EXPLANATORY ANALYSIS OF FINANCIAL LITERACY ON COLLEGE STUDENT

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ABSTRACT

The purpose of this research is to know the importance of financial literacy education for college students. Research method is using library research. From the discussion, it can be concluded that financial literacy is important for students to manage their personal finance. College is a unique time in young person's life. After they have graduated from college, they are going to have their own life for the first time. Personal finance resources will affect major decision shortly after graduation. Student's experience in handling money will bring them to positive influence of financial literacy. Knowledge on financial management helps to solve money problems, such as saving, budgeting, investment, managing debt, and consumptions decision. The level of financial literacy will lead to the money decision making. It also includes the decision making in management of emergency fund and financial goals. Effective money management will affect personal life.

Keywords*: Financial Literacy, Personal Finance, Money Management*

INTRODUCTION

Financial Literacy is very important where the highest the financial literacy, the better the financial management for individual. Financial Literacy will bring to good personal finance management towards the people. It is the way how individual can manage the income, expenses, daily needs, and others. Financial education has been increasing this recent year which has been prompted by increasing complexity of financial product and responsibility on the part of individual for financial security. Individual is being offered a wide range of major banking companies, government agencies, consumer and community interest groups, and other organizations. Lack of working knowledge of financial concepts and tools for decision making will lead to financial literacies and ineffectiveness of money management. Financial literacy will guide them to choose the right savings or investments for themselves and may not be at risk of fraud. Household will be more aware to search the financial instruments for their needs and have positive effects on both investments' levels and economic growth.

Financial literacy can be said as a people intelligence in the management of own money. It is a must for individual to get back from the financial problem because individual always being faced with trade off where it needs to sacrifice some of the other needs. Problem of trade off can be limited by his income ability to get all his needs. Financial literacy influences all the aspects of the planning and expenses for the income, usage of credit card, deposit, investment, financial planning and financial decision making. Individuals can avoid mistakes by consulting with those who are more knowledgeable, including financial professionals with little personal knowledge. However, individuals must also understand whether financial literacy matters in decision making which influence financial behaviour in the characteristics of the high talents and ability, or patience, and correlation with financial decision making. Financial decision making

Teenagers are one of the important points to improve the financial literacy index in the future, for that education in financial learning that is integrated in the curriculum is something that needs serious attention. Several previous studies have shown that the level of financial literacy among students is still in the low category (Nidar, R.S, and Bestari, S, 2012; Widayati, I, 2012; Margaretha.F and Pambudhi, 2015). Whereas financial literacy has a significant effect on financial behavior (Danes and Haberman, 2007; Laily, 2013; Susanti, 2014). Students who have adequate financial literacy can be said to have financial intelligence, which today is one of the multiple intelligences that must be possessed by graduates in college

Empirical evidence of low financial literacy also occurs among students as revealed by Chen and Volpe (1998) that low literacy Student finances occur because of the lack of personal finance education at the university. Furthermore, Nidar and Bestari (2012) in their research also found that the level of financial literacy possessed by students is still categorized as low. However, Nidar and Bestari (2012) in their research only used one university as a sample. In addition, this study does not correlate literacy financial behavior with student financial behavior which is suspected to have a correlation with decision-making. Chen and Volpe (2002) suggest that further investigation of financial literacy in students majoring in business/management and differences in financial knowledge between male and female students' girls with the same major

LITERATURE

Financial Literacy

Financial environment has become more perilous just in one generation. Core concepts must be clearly defined in order to enhance comparability and consistency across the evidence base. Different researches and organizations have defined financial literacy in many different ways. The President's Advisory Council on Financial Literacy (2009) convened to improve financial literacy, defines financial literacy as the ability to use knowledge and skills to manage financial resource effectively for a lifetime of financial well-being. Financial literacy can be said as financial knowledge (Hilgert, Hogarth and Beverly 2006). Financial literacy also can be said as familiar with basic economic principles, knowledge about the economy and understanding of some key economic terms. It is the ability to evaluate the new and complex financial instruments and make some informed judgments in both choices of instruments and extent to use that would be in their won best long run interests (Xiao 2007).

Financial literacy discusses the most basic economic concepts needed to make sensible saving and instruments. It is knowledge of basic financial concepts, such as the working of interest compounding, the difference between nominal and real values, and the basic of diversification (Lusadri 2008). Focus on debt literacy, a component of financial literacy, defining it as “the ability to make simple decisions regarding debt contracts, how one applies basic knowledge about interest compounding, measure in the context of everyday financial choice (Tufano and Lusardi 2008). Financial literacy can be defined as a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Financial literacy is an input for the need of financial education and variation in financial outcomes. The terms financial literacy, financial knowledge, and financial education are used interchangeably in the literature and usually no standardized instruments to measure it.

In practically relevant, there is focus limits insight knowledge, skills, and behaviour, as well as the mutual relationship of financial behaviour and financial skills (Lusardi 2008). Financial knowledge represents a particularly basic form of financial literacy. Financial knowledge is reflected in perceived financial knowledge and influences financial skills that depend on knowledge. Actual financial behaviour depends on actual knowledge, perceived knowledge, and skills. Finally, the experience gained through financial behaviour feeds back to both actual and perceived financial knowledge. The relationship is likely to be imperfect, because also depends on other factors internal and external such as attitudes, resources. Lesson learned through a focus on financial knowledge will help inform knowledge based financial education but be only one factor to consider in designing behavioural interventions. Those are more likely to depend on other financial skulls, perceptions of knowledge, attitudes, and environmental factors.

