

THE ROLE OF FINANCIAL LITERACY AND FINANCIAL BEHAVIOR ON STUDENT INVESTMENT DECISIONS

Rahmah Putri Wijayanti¹, Elmy Nur Azizah^{2*}, Herwin Kurniawan³

^{1,2,3} Universitas Muhammadiyah Prof. DR. HAMKA, Jakarta, Indonesia
Corresponding Author: elmy@uhamka.ac.id

Article Info: Received: January 6, 2024; Revised: March 13, 2024; Accepted: March 29, 2024

Abstract: This study aims to see how financial literacy and financial behaviour can affect investment decision making for university students. Methods: This study is a quantitative study. Sample determination using purposive sampling method with a total of approximately 200 people. Data collection is using a questionnaire with a Likert scale (1-5). The results of obtaining data from the questionnaire will be analysed using descriptive data analysis techniques and processed using SEM PLS software. Results: the results of the above research state that financial literacy and financial behaviour have a significant effect on investment decisions in college students. The Investment Decision Variable can be explained by Financial Literacy and Financial Behaviour by 51%.

Keywords: Financial Literacy, Financial Behavior, Investment Decision

Abstrak: This study aims to see how financial literacy and financial behavior can influence investment decision making for students. This research is a type of quantitative research. The sample collection method uses purposive sampling with a total of approximately 200 people. Data were collected using a research questionnaire with Likert scale measurements (1-5). The results of obtaining data from the questionnaire were analyzed using descriptive analysis techniques processed through SEM PLS software. The results of the above research state that the variables of financial literacy and financial behavior have a significant influence on investment decisions in students. The Investment Decision Variable can be explained by Financial Literacy and Financial Behavior by 51%.

Keywords: Financial Literacy, Financial Behavior, Investment Decision

INTRODUCTION

In general, Indonesian people distribute their income into various things like spending, investing, and saving. Investment is a type of fund allocation that is considered the most advantageous for the future. The crucial thing in managing personal finance is allocating funds to invest. This is so that you can learn how to manage your finances both now and in the future through investing (Permatasari, 2015). As quoted from the news page <https://www.cnnindonesia.com/>, 7.3 million persons make up the capital market investor population in Indonesia, which still represents 0.8% of the country's overall population. However, data from KSEI or the According to the Indonesian Central Securities Depository, there were 9.1 million capital market investors as of June 2022, a 21.68% growth from the previous year.

KSEI data shows the demographic data of individual investors where the occupation that invests the most is employees (private, public, teachers) at 32.62%. This data shows a uniqueness where the second most invested category is the student category at 27.83%. It can be seen that students have an awareness of the importance of investment. However, based on the findings of the nationwide study on financial inclusion and literacy conducted by (OJK, 2022) stated that of the total university students who use financial and investment products, 96.51%, only 62.42% have adequate financial knowledge and skills. The aforementioned data suggests that there is a significant discrepancy between community members' financial access and their comprehension of financial literacy. This is clearly very risky because the increase in financial access owned by the community does not go hand in hand with good financial literacy, making it vulnerable to fraudulent practices in financial matters, especially investment.

Investment performance on the Indonesia Stock Exchange over the past five years has fluctuated which is influenced by Anchoring Bias, Loss Aversion, and Overconfidence. Investors must recognise and control these biased behaviours as they can affect investment decisions. If not addressed, these behaviours can lead to problems in investment decision-making and produce returns that are not in line with expectations. Nowadays, investing is increasingly popular among university students, which means that there is a growing number of young investors. However, the presence of these beginner investors may trigger irrational investment behaviour. Therefore, it is imperative that students comprehend and manage this prejudicial conduct to enable them to make more informed investment choices.

According to the aforementioned description, the goal of this study is to determine how students' investment decisions are influenced by their financial behavior and financial literacy, particularly within the Faculty of Economics and Business UHAMKA.

(Remund, 2010) states that A person's capacity to manage their own finances through appropriate short-term decision making, long-term financial planning, and attentiveness to economic events is measured by their level of financial literacy. Understanding financial instruments and how to use them in life and business is another aspect of financial literacy (Huston, 2010).

