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The Effect Of Financial Literacy And Economic Literacy On The Financial Management Of Youth In Sumberejo Village

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Abstract

Research aim: *This study investigates the potential influence of financial and economic literacy on the financial management of adolescents in Sumberejo Village.*
Design/Methode/Approach: *A quantitative approach is employed, utilizing purposive sampling techniques for the selection of adolescent participants. Data analysis is conducted using t-tests, F-tests, and coefficient of determination testing with the assistance of SPSS software version 23.*
Research Finding: *After analyzing the data, the study reveals a Fcount of 92,251, suggesting that there is a simultaneous impact of both financial and economic literacy on the financial management of adolescents residing in Sumberejo Village. Moreover, financial literacy and economic literacy account for a contribution of 0.569 and 56.9%, respectively, towards financial management.*
Theoretical contribution/Originality: -
Practitioner/Policy implication: -
Research limitation: -
Keywords: *Digital Literacy, Financial Literacy, Economic Literacy, Financial Management*

Introduction

The 21st century is marked by a significant change, where access to information via the Internet and digital technology is necessary for daily living. Literacy involves not only the capacity to read and write, but also the comprehension and use of information technology. Literacy empowers individuals to adjust to change, continuously learn, and maintain relevance in a constantly evolving environment. In the contemporary era of globalization and economic complexity, possessing financial and economic literacy skills is of utmost importance to individuals.

Financial literacy is a crucial component for functioning in today's globalized world and carrying out economic activities. Financial literacy is the amalgamation of a person's comprehension of financial products and services, as well as the capacity to pursue financial prospects and take risks. This ability assists in making accurate decisions and maintaining robust financial stability [1]. Financial literacy refers to a specific set of skills or knowledge that can be applied, as well as perceived knowledge, sound financial behavior, or even financial experience [2]. Financial literacy encompasses the necessary knowledge, abilities, and behaviors that advance financial management, leading to informed decision-making and overall well-being [3]. Making informed financial decisions in diverse situations can enhance the economic prosperity of individuals and communities while achieving financial inclusion in society. Comprehensive knowledge of personal finance, or financial literacy, aims to facilitate the best use of financial resources to achieve individual financial objectives without hindering an enjoyable life [4].

Financial literacy is an essential part of living a prosperous and fulfilling life [5]. Financial literacy empowers young people to navigate globalization and adjust to the complexities of modern financial systems and developments [6]. Understanding how to manage money to capitalize on current opportunities and achieve future prosperity is achieved by becoming financially literate [7]. Understanding fundamental financial concepts, such as managing a budget, making investments, and identifying financial risks, constitutes a significant aspect of financial literacy. The significance of financial literacy has escalated due to cyclical transformations in the global financial system, which offer an array of resources to aid individuals in making financial decisions, and the increasing number of financial services that necessitate individuals to possess competence in handling them effectively. The collection of methods and information that facilitate an individual's ability to manage personal finances is known as financial literacy.

In addition to effective financial management skills, financial literacy promotes advantageous financial practices like savings, investments, and timely payments [8]. Individuals who possess a high level of financial literacy have the capability to avoid a variety of financial risks due to their ability to make more intelligent financial decisions, including making wiser investments and managing debt more effectively. Financial literacy is considered a reliable indicator of how individuals will handle their financial affairs, while also minimizing the potential for negative issues such as mistrust [9].

Financial literacy is closely related to economic literacy because both are about managing and understanding financial and economic issues. Financial literacy helps with personal money management, while economic literacy explains how macroeconomic factors can affect a person's financial decisions. Understanding macro- and microeconomic concepts that can influence financial decisions is a component of economic literacy. Individuals need to manage their money wisely and adapt their financial decisions to ever-changing economic conditions in order to live a fulfilling life [10]. A better understanding of how the economy works in society allows individuals to make logical choices and helps prevent bad ones from being made [11]. For individuals or groups, possessing a robust grasp of economics is crucial as it can facilitate making informed financial decisions and foster more rational financial conduct [12]. Improving financial and economic literacy among young people is essential in shaping their perceptions of global economic conditions and how these conditions affect their personal financial decisions.

Such literacy is fundamental to ensuring stable financial conditions in the future [13]. In theory, economic literacy is a tool for achieving financial goals; however, not everyone possesses strong economic literacy skills in reality [14]. A strong comprehension of finance and economics is imperative for effectively managing personal finances and attaining a balance between expenditure and income [15]. These proficiencies are anticipated to promote the expansion of the country's economy and bolster the monetary security of individuals [13].

The wide range of economic activities and the low level of economic literacy present a fundamental problem within the community's social life. To enhance economic literacy, the application of mental models and educational opportunities is critical. Understanding economic issues will inevitably result in a comprehension of dynamic economic issues [16]. Individuals lacking economic literacy tend to be more prone to irrational spending habits [17]. People need to be economically literate to be able to plan and make financial decisions that will help avoid impulse buying [18].

