

# Role of Financial Literacy

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## ROLE OF FINANCIAL LITERACY AND FINANCIAL BEHAVIOR IN EARLY MODERN

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### ABSTRACT

This aims to analyze how financial literacy is in the modern era. This research is a literature review of several studies. The results show that financial difficulties are not only caused by income effects, but can also be influenced by excessive or consumptive lifestyles and mistakes in financial management, such as the absence of financial planning. Behaviors and lifestyles are increasingly higher day to make people more happy to consume rather than save when they have money. An attitude in good financial management starts with applying *financial attitude* a good towards the world in which it lives. So that it can be interpreted as a state of mind, opinion and evaluation of a person against his personal finances that are applied to the attitude. Attitudes in financial management often affect one's financial behavior. Financial behavior of Indonesian people who tend to be consumptive has led to various irresponsible financial behaviors such as lack of saving, investment, emergency fund planning and future budgeting.

**Keywords:** financial literacy, financial behavior

### INTRODUCTION

The rapid development of technology and the rise of online shopping systems that can be used on smartphones by each community, shopping centers are scattered everywhere, until all banking transactions or others are done with internet technology (based online) so the development of technology provides various facilities in financial learning such as information becomes easier to obtain. In this situation so that not a few people will feel financial difficulties. Financial difficulties are not only caused by income effects, but can also be influenced by excessive or consumptive lifestyles and mistakes in financial management, such as the absence of financial planning. All people in this world must have problems regarding how to manage their personal financial assets. Basic intelligence must be possessed by each individual to manage his personal financial resources effectively and efficiently for the welfare of his life. (Ismawati and Norwahida, 2017).

Houston (2010: 44) states that financial knowledge is an inseparable dimension of financial literacy, but cannot yet describe financial literacy. Financial intelligence is an aspect important of life today. Financial intelligence is intelligence in managing personal assets (Widayati, 2012). Individuals must have the knowledge and skills to manage their personal financial resources effectively for their welfare. In addition to establishing short-term financial decisions such as savings and loans, individuals must also think about long-term financial decisions such as retirement planning and education planning for their children.



Hayhoe, et al. (1999) states that there is a relationship between financial attitudes and the level of financial problems. Thus it can be said that a person's financial attitude also influences the way a person regulates his financial behavior. Lim and Teo (1997) and Madern and Schors (2012) state that a number of financial attitudes are also related to financial difficulties that are often faced by young people. According to Robbins and Judge (2008: 92), attitude is an evaluative statement both pleasant and unpleasant towards objects, individuals, and events.

Financial behavior is related to a person's financial responsibilities related to the way financial management. Financial responsibility is the process of managing money and assets carried out productively. Money management is the process of controlling and using financial assets. There are several elements that go into effective money management, such as budgeting and valuing purchases based on needs. The main activity in money management is the budgeting process. The budget aims to ensure that individuals are able to manage financial obligations in a timely manner by using income received in the same period (Ida and Dwinta, 2010).

Shim et al. (2009) defines that financial well being as satisfaction with one's current financial status (subjective measure) and level of debt (objective measure). Others define financial well-being as overall satisfaction with one's financial situation. In line with previous studies, Gerrans et al. (2014) states that: "Financial wellbeing is one of six domains identified as subcomponents of personal wellbeing (Van Praag et al. 2000) along with job, housing, health, leisure and environment. Conceptually, financial wellbeing taps into the broader range of subjective and objective dimensions as financial wellness does, but has invariably been operationalized as a subjective measure only, more in keeping with financial satisfaction". The Presidents Advisory Council on Financial Literacy defines financial literacy as the ability to use knowledge and expertise to manage financial resources to achieve prosperity. Furthermore, according to the Central Statistics Agency (BPS, 2008) states that factors that affect individual welfare include education, income, asset ownership, and financial planning. Based on the explanation and explanation above, it is interesting to do Financial Literacy research in accounting aspects.

## LITERATURE REVIEW

### Financial Attitude

Attitude refers to how a person feels about personal financial problems, as measured by responses to a statement or opinion (Marsh, 2006). Pankow (2003), defines financial attitude as a state of mind, opinions and judgments about finance. Hayhoe, et al. (1999) states that there is a relationship between financial attitudes and the level of financial problems. Thus it can be said that a person's financial attitude also influences the way a person regulates his financial behavior. Lim and Teo (1997) and Madern and Schors (2012) state that a number of financial attitudes are also related to financial difficulties that are often faced by young people.

### Financial Behavior

Financial behavior studies how humans actually behave in a financial determination, specifically studying how psychology influences financial, corporate and financial market decisions. The two concepts outlined clearly state that financial behavior is an approach that explains how humans make investments or relate to finance is influenced by psychological factors (Wicaksono and Divarda, 2015).