For emerging economies, financially educated consumers can help ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction (Mitchell 2011). Financial literacy also crucial for more developed economies, to help ensure consumers save enough to provide an adequate income in retirement while avoiding high levels of debt that might result in bankruptcy.

For the individuals to have the financial literacy, they should take part in financial education where it is suggested to star early as possible in the school. Financial education should be the part of the good governance of financial institutions, whose accountability and responsibility should be encouraged. Financial education should be clearly distinguished from commercial advice where code of conduct for the staff of financial institutions should be developed. Financial education should be encouraged to check clients read and understand information, especially when related to long term commitments or financial services with potentially significant financial consequences. Financial education program should focus particularly on important life planning aspects. The programs in financial literacy should be oriented also towards financial capacity building, where appropriate targeted on specific groups and made as personalized as possible. Future retires should be made aware of the need to assess the financial adequacy of their current public and private pension schemes.

There are several main reasons might be attributed to importance of financial literacy (Saeedi and Hamedi 2015), which includes complexity of products and markets, different institutions providing financial services, investor's protection, responsibility taken by investors, importance of risk and return, stability of local market, better planning for future, global trend for financial literacy, serve as a right, cross border investment, and importance of securities market in views of household.

Financial literacy contains six components of knowledge, understanding, skills, motivation, confidence, and decision making (IOCSO 2014). Knowledge is awareness and shaped theoretical dimension of investor's mind, which stemmed from education and experience. Understanding rooted in environmental stimuli and perceived real world. It is shaped through realizing characteristics of perceiver (investor), situation and issue. Investor realizes different environmental stimuli and pay narrow attention. Knowledge and understanding will train the skills to realize the practices Motivations results from interactions of both conscious and unconscious factors of intensity of needs, value of the goals, and expectations of an individual. Financial literacy unfolds investors' needs and motives them to act by setting goals and struggling to accomplish them. With the knowledge, understanding, skills, and motivation, individuals can have confidence in making decisions, Confidence is the degree of certainty or assurance within an investor in the decision-making process. A skilled and motivated investor practices and internalizes knowledge and understanding and finally decreases the probability of failure decision making. Decision making is made based on several situations, where there is full certainty, certainty, and under the risk. The best situation is when degree of uncertainty is low and confidence to decisions is high. Financial literacy contributes investors to increase their awareness and make decisions confidently.

CONCLUSION

Widayati (2012) said that the financial decisions taken by an individual include how much money should be consumed each period, whether there is an excess and how the excess is invested and how to fund investment and consumption. Furthermore, Chinen and Endo (2012) say that individuals who have the ability to make the right decisions about finances will not have financial problems in the future and show healthy financial behavior and are able to prioritize needs rather than wants.

Work experience is identified as one of the factors that affect a person's level of financial literacy. Seyedian and David (2011) found that the length of a person's work experience affects his knowledge of finance. Furthermore, Hogan et al (2012) said that work experience has a correlation with financial literacy because when a person works, his knowledge and abilities will increase but inversely proportional to his academic achievement which is decreasing because most of his time is used for work. Thus it is presumed that someone with high work experience will make wiser decisions about finances compared to those without work experience. This happens because the more often a person is faced with financial issues, the higher his knowledge will be.

Students who have the knowledge and ability to manage financially well will show good decision-making behavior wise about finances such as when is the right time to invest, save, and use a credit card. Empirical studies also show that low Financial literacy has a correlation with debt problems (Lusardi and Tufano, 2008).

This indicates that without sufficient knowledge of financial concepts and good personal finance management, it is possible for students will fall into debt. Ansong (2012) said that students majoring in economics and business have more knowledge about finance than other majors. Furthermore, Robb and Sharpe (2009) conducted a study of 6520 students at Midwestern University and found that knowledge finance has a significant relationship with behavior in using credit card but the relationship is not clearly hypothesized. However,

Borden et al (2008) cited by Robb and Woodyard (2011) say that the correlation between financial literacy and behavior is not clear because the research does not find the effect of financial literacy on a person's behavior.

Learning about financial literacy is not given in separate courses, but aspects of financial literacy can be found in several financial courses, including courses in Financial Management, Banks and Other Financial Institutions, Investment and Capital Markets, and Financial Accounting. The course is given to students of the Faculty of Economics. This does not apply to students from non-Economics faculties. Students from non-economic faculties only acquire financial knowledge through Entrepreneurship courses. In addition, if in the entrepreneurship course, the lecturer does not focus on delivering material on the financial aspect. This causes the level of financial literacy in students is still low.

The importance of increasing understanding of financial literacy among students is something that needs serious attention from stakeholders. Learning in higher education aims to produce graduates who have academic achievements in accordance with their majors and can become independent and responsible for all the choices and risks they take. Included in the management of finances obtained from parents or other sources such as scholarships or the business they are involved in. Students are often faced with a variety of financial choices that are quite complicated, ranging from paying tuition fees, renting a boarding house, making a budget, saving, taking insurance, and some even working so they must balance their lives both at work, college, and their social life. . Based on this, learning in higher education plays an important role in the process of forming student financial literacy which has an impact on their financial behavior. With good financial literacy, students are expected to have skills in finance, so that they can become students who are ready to organize their present and future lives.