CHAPTER 1
INTRODUCTION

1.1 Background of Study

The era of globalization has ushered in advancements and economic growth for every nation across the globe, one of which is Indonesia. Along with the increasing needs and desires of humans today, many people forget themselves and find it difficult to distinguish which are needs and which are just wants, so they experience difficulties in managing personal finances.

Complex economic problems at this time require individuals to continue to try to find solutions to overcome all their needs, the growing variety of choices of various products and services offered makes individuals in this era become consumptive and wasteful, causing individuals to become increasingly irrational in meeting their needs, because they think that life is only once and want to enjoy life, without thinking about the needs they will face in the future.

Sound financial behavior is exemplified through effective planning, meticulous management, and vigilant financial control practices. Indicators of commendable financial behavior manifest in an individual’s approach and demeanor towards money outflows, credit management, savings, and investments (Hilgert 2003). Proficiency in personal financial management hinges on an individual's capacity and knowledge of financial concepts, commonly referred to as financial literacy. Financial literacy denotes the cognitive prowess and proficiency an individual possesses in managing their finances. It is an indispensable attribute for individuals to avert financial predicaments, as they are frequently confronted with the predicament of trade-offs, necessitating the sacrifice of one's interests for the sake of another. The conundrum of trade-offs arises from the constraints imposed by an individual's financial capacity (income) in acquiring all desired commodities. Financial literacy permeates nearly all aspects pertaining to income, credit card utilization, savings, investments, financial administration, and the process of making informed financial decisions (Dwiastanti, 2017).

In contemporary times, the younger generation frequently encounters various challenges throughout their university experience due to their limited proficiency in financial management. Conversely, students possessing financial literacy are less prone to encountering financial predicaments as they exhibit superior debt management skills and are more inclined to make prudent decisions concerning monetary matters, including diligent savings for future endeavors. Numerous nations have already directed their attention towards enhancing financial literacy among their populace by actively promoting financial education initiatives. Additionally, developed countries have acknowledged the critical importance of equipping their citizens with enhanced financial capabilities, particularly given the prevailing economic conditions. Notably, young individuals, in particular, demonstrate insufficient knowledge regarding financial management, leading to ill-advised financial decisions (Yahaya et al., 2019). Extensive research has been conducted among young individuals and students, exploring the realm of financial literacy. Substantial evidence exists, highlighting that financial education contributes to the development of financial literacy and fosters favorable financial behaviors among individuals (Lusardi, A. & Mitchell, 2007).

Malaysia, as a developing nation within the Asia-Pacific region, confronts a significant concern pertaining to the financial behavior exhibited by its general population. The repercussions of inadequate financial decision-making among individuals have led to a range of issues, including harassment by moneylenders, bankruptcy, and tragically, instances of suicide. Such occurrences are attributed to the prevalence of inappropriate financial conduct within society, a problem commonly associated with low levels of financial literacy (Yap & Kimiyaghalam, 2017).