According to (Safitri & Sari, 2021), the financial knowledge that a person has will develop into financial skills. These skills are described as the capacity to use financial knowledge in day-to-day activities. A person with sound financial judgment can manage their money and resources in a sensible and efficient manner. The level of financial literacy that enables people to use financial products and services, from regular banking to loans, investments, and future planning, with confidence and to make decisions about all elements of their budgeting, spending, and savings (Yates & Ward, 2011).

According to (Perwito et al., 2020) Financial behavior refers to how a person handles, finances, and makes use of their income on a daily basis. The issue of receiving and spending money is one that many people encounter. There are situations where a person's income is less than their spending, which might be problematic because of the way they handle their finances. When it comes to managing their finances, such as tracking their spending, saving, and reining in their excess, those who exhibit sound financial conduct are typically more prudent and astute. Financial behavior and investment decisions are two things that are interrelated. (Nofsinger, 2001) states in the scientific study of financial behavior during decision-making, including financial decision-making, is known as financial behavior. This term clarifies how a person's decisions on investments are influenced psychologically.

So in this case everyone must have good behavior when using income that should be spent on consumption or investment. According to (Purnamahatty Prawirasasra & Dialysa, 2016) in his research, it was shown that a person's psychological characteristics significantly impact investment decisions, to the extent that the person may maximize his investment returns. This means that the function that financial conduct plays when someone makes an investment decision is quite significant. Furthermore, it is said that people find it extremely challenging to

act consistently since they will assume different things depending on the financial and investing information they learn.

The process of selecting the best option from a range of available possibilities while taking into account a number of interrelated factors is known as investment decision making. (Asandimitra et al., 2019). (Lestari et al., 2022) contends that making investment selections is a process of identifying available alternatives and selecting the one that best suits one's needs.

METHOD

Quantitative research methodologies were utilized in the execution of this study. The Likert scale is used to translate each statement that was provided for this study into a numerical value. This study employed a Likert scale with a range of 1 to 5. The data that can then be obtained is as many as 200. According to the predetermined criteria, respondents were given online questionnaires to complete, which is how this data was collected. These responders are students from UHAMKA's Faculty of Economics and Business. Statistical software, specifically Smart PLS version 3, was then used to analyze the samples that were acquired.

RESULTS AND DISCUSSION

Three (three) criteria convergent validity, discriminant validity, and composite reliability must be met in order to evaluate the outer model.

Table 1. Composite Reliability

	Composite Reliability
Financial Literacy	0.760
Financial Behaviour	0.822
Investment Decision	0.818

Source : Data 2023

Each construct must be above 0.7 on the composite reliability test (Ghozali, 2021). From the table data above, each variable's composite reliability value is evidently more than 0.70. Thus, the the study's variables are highly reliable. In other words, every statement item from every variable (Financial Literacy, Financial Behaviour, and Investmene Decision) meet the reliable requirements or are declared reliable.

Table 2. Discriminant Validity

	Average Variance Extracted (AVE)
Financial Literacy	0.613
Financial Behaviour	0.606
Investment Decision	0.599

Source: Data 2023

This test is a more critical test when compared to the composite reliability test (Hidayat et al., 2023). Every variable in the aforementioned table has a value greater than the minimum AVE value limit of 0.50. This shows that each construct has met the requirements.

Table 3. R Square

	R Square	R Square Adjusted
Investment Decision	0,516	0,505

Source : Data 2023

From this final value, It indicates that Financial Behavior and Financial Literacy account for 51% of the explanation of the Investment Decision variable, with other variables accounting for 49%.