All individuals must confront the task of managing their finances daily. In order to maintain a balance between income and expenses, fulfill basic needs, and avoid debt, effective financial management is crucial [4]. Financial management is one of the financial management activities, including how to get money, spend it, and manage capital and assets in line with financial goals [3]. The field of financial management investigates how social, cognitive, and emotional factors impact financial decision-making [19]. In the field of finance, identifying, acquiring, allocating, and utilizing financial resources are key components. Responsible financial management is one of the central tenets of this discipline [20]. Where this responsibility becomes part of the way to handle money in a way that is deemed more efficient [21].

Financial management refers to the act of managing funds carried out by each individual or group to achieve financial well-being [22]. All measures taken to acquire, distribute, and use funds with effectiveness and efficiency, including financial management [23]. A person who practices good money management and is firm in curbing his or her desires is less likely to waste money on items that are unnecessary or of lesser value [24].

Financial management skills should be introduced to adolescents at an early age to decrease spending, enhance their quality of life, and enable them to make intelligent financial decisions in their daily lives. Adolescents who exhibit rational behavior consider the costs and benefits of their choices along with how they impact the environment and others, allowing them to make wise and sound decisions [25]. Adolescent financial management should be developed early on to prevent wasteful behavior and improve quality of life while enabling wise financial decision-making in daily living.

Initial research observations indicate that teenagers in Sumberejo Village spend money to satisfy wants, rather than just needs, in their pursuit of a glamorous, fun, and self-indulgent lifestyle. Teenagers may struggle with managing their finances due to poor financial management techniques, lack of discipline with money, and the end of parental allowances. Consequently, this may unintentionally worsen their financial situation later in life. Such financial illiteracy can make it difficult for teenagers to effectively understand and manage their finances.

Based on the conditions observed in the field, this study aims to investigate the relationship between financial literacy, economic literacy, and individual capacity to manage personal finances. The study investigates the influence of financial and economic literacy on the ability of youth in Sumberejo Village to manage their finances effectively. The researchers conducted a study entitled "**THE EFFECT OF FINANCIAL LITERACY AND ECONOMIC LITERACY ON THE FINANCIAL MANAGEMENT OF YOUTH IN SUMBEREJO VILLAGE**".

Method

The research was conducted in Sumberejo Village, Ngasem District, Kediri Regency. A quantitative methodology was utilized to quantify and analyze the data employing statistical techniques. Primary data was collected from the original source [26]. The research instrument employed in this study was a questionnaire administered to 143 adolescents in Sumberejo Village who were purposively sampled. The research instrument employed in this study was a questionnaire administered to 143 adolescents in Sumberejo Village who were purposively sampled. The questionnaire used a Likert scale with answer options ranging from strongly disagree to strongly agree, assigning a value range of 1 to 5 [27].

Data processing in research uses the help of SPSS software to analyze the data collected and determine whether the research hypothesis is valid. Data analysis was carried out using the t test, F test, and coefficient of determination test. The T test (partial test) was applied to find out how the partial effect of variable X on variable Y [28]. The F test is utilized to determine the overall level of influence of the independent variable (X) on the dependent variable (Y). Additionally, an analysis was conducted using the coefficient of determination, which represents the percentage of data variability determined through a statistical model. R^2, the ratio of the variability of the modeled value to the variability of the original data value, is used as a measure of the coefficient of determination [29]. The coefficient of determination is fundamentally utilized to quantify the extent of the impact of the independent variable on the dependent variable [30].

Results and Discussion

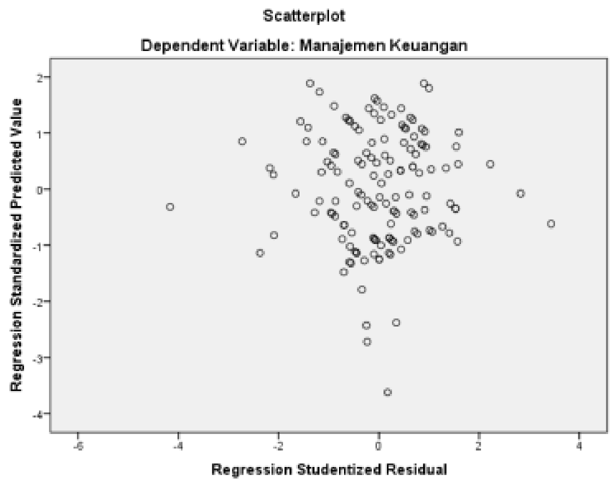

Figure 1. Heteroscedasticity Test Scatterplot
Source: Processed SPSS Version 23 Output, 2023

The image above depicting the heteroscedasticity test confirms that the regression model demonstrates no heteroscedasticity, resulting in the points being randomly distributed above and below the number 0 on the Y axis.

