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Literature Study: Understanding Financial Literacy In University Student's Consumptive Behavior

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ABSTRACT

Financial literacy is the knowledge, understanding, skills, and beliefs of humans who are able to manage finances well, optimally, and wisely. With this understanding of financial literacy, it is hoped that students will be able to consume something that is a need, not a desire, or consume wisely. This research method uses literature studies by searching from various sources such as books, articles that have related discussions. This study found that understanding financial literacy can be a good and wise decision-making in student consumer behavior. This economic literacy affects consumer behavior experienced by students. Therefore, good knowledge and understanding of financial literature are needed, so that students become wiser and more rational in consuming.

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INTRODUCTION

Humans are limited creatures, not all desires can be achieved, therefore humans must be brave in making choices. The decision in making choices is not easy, because it must go through certain considerations that are very reasonable for him. With this, humans need to learn to make choices. This is what is studied in economics. Economics is always associated with money, which must be able to manage and have money. Economics itself means the science that studies humans to meet their needs by using existing resources with limited resources, but meeting unlimited needs.

Economics has three basic concepts, namely scarcity , choice, and opportunity cost . Our limitations cause many things to feel scarce . Scarcity consists of quality, quantity, place, and time. Scarcity will not occur if the quantity available according to needs is of good quality, available anywhere, and anytime needed. The limited resources available compared to needs or desires, cause humans to have to determine choices individually or in groups. Economics views that humans are rational and rational beings. The choices made must consider both the advantages and disadvantages. Decision making or choices must compare the costs incurred with the results to be obtained.

The modern era currently provides convenience in purchasing goods and services as well as convenience in transactions carried out by the community. The era of increasingly sophisticated technology and digitalization provides convenience, especially for students, in consuming to meet their needs and desires. With this convenience, students are able or not to compare which needs or desires are more prioritized. As we know that as students, the

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needs in the educational or lecture environment are quite diverse, such as paying for education fees, UKT, paying for boarding houses (if the distance between the campus and the residence is quite far), daily needs for food, buying college necessities (buying reference books if needed) and so on. These needs for students require a lot of money, not to mention their desires outside of campus needs such as *hanging out* with friends, wanting to buy clothes and so on.

To meet the above needs and interests, students are required to understand the basics of financial management in the modern era. With the increasing complexity of financial products, financial literacy is key to helping individuals, especially students, make wise financial decisions. This includes not only budgeting and saving, but also understanding investment and debt management, all of which contribute to financial stability and security. Low levels of financial literacy can lead to problems such as uncontrolled debt and poor investments. Therefore, financial education and improvement are essential to creating a more financially independent and stable society. Financial literacy is important because:

1. Personal financial management, helping individuals plan and manage their budget, thereby avoiding excessive debt.
2. Consumer awareness, with good knowledge, consumers can compare products and services and choose the most profitable option.
3. Economic education, a financially educated society is able to contribute to a stable economy.
4. Decision making, financial literacy improves an individual's ability to make decisions regarding investments, savings and spending.

A good understanding of financial literacy can minimize the risk of financial errors and encourage more responsible consumption behavior. Literacy is a term that means the language skills possessed by each individual to communicate which includes reading, speaking, listening and writing skills with different patterns according to the goals to be achieved. Based on the description above, this study aims to determine the importance of understanding financial literacy on consumer behavior in students taken from several related articles.

Theoretical basis

Financial Literacy Theory

According to OJK (in Achmad Choirudin: 2023) defines financial literacy as a series of activities as an effort to transfer and improve insight or understanding (*knowledge),* skills (*skills)* , confidence (*confidentiality)* of users, customers and humans in general so that they will be able to manage finances better and optimally. Explanation of aspects of financial literacy includes :

1. Knowledge

   Knowledge in this case means that each individual must have knowledge and information that meets standards related to LJK, risks, rights and obligations of customers or users, and other matters.
2. Skills

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Skill is every human being or individual who is able to apply a form of knowledge that is owned in order to manage financial problems. Examples of financial problems include calculating risk, calculating interest, and others.

