CHAPTER I:
INTRODUCTION

1.1 Research Background

In recent years, many countries have become increasingly concerned about the levels of financial literacy among their citizens. The central idea is that the financial world has become more complex and people are still lacking knowledge of basic economics and financial concepts. This can lead to errors when making key financial decisions that they might face over the course of their lives. The present time recognizes financial literacy as an essential life-skill that is every human being's basic right (Banaerjee, 2014). Financial literacy has now been broadly accepted as a core life skill rather than an extra one nice to have (Banaerjee, 2014).

Economists started to focus on the study of financial literacy in the 2000s (Lusardi & Mitchell, 2014). Empirical studies, which have been initiated mostly in the U.S., used metrics to measure the level of financial literacy in various subgroups and associated financial literacy to actual economic/financial decision. Lusardi & Mitchell (2014) reason that in the U.S. the level of financial literacy is low and people are not financially literate. Findings of widespread illiteracy are also reported in studies on smaller samples or specific groups of the population (Agnew & Szykman, 2005; Bernheim, 1995, 1998; Mandell, 2004; and Moore, 2003).

While these studies focus on data from the US, surveys from other countries show very similar results, such as Marriott (2007) in the UK; Beal & Delpachitra (2003) and ACNielsen Research (2005) for the case of Australia; Al-Tamimi & Kalli (2009) in the UAE; Lusardi & Mitchell (2011, 2014) for the case of Japan;

and Bönte & Filipiak (2012) in India. In a study conducted by Organization for Economic Co-Operation and Development (OECD) in 14 countries, Atkinson & Messy (2012) concludes that financial illiteracy is prevalent in many countries. It seems that people around the world suffer from lack of financial literacy no matter in which country they live-developed or not.

In Indonesia, financial literacy has in recent years gained the interest of various groups including government and non-government organizations. The 2012 edition of Visa Global Financial Literacy Barometer showed that Indonesia is lagging behind the global standard. Indonesia scored only 27.7 and ranked the 27th for the lowest financially literate countries right above Pakistan. In 2014, S&P Global Financial Literacy Survey measured financial literacy with more than 150,000 adults across 148 countries asking four basic financial concepts: risk diversification, inflation, numeracy, and compound interest. The result indicated only 32% of the adult in Indonesia are financially literate.

The latest survey of financial literacy in Indonesia is done in 2016 by the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan) for the National Survey on Financial Literacy and Inclusion (SNLIK) program. It revealed that the financial literacy and inclusion indices stood at 29.66% and 67.82% respectively in 2016. The findings show that only 29 out of 100 Indonesian are financially literate. Still a low figure even when compared with results from the previous survey in 2013 that recorded the financial literacy rate at 21.84%. When comparing the financial literacy score for all provinces in Indonesia, it turns out that only 13 provinces have a financial literacy index above the national average. This condition reflects that the public's knowledge of financial ins and outs is not evenly distributed throughout the province.

Financial literacy seems more important now than ever (Cude, et al., 2006) especially as research has shown that financial literacy is essential for making informed consumer decisions and improving household financial well-being (Lusardi, 2008). Furthermore, it proved that those who are financially literate are more likely to participate in the stock market (Rooij et al., 2011), plan for retirement (Bucher-Koenen & Lusardi, 2011), have a diversified portfolio (Guiso & Jappelli, 2009) and accumulate wealth (Rooij et al., 2012). This issue becomes especially worrying when considering low financial literacy levels in student populations (Oseifuah & Gyekye, 2014), most of which are likely to enter the workforce and assume financial responsibilities in the near future. Research has shown that financial literacy of university students has a positive correlation with higher future earnings capacity and a higher saving rate (Danes, 1994). Unfortunately, studies have proven that students are lacking the appropriate capability of finances. Many researchers investigated financial literacy of student and continued to come to a conclusion that college students generally have low levels of financial literacy (Bakken, 1967; Langreher, 1979; Anthens, 2004; Murphy, 2005; and Godfrey, 2006). This is worrying because researchers remarked that students who are financially illiterate face increased financial difficulties that continue into later years (Danes & Hira, 1987; and Hira, 2002).

In Indonesia, several studies have attempted to examine the level of financial literacy among college students. For instance, Lantara & Kartini (2015) investigate the level of and factors influencing financial literacy among undergraduate and graduate student of Universitas Gajah Mada; Sjam (2015) studied the financial literacy level of the Faculty of Economics student in Universitas Kristen Maranatha; and Hamidah et al. (2019) aim to analyse the level of financial literacy among the student majoring in business education and business science in Universitas Negeri Jakarta. All these findings show that the level of financial literacy among college student in Indonesia is still low. Then what makes one student more financially literate compared to the others? Several studies have been conducted with the population of college students, revealing a strong correlation between their levels of financial literacy and demographic characteristics, such as, gender, age, education and parental influences.

Researchers found that female generally has less knowledge about finance compared to male (Chen & Volpe, 2002; Eckel & Grossman, 2002; and Goldsmith & Goldsmith, 2006). According to the 2014 S&P FinLit Survey, worldwide, 35% of men are more financially literate compared with 30% of women. Meanwhile, in a survey among college students in the U.S., Chen & Volpe (2002), observe that female students show less willingness to learn financial topics than male students.