Table 1. Results of the t-test
Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	5,082	2,917		1,742	,084
	Literasi Keuangan	,406	,065	,415	6,286	,000
	Literasi Ekonomi	,484	,072	,444	6,731	,000

a. Dependent Variable: Manajemen Keuangan
Source: Processed SPSS Version 23 Output, 2023

The coefficients analysis, conducted using SPPS software version 23, yielded the following results:

1. The t-test conducted on the financial literacy variable returned a result of 6.286, which is greater than the threshold of 1.977. This implies the rejection of H0 and the acceptance of H1, thus indicating that financial literacy impacts financial management.
2. The t-test for the financial literacy variable yielded a result of 6.731 > 1.977. This result led to the rejection of H0 and the acceptance of H2, indicating that economic literacy has an influence on financial management.

Table 2. F Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1823,709	2	911,855	92,251	,000[b]
	Residual	1383,829	140	9,884		
	Total	3207,538	142			

a. Dependent Variable: Manajemen Keuangan
b. Predictors: (Constant), Literasi Ekonomi, Literasi Keuangan
Source: Processed SPSS Version 23 Output, 2023

The data analysis using ANOVA, presented in the table above, indicates that financial literacy and economic literacy have a simultaneous influence on financial management, with an Fcount of 92.251 as the measure of significance for the independent variable.

Table 3. Determination Coefficient Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,754[a]	,569	,562	3,144	1,891

a. Predictors: (Constant), Literasi Ekonomi, Literasi Keuangan
b. Dependent Variable: Manajemen Keuangan
Source: Processed SPSS Version 23 Output, 2023

The coefficient of determination in this study yielded an R Square value of 0.569 or 56.9%, indicating that financial and economic literacy significantly impact financial management. 43.1% of the variance in financial management, however, can be attributed to unexamined variables.

Based on the research results, the effect of each variable is:
Effect of Financial Literacy on Financial Management

Partial tests on financial literacy variables on financial management in this study obtained results of 6.286> 1.977 where the tcount> ttable value so that H0 was rejected, and H1 was accepted.

The results of this study are in line with the research [31] where financial literacy has a significant effect on financial management, with a path coefficient of 0.371 and a significance (p) of 0.001 < 0.05. The results of research conducted by [32] Financial literacy strongly influences personal financial management practices; path coefficient = 0.432 and P-Values = 0.000 < 0.05 indicating a positive and significant relationship between the two variables.

Financial literacy is crucial in managing one's finances as it aids in comprehending fundamental concepts such as spending, investing, and debt. Mastery of financial literacy enables individuals to make wise financial choices, handle risks, and plan effectively for their financial future. Additionally, it serves as a preventive measure against long-term ramifications of poor financial decisions. One's adeptness in financial management is largely dependent on their level of financial literacy. Individuals with strong financial literacy are typically better prepared to make intelligent and judicious financial decisions. They can effectively handle budgets, comprehend investment risks, and create long-term financial strategies. Conversely, a deficiency in financial literacy can lead to subpar financial management, such as unevaluated risk-taking or a lack of comprehension of investments. Consequently, enhancing financial literacy can facilitate progress in personal or corporate financial administration.

The Effect of Economic Literacy on Financial Management

Partial tests on economic literacy variables on financial management in this study obtained results 6.731> 1.977 where the tcount> ttable value so that H0 was rejected, and H2 was accepted.

Economic literacy can significantly impact an individual's financial management. Those with a high level of economic literacy are better equipped to comprehend economic concepts, including the fundamental principles of financial management. This enables them to make more informed financial decisions, effectively manage budgets, and grasp investment risks and opportunities. A deficiency in economic literacy can hinder comprehension of financial information, investment concepts, and risk management strategies. Consequently, it may render making poorly informed investment decisions or planning for the financial future difficult, thereby negatively impacting personal financial management. Improving economic literacy enhances one's ability to manage their finances, mitigate financial risks, and achieve their financial objectives.

The Effect of Financial Literacy and Economic Literacy on Financial Management

The concurrent analysis in this research revealed an F count of 92.251, indicating that financial literacy and economic literacy variables have a simultaneous impact on financial management. Both financial literacy and economic literacy are crucial to developing an individual's financial management abilities.

Financial literacy helps individuals comprehend fundamental personal finance concepts, like managing budgets, investing, and handling debt. Economic literacy facilitates comprehension of economic factors that affect financial decisions. The combination of financial literacy and economic literacy enhances an individual's ability to make informed financial decisions, manage risk, optimize financial resources, and achieve long-term financial stability. Understanding economic principles enables one to respond effectively to changes in the global economy that can impact personal finances. Overall, financial literacy and economic literacy are mutually reinforcing and offer a dependable basis for astute and sustainable financial management.

Conclusion

Based on the presented research results, it can be inferred that financial literacy and economic literacy both partially influence adolescent financial management. The t-test results reveal that financial literacy has an impact with a value of 6.286 > 1.977, while economic literacy's impact is even greater with a value of 6.731 > 1.977. Additionally, both financial literacy and economic literacy together have a significant influence on financial management, with an Fcount of 92.251. 4) The study yielded a coefficient of the determination result with an R Square value of 0.569, or 56.9%.

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