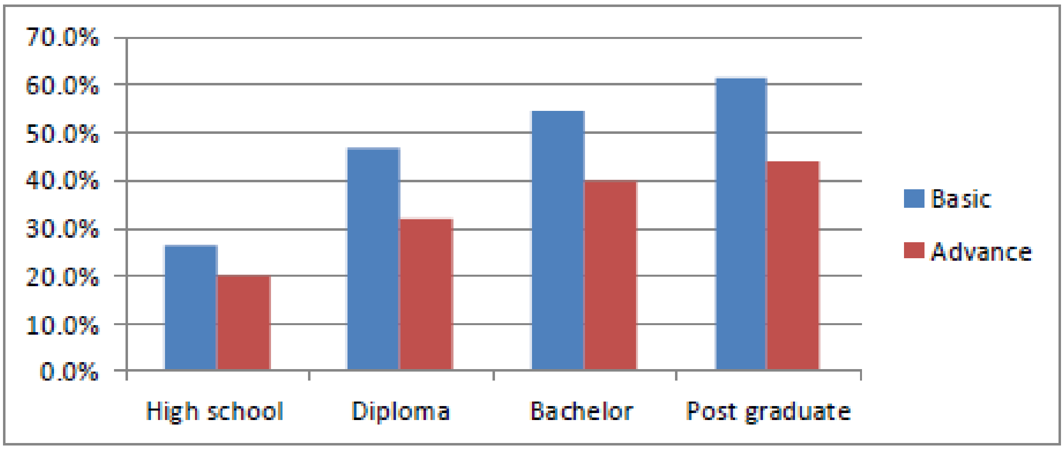

Figure 1. Level of Financial Literacy by Education

Source : Yap & Kimiyaghalam (2017)

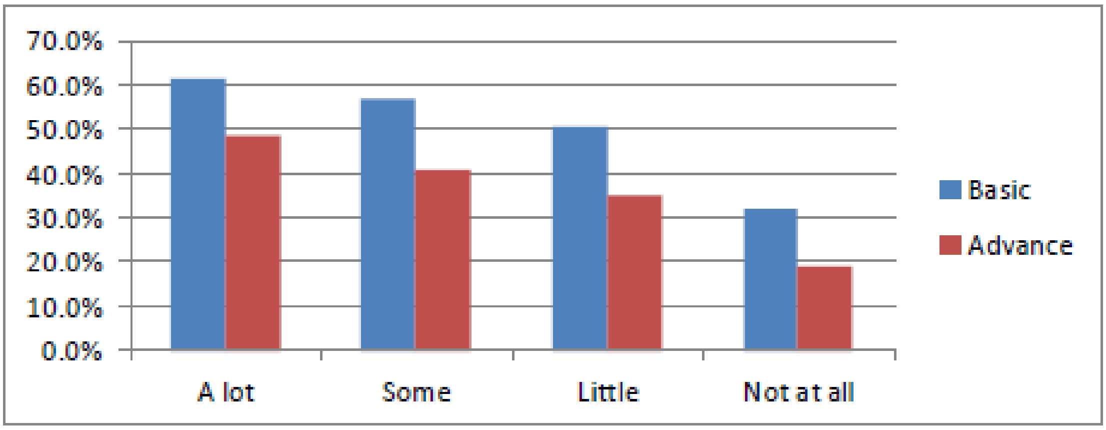

Figure 2. Level of Financial Literacy by Economic and Finance Studies

Source : Yap & Kimiyaghalam (2017)

There is a clear pattern of individuals who are more educated tend to have higher financial literacy scores in Malaysia. Although the level of advanced financial literacy has a relationship with an increase in the level of education, it is lower than financial literacy. There is a very strong relationship between economics and finance education because it can be seen clearly that individuals who have a lot of economics and finance studies are in fact more financially literate than other people who do not have any studies in economics or finance.

Financial behavior plays a crucial role in the lives of individuals as it is intricately connected to their ability to attain desired objectives. Sound financial behavior enhances an individual's sense of responsibility in managing their finances, leading to improved well-being and prevention of financial crises. However, regrettably, numerous individuals, including undergraduates, continue to encounter financial difficulties in their lives (Arofah et al., 2018).

In the present era, possessing knowledge of financial management has become a necessity as managing one’s finances is an inevitable aspect of life. The effective implementation of financial management practices is crucial for individuals to apply the financial knowledge they possess in their daily lives, thereby mitigating the risk of encountering financial problems such as mismanagement. The prevalence of consumerism and consumptive behavior has escalated in society, including among university students. This observation is supported by Professor Kasali from Universitas Indonesia, who highlights that a significant issue in our society is consumerism, characterized by the inclination to make purchases driven more by desire rather than necessity.

In the world of lectures, students are entrusted with managing their own finances by their parents. This causes mistakes in managing finances so that not a few students experience financial difficulties. What's more, students who don't have their own income and tend to still rely on pocket money from their parents. Many students find it difficult to control themselves in meeting their needs and desires. Especially in this modern era, college students are sometimes easily influenced by trends so they place too much importance on desires.