Lusardi & Mitchell (2014) report a hump-shaped relationship between age and financial literacy. The hump-shaped relationship refers to lower levels of financial literacy of young and old individual and higher levels in the middle age of an individual. This finding is also supported by Agnew et al. (2013) and Worthington (2006).

Studies have shown that people with higher levels of education are more financially literate (Chen & Volpe, 2002; Mandell & Klein, 2009). Moreover, business-major students are more likely to have a better understanding of financial and investment subject compared to non-business major (Chen & Volpe, 1998; and Lai & Tan, 2009). In addition, analysis by academic performance (GPA conditional) also reveals a positive relationship with financial literacy (Smith & Barboza, 2013). In a research study, students with lower GPA are less likely to answer questions correctly; and therefore possess a much lower level of overall financial literacy.

In addition to individual characteristics, prior literature has argued that parent background are important determinants of financial literacy. Mandell (2009) found a relationship between financial literacy scores and parents' education and income using results from the 2008 Jump$tart survey of college students. Jorgensen & Savla (2010) reported that student who learned about managing their money from their parents were more knowledgeable than students who do not and student whose father have full-time employment was found to be more financially literate.

There are, however, conflicting findings as to which of these factors are most significant (Oseifuah, 2010). Hence, it is necessary for studies to be carried to better understand the factors most significantly associated with financial literacy and thus understand why there is generally low level of financial literacy among people.This study assesses the level of financial literacy of students in two colleges: Universitas Atma Jaya Yogyakarta (UAJY) and Sekolah Tinggi Ilmu Ekonomi Yayasan Keluarga Pahlawan Negara (STIE YKPN) to form comparison and keeping the study interesting. This also examines the effect of demographic factors on financial literacy, specifically, gender, age, education (academic year, major of study and GPA) and parental influences (parent education, occupation, income and teaching). In addition, it examines the relationship between financial literacy and stock market participation.

Stock market participation is also included in this study because of two reasons. Firstly, previous research has shown that financial literacy in the form of knowledge about the stock market is positively correlated with the participation to the stock market (Bertaut & Haliassos, 1995; Christiansen et al., 2007; and Rooij et al., 2011). It is mentioned that the knowledge of stock market will enhance participation (Guiso & Jappelli, 2005). Especially, on the fact that financial literacy enables individuals to access the stock market, to invest in risky assets and thus obtain diversification on their savings. Secondly, because stock market participation has been part of the popular debate among government and private entities in Indonesia as the participation rate in Indonesia is very low that is less than 1% of Indonesia’s population (Harsono, 2019). Despite the increase of the number of retail equity investors registered at the Indonesian Central Securities Depository (KSEI), more than tripled from 279,555 in 2012 to 993,229 as of August 2019, Indonesia still lags far behind its neighbours such as Singapore's 26% and Malaysia's 7.8% (Harsono, 2019). Looking into the reasons why people shy away from the stock market revealed that the real problem is associated with the very low capital market literacy (Harsono, 2019). Based on the report of OJK (2016), it is noted that the capital market literacy is only at 4%. The lowest sector when compared to other financial industries such as banking and insurance industry.

As stock market participation levels are still not up to normative standards, key efforts have been made to increase the participation level among the individual especially student through the establishment of IDX Investment Gallery at campuses. Financial Services Authority (OJK) cooperates with the Indonesia Stock Exchange (IDX), Security Company and University to bring the capital market closer to student. The presence of the IDX Investment Gallery at campus is a special means to educate the student about capital market and thus encourage them to participate in the stock market.

Based on the research background, this study would like to assess how financially literate the student are and investigate the factors affecting the financial literacy level among college student. Furthermore, this study would like to examine student awareness to the presence of investment gallery in campus and prove whether financial literacy is possible to trigger stock market participation of student.

1.2 Problem Statement

Based on the research background, the problem statement is as follows:

a. What is student financial literacy level?
b. Who is the more financially literate among the two colleges?
c. Does gender, age, academic year, major of study, GPA, parent’s education, parent’s occupation, parent’s income and origin of money management skills associated with financial literacy of college student?

d. Are more financially literate student more likely to participate in the stock market?

1.3 Research Objective

This study means to survey student of two colleges: Universitas Atma Jaya Yogyakarta (UAJY) and Sekolah Tinggi Ilmu Ekonomi Yayasan Keluarga Pahlawan Negara (STIE YKPN) through a self-completion and online-based questionnaire to be able to:

a. Determine the financial literacy level of student.
b. Identify who is more financially literate between two colleges.
c. Examine whether gender, age, academic year, major of study, GPA, parent's education, parent's occupation, parent's income and origin of money management skills are associated with financial literacy of college student.
d. Analyse whether the more financially literate college student are more likely to participate in the stock market.

1.4 Research Benefit

a. For Student

This research may allow for an improved understanding of financial literacy among UAJY and STIE YKPN student. Given the low financial literacy level, this study will help increase student's awareness of their own literacy and the importance to be financially literate.

b. For IDX, Securities Company and University

This research may be used as a reference for financial literacy stakeholders interested in better understanding the college student financial literacy as a necessary starting point. Additionally, in the development of financial literacy programs to improve student's financial literacy.

c. For Author

This research would improve author understanding of financial literacy levels and the factors related to students' financial literacy.