CHAPTER 2
LITERATUR REVIEW

2.1 Financial Behavior

This behavior refers a field that integrates themes, theories, and research methods from various disciplines such as behavioral accounting, psychology, economics, and neuroscience. Researchers have been combining psychological research ideas and methodologies with specific investment and financial theories (Ricciardi, 2006). The main focus of behavioral finance is to examine the cognitive factors and emotional influences that play a crucial role in the decision-making process of individuals, groups, organizations, and markets. When making decisions, individuals are faced with multiple choices or options that involve varying degrees of risk and uncertainty (Ricciardi, 2008). In a rational framework, investors would select the optimal choice. However, when qualitative and quantitative complexities become overwhelming, cognitive and emotional biases can impact the final decision-making process, leading to suboptimal outcomes. Another fundamental premise of behavioral finance is that individuals are often irrational or quasi-rational (referred to as bounded rationality). Financial decisions are influenced by factors such as past experiences, personal values, cognitive biases, mental errors, and emotional impulses.

Financial behavior encompasses actions and decisions related to the management of money. It pertains to the range of behaviors exhibited by individuals in their handling of financial resources and making financial choices. Financial behavior can be broadly understood as the behavioral aspects of money management that individuals engage in, taking into account their financial goals, preferences, attitudes, and decision-making processes (Xiao, 2016). Such behavior is usually influenced by many factors such as a person's identity, desire, knowledge, performance, achievement, personal characteristics, significance and psychological factors (Mudzingiri et al., 2018).

This behavior examines the impact of psychological factors on the decision-making of financial practitioners and the subsequent implications for financial

markets. Behavioral finance focuses on understanding human behavior in the context of financial decision-making. The financial behavior of individuals is influenced by a variety of factors, including internal factors such as self-esteem, motivation, learning, personality, and self-concept, as well as external factors such as culture, social class, social groups, reference groups, and family dynamics. These factors interact to shape individuals’ attitudes, preferences, and actions regarding financial matters (Arofah et al., 2018).

This behavior encompasses individuals’ capacity to effectively handle their savings, expenditures, debts, and investments. According to Allgood & Walstad (2011), financial behavior comprises a synthesis of financial knowledge, motivation, risk tolerance, and spending and saving dispositions.

In the context of this research, current students have entered a phase where they begin to manage their own money. They started making budgets, paying bills, managing credit, and handling other financial matters on their own. Student financial behavior that has been carried out for years can influence the decisions they make in the future (Shim et al., 2010). Insufficient proficiency in managing financial challenges can result in unsuitable financial choices and pose a burden on individuals' future well-being (Khalisharani et al., 2022).

Although financial literacy can serve as a predictor of financial behavior or outcomes, it is not a guarantee that individuals will exhibit behaviors deemed optimal by scholars, policymakers, or educators (Huston, 2010). It is incorrect to assume that simply possessing more information and skills will automatically result in improved financial behavior, as pointed out by Braunstein & Carolyn (2002). Various other factors, including behavioral and cognitive biases, self-control issues, familial and peer influences, economic circumstances, community dynamics, and institutional factors, play a significant role in shaping individual decision-making processes (Huston, 2010).

Financial behavior encompasses the understanding and analysis of rational decision-making patterns and behaviors related to financial management, including income generation, savings for daily necessities, as well as planning, auditing, and

budgeting. The indicators of financial management include organizing financial resources, expenditure patterns, and saving behaviors (Syaliha et al., 2022).

2.2 Financial Literacy

Financial literacy has attracted considerable interest and scholarly investigation within academic and financial spheres. This pertains to the capacity to exercise sound judgment and decision-making skills in the efficient management and utilization of financial resources. The occurrence of the worldwide economic downturn in 2008, escalating levels of indebtedness, and the intricacy of financial instruments and amenities underscore the necessity for individuals to possess adequate financial literacy in order to make prudent financial judgments. In addition, the act of making prudent choices is congruent with the Sustainable Development Goals that were instituted by the United Nations. These goals are intended to tackle economic, social, and environmental obstacles by the year 2030. The promotion of sustainable economic growth can be facilitated by means of education aimed at enhancing financial literacy and fostering inclusion in the financial system, as posited by (Çoşkun & Dalziel, 2020).

