

# Financial Literacy of Youth in Indonesia

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**Abstract:** *The current study focuses on Indonesian youth in terms of the levels of financial literacy which is an important aspect of planning for future needs. The rationale behinds this would be lack of such knowledge, as well as skills, leads to poor money management and decision making. Acquiring literacy in finance leads to the ability to make informed judgments and have efficient decisions about use and management of money. Furthermore, individuals lacking such knowledge leads to poor discipline in controlling individual finances which makes them susceptible to poor debt management especially among the youth. Thus, the current research aims to identify determinants of financial literacy among youth in Indonesia as it influences their financial wellbeing in the short- and long-term. Findings indicate support of empirical priors and thus allows the recommendation of emphasis on financial education, encouragement towards a positive attitude for money attitude as well as utilization of financial socialization agents in order to improve financial literacy among youth in Indonesia.*

**Keywords:** *Financial socialization agents; Money attitudes; Financial experiences; Financial literacy; Financial education;*

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## I. INTRODUCTION

Financial Literacy is always important, not just for family but for everyone. Noctor, Stoney, and Stradling (1992) stated financial literacy a skill that develops informed judgments and makes decisions efficiently related to the usage of the money. In the family financial planning family income has significant importance for enrolment and education in college (Acemoglu & Pischke, 2001). Schagen and Lines (1996) focuses on the benefits of financial literacy for individuals from attitudes and abilities biasness such as money management approach awareness, understanding attitudes of financial institutions that enable responsible and useful management of financial matters.

Bidwell (2014) stated that entire globalization nowadays, graduates are loaded down with an uncontrollable total of credit debt. Studies related to the importance of Financial Literacy have been implicated in universities all around the world. The past study has shown that financial literacy is meaningful signification for controlling financial and more liable for debt management (Lusardi and Tufano 2009). As stated by Stango and Zinman (2007), he brings out that a particular person with poor financial literacy is more liable to not have a future self-purpose. Therefore, financial literacy is meaningful for all particular especially students to have the right decision on financial behavior (Bernanke 2006).

There is necessitate for added financial knowledge, and financial literacy cannot be bargain in today's world demand. Lusardi and Mitchell (2014) said that financial literacy is important for particular to practice economic advice and determination about wealth accretion, financial planning, pensions, and debt. Hence, financial literacy will be handful for students to make short term and long-term financial decisions. Ansong & Gyenare (2012) stated that today the financial perspective had altered significantly and it is becoming more multiplex has making acquaintance of few financial services and products. However, customers do not have adequate expertise and skills systemically to use the financial products and services to their preference.

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Unfortunately, there is limited research associate with financial literacy among the students in Indonesia. There is an urgency to analyze the determinants of financial literacy and to bring forth the significance of financial among students. A relationship between Financial Socialization agent, Financial education and Money attitude to the Financial Literacy among the students in Indonesia is not still defined. Thus, this study aims to analyze the determinants which affect the student's financial literacy in Indonesia.

The research results, as in the relationship between education background toward financial literacy, shall be useful to the youngster and students. By providing the appropriate way to spend money effectively. The results of this study can be used in education system in Indonesia in finance subjects. It also can help build awareness of the youngster about the importance of financial literacy.

## **II. LITERATURE REVIEW**

### **2.1 Financial Literacy**

According to Chen & Volpe (1998), Cude et al. (2006) among others financial literacy is the power to understand, analyze, manage and communicate personal financial conditions. The potential to control the situation of cash and payments, understanding the savings account and acquire a credit, primary knowledge of health and life insurance, the power to compare offers and plan for future financial needs (Emmons. 2005). Awareness, knowledge and financial tools and their approach in business and personal life is considered financial literacy (Huston, 2010). Families having good financial knowledge and well-being have less depression and anti-social behavior and have higher level of self-confidence (Fox et al. 2005). Lusardi and Mitchell (2014) defined financial literacy as "people's ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions." Several scholars they manage to financial literacy as people who successfully manage debt well, while their financial decisions with their personal values. Financial literacy definition also includes the security of personal income, capability to do make decision on the understanding of personal decisions on future financial decision and orientation to the job market. Thus, there are no words for financial literacy; there are total 64 methods of how to manage money well; people also know much about how to be informed about the financial literate (Remund 2010).