The ease of accessing information today, such as social media, greatly influences its users, both positive and negative. Many social media users like to show off their lives so as to create a standard of living for other users. Communities, especially students, have a nature that is easily influenced by a luxurious lifestyle so that personal income or pocket money tends to be allocated more to fulfill their desires.

Income refers to an individual’s earnings, comprising the annual income derived from wages, business ventures, and diverse investment activities. Income can be acquired from various sources, including interest income, government subsidies, rental income, and dividend income (Adiputra & Patricia, 2019).

A person's behavior in spending money depends on the knowledge they have. Lack of financial knowledge from an early age can lead to poor personal financial management behavior. For this reason, it is necessary to have good financial management knowledge, so that students can make financial decisions regarding financial expenditures made. Poor financial decisions will have a negative impact and will continue in the long run. For this reason, it is necessary to have good financial management behavior for the financial management that is owned.

Not only financial literacy is important in shaping financial behavior but also self-control. Self-control is a person's ability to control himself. By exercising self-control, a person will be careful and wise in making his choices. Self-control is very necessary for every individual in managing their personal finances because with self-control they can make expenses according to a predetermined budget. Self-control pertains to an individual’s capacity to effectively perceive and evaluate their own circumstances and surroundings, while possessing the capability to regulate and govern behavioral aspects in alignment with prevailing situations and conditions. Individuals characterized by low levels of self-control tend to embrace a consumptive lifestyle. Consequently, it is desirable for students to cultivate self-control abilities, as it is anticipated to yield improved personal financial management. This allows people to adjust their behavior and not act according to the initial response. This could mean containing unwanted thoughts by focusing, delaying gratification by refusing to eat a piece of chocolate cake, changing emotions by maintaining a happy mood even when it is not natural or increasing performance.

Therefore, the construct of inhibition aligns with numerous established definitions of self-control. Working memory or updating pertains to the capacity to retain and update information within a cognitive workspace, such as the internal recitation and retention of telephone numbers. Lastly, shift refers to the aptitude for flexible attentional transitions between tasks that are pertinent to one’s goals, facilitating multitasking abilities. Consequently, the ability to shift allows individuals to alter perspectives when confronted with challenging problems and consider alternative viewpoints. Extensive application of factor analysis and structural equation models has consistently revealed a robust correlation among these three fundamental executive functions, while still acknowledging their distinct separability as constructs (Miyake et al., 2000 in Strömbäck et al., 2017).

As per the findings of (Strömbäck et al., 2017), individuals exhibit varying tendencies when it comes to making financial decisions, with some prone to making poor choices. In addition, certain individuals may experience varying degrees of anxiety stemming from their financial behavior. Among undergraduate students, those enrolled in management programs have a closer association with finance and financial management disciplines compared to their peers. While management scholars have access to financial education, an important question arises: “Do they use this knowledge when functioning in personal finance matters?” The underlying concern arises from the observation that the majority of finance-related coursework in undergraduate degree programs often places greater emphasis on corporate finance rather than personal finance (Edirisinghe et al., 2017).

There have been many studies regarding the discussion of financial literacy issues, self-control, to financial behavior as in research (Khalisharani et al., 2022; A. C. G. Potrich et al., 2016; Rey-Ares et al., 2017; Strömbäck et al., 2020). However, until now, there has been no research in Malaysian State academics. Therefore, the authors are interested in conducting research on: "The effect of financial literacy and self-control on financial behavior among Indonesian college student in Management & Science University."

1.2 Problem Statement

On average, one's knowledge and skills regarding financial literacy in college students are still low, especially in the awareness of students to study financial literacy. Financial literacy is very important for today's young generation, because it can improve financial quality in the future and overcome various tough challenges in the future. With this research on financial literacy, it is hoped that it will improve student abilities and students' understanding of financial literacy so that the younger generation will be better prepared to face competition in the world of work and in the family.

