

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter explain about theories related to financial literacy, financial attitudes and financial behavior. Each variable will be described about the definition, indicators, previous research, and hypotheses. Then related to the proposed hypothesis will form a research model.

2.2 Theoretical Literature

2.2.1 Financial Literacy

The Financial Services Authority (2016) says that "Financial literacy is knowledge, skills, and beliefs, which influence attitudes and behavior to improve the quality of decision-making and financial management in order to achieve prosperity", Chen & Volpe (1998) that "Financial literacy is knowledge to manage finances", Medury (2013) said that "Financial literacy is the ability of individuals to make judgments and make effective decisions related to financial management", Margaretha & Pambudhi (2015) said that "Financial literacy is the ability to read, analyze, manage and communicate about personal financial conditions that will affect material well-being".

2.2.1.1 Aspects of Financial Literacy

According to Chen & Volpe (1998) financial literacy divided into 4 parts (aspects), namely:

1. General personal finance knowledge, if someone manages personal finances, it is necessary to be able to know and understand fundamentally the systematics of financial management effectively and efficiently so as not to cause negative consequences in the form of a personal financial crisis.
2. Savings and loans (Saving and borrowing), saving and borrowings are related to knowledge related to savings and loans such as credit cards. Savings will provide a guarantee for the safety of short-term consumption.

3. Insurance (Insurance), life insurance, accident, fire, education, and old age are intended for people who are willing to sacrifice a little for the present in order to avoid losses in the future.

4. Investment, commitment to sacrifice current consumption with the aim of increasing consumption in the future.

2.2.1.2 Indicator of Financial Literacy

Financial Literacy Indicators (Chen and Volpe, 1998) divide into 8 parts:

1. Basic financial knowledge
2. Save and borrow
3. Protection (insurance)
4. Investment
5. Basic knowledge of personal finance
6. Money management
7. Credit and debt management
8. Risk management

2.2.2 Financial Attitude

"Financial attitudes are the opinions, thoughts and judgments of a person towards finances" (Pankow, 2003). Other authors argue that "financial attitudes in making financial decisions will have positive and negative values for financial behavior carried out and will show good attitudes in managing finances" (Sutanti, 2009). Financial attitudes can be reflected by the following six concepts (Damanik and Herdjiono, 2016), namely:

1. Obsession, refers to a person's mindset about money and his perception of the future to manage money well.
2. Power, namely thinking that is oriented towards using money as a tool to control other people and assumes that money can solve problems.
3. Effort, feels worthy of having money from what he has done.
4. Inadequacy, refers to the feeling of not always having enough money.
5. Retention, refers to someone who has a tendency not to want to spend money.

6. Security, refers to someone's very ancient view of money, such as the assumption that money is better just kept for yourself without saving in a bank or for investment.

2.2.3 Financial Behaviour

“Financial behavior is related to the purpose of using products and efforts to achieve financial goals” (Soetiono and Setiawan, 2018), other authors reveal that "A person who has responsible financial behavior tends to be effective in using the money he has, such as making a budget, saving money." and control spending, investment, and pay obligations on time" (Susanti et al., 2017).

2.3 Empirical Literature

Previous research conducted by Ahmad Anan Fauzi (2019) with the title "Factors Affecting Finance Literacy Level for Undergraduate Students, Faculty of Economics, Sultan Agung Islamic University, Semarang" show that students' financial attitudes have a significant positive effect on financial literacy and personal financial management behavior has a significant positive effect on personal financial literacy. And also previous research conducted by Wilda et al., (2019) with title “The Effect Of Financial Attitude and Financial Behaviour on Financial Literature (Case Study on Housewives in Lito Village, Moyo Hulu District) show that financial attitudes have a significant positive effect on financial literacy, financial behavior has a significant positive effect on financial literacy. Previous study conducted by Bhushan, Puneet and Medury, Yajulu (2014) with title “An Empirical Analysis of Inter Linkages Between Financial Attitudes, Financial Behaviour, and Financial Knowledge of Salaried Individuals” show that there is a significant correlation between financial attitude and financial behavior.

2.4 Research Framework

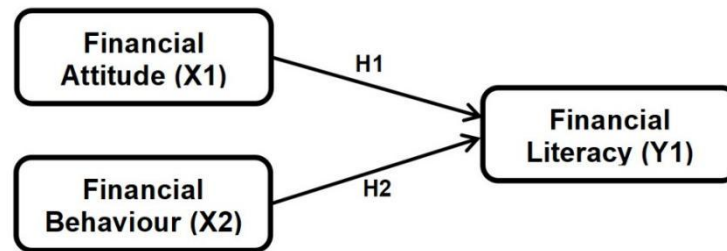


Figure 2.1 Research Framework

2.5 Research Hypotheses

Based on the framework and the previous research, the tentative answers proposed as research hypotheses are as follows:

H1: There is relationship between financial attitude and financial literacy

H2: There is relationship between financial behaviour and financial literacy

2.6 Summary of The Chapter

This chapter explains in theory what financial literacy, financial attitude and financial behavior are. Then followed by an explanation of previous studies related to the relationship between financial literacy and financial attitude and financial behavior. Then a framework is formed based on the relationship between the variables that have been described. And finally there are hypotheses based on the framework of thought and previous research.