This literacy is an individual's ability to comprehend and effectively apply financial concepts. Insufficient knowledge in financial matters can result in suboptimal decision-making (Jacob, 2000), thereby impeding his/her ability to attain long-term objectives (Ergün, 2018). Lusardi (2008) suggests that low literacy will affect the desire or ability to save so that it will complicate a person's financial condition. By increasing one's financial literacy can be a solution to this problem. This literacy refers to an individual's comprehension of fundamental financial concepts and their capacity and self-assurance to effectively manage personal finances through sound decision-making, encompassing both short-term and long-term financial planning, while considering various life circumstances. There exists empirical evidence that attests to the impact of this literacy on economic events and conditions (D. L. Remund, 2010).

How to educate more than 100 million young people who come from various family backgrounds, they will undergo various professions and become

Indonesia's future leaders in the future. The typology of today's youth is that they are very dependent on technological devices. Besides that, the educational approach is not enough to provide information or educate, but also to instill ethics and integrity in addressing the function of money in everyday life (Nugraha, 2017).

Although there have been many investigations into the field of financial literacy, no consistency was found in the definition of this literacy (A. C. Potrich, 2016). Parotta (1996) found that personal financial management behavior is learning to make financial plans, practice them, and adjust them to suit the individual's character.

The present study is grounded on the definition posited by Prihartono and Asandimitra (2018) which expounds that proficient financial management conduct encompasses the aptitude to formulate financial plans, execute them, rectify them in the event of unsuitable circumstances, and consistently monitor the progress of ameliorating financial predicaments.

Adequate financial literacy can undoubtedly aid individuals in preventing financial difficulties and effectively managing their finances (Yuesti et al., 2020). This literacy serves not only as a means for survival (Jacob, 2000), but also plays a crucial role in sustaining and enhancing one’s income (Lusardi, 2019). Therefore, spastic literacy can improve individual financial management abilities (Refera and Kolech, 2015).

Financial literacy refers to the capacity to understand economic information and create well-informed choices pertaining to financial planning, wealth accumulation, debt management, and retirement provisions. The level of financial literacy varies among individuals, and this disparity significantly influences their ability to accumulate short and long-term assets. Financial literacy encompasses a broad range of savings and borrowing decisions. Individuals with strong financial literacy skills demonstrate improved utilization of sophisticated financial products, and heightened financial literacy is associated with enhanced financial decision-making capabilities (Purwidianti & Tubastuvi, 2019).

Enhancing financial literacy can serve as a viable approach to enhance individuals’ quality of life. This is attributed to the fact that increased knowledge

about financial matters fosters a positive outlook towards quality of life. Consequently, individuals make better decisions, optimizing the utilization of resources, and ultimately elevating their standard of living (Edirisinghe et al., 2017).

2.3 Self-Control

Referring to (Strömbäck et al., 2020), self-control refers to an individual's capacity to restrain impulses and regulate undesired conduct. The study conducted by Strömbäck et al. (2017) showed that self-control predicts individuals who exhibit low levels of self-control are more likely to encounter a lack of preparedness when faced with unforeseen financial obligations. According to Jones & Mahajan (2015), self-control holds greater significance than financial knowledge in shaping financial behavior. As found by the research conducted by Ben-David and Bos (2017) individual financial well-being can be enhanced in the future by refraining from consumptive behavior (Yang et al., 2022).

