

## Financial Literacy among Affirmative University Students

Dwi Wulandari<sup>1</sup>, Bagus Shandy Narmaditya<sup>2</sup>

<sup>1</sup> Universitas Negeri Malang, Malang, Indonesia; dwi.wulandari.fe@um.ac.id

<sup>2</sup> Universitas Negeri Malang, Malang, Indonesia; bagus.shandy.fe@um.ac.id

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### ABSTRACT

The research aims at measuring the students' financial literacy who received affirmation of Higher Education Scholarships which coming from remote areas. The measurement is important toward how financially literate the students are in making financial decisions and what the determinants of financial literacy. Further, the measurement will provide information on how to increase the financial literacy of the students given that, after completing their studies, they are expected to significantly improve the financial literacy in their hometown as policymakers and leaders. Based on the findings, it can be concluded that the students have a low level of financial literacy. This problem can be addressed by reaching out to all the students in Indonesia, especially those in remote areas to help them understand the concept of financial literacy and enable to make a good decision as consumers and investors. Also, need to help the students understand the importance of financial literacy and convince that having this skill improve their welfare in the future. Moreover, lecturer should be aware of the different learning styles of individuals. For example, for students who come from remote areas, the topic should be delivered in a fun and easy way by using relatively simple language.

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### Corresponding Author:

Dwi Wulandari

Universitas Negeri Malang, Malang, Indonesia; dwi.wulandari.fe@um.ac.id

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## 1. INTRODUCTION

Financial literacy plays a critical role to manage personal finance to achieve individual's welfare. In the present globalized world, the temptation to be overspending is quite high because people face several products all around the world which available in the market. When people do not manage well their expenditure, they will have a debt problem. It is understandable changes in people's behaviour in accordance with lifestyle that make them more consumptive. Financial literacy proposes an idea to overcome this phenomenon. Financial literacy refers to activities in improving the knowledge, skills, and confidence of consumers and the general public to enable them to manage their personal finances well (OJK, 2016).

Lack of financial literacy may lead to poor financial decision that can have negative consequences on the financial welfare of the individual. Financial literacy provides benefit to individuals through the use of financial products, the application of better financial planning, and the acquisition of knowledge, and entrepreneurial skills. In addition, individuals to be cautious in investing in high-risk financial instruments and to improve their understanding of the benefits and risks of financial products and services.

Dealing with financial problem, financial education is important for an individual to achieve financial literacy. Financial education is the process by which consumers improve their understanding of financial product and concept. By receiving more knowledge, consumers become more aware of financial risks and opportunities are able to make informed choices where to go for help and can take other effective actions to improve their financial well-being (OJK, 2017). Indonesia's government has been actively educating citizens about financial literacy, particularly through a program of Financial Services Authority (OJK). The aim of the financial literacy program provides financial education to Indonesian to manage their finances wisely. In this way, the lack of knowledge about the financial industry can be addressed and the community will not be easily deceived by investment products that offer high profit in the short-term. In response to meet for greater public understanding about the products and services offered by financial institutions, the national financial literacy program was launched with three main pillars namely promotion of educational programs and a national financial literacy campaign, shaping and strengthening of the financial literacy infrastructure, and discussion on product development and affordable financial services. In a national survey carried out by the Financial Services Authority (OJK), Indonesian had a financial literacy index of only 21.84 per cent, and a financial inclusion index of 59.74 per cent (OJK, 2016).

Education is a human right and when access to education is widely available, all citizens should be able to take advantage of that access. However, in some special circumstances, access to education especially higher education is not always available. Such limited access can be due to inadequate facilities or to special circumstances that lead to restricted access such as geography, economy, natural disasters, socio-cultural conditions. For instance, the Province of Papua and West Papua which are part of the territory of the Republic of Indonesia do not have sufficient access to proper education, particularly higher education. Therefore, backwardness in various aspects of life and low welfare often cause a big problem. Infrastructure conditions to a very limited education in the interior led to education is increasingly unequal and causes ignorance and poverty. At present, Papuans cannot compete in terms of global growth. Considerable efforts have been to open up opportunities to all Papuans. However, some areas still need various improvement and considerable efforts so that the education gap throughout the country can be further narrowed. Some public universities do access to higher education in Papua and West Papua, a special alignment of affirmation program for higher education has been designed (OECD, 2005).

Under the program, scholarships have been awarded to some students at the Faculty of Economics, Economics Education Department, Universitas Negeri Malang. These students were selected from among several candidates in their province and are presumably the best one. The government provides them with education allowance, as well as living allowance throughout their stay in Malang. For most students, being away from their family and having to manage their own finances is a new experience even though they have studied in economics, it cannot always be assumed that they have high financial literacy. Besides the challenges of studying, the students also face a language barrier because Indonesia is a big country in which every place has its own local dialect. Although Indonesians speak the same language, their accents are different, and it could be difficult for the students to understand the everyday language used.