Financial challenges do not solely stem from low income; they can also emerge from inadequate financial management, leading to suboptimal decision-making. Such financial difficulties can induce stress, hinder the establishment of life goals, and erode self-confidence. Financial literacy is closely associated with effective financial management, as heightened comprehension of financial concepts fosters greater prudence in financial decision-making.

Human needs and desires are growing and not limited with the times. Humans have diverse needs both primary and secondary. In everyday life, humans carry out consumption activities to meet their needs. Consumption activities will become a problem when prioritizing wants over needs, causing consumptive behavior.

Effectively managing personal finances poses challenges as individuals increasingly grapple with the prevalent issue of escalating consumptive behavior in society. The pursuit of material desires in today's modern era appears to have become detached from genuine necessities. This pervasive consumptive behavior compels individuals to excessively consume goods and services, often neglecting the prioritization of their needs. The phenomenon of consumptive behavior that occurs among students causes the need for self-control behavior in managing personal finances. Self-control behavior in managing personal finances is careful behavior in using the money you have, which does not make spontaneous purchases or in other words delay purchases by making prior considerations so that the money can be used properly so as to avoid consumptive behavior. By doing self-control it is hoped that someone can avoid financial problems/difficulties

The purpose of consumptive behavior is to buy products not on the basis of their usefulness but on prestige and maintaining appearance. Students tend to be influenced to behave consumptively. Students try to get a positive view of the social environment through their appearance. Students like to make purchases when the goods are attractive and the price is cheap which can lead to feelings of satisfaction in shopping. Most students make unplanned purchases even though they don't always have enough money and will eventually be short of money for their needs.

Easy access to obtain goods and services to meet needs, makes people more consumptive and irrational in using money. Freedom to access the internet as a form of development of the times makes it easier for people to get goods and services so that humans find it difficult to distinguish between needs and wants. With proper financial management, a person is expected to get the maximum benefit from the money he has. To achieve financial well-being one needs to have sound personal financial knowledge, attitudes and implementation. Financial well-being is not only assessed from the income earned but also from how it is managed.

Financial management behavior is a reality that must be applied by everyone in everyday life, including students. Students in this case are expected to be able to become individuals who have good financial management behavior, especially students majoring in financial management. However, in reality there are still many students who do not understand and are responsible for their own personal finances, even though students have received financial education at both the school and family levels.

Facts from the field, one's knowledge and skills regarding financial literacy in college students are on average still low, especially in the awareness of students to study financial literacy, this also includes student’s self-control in carrying out consumptive behavior. So that until now there are still many students who do not understand and are responsible for their own personal finances, even though students have received financial education both at the university and family level.

1.3 Research Questions

Based on the background of the problem that has been described previously, the research questions is drawn as follows:

1. Is there a significant relationship between financial literacy and financial behavior in students?
2. Is there a significant relationship between self-control and financial behavior in students?

1.4 Research Objectives

Based on the background of the problems described earlier, the research objectives are drawn as follows:

1. To analyze the influence between financial literacy and financial behavior.
2. To analyze the influence between self-control and financial behavior.

1.5 Significance of Study

This study aims to analyze the effect of financial literacy and self-control on students' financial behavior. Maybe indeed some students know the behavior that needs to be done financially. But through this research it is hoped that it can be used as learning for students in managing finances.

1.6 Limitations of Study

The research is limited to Indonesian students studying at a specific university, Management & Science University. The findings may not be representative of the broader population of Indonesian students or students in other universities or educational institutions in Malaysia. The study focuses on Indonesian students studying in Manajemen & Sains University. The specific cultural, educational, and socio-economic context of these students may differ from Indonesian students studying in their home country. The findings may not fully capture the nuances and unique factors related to financial behavior among Indonesian students in different contexts. The data collected for the study may rely on self-report measures, such as surveys or questionnaires. Self-reported information is subject to potential biases, such as participants providing socially desirable responses or inaccuracies in recalling or reporting their financial behavior, financial literacy, or self-control levels. The reliance on self-report measures may introduce limitations in the accuracy and reliability of the data. The study aims to examine the effect of financial literacy and self-control on financial behavior. However, due to the nature of the research design, establishing a causal relationship or determining the directionality of the relationship between these variables may be challenging. It is possible that other unmeasured factors or variables may influence both financial behavior and the level of financial literacy and self-control among the participants.