In economics, self-control is typically quantified through the lens of time preference, as posited by Delaney and Lades (2017). The conventional interpretation of a deficiency in self-regulation is commonly viewed as a departure from logical conduct, particularly in relation to the issue of time inconsistency, as posited by Delaney and Lades (2017). Referring to Lades and Hofmann's (2019) assertion, the reason behind the lack of self-control can be attributed to the notion that individuals tend to exhibit more sagacity and forbearance when making decisions that are intended for the remote future as opposed to those that are intended for the immediate future. The concept of self-control pertains to an inherent characteristic of an individual that pertains to their capacity to restrain impulsive actions. This quality is frequently viewed as a challenge of decision time inconsistency in financial theory, as noted by Gathergood (2012). Notwithstanding, in the realm of finance, decisions made in the short-term frequently carry ramifications for the long-term (Rey-Ares et al., 2017). If an individual fails to do self-control, this can lead to an impulsive decision-making, such as engaging in compulsive shopping behaviors (Stro¨mb¨ack et al., 2017). As a result, an

individual's level of self-control can significantly impact their financial behavior and overall financial well-being.

The self-control scale is used to assess subjective self-control, which pertains to self-reported habits and behavioral tendencies when making decisions. This construct is distinct from objective self-control. The concept of objective self-control pertains to the ability to restrain impulses and is often used as a metric for evaluating performance (Strömbäck et al., 2020).

Individuals belonging to the millennial generation, who are presently between the ages of 20 and 39, have commenced their professional careers and embarked upon the financial trajectory since the year 2000. It is noteworthy that the most recent members of this cohort are now beginning to participate in the labor force. Hence, it is imperative to conduct an evaluation of the financial conduct of numerous millennials, as stated by Kim et al. (2019). The present generation of millennials is confronted with distinct financial obstacles that are likely to impact the future economic prosperity of the broader society, and the decision-making procedures are comparatively less favorable than those of the preceding cohort. To this day, there exists a dearth of scholarly investigations that have thoroughly examined the financial conduct of millennials, specifically with regards to how their financial decisions are executed through the exercise of self-control. The impact of self-control on personal financial attitudes is observed across all generations, whereas its influence on financial behavior is limited to millennials who exhibit the highest degree of self-control, particularly in their decisions regarding savings and personal lending. The outcomes of this study carry noteworthy implications, beyond the mere provision of suggestions to policymakers who intend to engage millennials in healthier financial behavior (Strömbäck et al., 2020).

2.4 Theory of the Study

According to the theory of planned behavior (Ajzen, 1991), behavior is influenced by intention, and intention is determined by three factors: attitudes, subjective norms, and perceived behavioral control. Also, depending on the extent to which behavior is actually controlled by the individual and the extent to which

perceived behavioral control is an accurate measure of actual behavioral control, external factors may directly coerce or inhibit behavior regardless of intent. The theory of planned behavior assumes that individuals act rationally according to their attitudes, subjective norms, and perceived behavioral controls. These factors are not necessarily actively or consciously considered in the decision-making process, but form the background of the decision-making process. In other words, people may not articulate certain attitudes, but they can still influence decision-making. Research in this area aims to uncover hidden values and ideas that influence decision-making. There is some debate around the assumption of rationality because people sometimes act emotionally rather than rationally. Instead of saying that people act rationally, some researchers call this "meaning making."

2.5 Hypotheses Development

Financial literacy refers to an individual's capacity to comprehend and effectively utilize financial principles and practices. Insufficient financial literacy may result in unfavorable financial choices (Jacob, 2000), thereby impeding an individual's capacity to attain enduring objectives (Ergün, 2018). According to Lusardi (2008), proposition, inadequate literacy skills may impede an individual's inclination or capability to save, thereby exacerbating their financial circumstances. Enhancing one's financial literacy can serve as a potential resolution to this issue. Financial literacy refers to an individual's comprehension of fundamental financial concepts and their capacity and self-assurance to effectively manage personal finances through sound decision-making, encompassing both short-term and long-term financial planning, while considering various life circumstances. There exists empirical evidence that suggests a correlation between financial literacy and the occurrence of economic events and transformations (D. L. Remund, 2010).

