# CHAPTER 2
# THEORETICAL AND EMPIRICAL LITERATURE

## 2.1 Introduction

Previous research has attempted to show the effects of capital market education, return, risk perception, gender, and technological advancement on students' investment literacy (Tandio, 2016). Previous research has also examined the effects of minimum investment policy, capital market education (Wibowo, 2019), investment understanding, and age (Situmorang & Natariasari, 2014) on students' investment literacy. However, other results also show that students have sufficient knowledge of personal investment (Voipe et al., 1996). Therefore, this study attempts to fill this gap by helping to examine various factors that influence students' investment literacy.

## 2.2 Theoretical Literature

### 2.2.1 Investment

Investment means placing funds or binding funds with the aim of obtaining economic benefits or obtaining profits from these funds for a certain period of time, which is usually in the form of periodic cash flows and or final value. (Dr. Wastam Wahyu Hidayat, 2019). More specifically, there are several reasons why someone engages in investment activities as stated (Tandelilin, 2010), including the following:

1. To get a better life in the future

   A wise person will think how to increase his standard of living from time to time or at least try to maintain his current level of income so that it does not decrease in the future.

2. Reduce the impact of inflation

   Investing in the ownership of a company or other object, a person can avoid the risk of a decline in the value of his wealth or property due to the influence of inflation.

3. The drive to save on taxes

   Several countries in the world carry out many policies that encourage the growth of investment in the community through the provision of tax facilities to people who invest in certain business fields.

According to (Fahmi, Management Investasi, 2012) there are 2 (two) types of investment, namely direct investment and indirect investment. A direct investment is an investment where you directly buy a financial asset from a company, which can be done either through intermediaries or by other means, while an indirect investment is an investment made by buying shares in an investment company that owns a financial portfolio of a company listed on the Indonesia Stock Exchange.

### 2.2.2 Capital Market

According to the Law of the Republic of Indonesia No. 08 of 1995 concerning the Capital Market, the capital market is an activity related to public offerings and securities trading, public companies relating to securities issued, as well as institutions and professions related to securities. The International Monetary Fund (IMF) gives the following three definitions of the capital market:

1. Definition in Broad Meaning

   The capital market is a necessity for an organized financial system. It includes commercial banks and all intermediaries in the financial sector, as well as long- and short-term, primary and indirect securities.

2. Definition in Intermediate Meaning

   The capital market is the totality of organized markets and institutions dealing in credit securities such as stocks, bonds, term loans, mortgages, savings and time deposits.

3. Definition in Narrow Meaning

   The capital market is an organized market in which stocks and bonds are traded, using the services of brokers, commission agents, and underwriters.

   It can be concluded that the capital market is generally a market for various long-term financial instruments (securities), which can be traded in the form of debt instruments as well as in the form of shares, regardless of whether they are issued by the government or by private companies.

1. Types of Capital Market

   The types of capital markets are as follows:

   a. The primary market is the market where securities are traded for the first time before being listed on the stock exchange through an initial public offering process.
   b. The secondary market is the market where securities that have been listed on the stock exchange are traded (a continuation of the primary market).
   c. The regular market is a market in which securities trading on the Exchange is carried out on the basis of a continuous bidding process (auction market) by the members of the Exchange through JATS (Jakarta Automated Trading System) and settlement is carried out on the third trading day after the transaction is concluded.
   d. The cash market is a market in which securities trading is conducted on the stock exchange on the basis of a continuous auction process by the members of the stock exchange through JATS (Jakarta Automated Trading System), and settlement takes place on the same trading day as the transaction.
   e. Negotiation market is a place for trading securities outside the stock exchange (over-the-counter market - OTC) or also called parallel exchange (negotiation not by auction or individually). Parallel exchanges are organized outside the official stock exchange, in the form of a secondary market operated by a third market (Money and Securities Trading Union) under the supervision of Bapepam.

2. Capital Market Benefits

   In general, the benefits of the existence of the capital market are as follows (Zulhendry, 2012) :

   a. Provide a source of (long-term) financing for the business world while enabling optimal allocation of funds.

b. Provide a variety of investment vehicles for investors so that it is possible to diversify.
c. Provide the main indicator (lending indicator) for the economic development of a country. If the capital market develops, it is expected that the economy will also develop.
d. The spread of company ownership to the middle class of society.
e. Spread of ownership, openness and professionalism create a healthy business climate and encourage the use of professional management

### 2.2.3 Return

Return is the profit that companies, individuals and institutions obtain from the results of their investment policy (Gumanti, 2011). The higher the stock return, it is better to invest because it can generate profits for investors, but at the same time contrary, the higher the return or even negative, it means that the investment returns will be worse. The return is the return expressed as a percentage of the original investment capital. The return can consist of realized returns that have already occurred or expected returns that have not yet occurred but are expected to occur in the future. There are two ways to obtain the level of profit, namely realized returns and historical returns (Hartono, 2010):

1. Realized Return
   The amount of profit that results from the difference between the selling price and the purchase price. This return is a return that actually occurs (realized return). The important realized return is used as one of the performance measures of a company, calculated on the basis of its historical data.
2. Historical Return
   Historical rate of return, or what is often referred to as the amount of stock gains earned on stock investments.

### 2.2.4 Pocket Money

Pocket money (allowance) is pocket money given by parents per month in the form of developing responsibility, so it needs to be accompanied by instilling the value of money in children, so that money given by parents is used as for transportation or child savings (Riyan Ariadi, 2015). Pocket money can be used for meals and other expenses. While pocket money is money given to children to buy snacks and drinks while they are outside the home. The purpose of giving pocket money is as a medium for children's learning so that they can manage finances properly.

