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The Effect of Financial Literacy on Student Financial Management

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Keywords

Financial Literacy, Financial Management, students.

Abstract. The purpose of this research is to determine how improving students' financial literacy influences their money management habits. A questionnaire was utilised as a data gathering tool in this study. Students at Indonesian universities who met other criteria for participation were used as respondents. Both simple linear regression analysis and multiple linear regression were used to make sense of the data. The study found that students' spending habits changed significantly after they were taught about money management. A higher level of financial knowledge is correlated with responsible spending and saving habits. Based on the results of this study, it is suggested to hold financial literacy programs in tertiary institutions to increase students' understanding of finance. In addition, universities can also provide students with easier access to information and financial resources. These programs are expected to help students manage their finances better and prevent financial problems from occurring in the future.

1. INTRODUCTION

The field of financial science is an active one, and its applications may be found practically everywhere in modern life. According to Rianty (2020), having this information is vitally necessary for everyone in order for them to be able to make the best possible use of financial goods and to be able to make the appropriate financial decisions regarding their own personal money. Everyone needs to be responsible for their own personal financial education and needs to put into practice financially responsible habits. According to Warsono (2010), the term "financial literacy" refers to both the knowledge and the implementation that an individual or community possesses in order to effectively manage their personal finances.

The higher a person's degree of financial literacy, the better that person will be at managing their own finances (Hasanudin et al, 2022). This is one of the many ways that financial literacy and financial management are closely tied to one another. According to Ningtyas (2019), personal financial management is an application of the general notion of financial management that is performed at the individual level. The activities of financial planning, management, and control are all included in the broad category of financial management, which plays an extremely significant role in the process of achieving monetary success. According to Suwatno et al.'s research from 2020, planning activities include activities for planning the distribution of income received for what it will be spent.

According to Syuliswati (2019), management is the action of regulating and managing funds effectively, whereas control is the activity of determining whether or not the administration of finances is in accordance with what was planned and budgeted. According to Widayati (2012), the financial decisions that an individual makes include determining the amount of money that must be consumed during each period, determining whether or not there are excesses and how these excesses are invested, and determining how to finance investment and consumption. In addition, Chinen and Endo (2012) stated that people who are able to make the appropriate judgments regarding their financial situation will not have financial problems in the future, demonstrate good financial conduct, and are able to prioritize their needs rather than their wants.

According to Carpena et al. (2011), financial literacy can be broken down into three parts: (1) the ability to do basic math; (2) knowledge of financial concepts; and (3) confidence in making sound financial choices. Knowledge, education, and information about money and its sources, banks, deposits, credit, insurance, and taxes are all part of what is meant by "financial literacy" (Gustika & Yaspita, 2021). A person's financial literacy is revealed in their goal-setting, planning, and management skills, as well as their ability to make sound choices when employing financial products and services.

Both informal education at home and formal education at school play crucial roles in shaping a person's level of financial literacy. According to Shalahuddinta (2014), the younger generation, including today's students, would have to deal with a greater degree of financial complexity than their parents did in their day.

Students need financial literacy and skills to ensure a successful learning process, as evidenced by Sari's (2018) finding that if students make inappropriate decisions and they find financial difficulties within themselves, it is likely to have a negative impact on their learning experience, and ultimately increase high drop out rates. In addition, Marcolin and Abraham in Hadzic and Poturak (2014) found that studies on the financial literacy of university students generally present students with a background in business majors as more financially literate than students who do not have a background in business. However, no attempt has been made to track financial knowledge and skills while students are completing their studies, and no attempt has been made to link individual student performance with financial literacy.

Good financial planning, management, and control activities are indicators of healthy conduct with regard to one's finances. According to Hilgert et al. (2003), indicators of excellent financial conduct can be recognized from the way or attitude of a person in managing the entry and exit of money, credit management, saves, and investment. The capacity and awareness of financial ideas that an individual possesses is referred to as their "financial literacy," and it has a direct bearing on whether or not this method of managing personal finances is prudent. The practice of responsible fiscal behavior is intimately connected to the acquisition of financial literacy. According to Andrew and Linawati (2014), a person's financial conduct is a component of achieving financial literacy, which is believed to have a favorable impact on the individual's overall financial well-being. A person's conscious behavior begins to emerge gradually when they engage in activities such as decision-making, the analysis of opportunity costs, and the pursuit of alternative solutions to reduce waste.