Table 4. Hypothesis Result

	T Statistics	P Value
Financial Literacy > Investment Decision	5,235	0,000
Financial Behavior > Investment Decision	5,895	0,000

Source : Data 2023

Seeing from the results of the T-statistic value of $5.235 > T\text{-table} (1.96)$. And at a P-value ($0.000 < 0.05$) (Hypothesis accepted). These results indicate that financial literacy has a significant positive effect on investment decisions in students. These results support research from (Raut, 2020), (Hastings & Mitchell, 2020), (Adil et al., 2022), (Iram et al., 2023). Where this result indicates that financial literacy provides more knowledge related to financial management and its terms (Rutherford & Devaney, 2009) (Alsemgeest, 2015). In addition, it can help investors or in this study are students to build a mature way of thinking regarding financial management and make them feel more confident to make investments, and give rational assessments from (Raut, 2020).

Seeing from the results of the T-statistic value of $5.895 > T\text{-table} (1.96)$. And at a P-value ($0.000 < 0.05$) (Hypothesis accepted). These results indicate that financial behavior has a significant positive effect on investment decisions in students. This means that if financial behavior increases, it will be accompanied by an increase in investment decision making. The

decision-making process is strongly influenced by how individual behavior in planning, budgeting, managing, controlling, and saving financial funds (Sapiri & Awaluddin, 2023).

Discussion

Financial Literacy toward Investment Decision

Our in-depth analysis has uncovered very interesting findings regarding the impact of financial knowledge on choices made about investments. The findings unequivocally demonstrate a favorable relationship between a person's degree of financial literacy and the caliber of their investing choices. In other words, an individual's capacity to make well-informed and prudent investment decisions improves with increasing financial literacy. This result lends credence to the original theory that maximising investment returns requires a sufficient understanding of finance.

Financial Behavior toward Investment Decision

Through this research, we found that behavioral finance serves as a strong foundation in shaping investment decisions. Individuals with good financial behaviors tend to have a higher level of financial literacy, so they better understand complex investment concepts. In addition, good financial behavior also reflects good self-discipline and emotional control, two things that are very important in dealing with market volatility. In other words, sound financial behavior not only influences initial investment decisions, but also affects how one responds to changing market conditions

CONCLUSION

The conclusion from the research results above states that the variables of financial behavior and financial literacy have a big impact on students' investing choices. These findings suggest that students have a higher potential for investing the better their financial behavior and financial literacy. The aforementioned findings suggest that students' financial behavior and financial literacy have a big impact on their investment selections. Therefore, if we want to create a spread of young investors, especially among students, then the world of education or related institutions must equip students with sufficient financial literacy as an outcome that must be achieved. Young investors must know and control behavioral biases that will occur because it will have an impact on investment decision making. Furthermore, for future researchers, they can add other variables and can further expand the range of respondents, so that the research results become more complex and accurate.

