

H7: There is a relationship between loans and bankruptcy among youth in Malaysia.

## RESULT AND DISCUSSION

### i. Statistical Profile of Youth Bankruptcy

The first objective of this research was to analyze the statistics of youth bankruptcy in Malaysia. This secondary data was obtained from the Department of Insolvency Malaysia with a period from 2008 to 2013. The youth are the biggest contributors to this country's economic development, but they commonly go bankrupt because they dream of living a lavish lifestyle and have no exposure to financial management. This is the main reason that the cases of bankruptcy among youth are increasing. Currently, no research has been conducted on this study in Malaysia. Furthermore, the Department of Insolvency in Malaysia has just been introduced in previous years. Thus, there is a limitation to getting long-term data about youth bankruptcy.

However, as shown in the table below, this research can provide insight into youth bankruptcy in Malaysia. The youth have serious debts due to their living beyond their means, using options such as higher purchase loans, credit cards and student loans. The survey revealed that most youth filed for bankruptcy as a result of student loans, because many of them did not settle their student loans upon graduation. Furthermore, guarantor cases, vehicle loans and credit cards contribute to youth bankruptcy. The excessive lifestyles among those in this population are also due to overspending on items like branded goods and electronic gadgets. Urbis *et al.* (2008) identified that the credit mentality of "own now, pay later" was spreading among young people. This shows that the youth are willing to enter into indebtedness to



satisfy their desires.

Table 1. Total Number of Bankruptcy by Age from 2008 till 2013

<b>Group of Age</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Total</b>
<b>Below 25 years</b>	123	306	304	171	130	182	<b>1216</b>
<b>25 – 34 years</b>	2071	3176	3959	4217	3970	4908	<b>22301</b>
<b>35 – 44 years</b>	4406	5165	6417	6854	7164	6181	<b>36187</b>
<b>Total</b>	<b>6600</b>	<b>8647</b>	<b>10680</b>	<b>11242</b>	<b>11264</b>	<b>11271</b>	<b>59,704</b>

Table 1 shows the total rise of bankruptcy cases every year from 2008 to 2013. In 2008, there were 6600 cases; in 2009, there were 8647 cases; in year 2010, there were 10680 cases; in year 2011, there were 11242 cases; in year 2012, there were 11264 cases; and in year 2013, there were 11271 cases of youth declaring bankruptcy. It's safe to say that young Malaysians are generally not prepared to deal with the consequences of financial debts. The total number of youth bankruptcy increased year by year in every age group. This is a serious matter among the young generation in Malaysia. As stated by Jalaluddin (2009), it is a generation of post-modern knowledge, with strong personalities, great knowledge to apply to life progress and contribution to the development of the society and the nation. Stress, family pressure, and social expectations can take their toll psychologically on the affected youth facing bankruptcy. The lack of discipline regarding financial management is why many youth in Malaysians today carry major debts and face a high possibility of going bankrupt. The reason for this could be a lack of knowledge and awareness of bankruptcy regulations. However, the youth should be given second chances under the new amendment, under which they must receive education and training in financial management before having their bankruptcy status cleared to prevent future incidents.

## ii. Descriptive Analysis

The raw data consisting of extensive numbers will be transformed into a form of symbols that provide information to explain the set of factors involved in this study. It will describe the standard deviation, the mean and more of the data collected. Below are the quick reports of the statistics tested for this study.

Table 2. Descriptive Statistics

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std.Deviation</b>
<b>Total loans</b>	140	6.00	14.00	10.37	1.56
<b>Gender</b>	140	1.00	2.00	1.37	0.48
<b>Race</b>	140	1.00	4.00	1.37	0.80
<b>Education</b>	140	1.00	4.00	2.86	1.25
<b>Marital</b>	140	1.00	5.00	1.77	0.76
<b>Occupation</b>	140	1.00	5.00	2.43	1.05
<b>Working Exp.</b>	140	1.00	5.00	3.11	1.33
<b>Loans</b>	140	1.00	6.00	3.77	1.76
<b>Valid N (listwise)</b>	140				