Sabri (2011) Shefrin (2000) defines behavioral finance is a study that studies how psychological phenomena affect financial behavior. Furthermore, Manurung (2012: 1) defines financial behavior by studying how humans actually behave in a financial setting. Specifically, studying how psychology influences individual and organizational financial decisions. Both concepts outlined clearly state that financial behavior is an approach that explains how humans make decisions related to finance is influenced by psychological factors.

### Financial Literacy Financial



literacy is related to one's competence to manage finances. The definition of financial literacy according to (Houston, 2010): "Personal financial literacy is the ability to read, analyze, manage and communicate about personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plans for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy ". Financial literacy is about being able to understand money and finance and being able to confidently apply that knowledge to make effective financial decisions. Knowing how to make healthy money decisions is a core skill in today's world, regardless of age (Coskuner, 2016).

### Financial Well-being

Joo and Grable (2004) found that financial well-being related both directly and indirectly with behavior finance, financial pressure, income, financial knowledge, ability to meet debt, risk tolerance, and learning. This research simultaneously confirms the suspicion of the problem of tension finance, financial pressure, and financial satisfaction are all measures which measures the whole idea.

Objective well-being is influenced by the income of Muflikhati et al. (2010). Meanwhile, subjective well-being is influenced by education, age, income, and financial management. The higher education, the better financial management, the higher education and income, the better personal welfare, and the better financial management then personal welfare (objective and subjective) is increasing (Rambe2008, Fajrin 2011, and Rusydi 2011).

### METHOD

This research is an exploratory study which attempt to uncover the practice of financial literacy from various theoretical perspectives. Theories used are financial literacy, financial attitude, financial attitude, financial behavior, and financial wellbeing. Literature collection is done by the documentation method. Data were analyzed using qualitative descriptive method. The hope is to get strong theoretical support from financial literacy.

### RESULT AND DISCUSSION

In the modern era like today, the needs and desires of the community have become increasingly complex. This makes the consumptive lifestyle of the community disproportionate, such as making an impulsive purchase without consideration in the future. This is encouraged because of the increasingly widespread online shopping system that can be used on the smartphones of each community, shopping centers that are scattered everywhere, until all banking transactions or others are carried out with internet technology (online-based) so in this day and age the community is very facilitated and spoiled in this situation so that not a few people who will feel financial difficulties. Financial difficulties are not only caused by income effects, but can also be influenced by excessive or consumptive lifestyles and mistakes in financial management, such as the absence of financial planning.

Behaviors and lifestyles are increasingly higher day to make people more happy to consume rather than save when they have money. Especially in 2019, clothing trends, technology trends, accessories trends, vehicle trends, home trends, holiday trends and so on are making rapid development, making some people go along to fulfill this.

Good financial management can be measured by the level of financial literacy owned. Financial literacy is a basic need in the form of knowledge and ability to manage personal finances in order to make correct financial decisions so as to avoid financial problems.

An attitude in good financial management starts with applying a good financial attitude towards the world in which it lives. So that it can be interpreted as a state of mind, opinion and evaluation of a person against his personal finances that are applied to the attitude. Attitudes in financial management often affect one's financial behavior. Financial behavior of Indonesian people who tend to be consumptive has led to





various irresponsible financial behaviors such as lack of saving, investment, emergency fund planning and future budgeting.

All people in this world must have problems regarding how to manage their personal financial assets. Basic intelligence must be possessed by every individual to manage his personal financial resources effectively and efficiently for the welfare of his life. The development of technology provides various facilities in financial learning such as information that is easier to obtain.

Many theoretical studies have proven that financial attitude, financial behavior and financial literacy are determinants of increasing financial well-being. Current research confirms previous studies by examining financial attitude and financial behavior towards financial well-being through financial literacy.

Financial literacy is very much related to the welfare of an individual. Financial knowledge and skills in managing personal finances are very important in everyday life. Financial literacy helps individuals to avoid financial problems. Financial difficulties are not just a function of income (low income). Financial difficulties can also arise if there are mistakes in financial management (miss-management) such as mistakes in using credit and lack of financial planning.

Financial limitations can cause stress, and low self-confidence. The existence of financial knowledge and financial literacy will help individuals in managing personal financial planning, so that individuals can maximize the time value of money and the benefits obtained by individuals will be even greater and will improve their standard of living. Bhushan and Medury (2013) explain financial literacy is very important for several reasons. Consumers who have financial literacy can go through difficult financial times due to the fact that they may have accumulated savings, bought insurance and diversified their investments.

## CONCLUSION

Based on the results of the research discussed, financial literacy is expected to encourage financial intelligence and prosperity. So not just knowing financial products that can improve welfare but also knowing how to manage finances in a wise way. Financial products such as savings, insurance policies, investments, deposits, etc., but also understand the risks that will be received from each of these financial instruments, so that people are not exposed to the trap of fraudulent financial instruments.

## Suggestions

Financial literacy can be used as a reference to increase understanding of the risks to be received from each financial instrument to improve welfare. Therefore, financial literacy is an important part of financial management.

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