CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

According to previous research that has tried to identify the effects of tax planning and deferred tax expense towards earning Management, based on agency theory, previous research has also examined tax planning and tax deferral, in which these two independent variables still have inconsistency on earnings management where previous research used another company, while in this study we want to see the effect of tax planning and tax deferral in the manufacture companies (consumer goods). Therefore this study tries to examine tax planning & deferred tax expense in manufacture companies.

2.2 Theoretical Literature

Recently, several studies were conducted on financial literacy. Financial literacy is defined in this study as financial behaviour, financial knowledge, and financial attitude, as recommended by the OECD (2012), this study applied mainly Statistical Product and Service Solutions (SPSS) to explore financial literacy. However, most of these studies focused on the financial literacy. By using financial behavior, financial attitude, financial knowledge served as important antecedents.

Financial literacy is an interdisciplinary concept with many dimensions. As a result, the need to build and validate models that take into account both the measures and their interrelationships is critical, and this is the focus of this study.

Financial knowledge is a type of impact the availability in life by learning how to manage income, expenditure, and savings in a secure manner (Delavande et al., 2008). Financial knowledge is essential for determining whether an individual is financially literate, according to the OECD, and includes questions about concepts such as simple and compound interest, risk and return, and inflation (Atkinson and Messy, 2012).

Financial behaviour is defined as an essential component of financial literacy as well as the most important (OECD, 2013). In addition to recent research findings, the financial behaviour dimension has been identified as a predictor of financial literacy (Lusardi and Mitchell, 2013).

Financial attitudes are defined as a combination of concepts, information, and emotions about learning that results in a willingness to respond positively (Shockey, 2002). Financial behaviour is defined as an essential component of financial literacy as well as the most important (OECD, 2013). In addition to recent research findings, the financial behavior dimension has been identified as a predictor of financial literacy (Lusardi and Mitchell, 2013).

2.3 Empirical Literature

Knowledge is a type of capital acquired in life by learning how to manage income, expenditure, and savings in a secure manner (Delavande et al.,2008). Financial knowledge is essential for determining whether an individual is financially literate, according to the OECD, and includes questions about concepts such as simple and compound interest, risk and return, and inflation (Atkinson and Messy, 2012). Financial attitudes are defined as a combination of concepts, information, and emotions about learning that results in a willingness to respond positively (Shockey, 2002). In this regard, a study conducted by Fernandes et al. (2014) published a systematic meta-analysis of 168 papers that included 201 non-redundant studies. Based on these papers, the authors developed the working hypothesis that financial literacy would have a weak effect in studies of financial education interventions aimed at improving downstream financial behaviors. The findings revealed that financial literacy interventions explain only 0.1 percent of the variance in financial behaviours studied, with weaker effects in low-income samples.

In their research, financial literacy is used as a synonym for financial knowledge. The financial literacy measure poses an additional complex question. Lusardi and Mitchell (2011) posit that, although it is important to evaluate the way in which people are literate, in a practical sense, it is difficult to explore the way in which people proceed with financial information and make decisions based on this knowledge. recommended by OECD (2012), Atkinson and Messy (2012) and Agarwalla et al. (2013). First, to model financial behavior, several questions developed by Chen and Volpe (1998), Johnson (2001) and Shockey (2002) have been used and adapted to fit the Indonesian. Composed of 20 questions, a five-point like scale (1 never and 5 always) was used to evaluate university student behavior regarding financial management, as it pertains to the use of personal credit, planned consumption, investment and savings. High scores on the scale indicate good financial behaviors.

2.4 Hypothesis Development

Financial knowledge in this study may influence financial literacy Besides, financial behaviour and attitude can have an impact on financial literacy. Financial knowledge has a greater positive impact on financial behaviour and attitude, and attitude and behaviour are related. This study assumed the existence of a unique financial literacy construct formed by all variables in the three constructs (financial behaviour, financial knowledge, and financial attitude) constructed in a way that considers Shockey's (2002) arguments, whereby financial literacy would be measured from the variables of constructs financial behaviour, financial knowledge, and financial attitude. As a result, the following hypotheses are advanced in this study:

H1 Financial knowledge influences students in decision-making regarding their financial situation to achieve financial well-being

H2 Financial attitude influences students in *decision-making regarding their financial situation achieve financial well-being*

H3 Financial behaviour influences students in decision-making regarding their financial situation to achieve financial well-being

2.5 Theoretical or Conceptual Framework

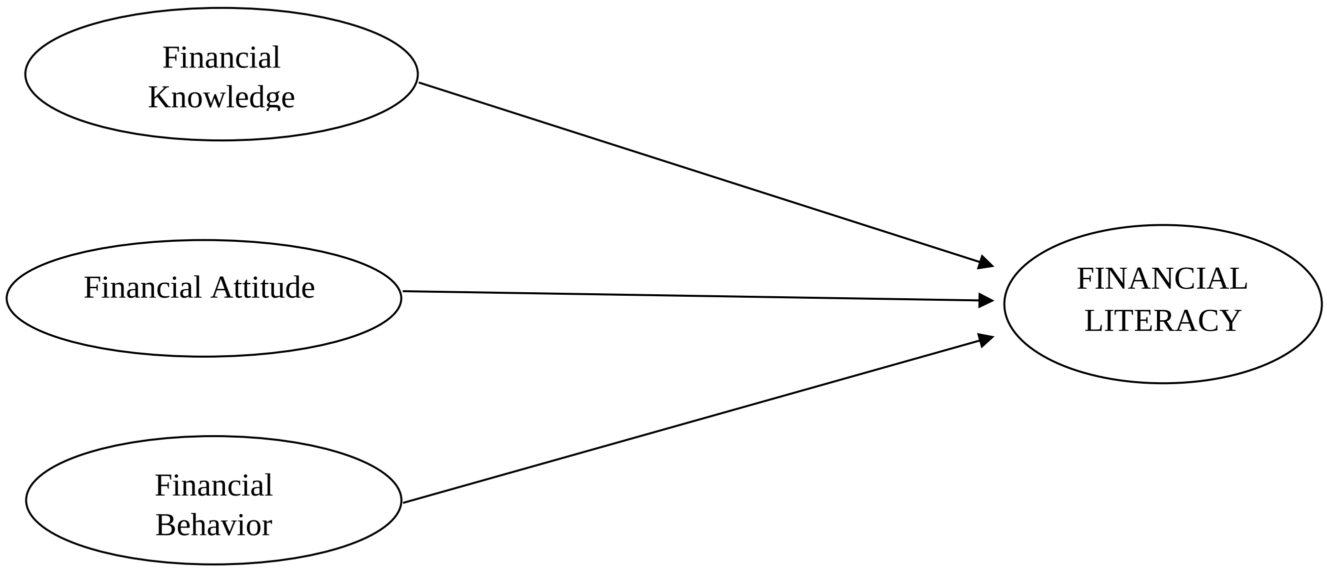

Figure 2.1 Conceptual Framework

2.6 Conclusion

A number of studies have examined factors influencing financial literacy such as Financial Knowledge, Financial Behavior and Financial Attitude that have a positive relationship on the financial literacy. However, these studies focus mainly on the factors toward the financial literacy. This study tried to fill the gap by examining the financial literacy by using the determinants are financial knowledge, financial behavior, and financial attitude.