Students who have the knowledge and skills to effectively manage their finances will demonstrate the capacity to make sound decisions regarding their finances, such as knowing the appropriate times to invest their money, save money, and use a credit card. (Lusardi & Tufano, 2015) found that empirical research demonstrates an association between poor levels of financial literacy and problems related to debt. This demonstrates that it is possible for students to incur debt even if they do not have a basic knowledge of financial concepts and do not practice proper management of their own finances.

According to Mitchell and Abusheva (2016), the main challenges of financial literacy are at the micro, meso, and macro levels. These challenges include being too obedient to the financial industry, lacking financial knowledge, overconfident in one's financial knowledge, a lack of initiative from the government, a lack of frameworks and rules, a lack of planning on the life cycle, and a lack of attractive ways to teach financial literacy. There are several challenges that are faced in financial literacy.

2. METHODS

In this study, the Quantitative method was also used, which means the quantitative method is a research method based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally conducted randomly, data collection employs research instruments, and data analysis is quantitative / statistical in order to test the hypotheses that have been set (Sugiyono, 2011). This investigation included 74 students from the National University's Faculty of Economics and Business who had received financial literacy instruction. A total of 30 respondents were sampled using the probability sampling technique of simple random sampling. The survey procedure was used by the author to collect data for this study. The collected data was then analyzed using the data analysis method employed in this study, Regression. Simple Linear with Hypothesis Test employing t-test and coefficient of determination using SPSS 23 for Windows.

3. RESULT AND DISCUSSION

A. Descriptive Statistics Test

An overview of a set of numbers as seen through the lens of their minimum, maximum, mean, and standard deviation is the goal of descriptive statistics. Below is a table displaying the outcomes of descriptive statistics:

Table 1 Recapitulation Results Statistics Descriptive

	N	Minimum	Maximum	Means	std. Deviation
Literacy Finance	30	26	54	43.29	6.323
Management Finance	30	19	49	33.19	9.002
Valid N (listwise)	**30**				

The range is narrower, with a minimum of 26 and a high of 54 based on 30 samples. Students in the Department of Economics and Business at the National University scored between 26 and 54 on a scale measuring financial literacy. This indicates that these students have a solid foundation in these areas. Average student financial literacy was measured at 43.29, with a standard deviation of 6.32, showing that students' knowledge in this area is subpar.

Using 30 samples, we find that the lowest value is 19 and the highest value is 49. Based on evaluations of company funding, financial reports, cash management, and budgeting, it appears that the Faculty of Economics and company, National University places a value on student financial management somewhere in the range of 1.9–49. The average value of student financial literacy was 33.19, with a standard deviation of 9.002 showing a subpar proficiency in money management.

B. Simple Linear Regression Analysis

The purpose of a simple linear regression analysis is to quantify the impact of independent variables on a dependent one. In this analysis, financial management serves as the dependent variable, and financial literacy serves as the independent variable. The data was put through a simple linear regression test, the results of which are presented below:

Table 2 Recapitulation Results Analysis Regression simple
Coefficients [a]

Model	Unstandardized Coefficients		standardized Coefficients	Q	Sig.
	B	std. Error	Betas		
1 (Constant)	4.8 66	10.44 2		.46 4	.6 43
LITERACY FINANCE	.65 2	.23 7	.4 58	2.7 38	.0 10

a. dependent Variables: Management Finance

The following equation is obtained from Table 2: Y = 4.866 + 0.652X + e The stock price is represented by a constant of 4.866. The regression coefficient of 0.652 indicates that for every 1 increase in financial literacy, financial management will increase by 0.652. While e indicates the magnitude of the influence of other factors not accounted for by the regression model.

C. Coefficient of Determination (R2)

R2 is a statistical measure of how well a model can account for observed differences in a dependent variable. Both 0 and 1 can be seen in the coefficient of determination. When the value of (R2) is low, it indicates that the independent variables cannot adequately explain the variation in the dependent variable. Close to one indicates that practically all of the information needed to forecast the dependent variable's variation is provided by the independent variables. The results of the R2 test are detailed in the table below:

Table 3 Recapitulation Results Coefficient determinant (R^2)
Summary models

Model	R	R Square	adjusted R Square	std. Error of the Estimates
1	.4 58 [a]	.2 10	.18 1	8.13293

a. Predictors: (Constant), LITERACY FINANCE

The adjusted R square value of 0.181 indicates a high level of reliability, as seen in the table above. The results suggest that the independent variable may explain the dependent variable to the tune of 18.1%; the rest 81.9 % are accounted for by other variables.