### **2.2 Education towards Financial Literacy**

Financial literacy is an important survival skill in nowadays life, especially for the youngster. Volpe et al. (1996) studied that undergraduate business applied a tool of 23 things that prefer investment skill and knowledge. The study stated that the low average literacy score of 44% of student from business faculty have more understanding of investment and financial literacy than those who did not from business faculty. So, based on that survey we can see that knowledge in financial literacy is one of the factors that give student awareness on financial literacy as the student who more approach to the business major studied is more aware to the financial literacy as they have touched more about the investment and economy in their study course outline rather than student whose not from business major in the university. It's logical that students must be educated on how they must spend their money and where to spend it to obtain a better life.

Coalition survey in 2006, a student who is attending the national standardized financial literacy is better than student who not attend. The student must know how to use their money ineffectively way. Indonesian should do this financial course too because these projects were developed in other countries. Staten, Elliehausen and Lindquist (2002) explain that students can reduce their debts. Peters (2010) says that education develops character, knowledge and skills of the individuals.

According to Wagner (2015), there are three ways to study financial education. First of all it educates how financial education affects the level of financial literacy on individual's level. Secondly, the level financial education is affected on the basis of short-term financial behaviors. The third method analyses the impact of financial education on financial behavior on long-term basis. A study by Gale and Levine (2010) explained that financial education has mainly four approaches. The approaches are school-based, employer-based, community-based and credit counseling. Moreover, all these approaches do not have clear results related to effectiveness (Gale and Levine, 2010).

*Hypothesis 1: There is a relationship between education backgrounds with student's investment*

### **2.3 Money attitude**

Money attitude and what is money is a hot topic this day in education for the extent of economics, finance, and consumer's psychology (Dowling, Corney & Hoiles, 2013). Taneja (2012) stated that individual's attitude against money

makes it different although money is same all around the world. Hayhoe et al. (2000) say that students' intention to obtain skills and better education in area of managing their income based on monetary value and look for knowledge. It is important for individual to have self-confidence and perception against money. Students with overconfident and ability to manage money were able to prove reasons for managing money and they perceived income as normative expectancies (Kidwell & Turrisi 2004). Roberts and Jones found that students with credit cards will affect their attitude towards money. Students with over sensation-seeking abilities tended to have more financial problem behavior (Worthy, Jonkman and Blinn-Pink 2010).

Engelberg & Sjoberg (2006) stated that money is a great significant value for individuals, not only as a practical thing but also as an inner image of worth or by symbolic meaning. People have many affective and distinctive answers to money (Furnham & Argyle, 1998). Moreover, money has been identified as a well-built motivator of behavior, as well as a determinant that form of a job pleasure and stress. Kidwell and Turrisi (2004) pointed out the budgeting tendencies of the students and found that students who are confident in their ability to saving likely to uphold budgeting reasons. Moreover, it is dependent on the student's perception of money, which makes them set favourable budget for them. If a person values money and thinks that the most important assets he or she can own, then they will preserve a particular budget make their expenses smooth.

*Hypothesis 2: There is a relationship between money attitudes with student's investment*

#### 2.4 Financial Socialization agents

Ward (1974) defined that, consumer socialization is a process through youngster bring in knowledge, skills, and attitudes applicable to their function as consumers in the marketplace. Reimer and Rosengren (1990) explained that in current societies there are eight main socialization agents. Classical socialization agents are those which include companion, co-worker, family, school, church law, and could be present everywhere. In modern times, culture and people are developed more toward individualistic and atomistic socialization agents. Usually, family members, friends, peers and social media are the main agents for socialization of students. Wagner (2015) found that opportunities for financial social learning and budgeting have position association. Behaviour of financial learning is increased by the engagement frequency in the opportunities of social learning. Therefore, peers, parents and others who participate in a financial practice will impact the learning abilities of their children.

Shim et al. (2010) stated that parents influence more than financial education in financial literacy. Students who observe and discuss their peers and parents were probably to save (Wagner, 2015). Lyons et al. (2006) found that social media is used by about 33 percent of students to look for financial knowledge. Ismail et al. (2011) stated that saving behaviors are influenced by social media, newspapers and television because it usually advertises something that made them save money. Chan & McNeal (2006) said, parents, peers, media and school are generally important agents for socialization agents and have influence on the student's financial attitude.

