CHAPTER 2
THEORETICAL AND EMPIRICAL LITERATURE

2.1 Introduction

According to Lusardi & Mitchell (2014) and Yushita (2017), financial literacy is financial knowledge and an individual's ability to manage finances and spend money, so that individuals can improve their standard of living and avoid financial difficulties. Students are part of Indonesian society who also carry out economic activities including consumption (Herawati, 2015). The situation of students who are not close to their parents urges studentsto manage their finances wisely, independently, and responsibly. As a student, you must havethe knowledge and skills to manage your personal financial resources effectively for your welfare.

2.2 Theoretical Literature

2.2.1 Financial Literacy

Financial literacy is knowledge about financial management that is owned in order to develop for a more prosperous life in the future. Yushita (2017) also said that the importance of financial literacy can be useful for providing education in the financial sector to the public so that they can manage finances intelligently and wisely. In the pattern of thinking, students are still lacking in controlling finances properly and correctly because there is a lack of knowledge and knowledge about financial literacy so as to make the welfare of students be difficult or make life goals are not achieved. Therefore, financial literacy has a very important roles in life. Thus forcing individuals to have skills in managing resources finances in order to achieve a prosperous life. According to Rustandi Kartawinata & Ikhwan Mubaraq (2018) the indicators that affect financial literacy are divided into 5, namely:

1. Knowledge of Financial Concepts.

2. Ability to Communicate about Financial Concepts.

3. Ability to manage personal finances.

4. Ability to make decisions.

5. Confidence for future financial planning.

2.2.2 Financial Attitude

Attitude is inherent in humans and is used every day and is carried out in all aspects of one's life, including attitudes towards financial aspects. The individual's financial attitude will help the individual in his attitude towards finances, for example personal financial management, financial budgeting, or individual decision making for the allocation of finances.Furnham (1984) in Rachmasari (2018) describes six concepts that reflect financial attitudes, namely:

1. Obsession.

Is the pattern of thinking of each individual towards money, and the perception of each individual about good financial management in the future. A student who has a good understanding of financial literacy will think about financial planning or financial planningfor his future.

2. Power.

Is the attitude of an individual to use money as a tool to control other people and think money can solve problems. Having a good financial attitude will help students determine attitudes and decisions related to them with financial management.

Effort.

Is a feeling that arises that feels worthy of having money from the results of theefforts he has done. In this case, the effort made by students is to manage pocket money well.If students have a good understanding of finance, they will create a good financial attitude.

3. Inadequacy.

Is the feeling of someone who feels always short of money. If students have good financial literacy, then they will be able to manage their personal finances. Things like inadequacy will not happen if he can manage his finances wisely.

4. Retention.

Is the state of a person who, has a tendency not to want to spend money. The importance of understanding financial knowledge not only makes a person able to control his finances, but also creates a good financial attitude for someone.

5. Security.

Is the attitude of a person's tendency to think that money is better kept alone (not using financial instruments such as saving in a bank or making investments). This attitude can This is done by students because they think that using financial instruments such as savings in a bank is only to facilitate transactions such as sending pocket money from parents. In addition it can be caused by lack of confidence to save in the bank because they have not have asteady income.

2.2.3 Financial Behavior

Financial behaviour (Bhushan & Medury, 2014; Kalekye & Memba, 2015). According to OECD (2013), financial behaviour is very important and a fundamental component of financial literacy. For Atkinson and Messy (2012), a positive financial behaviour of individual such as appropriate planning for expenditures and caring financial stability enhances their financial literacy level, whereas negative financial behaviour like largely depending upon credits and loans weaken their financial well-being. Sages and Grable(2009) produced evidence in their study that individuals with lower level of financial risk tolerance face difficulty in financial decision, and they are unsatisfied with their financial management competency. It means financial attitude and financial behaviour are correlated.

2.2.4 Financial Knowladge

According to Lianto & Elizabeth (2017: 3), Financial Knowledge is a person's understanding of managing finances by analyzing finances to make the right financial decisions and general personal finance knowledge, knowledge about investment, knowledge regarding saving.

According to Herdjiono & Damanik (2016: 230) financial knowledge is divided into 4 aspects, namely:

1. General knowledge of personal finance.
2. Savings and loans.
3. Insurance.
4. Investment

2.3 Empirical Literature

Previous research conducted by (2019) with the title “Factors influencing financial literacy of students majoring in accounting at the State Polytechnic of Malang” showed that students' financial attitudes had a significant positive effect on financial and personal literacy. As well as previous research conducted by Mimelientesa Irman (2018) with the title "Analysis of factors that affect financial literacy among students of Muhammadiyah University of Riau (UMRI) Pekanbaru" shows that the results of a survey conducted on 20 Accounting Students of Muhammadiyah University of Riau Pekanbaru indicate that the average On average, 60% of students have the ability to manage finances well.