1.7 Key Terms

The definition of variables in this study will be described as follows:

1.7.1 Financial Literacy

Financial literacy refers to an individual's capacity to comprehend and apply financial concepts. Insufficient financial knowledge can lead to unfavorable financial choices, impeding one's ability to achieve long-term objectives. Financial literacy entails an individual's aptitude to process economic information and make well-informed decisions regarding 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 amass short-term and long-term assets. Financial literacy encompasses various aspects, including savings and borrowing decisions, while proficient individuals in financial matters are more adept at utilizing advanced financial products. A higher level of financial literacy correlates with improved financial decision-making skills (Purwidianti & Tubastuvi, 2019). Enhancing financial literacy can serve as an effective strategy to enhance individuals' quality of life, as greater knowledge about money fosters a positive attitude toward life quality, leading to improved decision-making and more effective utilization of resources to elevate standards of living (Edirisinghe et al., 2017).

1.7.2 Self-Control

Self-control is the ability to resist urges and self-regulate unwanted behavior and to predict healthy financial behavior and financial well-being. Weak self-control tends to experience unpreparedness for unexpected expenses. Among the factors influencing financial behavior, self-control is more important than financial knowledge. Gathergood (2012) found that individuals with weak self-control tend to experience unpreparedness for unexpected expenses. Based on the findings of (Beauchaine et al., 2017) it is stated that limiting yourself from the temptation of consumptive behavior can improve individual financial well-being in the future

(Yang et al., 2022). In the field of economics, the measurement of self-control is commonly approached through the concept of time preference (Delaney & Lades, 2017). In this context, a lack of self-control is often viewed as a departure from rational behavior, particularly relating to the issue of time inconsistency (Delaney & Lades, 2017). The failure to exercise self-control can be attributed to the assumption that individuals tend to exhibit greater patience and wisdom when making decisions that pertain to the distant future compared to decisions regarding the immediate future (Lades & Hofmann, 2019).

Therefore, self-control can be defined as an inherent characteristic of individuals that pertains to their capacity to restrain impulsive behavior, a phenomenon frequently addressed in financial theory as a manifestation of decision time inconsistency (Gathergood, 2012). However, in the realm of finance, such immediate decisions often bear consequences for the future (Rey-Ares et al., 2017). Instances of self-control failure result in impulsive choices, such as compulsive shopping (Stro¨mb¨ack et al., 2017); consequently, an individual's level of self-control plays a significant role in shaping their financial behavior and overall financial well-being.

1.7.3 Financial Behavior

Behavioral finance refers to behavior related to money management. Financial behavior encompasses human actions and choices that pertain to the management of money. This behavior is typically shaped by various factors, including personal identity, desires, knowledge, performance, achievements, individual traits, significance, and psychological influences. Behavioral finance, as an interdisciplinary field, integrates themes, theories, and research methodologies from diverse domains related to decision-making, such as psychology, behavioral accounting, economics, and neuroscience. In the early 1980s, researchers initiated the amalgamation of psychological research ideas and methodologies with specific financial and investment theories (Ricciardi, 2006). Behavioral finance emphasizes the examination of cognitive factors and emotional influences that play a pivotal role during the process of judgment and decision-making by individuals, groups, organizations, and markets. When individuals engage in judgment, they are required to generate, evaluate, and choose among multiple options or alternatives, with the final decision being influenced by varying degrees of risk and uncertainty (Ricciardi, 2008).

1.8 Summary

This chapter presents an overview of how this research will contribute to the broader literature on financial literacy, self-control, and financial behavior according to the issues previously described.