*Hypothesis 3: There is a relationship between financial socialization agent and student's investment*

### III. METHODOLOGY

This study is causal research and causal research aims to investigate the relationship of cause and effect among the variables where it is believed that one variable affects another. This research figure out the relationship between education backgrounds, money attitude and financial socialization agents with financial literacy of youth in Indonesia.

Our data of determinants will come from students experience themselves when handling their money personally. Our respondents consisting of youth only and the questionnaire will be in quantitative method which rated by numbers and a direct question that requires direct answers.

The questionnaire provided only one language which is in English. Each respondent received a set of questionnaires that has five sections where demographic information of the participants will be provided in section A and it includes gender, age, race, and level of education and others. Section B and C consist of Likert Scale questions; for example the researchers stated that questionnaire is to rate the level of satisfaction. The rating is in orderly place from 1 = strongly disagree, 2= disagree, 3= neutral, 4= agree to 5= strongly agree.

### IV. RESULTS

Reliability defines the correlation of scale, items and instruments with hypothetical one, which truly measures what it supposed to Cronbach's Alpha which is below 0.6 is weak or poor reliability, but it is still accepted. If below 0.5 it may or can be rejected. So, if we get better reliability must be 0.6 above and above 0.7 and 0.8 is fair reliability which is good in reliability and 0.8 to 0.9 is very good reliability. The highest of Cronbach's Alpha rules is 1.0.

#### 4.1 Reliability of Variables

The reliability results are presented in Table 1 below. All results do not indicate an issue where the alpha value is above 0.7.

Table 1: Cronbach Alpha

Variables	Cronbach Alpha	No of Items
Education	0.757	5
Money Attitude	0.872	5
Socialisation Agents	0.727	5

In addition, table 2 below presents the correlation matrix.

Table 2: Correlation Matrix

		Education	Money	Socialization	Financial
		n	Attitude	Agents	Literacy
	Pearson Correlation	1	0.346**	0.583**	0.616
Education	Sig (2-tailed)		0.000	0.000	0.000
	N	149	149	149	149
	Pearson Correlation	0.346**	1	0.449**	0.308**
Money	Sig (2-tailed)	0.000		0.000	0.000
Attitude	N	149	149	149	149
	Pearson Correlation	0.583**	0.449**	1	0.588**
Socialization	Sig (2-tailed)	0.000	0.000		0.000
Agents	N	149	149	149	149
	Pearson Correlation	0.616**	0.308**	0.588**	1
Financial	Sig (2-tailed)	0.000	0.000	0.000	
Literacy	N	149	149	149	149

\*\*. Correlation is significant at the 0.01 level (2-tailed).

The correlation between financial literacy with education is moderate. Education has 0.616 correlation with financial literacy. Those when attitude has 0.616 correlation is moderate; the financial literacy is also moderate. The correlation coefficient value is 0.616 which is within the range of 0.4 to 0.6; therefore, there is moderate level of relationship between financial literacy and determinant.

The correlation between financial literacy with money attitude is weak. The money attitude has a 0.308 correlation with financial literacy. Those when attitude has 0.308 correlation is weak; the financial literacy is also weak. The correlation coefficient value is 0.308 is, which is between the range of 0.1 to 0.3. Thus there is weak relationship between financial literacy and other determinants.

The correlation between financial literacy with a socialization agent is moderate. The socialization agent has 0.588 correlation with financial literacy. Those when attitude has 0.588 correlation is moderate; the financial literacy is also moderate. The value of correlation coefficient 0.588 is fallen under coefficient range from 0.4 – 0.6. therefor the strength of relationship between financial literacy and determinant is moderate.

#### 4.2 Model Results

Multiple regressions are an extension of bivariate correlation. The results of regression are an equation that represents the good prediction of dependent variables. Regression analysis uses when independent variable is correlated with other dependent variables. The results for the model summary are presented in table 3 below.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std Error of Estimate
1	0.678	0.459	0.448	0.54730

a. Predictors: (Constant), IV2, IV1, IV

Based on the above table, the value of R shows that the correlation coefficient is taken together between IV and DV. The R-value is 0. 678 which is moderate in coefficient range so that means independent variable has an impact on each other. The coefficient of determination for the value of R Square is 0.459. It explains that socialization agents, education, and money attitude have stronger impact of 45.9% on the financial literacy of Indonesian youth. In opposition 54.1% suggest that the elastic factors are uncontrollable.