3. Confidence
   Trust means the level of trust in money or the like that is channeled to be managed and processed by a trusted financial services institution. It is expected to be in accordance with the selected instrument and the applicable terms and conditions.

According to Oseifuah (2013), financial literacy indicators include several main aspects, including :

1. Financial knowledge, understanding basic financial concepts.
2. Financial behavior, habits in managing money including saving and investing.
3. Decision making, the ability to make informed choices regarding financial products.
4. Budget management skills, skills in planning and controlling expenses.
5. Attitude towards risk, understanding and managing financial risks.

Theoretical Basis of Financial Literacy According to the Financial Services Authority (2017) :

1. Understanding Financial Products, Authorities have stressed the importance of understanding various financial products and services, including savings, investments and insurance, so that Indians can choose products that suit their needs.
2. Financial Planning, The Financial Services Authority encourages individuals to make good financial plans, including budget management, spending, and savings to achieve short-term and long-term financial goals.
3. Risk Management, financial literacy also involves understanding risks and rewards in financial decision making, so that individuals can manage risks wisely.
4. Educator and Information, The Financial Services Authority is committed to providing easily accessible financial education and information, in order to increase public awareness and understanding of the importance of financial literacy.
5. Impact on Welfare, The Financial Services Authority believes that good financial literacy can improve individual and community welfare, reduce the risk of bankruptcy, and increase participation in economic activities.

Wicaksono (2015) stated that financial literacy is a concept of knowledge about financial products and concepts with the help of information or input, is an ability to identify and understand financial risks in order to make and take the right financial decisions. The theory of financial literacy can be understood through various views from experts and related figures:

1. Cognitive Theory
   According to Richard Tharp and R. Scott Tinker (1996) explained that understanding financial concepts is very important for decision making. This includes knowledge of basic concepts such as budgeting, saving, and investing.
2. Behaviorism Theory

According to B.F.Skinner (1953) explains financial behavior can be influenced through conditioning and experience. Financial literacy learning can increase positive behavior in financial management.

3. Economic Theory
   According to Milton Friedman (1957), financial literacy helps individuals understand and deal with risks and make better decisions. Individuals who have financial education are better able to understand risks and benefits.
4. Social Theory
   According to Albert Bandura (1977) that the context of social learning, shows the influence of the social environment in shaping understanding and attitudes towards finance. In addition to social financial literacy with culture. The influence of family, friends, and society can shape knowledge and attitudes towards money.
5. Constructivism Theory
   According to Jean Piaget and Lev Vygotsky, individuals build knowledge through experience and social interaction. Financial literacy education should prioritize experiential learning.

According to Chen and Volpe (1998) aspects of Financial Literacy :

1. Basic Personal Finance Knowledge
   The first aspect of financial literacy is the ability to understand basic knowledge or information about one's own finances or personal finances.
2. Savings & *Loans*
   The second aspect of financial literacy is the ability to have insight into savings and loans, in the form of the use or utilization of credit cards by customers or consumers for transactions.
3. Insurance
   The third aspect of financial literacy is the ability to understand basic knowledge or information about insurance and its types. Insurance in financial literacy is the use of health insurance, life insurance, motor vehicle insurance and so on.
4. Investment (*Insurance)*
   The fourth aspect of financial literacy is someone who has an understanding of investment perspectives and everything related to financial investment. Such as information and insight into investment risks, investment products in the form of stocks, bonds, mutual funds, and so on.

