

**The Influence of Financial Literacy Towards  
Financial Behavior and its Implication on Financial Decisions:  
A survey of President University Students in Cikarang - Bekasi**

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**ABSTRACT**

Financial literacy consists of financial knowledge, financial attitudes, and financial behavior. To be financially literate is important in order to make a good financial decision. Young adult especially college students are facing tough financial decision in today's demanding financial environment which will affect their financial behavior. This research objective is to find out the influence of financial literacy on financial behavior and how financial behavior influences on financial decision among college students. The research applied quantitative method with 337 samples as respondents taken from President University students. This research applied convenience sampling technique. The results of this research show that there's a significant relation between financial literacy to financial behavior and from financial behavior to financial decision. Since parents are the first people for the children, they should give good understanding about financial matter towards their children that may affect to children's financial behavior and the decision that will be made later in the future. Education institution may consider about students' ages and economy status in making financial education program. Hence, it will be more effective to increase financial literacy among college students. Due to its limitation, it is recommended for future researchers to add more variables such as race, religion, and culture to have deeper understanding about financial behavior in its implication on financial decision of college students.

**Keywords:** *financial literacy, financial behavior, financial decision*

**Introduction**

Does financial literacy really affect to the financial behavior? Is it true if people study financial literature they can make a good financial decision? How does financial behavior affect the financial decisions? And if so, do the college students implement those factors in real life as an educated people? Financial literacy is defined as people's ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions (Lusardi and Mitchell, 2014). To be financially literate is important in making a good financial decision. It was not possible to live in today's world without being financially literate (CEE, cited in Wagner, 2011).

Understanding whether and how financial literacy may influence financial behavior and financial decisions will be useful in efforts to design more effective financial education programs to prepare young people especially college students to be effective personal financial managers when they enter the job market and start their own families. *Otoritas Jasa Keuangan* Indonesia (Financial Service Authority) conducted a survey in 2013 regarding the level of financial literacy of Indonesians and revealed that only around 21.8 percent of college students were literate. Compare to other countries such as Filipina (27%), Malaysia (66%), Thailand (73%), and Singapore (98%), thus Indonesia has the lowest financial literate students among Southeast Asia countries.

Meanwhile young people must take complicated financial decision in today's demanding financial environment which affect to their behavior. The financial mistakes which made early in life can be costly (Lusardi, Mitchell, & Curto, 2010). Experts generally agree that financial literature appears to be directly correlated with financial behavior (Hilgert, Hogarth, & Beverly cited in Fernandes, Lynch, and Netemeyer, 2013). Financial literacy seems more important now than ever (Cude, Lawrence, Lyons, 2006) in order not to make financial mistakes. Contrary to those findings, Mandell and Klein (2009) found that financial literacy education didn't influence financial behavior. Green (2013) in her research on financial literacy on high school students' financial decision revealed that no significant impact was found. Hence, this study is aimed to feel the gap on the influence of financial literacy on financial behavior and financial behavior on financial decisions.

This research paper is divided into four sections. The first section introduces the background of the problem and research aim. The second section is reviewing some literatures along with the hypotheses and closing with theoretical framework. Section three is discussing the research method used, demography profiles and closing with validity and reliability test result. Last but not least is the fourth section. Results are being discussed and along with recommendations.

## **Review of Literature**

### **Financial Literacy**

The definition of financial literacy is varied by source and context. The U.S. Government Accountability Office (GAO) offers a broadly applicable definition for financial literacy as: The ability to make informed judgements and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the

future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement, or paying for a child's education (Cohen and Nelson, 2011).

Financial literacy is all about how someone can manage his/her money by using their knowledge about financial itself. According with McKenzie on Scholar Commons (2009), being financially literate is not limited to persons who are proficient and knowledgeable. The resourceful person who is aware of their limitation in certain financial matters but is able to find the appropriate sources to gain the necessary knowledge to be able to make an informed decision is also financially literate. So in this point to look how someone is really financially literate can be looked as how far someone has the financial behavior which will make a good financial decision for someone. A study in Rwanda by Sayinzoga, Bulte and Lensik (2015) reveals that by giving training in financial literacy influences Rwandan's financial behavior. It helps changing their savings, borrowing and repayment behavior. Furthermore the study also reveals that financial literacy as an important factor explaining behavioral changes. On the other hand, a researcher conducted by Mandell and Klein (2009) regarding the impact of financial literacy education on subsequent financial behavior by comparing students who took a personal financial management course form 79 high schools and who didn't revealed that those who had taken were no more financially literature than those who had not.