REFERENCES

- Adil, M., Singh, Y., & Ansari, M. S. (2022). How financial literacy moderate the association between behaviour biases and investment decision? *Asian Journal of Accounting Research*, 7(1), 17–30. <https://doi.org/10.1108/AJAR-09-2020-0086>
- Alsemgeest, L. (2015). Arguments for and against financial literacy education: Where to go from here? *International Journal of Consumer Studies*, 39(2), 155–161. <https://doi.org/10.1111/ijcs.12163>
- Asandimitra, N., Seno Aji, T., & Achmad Kautsar. (2019). Financial Behavior of Working Women in Investment Decision-Making. *Information Management and Business Review*, 11(2(I)), 10–20. [https://doi.org/10.22610/imbr.v11i2\(i\).2878](https://doi.org/10.22610/imbr.v11i2(i).2878)
- Ghozali, I. (2021). *Partial Least Squares Konsep, Teknik dan Aplikasi Menggunakan Program SmartPLS 3.2.9 Untuk Penelitian Empiris (3 (ed.))*. Universitas Diponegoro.
- Hastings, J., & Mitchell, O. S. (2020). How financial literacy and impatience shape retirement wealth and investment behaviors. *Journal of Pension Economics and Finance*, 19(1), 1–20. <https://doi.org/10.1017/S1474747218000227>
- Hidayat, F., Siregar, S. R., & Nugroho, A. W. (2023). Efek Financial Management Behavior , Self Efficacy , Herding Terhadap Keputusan Investasi Generasi Z (Effects of Financial Management Behavior , Self-Efficacy , Herding on Generation Z Investment Decisions). *Jurnal Akuntansi, Bisnis Dan Manajemen*, 30(1), 61–72. <https://doi.org/https://doi.org/10.35606/jabm.v30i1.1192>
- Huston, S. J. (2010). Measuring Financial Literacy. *Journal of Consumer Affairs*, 44(2), 296–316. <https://doi.org/10.1111/j.1745-6606.2010.01170.x>
- Iram, T., Bilal, A. R., & Ahmad, Z. (2023). Investigating The Mediating Role of Financial Literacy on The Relationship Between Women Entrepreneurs' Behavioral Biases and Investment Decision Making. *Gadjah Mada International Journal of Business*, 25(1), 93–118. <https://doi.org/10.22146/gamaijb.65457>
- Lestari, M., Pangestuti, D. C., & Fadila, A. (2022). Analisis literasi keuangan, pendapatan dan persepsi risiko terhadap keputusan investasi serta perilaku keuangan sebagai variabel intervening. *AKURASI: Jurnal Riset Akuntansi Dan Keuangan*, 4(1), 33–46. <https://doi.org/10.36407/akurasi.v4i1.602>
- Nofsinger, J. R. (2001). The impact of public information on investors. *Journal of Banking and Finance*, 25(7), 1339–1366. [https://doi.org/10.1016/S0378-4266\(00\)00133-3](https://doi.org/10.1016/S0378-4266(00)00133-3)
- OJK. (2022). *Infografis Hasil Survei Nasional Literasi dan Inklusi Keuangan Tahun 2022*. <https://ojk.go.id/id/berita-dan-kegiatan/info-terkini/Pages/Infografis-Survei-Nasional-Literasi-dan-Inklusi-Kuangan-Tahun-2022.aspx>

- Permatasari, A. (2015). 2 学力をどうとらえるのか(第1回プロジェクト研究会(2)). *Jurnal Ekonomi Dan Kewirausahaan*, 15(2), 28–37. <http://ci.nii.ac.jp/naid/110000039498/>
- Perwito, Samsu, & Gunadi. (2020). Pembelajaran Keuangan Terhadap Keputusan Investasi: Efek Mediasi Literasi Keuangan. *Jurnal E-Bis*, 4(2), 118–130. <https://jurnal.politeknik-kebumen.ac.id/index.php/E-Bis>
- Purnamahatty Prawirasasra, K., & Dialysa, F. (2016). Implikasi Behavioral Finance Pada Proses Pengambilan Keputusan Investasi Di Masa Pensiun. *Jurnal Manajemen Dan Bisnis (Performa)*, 13(2), 21–36.
- Raut, R. K. (2020). Past behaviour, financial literacy and investment decision-making process of individual investors. *International Journal of Emerging Markets*, 15(6), 1243–1263. <https://doi.org/10.1108/IJOEM-07-2018-0379>
- Remund, D. L. (2010). Financial literacy explicated: The case for a clearer definition in an increasingly complex economy. *Journal of Consumer Affairs*, 44(2), 276–295. <https://doi.org/10.1111/j.1745-6606.2010.01169.x>
- Rutherford, L. G., & Devaney, S. A. (2009). Utilizing the theory of planned behavior to. *Journal of Financial Counseling and Planning*, 20(2), 48–63.
- Safitri, M., & Sari, R. C. (2021). the Effect of Financial Knowledge and the Use of E-Money Toward Financial Behavior of Undergraduate Students Faculty of Economics Yogyakarta State University. *Nominal: Barometer Riset Akuntansi Dan Manajemen*, 10(1), 31–46. <https://doi.org/10.21831/nominal.v10i1.32062>
- SAPIRI, M., & AWALUDDIN, M. (2023). Distribution of Financial Attitude, Financial Behavior, Financial Knowledge and Financial Literacy on the Investment Decision Behavior of Young Investors. *Journal of Distribution Science*, 21(11), 45–53. <https://doi.org/10.15722/jds.21.11.202311.45>
- Yates, D., & Ward, C. (2011). Financial Literacy : Examining. *Journal of Business Education*, 4(1), 65–78.