Consumption Behavior

Humans are social creatures who live in groups, interact with others, and build culture and community norms. People with higher education spend more money to get information (books, newspapers, and the internet) compared to people with lower education. Consumer behavior explains in determining the allocation of economic resources that consumers want to achieve is a maximum decision. The theory of consumer behavior has the following basic assumptions:

a. Goods (*commodities)*

According to Kotler and Keller (2016) that goods are anything that can be offered to the market to be noticed, used, or consumed that can fulfill needs or desires. Goods that are consumed have the nature that the more they are consumed, the greater the benefits obtained (*Good),* such as clothing, the more they are owned, the more useful they are. Something that if its consumption is increased, it reduces the enjoyment of life (bad), is not included in the analysis, such as illnesses that are increasingly troublesome.

b. Utilities (*Utilities)*

Utility is the benefit obtained from consuming goods. According to Benthm (1789) developed the concept of utilitarianism which states that actions should be assessed based on their ability to increase happiness or satisfaction. Utility is a measure of the benefits of an item compared to its alternative uses. Utility is used as the basis for consumer decision making. The basic assumption in utility is divided into Total utility *is* the total benefit obtained from all goods consumed. Marginal utility *is* the additional benefit obtained from increasing consumption by one unit of goods.

c. Law of *Diminishing Marginal Utility*

According to Rahardja and Manurung (2008), increasing the consumption of a good will provide a large additional utility value, but over time the increase will decrease and will become negative. *Good* has turned *bad.* The previous explanation is called the law of *diminishing marginal utility.* Analysis of consumer behavior, the symptoms of LDMU can be seen from the decreasing marginal utility value.

d. Consistency of Preferences *(Transitivity)*

According to Rahardja and Manurung (2008), the concept of preference is related to the consumer's ability to prioritize choices in decision making. There are at least two attitudes related to consumer preferences, namely preferring (*preference)* and/or liking both (*indifference).* For example, there are two goods X and Y, then consumers say X is preferred over Y (X>Y) or X is equally preferred to Y (X=Y). The concept of transitivity that consumers must have in preference consistency is when goods X.

e. Perfect *Knowledge*

According to Rahardja and Manurung (2008), consumers are assumed to have perfect information or knowledge regarding their consumption decisions. They know for sure the quality of goods, production capacity, technology used, and the price of goods on the market. They are able to estimate the amount of income for a consumption period. Mcgraw and Smith suggest that perfect knowledge means that consumers can understand all relevant information and the risks involved in decision making, which ideally results in rational consumer behavior. Shiller (2000) explains that in the economic model, perfect knowledge refers to a condition where consumers have complete information about products, prices, and available alternatives, which allows them to make optimal decisions.

Cardinal Theory

Cardinal theory states that utility can be calculated nominally, as we calculate weight in grams or kilograms, length in cengi meters or meters (Rahardja and Manurung, 2008). The unit of utility *is* util. The decision to consume a good is based on a comparison between the benefits obtained and the costs incurred. The utility value obtained from consumption is called total utility (TU). Additional utility from adding one unit of goods consumed is called marginal utility (MU). The total money that must be spent on consumption is the number of units of goods multiplied by the price per unit. For each additional unit of consumption, the additional cost that must be incurred is the same as the price of the goods per unit.

Ordinal Theory (*Ordinal Theory)*

a. Indifference *Curve*

   Ordinal theory, utility cannot be calculated but compared, such as assessing someone's beauty or intelligence. To explain its opinion, ordinal theory uses indifference curves. An indifference curve is a curve that shows various combinations of consumption of two types of goods that provide the same level of satisfaction for consumers. A collection of indifference curves only says that the further to the right, the higher the level of satisfaction. But it cannot say how many times.

b. Budget Line *Curve*

   The budget line (*budget line curve)* is a curve that shows the combination of consumption of two types of goods that require the same cost. Mankiw (2014) explains that the budget line curve reflects the limitations in consumer choices and shows the combination of goods that can be purchased based on income and the price of the goods. Pindyck and Rubinfeld explain the budget line curve as an important tool for describing consumer choices, as well as how changes in income and the price of goods will shift the line.

Solomon (2018) defines consumer behavior as a series of actions taken by consumers in making decisions to purchase goods or services, which are influenced by psychological, social, and cultural factors. Solomon explains several theoretical foundations related to consumer behavior, including:

1. Psychological influences

   Solomon explains that psychological factors such as perception, motivation, personality, and individual experience greatly influence consumption decisions. For example, how someone views a brand or product can influence purchasing decisions.