According to (Strömbäck et al., 2020), self-control refers to the capacity to withstand impulses and govern undesired conduct. The study conducted by Strömbäck et al. (2017) demonstrated that an individual's self-control is a significant predictor of both healthy financial behavior and financial well-being. According to Gathergood's (2012) research, individuals who exhibit low levels of

self-control are more likely to encounter a sense of unpreparedness when faced with unforeseen financial obligations. According to Jones and Mahajan's (2015) research, self-control holds greater significance in shaping financial behavior as compared to financial knowledge. According to the research conducted by Ben-David and Bos (2017), it has been suggested that refraining from indulging in consumptive behavior can lead to an enhancement in an individual's financial well-being in the long run (Yang et al., 2022).

Financial behavior pertains to the behavior associated with the management of money. Referring to Xiao (2016), financial behavior pertains to the patterns of human behavior that are associated with the management of money. The conduct is typically impacted by a multitude of factors, including but not limited to an individual's identity, aspirations, expertise, accomplishments, personal traits, importance, and psychological elements (Mudzingiri et al., 2018). Financial behavior is an academic discipline that investigates the impact of psychological factors on the conduct of financial professionals and the resulting consequences on financial markets. The field of behavioral finance pertains to the study of human behavior in the context of financial decision-making. The extent to which an individual's financial behaviors align with human rights is subject to multifaceted influences, including internal factors and external factors. Financial behavior can be influenced by various individual factors such as self-esteem, motivation, learning, personality, and self-concept. Furthermore, Arofah et al. (2018) identifies additional factors that contribute to the aforementioned issues, including cultural norms, social class, social groups, references, and familial influences.

Referring to this explanation, the hypothesis is formulated as follows:

H1 : financial literacy has a significant impact on financial behavior.

H2 : self-control has a significant impact on financial behavior.

2.6 Conceptual Framework

Based on previous theory and research, this study' conceptual framework is:

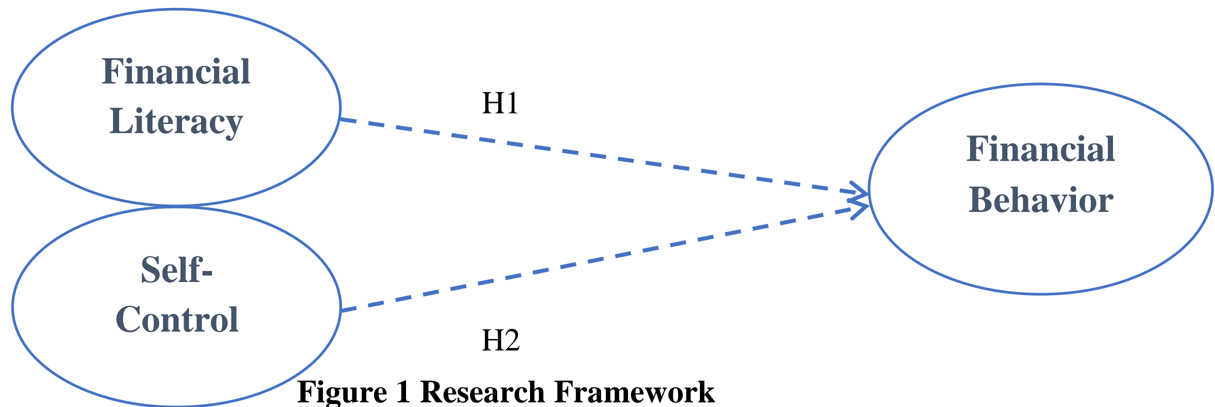

Figure 1 Research Framework

2.7 Summary

In the review of the literature above, it has been recognized that these two variables are influencing elements to financial behavior in students. Previous research has also shown that these two topics are closely related to students' current financial behavior. Therefore, students should understand the importance of financial literacy, self-control, and financial behavior because understanding these three variables can make it easier for students to make decisions related to their finances