*H1: Financial Literature positively and significantly influences Financial Behavior*

## **Financial Behavior**

Financial behaviors refer to human behaviors relevant to money management (Xiao, 2008). Hilgert et al., (cited in Shim, Tang, & Xiao, 2009) state that cash, credit, and saving management are the part of practices in common financial behavior. The bad behavior in managing personal finances can have serious long-term, negative social and societal consequences (Perry and Morris, 2005). The financial behaviors that college students learn during these years are likely to influence the decisions they make in the future (Shim, Xiao, Barber, & Lyons, cited in Selcuk, 2015).

Research has shown that positive financial behaviors are related to improved financial well-being, decreased financial stress and higher self-esteem (Lange et al., cited in Selcuk, 2015). Regarding these far-reaching consequences of financial behaviors, it is important to investigate which factors have a significant impact on them in order to increase students' general quality of life in later years (Gutter & Copur, 2011; Xiao, Tang, & Shim, 2008).

Financial behavior does affect financial well-being so it is needed to emphasize the important point that is financial decision making (McAuley, 2009). Some college students still cannot handle themselves well in spending their income. Even many college students have decided to have credit card by themselves (Mandel and Klein, 2009). The choices to use cash, credit, or have savings depend on the behavior of a person. Assad (2012) on his research reveals that financial knowledge and perceived financial knowledge affect financial decisions. His study used data from two sources, the National Financial Capability Study (FINRA 2009) and the German SAVE Study (SAVE 2009) with 28,146 respondents via an online survey. Contrary to those findings, Green (2013) in her research on financial literacy on high school students' financial decision revealed that no significant impact was found. She analyzed the impact by providing the financial literacy

information to the treatment group and the non-treatment group and control group discussed college expectation.

*H2: Financial Behavior positively and significantly influences Financial Decision*

## **Financial Decision**

Financial decision is a fundamental element of short-term life, from minor decisions such as deciding whether or not to major decisions. It also can be defined as consideration or a selection of possible choice made. In order to make a good financial decision-making, individuals must not only have enough knowledge but must also have an ability to apply that knowledge to develop them. By having enough knowledge about finance, people – in our case students – are getting better to manage their financial.

Financial knowledge helps students a lot to develop their financial literacy and financial behavior, as well as financial behavior influences the decision-making. It can be seen on how determine the individuals to their future financial choices, either they well considerate their financial decision with a good manner or not. However, knowledge may not be enough.

Therefore, there should be other factor that affects in making a financial decision, which is financial literacy. Mandell (2008) describes financial literacy as “the ability of consumers to make financial decisions in their own best short- and long-term interests.” When someone states about financial decision, it always related to financial literacy regarding to the decision they made.

Figure 1

### Theoretical Framework



## **Method**

This research approach was quantitative research to gain more understanding from a collection of respondents. This research was conducted in President University on October 2nd, 2015 until October 11th, 2015. The total respondent in this research was 337 respondents. This research was targeted at undergraduate student batch 2012 – 2015 who live without parents during college life. The age of respondents was mostly between 16 – 19 years old (51.5%, 174 students). Other respondents were ranging 20 – 23 years old (47.9%, 161 students), 24 – 27 year old was 0.3% (1 students).

The dominant respondents were female students as big as 59.8% (202 students) where as the number of male was only 40.2% (135 students). From five departments of school in President University, the most dominate numerous respondents came from School of Business students as

big as 66.5% (224 students), followed by School of Humanities as big as 9.8% (33 students), School of Engineering as big as 9% (30 students), and School of Communication as big as 8.2% (28 students). The smallest amount of Faculty was from school of Computing by 6.4% (22 students).

There are four active batches of President University students from new batch (2015) to seniors (2012). It shows that the largest percentage of respondents belongs to batch 2013 as big as 32% (108 students) and followed by batch 2015 as big as 24% (81 students). In addition, there was equal in number between batch 2012 and 2014 (22%, 74 students).

The majority of respondents got monthly allowance between IDR 1,000,000 to IDR 2,000,000 as big as 46% (155 students). Other respondents were at the range of IDR 500,000 to 1,000,000 (19%, 64 students), IDR 2,000,001 to 3,000,000 was 28% (94 students) and IDR greater than 3,000,000,000 was 7% (24 students).

President University students mostly came from outside Java Island, while the university is placed in Cikarang, West Java. This research focused on students who lived without parents during college life. Students were staying in President University Student Housing (PUSH), rental room, even rental house together. Most students stayed at PUSH (87.6%, 295 students) whereas the rest stayed outside PUSH (12.4%, 42 students).

Before further analysis, construct validity and reliability was checked through factor analysis and Cronbach's alpha. The results (Table 1) all data passed the test.