This research aimed at measuring the financial literacy of students who received Affirmation of Higher Education Scholarships. The measurement addresses to determine how financially literate the students are in making financial decisions, and what the determinants of financial literacy are for them. Further, the results could provide information on how to increase the financial literacy of the students

given that, after they graduate, they are expected to significantly improve the financial literacy in their hometown as policymakers and leaders.

Financial literacy is defined as the knowledge of basic financial investment concepts such as inflation, risk diversification and the capacity to make calculations related to interest rates (Lyons et al., 2006). According to Lusardi & Tufano (2001), financial literacy also related to the ability to make a good decision regarding debt contracts in particular how one applies basic knowledge about interest compounding, measured in the context of everyday financial choices. Financial literacy refers to processes or activities aimed at improving the knowledge, skills, and Confidence of consumers and the public, in general, to enable them to manage their personal finances well (OJK, 2016). The OECD 0 defines financial literacy as a combination of the awareness, knowledge, skill, attitude and behavior necessary to make sound financial inclusion measurement. In the present research, financial literacy defined as a unified whole that is owned by individuals encompassing knowledge, awareness, skills, attitudes, behaviors, and they can manage their own finances.

Financial knowledge builds good financial literacy. The family is the first and major educator of individual. Through understanding, habituation, and exemplary in our daily lives will form a pattern of attitudes and consumption patterns. Previous research by Clarke et al (2012) and Pinto et al. (2007); Wulandari & Narmaditya (2015) explains that the family plays an important role in shaping consumer behavior. Parents are the most significant influence on children as they learn consumer behaviors (Lusardi & Tufano, 2001; INFE, 2016) and they are key sources of financial information for teens and college students (Mae, 2009; Sabri et.al, 2001).

Besides learning from their parents, individual gain financial knowledge related to financial literacy through their formal education at school. The university for instance, it plays a precise role in stimulating the understanding of an individual related to financial literacy. Many of lecturer materials, especially in the subject of economics can be linked to the context of financial literacy namely, capital markets, banking, and management. According to O'Neill et al. (1995), the basic education received by individuals enables them to manage their finances better. A higher knowledge of finances results in greater well-being for the students in terms of their saving, current financial situation, and financial management skills (Setiadi, 2008).

Other means, such as reference groups, external factors, and social media can help individuals gain financial literacy. A reference group refers to a group of people that has direct or indirect influence on the behavior of an individual. Reference groups play a role in shaping financial literacy. Some are primary groups that provide continuous interaction such as family, neighbors, and colleagues. Secondary groups tend to be more formal and offer less sustainable interaction (Garrison, 2007; Varcoe et.al, 2010). Television, radio, newspapers, and social media also influence how individuals perceive knowledge. Self-understanding is formed and strengthened by other factors outside oneself. Research by Lachance & Legault (2007) revealed that the mass media including television, internet, magazines, and newspapers were found to be the second most important socialization influence among college students.

## 2. METHODS

The research focuses on the financial literacy of university students who have received affirmation scholarships for Higher Education at the Faculty of Economics, Universitas Negeri Malang, Indonesia. The respondents were asked the awardees of affirmation Scholarship of Higher Education several questions related to financial literacy. The questions were taken from the OECD Toolkit for Measuring Financial Literacy (OJK, 2017). The following items were included gender, the community they live in, the person(s) they live with, the person who makes the financial decisions in their household, whether they make a budget, whether they have saved money in the past 12 months, whether they currently face a major expense equivalent to their monthly income and if they were capable of pay it without borrowing money, their financial goals, their most important financial goals, the actions they have taken to meet these goals, their confidence in their retirement plan, their pension plan, and whether

they have heard of any types of financial products (pension fund, investment account, mortgage, bank loan secured on a property, unsecured bank loan, credit card, checking account, savings account, microfinance loan, insurance, stock and shares, bonds, electronic banking, debit card).

The researchers also asked which product they would choose and how they would make a choice, which sources of information influence their decision, whether such information is product-specific, a best buy guidance, a general advice, an advertisement, from a media coverage or some other source, and whether or not they have experienced issues related to a financial product, such as being advised to invest in a financial product that is worthless such as a pyramid scheme, or have had their credit card used by someone else without their authorization. The spending behavior of the students was also observed. Then, a conclusion was made on whether or not they have a good understanding of economics and finance, as later applied in their daily lives.