D. t test (Partial)

To find out the effect of the independent variable (financial literacy) on the dependent variable (Financial Management Behavior) of students can be seen from table 3 below:

Table 4 t test

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients std. Error	standardized Coefficients Betas	Q	Sig.
1	(Constant)	4.8 66	10.44 2		.46 4	.6 43
	LITERACY FINANCE	.65 2	.23 7	.4 58	2.7 38	.0 10

a. dependent Variables: Management Finance

Observing the t and sig columns of the table reveals that financial literacy has a positive and statistically significant effect on the financial management of students at the National University's Faculty of Economics and Business. This is evident from the statistically significant financial literacy ($0.010 < 0.05$) and the ttable value of 2.045. It indicates that tcount is greater than ttable ($2.738 > 2.045$), and therefore H1 is accepted. Thus, the hypothesis that financial literacy has an effect on student financial management is partially supported.

Discussion

Further discussion and results of clearer data analysis will be carried out regarding how the influence of variable X (independent) as financial literacy on variable Y (dependent) as management finance can be determined based on the results of data testing and analysis that has been carried out using SPSS 23 data processing. This will be done based on the findings of the testing and analysis of the data that has been carried out. It is possible to draw the conclusion that financial literacy has a positive and significant effect on good financial management based on the results of testing the hypothesis using simple linear regression analysis on the financial literacy variable. The coefficients were obtained with a t count value of 2,738 > t table 2.045 with a significant value of $0.010 < 0.05$. This means that the higher the level of financial literacy of students, the better the financial management is carried out, and vice versa.

A person's capacity to comprehend and make effective use of financial information in order to arrive at sound monetary choices is referred to as financial literacy. Literacy in financial matters is very crucial in day-to-day living, particularly for students who are responsible for their own financial management. In many instances, students may be tempted to spend their money hastily without giving any thought to the long-term impact of their actions, or even to take on high-interest debt that may put their future financial stability in jeopardy. Both of these options are risky.

Students are able to steer clear of falling into common financial pitfalls and cultivate sound money management practices if they possess a high level of financial literacy. Students gain a better understanding of the necessity of managing a budget, reducing spending as much as possible, conserving money, and investing it wisely when they have a high degree of financial literacy. Students will be better equipped to improve their financial situation in the short and long term as a result of this ability to make more informed decisions regarding their finances.

Students can better prepare for their futures by becoming financially literate, which helps them in other ways as well. Students can better prepare themselves to handle difficult financial circumstances in the future by gaining an understanding of how finance works and how to make the appropriate decisions regarding their finances. These situations may include the purchase of a house or automobile, the payment of taxes, or even the saving of money for retirement. Students may ensure that they have a solid financial foundation for their future by acquiring a high degree of financial literacy.

To summarize, having a high degree of financial literacy is essential to effective money management, particularly for those who are still in school. Students are required to gain the knowledge and abilities necessary to construct a solid financial foundation for their future and to make the appropriate decisions regarding their finances. Students can protect themselves from falling into financial traps, better prepare themselves for the future, and make better use of technology to assist them better manage their personal finances if they improve their level of financial literacy.

This research is in line with research carried out by Laily (2016), which indicates that the findings of the study found that only financial literacy characteristics had a direct influence on student financial behavior. The findings of this research are in accordance with the findings of the research carried out by Laily (2016). This suggests that students' financial prudence will improve in direct proportion to the breadth and depth of their knowledge and experience in the management of financial matters.

4. CONCLUSION

Students at the Faculty of Economics and Business, National University of Jakarta may conclude, based on the findings of this study, that there is a significant relationship between financial literacy and financial behavior. Students need a high level of financial literacy to effectively manage their finances and create a solid financial foundation for the future. By having an adequate level of financial literacy, students can understand how to manage money effectively, manage budgets, manage debt, and make the right investments. Thus, students can improve their financial condition, avoid financial traps, and prepare themselves to face complex financial situations in the future.

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