According to table 4 below, which is an ANOVA test, the p-value is 0.000 which is lesser than the value of alpha (0.05) and F-value is 41.019 and is significant. Therefore, in usual term the model of regression for education, socialization agents and money attitude works properly to explain the difference in financial literacy among the youth of Indonesia.

Table 4: Anova Results

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	36.860	3	12.287	41.019	.000
	Residual	43.433	145	.300		
	Total	80.293	148			

a. Dependent Variable: Financial Literacy

b. Predictors: (Constant), Education, Money Attitude, Socialization Agent

Table 5 shown below explains that all the dependent variables i.e. socialization agents and education have strong impact on financial literacy. There is no significant relationship between Money attitude on financial literacy. This is because of the p-value for money attitude ( $H_2$ ) and it's a value of 0.861 greater than the p-value (0.05). Education ( $H_1$ ) has significant impact on the dependent variable. This happens because of the p-value of education (0.000). Socialization agent ( $H_3$ ) has a significant relationship with financial literacy with a p-value 0.000.

Table 5: Coefficient Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std Error	B		
1	Constant	.846	.265		3.194	.002
	Education	.418	.076	.413	5.463	.000
	Money Attitude	.010	.055	.012	.175	.861
	Socialisation Agents	.348	.081	.341	4.294	.000

Dependent Variable: Financial Literacy

Therefore, the researcher concludes H1 and H3 are being accepted and should as significant influence on financial literacy. On the other hand, H2 is being rejected and failed to accept.

## V. CONCLUSION

The overall objectives of this research are to investigate whether there is a significant impact between the 2 variables (education and financial socialization agents) and dependent variable (financial literacy). Based on the finding, it shows that the researcher had met the required objectives in identifying the impact of the factors with student qualification.

From the study, we want to explore the relationship between financial literacy and education in the youth of Indonesia. It is observed that both financial socialization and education has a direct impact on the financial literacy rate in Indonesian youth. Our study has focused on three main research questions which are 1) What is the relationship between education background with financial literacy? 2) What is the relationship between money attitude and financial literacy? 3) What is the relationship between financial socialization agents with financial literacy? We foresee that our findings will give a clear and wide picture that education and financial socialization agent is a factor that influences Indonesian youth financial literacy. Its influences on how youth manage they're financial in order to survive in their daily life and their future.

Education and people around youth in Indonesia are the determinants of student's financial literacy. Youth who receive education in the business study seem to know how to manage their money. Other than their lecturer, friends and family also play a role in determining how youth analyze and manage they are financial in their daily life. This research can help to raise the awareness of financial literacy among the youth as with high awareness in financial literacy we will reduce the rate of bankruptcy among the youngster.

This research has a conclusion that education and financial socialization agent is a major factor toward youth in Indonesia financial literacy. As the perception of student awareness to financial literacy, these 2 factors play their role to the student. Youth who have an education of business tend to more know-how to manage their money. Other than that, family, lecturer and friend also a factor of how student analyses and manage their finances.

Based on this research, education is one of the factors that are affecting financial literacy. Money management should be taught in every course and not limited to only for business students. Not only that, socialization agents one of the factors affecting someone's financial literacy, family should be the main influence in teaching their family members how to manage money so that their money attitude can be changed in a positive way. Normally, a negative money attitude was because they do not know how to manage money properly or due to they do not have knowledge of managing money and nobody influences them on how to manage it.

A total of 3 factors of education, namely education, money attitude, and financial socialization agent were used as independent variables and student financial literacy was used as dependent variables. Future research could recommend in-depth understanding of the qualitative data with more accuracy in the research and data analysis. These factors will provide more understanding of the financial literacy factors in the youth. Besides that it is recommended that different methods should be used such as different methods of data collection i.e. telephone interviews and personal interviews so that more reliable data is used because question would be explained in a better way. Though this is time-consuming, but will decrease the respondent's falsification.

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