2. Social influence

   Interactions with others, including family, friends, and culture, play an important role in consumer behavior. Solomon explains that social norms and reference groups can influence consumer choices and preferences.

3. Decision making process

   Solomon explains the steps in the consumer decision-making process, from problem recognition, information search, evaluation of alternatives, to purchase and post-purchase evaluation.

4. Emotions and Motivation

   Solomon also underlines the importance of emotions in influencing consumer behavior. Emotions can trigger impulsive purchases and determine consumer satisfaction after making a purchase.

5. Culture and Subculture

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Cultural factors including the values, beliefs and practices of a society, are also described by Solomon as important elements that shape consumer behavior.

Consumer behavior includes the steps consumers take from problem recognition to evaluation of alternatives in the purchasing process (Hawkins and Mothersbaugh, 2019). Hawkins and Mothersbaugh outline the consumer behavior process which involves several main steps :

1. Problem Recognition, the consumer recognizes a need or problem that must be addressed, which triggers a desire to seek a solution.
2. Information Search, Consumers search for information about products or services that can meet their needs. This can include internet searches, recommendations from friends, or previous experiences.
3. Alternative Evaluation, After gathering information , consumers compare the various options available. They consider various factors, such as price, quality, brand, and product features.
4. Purchase decision, Based on the evaluation, the consumer makes a decision to purchase a particular product. This may also include considerations regarding the place and time of purchase.
5. Post-Purchase Evaluation, after the purchase, consumers evaluate their experience with the product. Whether the product met expectations, this satisfaction or dissatisfaction will influence future purchasing decisions.

METHOD

The method used by researchers based on literature study is a research method that aims to collect, analyze, and synthesize information from various written sources that are relevant to a particular topic. The research sources used are primary data obtained from books on financial theory, journals, articles and supporting studies. The data obtained were analyzed using a scientific theory approach (literature review) by combining several theories of financial literacy and consumer behavior with other relevant theories. The results of this study explain that financial literacy is used as a solution in making wise decisions in consumer behavior. The techniques used in this study include 4 steps, namely data collection, data classification, data analysis, and conclusions. Researchers took several relevant articles related to financial literacy, consumer behavior in students.

RESULTS AND DISCUSSION

Literacy is the ability to understand and use information from various sources for various purposes, including digital, media, and information literacy (Helsper and Eynon, 2013). According to Wikipedia, financial literacy is the ability to understand the advantages and disadvantages of a financial decision, consider costs, and decide on actions to be taken with confidence. Financial literacy refers to the skills needed when making choices about what to do with the money you have. These skills are basic skills, such as how to add or subtract money earned, spent, and saved. While other skills are more complex, such as calculation and risk assessment. Consumptive behavior is a lifestyle or behavior of someone who likes to spend money without careful consideration. This behavior can have a negative impact on a person's financial and psychological condition in the long term.

The results of this study by comparing several articles on financial literacy on student consumer behavior show that student consumer behavior is influenced by the level of understanding of financial literacy. The higher the level of understanding of financial literacy, the more rational the consumer behavior faced by students, and vice versa. Consumer behavior can be seen by looking at the ability to utilize resources properly and appropriately. Students who understand financial literacy well will be wise consumers and be able to drive economic growth in their country.

Students are able to choose products according to their needs, not just because of their desires. Choosing products that can increase the economic growth of one's own country does not make other countries richer even though this is part of globalization. Education in its process plays an important role in improving people who have good quality. The existence of education provides behavioral changes in their lives to be wiser in making decisions.

With this knowledge of economic literacy, students can make the right, good, and wise decisions for themselves. Divide the pocket money given by parents appropriately. Able to divide which needs are prioritized and which are desires. This understanding of economic literacy is expected so that students, in addition to being able to meet their needs while studying at university, are also able to set aside their pocket money to be saved or invested in easily accessible ways.

CONCLUSION

Based on references from several articles that researchers read, it can be obtained that this economic literacy has an influence on consumer behavior experienced by students. Therefore, good knowledge and understanding of financial literature are needed, so that students become wiser and more rational in consuming.

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