### 3. FINDINGS AND DISCUSSION

#### 3.1 Financial behavior

Financial literacy is measured based on financial knowledge, financial attitude and financial behavior (Kasmir, 2014). Among these three, financial behavior is the first parameter used to measure financial literacy. In more detail, the financial behavior indicator described from responsibility and has a household decision, active saving, considered a purchase, timely bill payment, keeping watch of financial affairs and long-term financial goal setting. In this research, participants were living with their parents and siblings. Further, all of them reported that another person made the financial decision in their household. Only one household carried out budget planning, the others did not understand the concept of budgeting. According to Garrison et al. (2007) a budgeting is a detailed plan for the future that is usually presented in formal quantitative terms.

In family budgeting, several factors have to be considered, such as monthly mortgage, monthly expenses, educational expenses, savings, and overall family spending. For individuals or families with high incomes, budgeting increases the quality of life. In the present work, the respondents were asked whether or not they have saved some money in the past 12 months. Two respondents said they have saved some money in savings account, whereas the other two admitted that they have not saved money because they have spent for their daily needs. A savings account is deposit account from which money can withdraw under certain agreed-on conditions but by cheque and demand deposit (Klapper et.al (2015). In general, this form of savings held by a bank other interest-based financial institutions. Having a deposit account in a bank or some other financial institutions provides many benefits, such as security, the effect of inflation, and value for money. Saving money in a bank or elsewhere is considered as an attempt to plan for the future. Such savings have most of the benefits of a liquid financial instrument because they are flexible, in addition, the transaction from saving account is very easy to manage. In Indonesia, an Islamic banking has been developed, an alternative for consumers, this scheme will hopefully encourage more people to save money and increase the awareness of financial literacy.

Most of the respondents merely depended on their scholarship allowance and spent it all every month because they had no other income source. If they faced a major expense equal to their monthly income, they would not be able to pay it unless they borrowed or asked money from their family or friends. Two of the students had financial goals, such as having a savings account and curbing their monthly spending. Two were confident about their financial plans for retirement, whereas the other two were not. Three said they would sell their financial assets to cover their retirement fund, the remaining respondent had no knowledge retirement plans.

All the students were concerned about their future and monitored each other regarding financial issues, none had a considerable amount of debt. Two respondents found it more satisfying to spend money than to save it. Two also reported paying their bills on time, one could not do so because the scholarship allowance on which he/she relied was often late. Three of the students said they were prepaid to risk some of their own money savings or investments. Three have also set long-term financial goals, which they were to achieve. Three respondents said they tended to worry about their daily living

expenses because they depended solely on their scholarship allowance, three were satisfied with their present financial situation. The students rated their overall knowledge about financial matters as low compared with other adults in Indonesia. In the last year, three that their income did not cover their living cost. Consequently, they borrowed money from their family or friends and pawned something they owned. If they lost their main source of income, the students could afford their living expenses without borrowing for only one month.

### 3.2 Financial Knowledge

Financial knowledge is especially important in times where increasingly complex financial products are easily accessible in the market (Lachance & Legault (2007). For example, with the governments in many countries attempting to boost access to financial services, the number of people with bank accounts and access to credit products has been increasing significantly. Moreover, there have been changes in the management of pensions with many people now preferring to manage their own pensions, which were previously handled by their employer or the government.

In this context financial knowledge described from some aspect financial product about the time value of money, interest paid on loan, interest plus principal, compound interest, risk and return, inflation and diversification of investment. When respondent asked simple questions related to terms in economics and finance, they found it hard to answer. They did not understand the concepts of inflation and interest rate either simple or compound interest. The responses to certain statements indicated that not all them understood the concepts of investment, return, risk, inflation, cost of living, the stock market, stocks, bonds. The time value of money item, three respondents gave answers that are not relevant to the question of whether there is a difference between the received 1,000 USD and in this time next year.

However, one respondent answered correctly to receive the same amount in the next year they will buy fewer goods. The question related to interest rates revealed that all respondents did not understand how the interest rate paid on a loan. Meanwhile, the compound question, the interest of all respondents did not understand the concept. Related to investment problems they understand that an investment with a high return is likely to be high risk. Three respondents understand that when inflation is the high cost of living has also increased. Three respondents also understand that it is possible to reduce the risk investment in the stock market by buying a wide variety of stocks and securities. However, one respondent answered correctly by reasoning that given the same amount of money, they would be able to purchase fewer goods in the past.

One question regarding interest rates, the replies of all respondents indicated that they did not understand how interest is paid on a loan. The respondents also did not understand the concept of compound interest. Regarding the investment problem, the student recognized that an investment with a high return is likely to be high-risk. Three respondents knew that when inflation is high, the cost of living consequently increases. Three also understood that it is possible to reduce the investment risk in the stock market by buying a wide variety of stocks and securities.