**Table 1**

<b>Factor</b>	<b>Question Items</b>		<b>Factor Loading</b>	<b>Cronbach's Alpha</b>
Financial Literacy	LQ1	It is important to be able to manage money	.871	.896
	LQ3	Students should budget their finances for their future	.872	
Financial Behavior	BQ1	I have savings and investments adequate for needs	.685	.786
	BQ3	I track my monthly expenses	.791	
	BQ4	I maintain my sufficient balances in my bank account	.839	
Financial Decision	DQ2	I bought fewer books, bought cheaper used books, read books on reserve	.793	.614
	DQ5	I prefer self-study to add my skill rather than going to professional institution	.833	

All question items converged to its factor respectively and no discriminant problems found. Question LQ2 was deleted in the process of factor analysis due to its factor loading value didn't pass 0.44 as the cut of value (Malhotra, 2010). Questions BQ2 was also deleted from Financial Behavior. And Question DQ1, DQ3, and DQ4 were also deleted from Financial Decision. The

reliability test also showed the result greater than 0.6 (ranging from 0.614 up to .896), hence it is considered as passed.

## Result and Discussion

From Figure 2 shows the value of standardized coefficient of regression between financial literacy and financial behavior is 0.54, which means the higher financial literacy will increase financial behavior. This also indicates that financial literacy has influence towards financial behavior as big as 0.54. In the other hand, financial learning standardized coefficient of regression is 0.76 towards value which means the higher financial behavior will increase financial decision. This also indicates that financial behavior contributes that amount towards financial decision. Moreover, the model fit could be seen by comparing the requirement with the result of the analysis as presented in Table 2. Then, this model shows that the model of SEM is acceptable.

**Table 2**  
**Model Fit of SEM Full Model**

Criteria	Cut of Value	Result	Evaluation
Chi Square	$P < 0.05$ (small expected)	.000	Accepted
CMIN/DF	$\leq 2.00$	.965	Good fit
GFI	$\geq 0.90$	.918	Good fit
AGFI	$\geq 0.90$	.945	Marginal Fit
RMSEA	$\leq 0.08$	.969	Good fit
CFI	$\geq 0.95$	3.704	Good fit
TLI	$\geq 0.90$	.90	Marginal Fit

**Table 3**

Hypothesis	Estimate	CR	P	Conclusion
H1: Financial Literacy influences Financial Behavior	0.54	11.367	.0001	Accepted
H2: Financial Behavior influences Financial Decision	0.76	9.159	.0001	Accepted

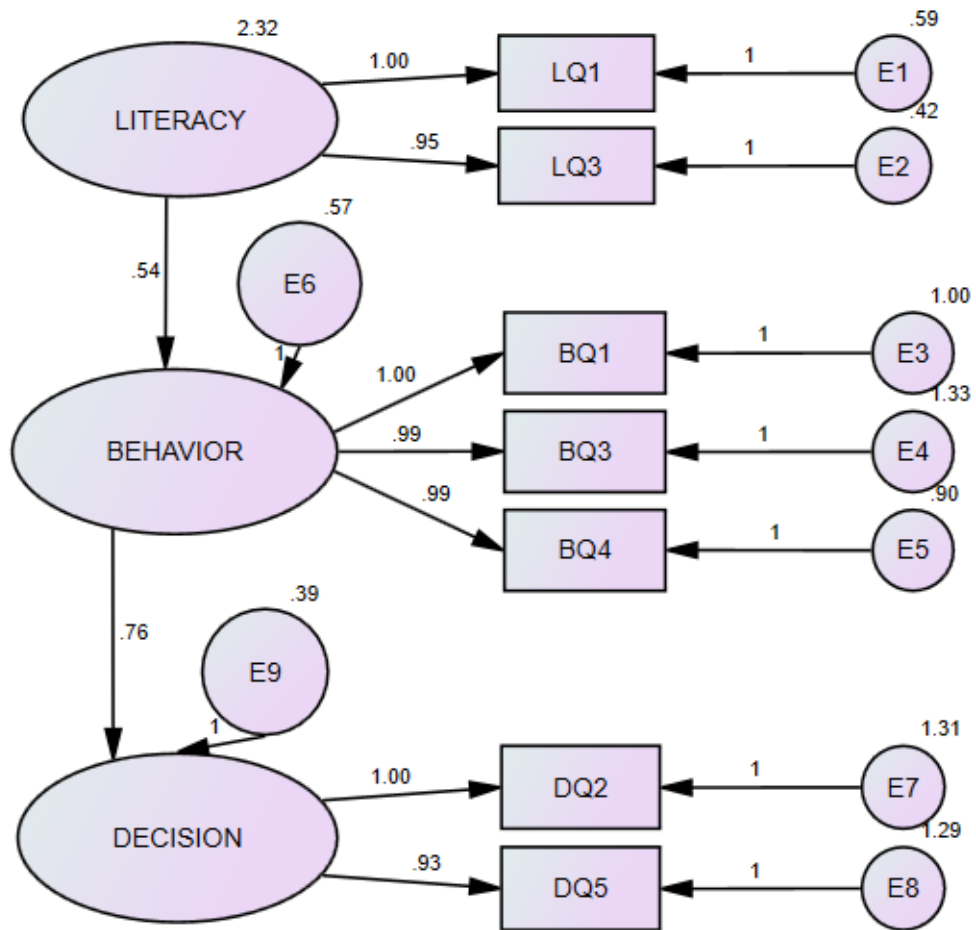
Table 3 produced summary of critical ratio for hypothesis tested. The test was held by checking the values of Estimation of Standardized Regression Weights. CR and P of a variable are accepted when CR is more than 1.96 and P is less than 0.05. It shows all relations between construct variable are adequate that CR higher than 1.96 and P less than 0.05.