The descriptive of statistics of 140 individuals are shown in Table 2. First, total loans refer to the total amount of loans that cause bankruptcy. The mean is 10.37 within a range of 6.00 to 14.00 (RM400.00 to RM1,400,000.00). Second, the mean of gender is 1.37. Third, the mean of race is 1.37. Next, education level has a mean value of 2.86. This is followed by marital status, with the mean of 1.77. Then, occupation has a mean of 2.43. Next, working experience has a mean of 3.11. Lastly, loans that lead to the indebtedness have 3.77 as a mean. As the table outlines, N is the number of valid observations for the variable. The total number of observations is 140. Standard deviation is the square root of the variance. It measures the spread of a set of observations. The larger the standard deviation is, the more spread out the surveys are. The type of loans has the highest value of standard deviation, which is 1.76, while gender has the lowest value of standard deviation at 0.48.

## iii. Demographic Profile of Respondent

Only 140 respondents completed the interviews and questionnaires. Table 3 represents the demographic profiles of the respondents according to gender, race, education level, marital status, occupation, work experience and loans.

Table 3. Demographic Profile of Respondent

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage %</b>
<b>Gender</b>		
Male	88	63
Female	52	37
<b>Race</b>		
Malay	112	80
Chinese	8	6
Indian	16	11
Other	4	3
<b>Education</b>		
Basic (UPSR, PMR & SPM)	36	26
Stpm, Diploma & Certs.	40	28
Degree Level	64	46
Postgraduate Level	0	0
<b>Marital Status</b>		
Single	48	34
Married	84	60
Divorced	4	3
Other	4	3
<b>Occupation</b>		
Government Servant	12	8
Private Sector	88	63
Self-Employed	24	17
Other	16	12
<b>Working Experience</b>		
Less than 1 year	20	14
1 – 3 years	24	17
3 – 6 years	48	34
6 – 9 years	16	12
More than 9 years	32	23
<b>Loans</b>		
Vehicle Loan	24	17
Housing Loan	12	9
Guarantor	28	20
Credit Card Debt	12	9
Scholarship/ Personal	36	25
Other	28	20

## iv. Regression Analysis

Table 4.1. Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.607 <sup>a</sup>	0.369	0.335	1.26901
a. Predictors: (Constant), gender, race, education level, marital status, occupation, working experience and types of loan				
b. Dependent Variable: Total loans				

From the Model Summary (Table 4.1), the coefficient of determination of R-square is 0.369 for the examined regression line could significant account for 36.9 percent of the total variations in the totals loan. This mean that 36.9 percent of the total variation in totals loan is explained by the variation in the seven independent variables, whereas 63.1 percent remains unexplained. In general, the higher the value of  $R^2$ , the better the model fits the data. However, the remaining percentage as 63.1 percent is explained by other external forces, which the researcher has not included in the study.

Table 4.2. Anova

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	124.114	7	17.731	11.010	0.000 <sup>b</sup>
	Residual	212.571	132	1.610		
Total		336.686	139			
a. Dependent Variable: Total loans						
b. Predictors: (Constant), gender, race, education level, marital status, occupation, working experience and types of loan						

Based on Table 4.2, the F statistic obtained is 11.010 (p-value = 0.000). This shows that, the significance value at 0.000, which is less than 0.05. Because of this, we can conclude that there is a statistically significant difference between the mean number

and are not likely due to change but probably due to the independent variables manipulation. This means that the model is effective and a good fit for the data.

According to Table 4.3, out of seven variables operationalized in the model, six turned out to have a statistically significant impact on bankruptcy through the total amount of loans. Table 4.3 shows that gender (0.023) has a positive relationship with the total amount of loans at the 5 percent significant level. The Department of Statistics said that the population of males in Malaysia is greater than female, so the results support the claim that more males file for bankruptcy than females.