The result further showed that the students understood only concepts of mortgage and savings account had never heard of pension or retirement product, bank loan secured on property and stock and shares. Kasmir (2014) remarked an activity in which handing over valuables possession to a particular party to earn some money and goods as collateral will be redeemed in accordance with the agreement between the depositor and pawnbroker. The role of the pawnbroker is to minimize the interest rate for those who are need of money. A basic knowledge of pawnbroking is important to understand the various financial products available depending on customer needs. Moreover, OJK 0 described other benefits, such as money transfer services abroad without the use of an account as well as payment services for water, telephone, and electricity bills, certification services for precious stones, and day care services. Understanding mortgages is a comprehensive solution to financial problems.

In addition, pension funds pawn is important to understand in planning individual financially. In this study, the student does not understand related pension funds. Pension funds according to Kasmir (2014) is a statutory body that manages and runs a program that promised pension benefits. When

someone works today should be thinking of life in the future pension fund children due to problems of inflation. Job competition, education is increasingly expensive to be important financial planning (OJK, 2016). The need to understand a wide range of financial products and investment would provide alternative options to invest in accordance with their individual needs. An understanding of financial knowledge is part of a financial literacy.

All the respondents had never heard of investment accounts, unsecured bank loans, credit cards, checking accounts, microfinance loans, insurance, bonds, payment of mobile phone accounts, and debit card. A previous study by Wulandari and Narmaditya (2015) showed that the lack of understanding related insurance so low it would cause low insurance ownership. In that research, a negative perception of insurance caused people to be reluctantly to ensure their possessions. In current work, when asked what they would do if they had money, three of the students said they would keep the money in savings account, only one chose an investment account. All respondents preferred the same bank, the one used by the government to transfer their scholarship allowance. The aspects that influenced their choice of investment were information sent through the mail, information from sales staff of the firm providing the products, the recommendation of an independent financial advisor, the advice of friends and relatives (not working in the financial services industry), television or radio programs, television advertisements, and their previous experiences

### 3.3 Financial Attitudes

Another aspect of financial literacy is financial attitudes. In this present study, all the respondents agreed that before buying something they should consider whether or not they could afford to buy it. All respondents also said that they should prepare for the future and not consider only the present time and that it is not good to spend all the money they have. These answers indicate that the students have a good financial attitude, that is, they try to be financially wise at all times.

However, the overall financial literacy of the students is low because their financial attitude is not balanced with their financial knowledge and financial behavior. The results indicate that financial information considerably influences the financial literacy of a person. The most useful information is obtained from the family, which has the largest role in shaping the financial literacy of a person. This is in accordance with Lyons et al. (2006) and Peng et al. (2007) financial literacy that students learned from at least their parents' experience. Thus, parents the primary sources from which children learn about money and the main influence in the development of their financial attitudes and behavior (MRPTNI, 2014).

Additionally, society also participates in shaping the financial literacy of an individual, that is the low financial literacy of a person could be caused by a low awareness of financial literacy. Our results indicate that gender does not influence financial literacy. However additional information is obtained in college. Thus, in work, the students who had taken the final semester had a greater understanding of financial knowledge to support financial literacy compared with freshmen, who had lower financial literacy. This is in line with Varcoe et al. (2010) who reported that the economics information provided in school has an important effect in the acquisition and shaping of student' skills, as well as in increasing awareness about consumption. A better understanding of youth financial knowledge and attitudes in Sub-Saharan African and Whether such knowledge and attitudes are associated with youth's financial behaviors may support a case for offering a youth financial education. Other factors that influence financial literacy are peer group, television, and advertisements (INFE, 2016; Wulandari et.al., 2015).

The problem of low financial literacy can be addressed by reaching out to all the students in Indonesia, especially those in remote areas, to help them understand this concept and to enable them to make good decisions at least as consumers and investors. Also, need to help the students understand the importance of financial literacy and to convince them that having this skill will improve their well-being in the future. Moreover, we should be aware of the different ways that people learn, for example, for students who come from remote areas, this topic should be delivered in a fun and easy way by using relatively simple language. Access to information and support for the various financial products should also be provided. Establishing partnerships with other parties is important toward building up the

financial literacy of the students, who, on completion of their studies, will to their hometowns and transfer their knowledge to their people. If they succeed in doing so, the financial literacy of people in these remote areas will subsequently increase.

#### 4. CONCLUSION

The result indicates that the financial literacy of the students is quite low. This problem can be addressed by reaching out to students all over Indonesia, especially those in remotes areas, to help them understand the concept of financial literacy and to enable them to make good decisions at least as consumers and investors. Moreover, it needs to help the students understand the importance of financial literacy and convince them that having this skill will improve their well-being in the future. It also needs to devise an easily understandable way of teaching the concept, which could specifically accommodate the various backgrounds of the learners. Access to information and support for the financial products should also be provided. Establishing partnerships with other parties is also important toward building up the financial literacy of the students, who on completion of their studies will return to their hometowns and transfer their knowledge to their people. If they succeed in doing so, the financial literacy of the people in these remote areas will subsequently increase.

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