This research shows that the financial literacy significantly affects financial behavior which means that financial literacy is positively related to self-beneficial financial behavior. When young adults are really financially literate, it will automatically affect their financial behavior. Furthermore, it will reflect to their financial decision. In a study of Dutch adults, van Rooij, Lusardi, and Alessie

(2007) stated that those with low financial literacy are more likely than others to base their behavior on financial advice from friends and are less likely to invest in stocks. The financial behaviors that college students learn during these years are likely to influence the decisions they make in the future (Shim, Xiao, Barber, & Lyons, as cited in Selcuk, 2015). This research found that financial behavior significantly affects financial decision. Finally, financial literacy has influence towards financial behavior that affects to financial decision of college students.

**Figure 2**

**Result of Structural Equation Modeling**



**Conclusion and Recommendation**

Family is the first agent who educates a child. Parents have an important role in learning process of every aspect in life. By explaining things, showing the ways and giving examples, children will be easier to imitate the activities. Based on the result of research, financial behavior is influenced

by financial literacy that will impact to financial decision of children so parents should give good understanding about financial matter towards their children that may affect to children's financial behavior and the decision that will be made.

The result of this research is beneficial and may help education institutions that come from any background to increase financial literacy of college students. The applicable program such as study case program in class is more beneficial for students rather than theory. Education institution may consider about students' ages and economy status in making financial education program. Hence, it will be more effective to increase financial literacy among college students.

### **Future Research**

This research paper is expected to be useful as a comparison and benchmark in understanding the college students' financial behavior that may support another journal, paper, or research in relation to financial literacy, financial behavior, and financial decision. However, this research is still need development. The researchers may add more variables such as race, religion, and culture to have deeper understanding about financial behavior in its implication on financial decision of college students. Since Indonesia is a diverse country, this research will be very useful for citizens to be more aware and open-minded about financial matters.

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## APPENDIX II – QUESTIONNAIRE

### Respondent Profile

#### Age

- 16 – 19
- 20 – 23
- 24 – 27
- Other

#### Gender

- Male

Female

**Faculty**

- School of Business
- School of Humanities
- School of Computing
- School of Communication
- School of Engineering

**Batch**

- 2012
- 2013
- 2014
- 2015

**Monthly Allowance**

- IDR 500,000 – 1,000,000
- IDR 1,000,001 – 2,000,000
- IDR 2,000,001 – 3,000,000
- IDR > 3,000,000

Check list (√) in the column given. Number 1 indicates Strongly Disagree and number 7 indicates Strongly Agree, while number 4 indicates neutral.

<b>N0</b>	<b>Financial Literacy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
1	It is important to be able to manage my money.							
2	I am confident in my understanding of financial concepts such as money management, investments, and budgeting.							
3	Students should budget their finances for their future.							
<b>N0</b>	<b>Financial Behavior</b>							
1	I have savings and investments adequate for needs.							
2	I use my debit card to take money or buy things directly.							
3	I track my monthly expenses.							
4	I maintain my sufficient balances in my bank account.							
<b>N0</b>	<b>Financial Decision</b>							
1	I prefer using my old laptop rather than buying the latest one.							
2	I bought fewer books, bought cheaper used books, read books on reserve.							
3	I prefer using my smart phone longer rather than buying the latest one.							

4	I prefer to live out of Student Dormitory because it is cheaper.						
5	I prefer self-study to add my skill rather than going to professional institution.						