2.4 Hypothesis Development

HIGHER FINANCIAL LITERACY SCORES AS ASSOCIATED WITH MORE POSITIVE FINANCIAL ATTITUDE

Several studies document that financial literacy has a significant impact on youth financial attitudes. In one of the first studies to investigate the financial literacy of young adults, Chen and Volpe (1998) found that US students who were less knowledgeable about financial matters had negative opinions about finances. In another study, Shimdkk. (2009) used data collected from students at public universities in the US and showed that there is a positive relationship between higher levels of financial knowledge and positive financial attitudes. Based on that, we hypothesize as follows:

Hypothesis 1. Higher financial literacy scores are associated with more positive financial attitudes.

HIGHER FINANCIAL LITERACY SCORES AS ASSOCIATED WITH MORE DESIRABLE FINANCIAL BEHAVIOR.

The literature study also shows that the level of financial literacy significantly affects students' financial behavior such as budgeting, saving or paying on time. In their study of US students, Xiao et al. (2014) showed that students with higher levels of objective financial literacy were more likely to avoid negative financial behaviors. Sevimdkk. (2012) using a sample of adults showed that people who have a higher level of financial literacy are less likely to exhibit excessive borrowing behavior. Based on the studies in this literature, the following hypotheses are suggested:

Hypothesis 2. Higher financial literacy scores are associated with being more desirable financial behavior.

HIGHER FINANCIAL LITERACY SCORES AS ASSOCIATED WITH MORE DESIRABLE FINANCIAL BEHAVIOR.

Previous studies have also shown that financial knowledge, i.e. their preference or disposition towards personal finance matters, is significantly related to financial literacy. In their study, Jorgensen and Savla (2010) showed that students with better knowledge were more likely to engage in positive personal finance practices and behaviors such as saving or budgeting. data collected from university campuses in the United States. So, we hypothesize as follows:

Hypothesis 3. Higher financial literacy scores are associated with being more desirable financial knowladge.

2.5 Research Model of Study

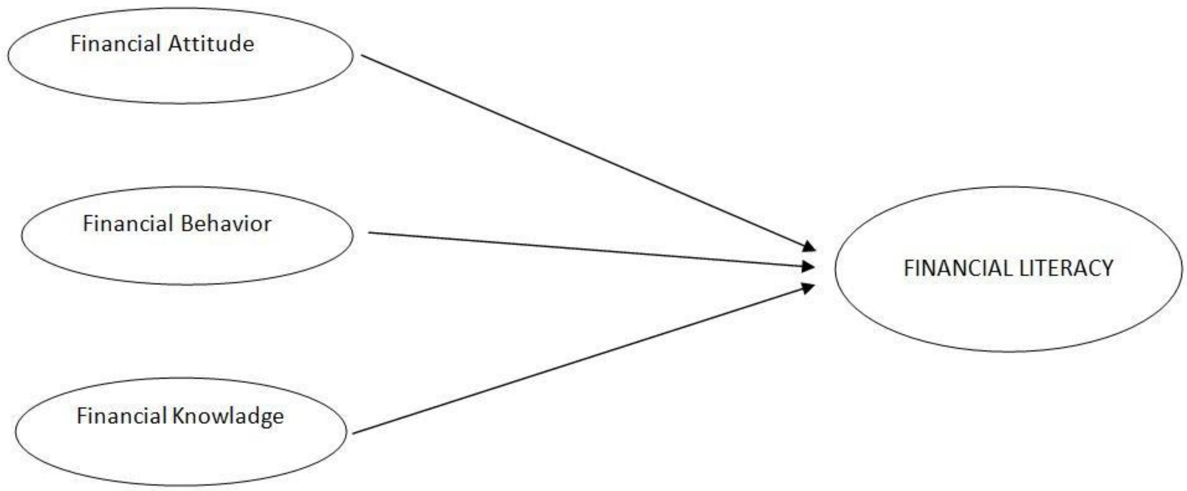

FIGURE 2.1: Relationship between Independent Variable and Dependent Variable

Hypothesis 1. Higher financial literacy scores are associated with more positive financial attitudes.

Hypothesis 2. Higher financial literacy scores are associated with being more desirablefinancial behavior.

Hypothesis 3. Higher financial literacy scores are associated with being more desirablefinancial knowladge.

2.6 Summary

This chapter mainly contains a summary of the literature review. The literature reviewis divided into five subtopics. The first is the introduction, which explains the topic. The second subtopic is Dependent and Independent Variable. The third subtopic is Empirical Literature. The fourth subtopic is The Theoretical Framework. Fifth is the conceptual framework.