### 2.2.5 Motivation

Motivation is a state in a person's personality that encourages the individual's desire to carry out certain activities in order to achieve goals. The motivation that exists in a person will realize a behavior that is directed at the goal of achieving the target of satisfaction (Slameto, 2010). Motivation is the process of encouragement that can determine the intensity, direction, and persistence of individuals in their efforts to achieve goals and directly affects their tasks and psychology.

If a person is able to satisfy his substantial needs, then the next need will be a motivation for someone to take the next action. Social needs, esteem needs, and self-actualization needs can cause a person to take actions or make decisions outside of daily life. An example is investing. The need to invest is exercised by someone when their substantive needs, such as psychological needs and security needs, are met. Someone who has funds that exceed his substantial needs will think about using those funds. It can be concluded that investment motivation is an impulse in a person to take an action related to investment..

### 2.2.6 Knowledge

According to Baihaqi (2016) Knowledge is information that has been organized in a memory as part of a structured information system/network. In other words: Knowledge is information that has been processed (DRS. MIF. BAIHAQI, 2016). A learning activity produces more information about something that can be learned and can cause behavioral changes as a result of the information received by individuals in an interaction with their environment at the cognitive, affective, and psychomotor levels. The information that individuals receive through learning activities on campus, in seminars such as capital markets seminars, is a form of learning for the individual that then causes interest in those individuals to grow.

### 2.2.7 Benefit

We can see the advantages of investing in the capital market from the point of view of an investor (who buys securities) and an issuer (who issues securities). From an investor's perspective, the capital market is indispensable as an alternative to investing in financial assets. From the issuer's perspective, the capital market is needed as an alternative to raising funds and long-term debt capital without having to worry about financial intermediation. (Tandelilin, 2010). The general objective of investment is to improve the welfare of investors in the form of financial. (Tandelilin, 2010) revealed the reasons why investors invest, namely:

1. To get a decent life in the future
2. Reducing inflationary pressure
3. The drive to save tax
4. Protect the value of wealth.

In (Saputra, 2018), according to CSD NEWS, there are five benefits in investing that you need to know as a potential investor, namely:

1. Long-Term Income Potential

   Historically, investments that have carried some capital risk - whether the risk of corporate bond default or the risk of falling stock prices - have provided investors with many benefits. Of course, there is no guarantee of this. So while cash is indeed safer than equities, equities can offer significant growth potential over the long term. Moreover, any volatility in the stock market can sometimes be an opportunity for investment managers looking to buy cheap stocks.
2. Beat Inflation

   For your savings to grow significantly over time, they need to earn an after-tax rate of return that is higher than the rate of inflation. With interest rates as low as they are today, it can be so difficult to find a savings account that is above the rate of inflation that it pays to consider investments that have the potential to beat inflation.

3. Provide Fixed Income

   If you are approaching or about to retire, you will be looking for a steady income to cover your daily living expenses. Various types of investments, including stocks, bonds, and real estate, can provide you with a stable and attractive income that is often higher than the inflation rate itself.

4. Adapting to Demands

   An investment portfolio can be designed to help you achieve different goals over the course of your life. For example, your attitude toward risk may change as you age. With careful planning, you can adjust your portfolio to meet your changing goals. If you plan to invest over a long period of time, you may want to invest in an asset class with growth potential or in a riskier sector such as private equity, where your savings can affect short-term market fluctuations. If you are nearing retirement, you may want to invest more in income-oriented investments.

### 2.2.8 Hypothesis Development

Based on this conceptual framework, the hypotheses of this research are:

H1. Pocket money, motivation, knowledge, and benefits have a significant impact on investment returns.

H2. Pocket money has a positive and significant impact on investment return.

H3. Motivation has a positive and significant influence on investment return.

H4. Knowledge has a positive and significant effect on investment return.

H5. Benefits have a positive and significant impact on investment return.

### 2.2.9 Theoretical and Conceptual Framework

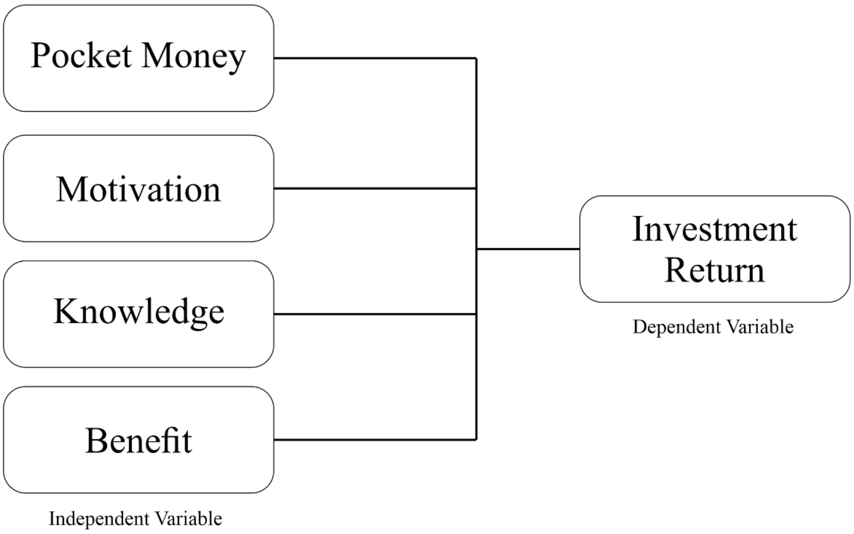


*Figure 2. 1 Research Framework*