Table 4.3. Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	7.546	0.797		9.473	0.000
	Gender	0.564**	0.245	0.176	2.302	0.023*
	Race	0.277**	0.155	0.142	1.783	0.077*
	Education Level	0.405**	0.105	0.325	3.868	0.000*
	Marital Status	0.028**	0.160	0.014	0.176	0.861
	Occupation	0.412**	0.112	0.279	3.669	0.000*
	Working Experience	0.480**	0.086	0.411	5.586	0.000*
	Types of loan	-0.129**	0.064	-0.146	-1.995	0.048*
a. Dependent Variable: Total loans						
b. ANOVA F-value: 11.010						

Moreover, the table above shows that race (0.077) has a positive relationship with the total amount of loans at the 10 percent significant level. This means that, even Malaysian have various races, the total of individuals filing for bankruptcy rises year by year. Miller (2013) found a positive and significant coefficient on the interaction between contact availability and the bankruptcy-filing rate of one's own racial group. This contact availability raises the probability of bankruptcy for households from racial groups with high bankruptcy filing rates. Furthermore, results regarding education level, occupation, and work experience showed (0.000) perfect significance with a positive relationship with the total amount of loans, indicating a relationship

among these three variables. Indeed, education level is important and people who have high education tend to file bankruptcy, even though they have financial skills. While someone who is well educated tends to have a career. Even though they have jobs, they still file for bankruptcy. This could be due to poor financial planning and spending habits.

It is shown that someone who is working is more likely to file bankrupt than those without working. This is possibly because they are committed to commitment. For example, those with more advanced studies tend to borrow study loans, which they might need to pay back right after graduation, so this person needs to find a career. In addition, those who have high education are sometimes sponsored by institutions, which they are bound to work for after finishing their study. Though someone who has a career can be likely to file for bankruptcy when they have work experience. Although this is a rather strange conclusion, this can illustrate that youth demand to live luxury lifestyles but cannot afford it. They may over emphasize materialism, which contributes to their bankruptcy, as society sees things more on the surface rather than trying to understand the real values. For instance, many people feel pressure to meet today's standard of living.

Lastly, the table above shows that the type of loan (0.048) has a negative relationship with the total amount of loans at the 5 percent significant level. This means that the type of loan an individual applies affects the tendency to file for bankruptcy. This is probably because, when a person applies for a loan, they are bound to a contract. Regardless of what loans they applied for, if someone makes a late payment, they are charged interest. Some financial institutions charge compound interest, too. In addition, some student loans include surcharges. This is related to the reasons youth tend to file for bankruptcy after graduation. Next, marital status shows no significant relationship to bankruptcy. This means that whether someone is single, married or divorced is not related to bankruptcy. Lastly, most individuals who experienced bankruptcy come from lower-to middle-income families, who are under pressure living in an urban area. Following the rising cost of households, it's hard for the average Malaysian wage earner to fulfill all commitments.

## CONCLUSION AND RECOMMENDATION

The main purpose of this study was to investigate the factors affecting youth bankruptcy in Malaysia. 140 respondents were randomly selected to complete the questionnaire, and all of them must have declared bankruptcy. The questions represent 2 sections, demographic and individual loans. Demographic factors such as gender, race, education level, marital status, occupation, work experience and loans have been used to describe the characteristics of the respondents and these were the main variables. In addition, the total loan causes and the institutions' names were also included in this questionnaire. Statistical tools used in the analysis were frequency counts, percentage, means and standard deviation and multiple linear regressions.

In future research, researchers can enlarge the number of individual files for bankruptcy in order to enhance the accuracy and maintain perfect significance. This includes distributing the questionnaires equally among the country's region where more comprehensive results could be obtained. In addition, future researchers could include variables such as family background, which has an impact on bankruptcy and financial knowledge. Each respondent was reminded to answer honestly. Sometimes respondents can be deceptive or dishonest to maintain their good name and status. Furthermore, the agency needs to cooperate with the students. It can be difficult to get information from the agency, especially the government division, as the information may be private and confidential. Therefore, future researchers need to be well prepared in terms of learning first about the agencies before starting their research. This highly exploratory study provides new insights into youth bankruptcy in Malaysia. Further study that builds upon these insights is recommended.

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