

Financial literacy and capital market literacy among students

Hamidah¹, Danny Gustiawan², and Agung Dharmawan Buchdadi^{3(*)}

¹ Professor Program Pascasarjana, Universitas Negeri Jakarta, Jakarta, Indonesia

² Faculty of Economics student, Universitas Negeri Jakarta, Jakarta, Indonesia

³ Faculty of Economics, Universitas Negeri Jakarta, Jakarta, Indonesia

(*)✉ (e-mail) agungdharmawan@feunj.ac.id

Abstract

This study aims to analyze the level of financial literacy and capital market literacy among the student in Jakarta, Indonesia. The respondents are 394 bachelor degree student in which already learnt about introduction to financial management. The findings found that the knowledge level of financial literacy as well as capital market literacy are in medium level. The students only have the average scores (61%) for financial literacy and lower average score for capital market literacy (53%). These findings could be the evidence for the ministry of education to improve the curriculum or the way to introduce the financial literacy in Indonesia for enhancing the quality of human resources of Indonesia.

Keywords: Capital market literacy, Financial literacy

Introduction

Financial literacy is playing important role recently (Mihalčová, Csikósová, & Antošová, 2014). People have to manage their daily life, including spending, saving, and investing through a dynamic innovative of financial products and services. The increasing number of capital market financial instruments, requires each individual to know and understand each of their products. This is useful for making individual money management decisions (Tomášková, Mohelská, & Němcová, 2011; Widayati, 2012)

Financial literacy is a basic requirement for everyone to avoid financial problems. Financial difficulties are not only a function of income, financial difficulties can also arise from mismanagement of spending such as misuse of credit, and the absence of financial planning (Krishna, Sari, & Rofaida, 2007; Zait & Berteau, 2014). Previous study also found that the lack knowledge of financial literacy make the people do not have pensions plan (Huston, 2010; Lusardi & Mitchell, 2011) and do not participate on stock market (Rooij, Lusardi, & Alessie, 2011). Based on the recent report of Financial Service Authority of Indonesia it is noted that the capital market literacy is still at low level (4%) which the level of education as one factor in this literacy. The national strategy on financial literacy in Indonesia is quite new that launched by the President on the November 2019 (Soetiono, 2014). Thus, this study will have contribution in developing the financial literacy among student in university.

The questionnaire developed is adopted from previous study including two modules to measure and evaluate financial literacy. The first question aims to assess basic financial literacy. These questions cover topics ranging from interest rates, interest compounding, the effects of inflation and also the value of money. The money illusion question is added regarding the importance of numeracy in financial literacy (Skagerlund, Lind, Strömbäck, Tinghög, & Västfjäll, 2018). The second question aims to measure advanced financial knowledge and covers topics such as stocks, bonds, stock market functions, and also the relationship between bond prices and interest rates. The importance of stock market is also mentioned as the importance factor in financial literacy. It is mentioned that the knowledge of capital market will enhance the participation in capital market (Basak & Cuoco, 1998; Guiso & Jappelli, 2005). Then, this study also examine the differences of the score among two groups, including gender, time of studies, field of studies following the previous research (Chen & Volpe,

1998). Hopefully, this study will contribute as one of the first study in examining the level of literacy among bachelor degree student in business. Especially, the differences among student in major of business education and major in business science.

Research Methodology

In this study, the *descriptive statistical* research method and the ANOVA test were used to describe the level of financial literacy and capital market knowledge. The questionnaire was delivered to 394 respondents which was adopted from previous studies (Rooij et al., 2011). There were thirty-nine questionnaire questions including demographics questions, basic literacy questions, advanced literacy questions, questions about understanding economics, and questions about respondents' financial information sources. All the questions passed the validity and reliability test. All the respondents come from a state university in Jakarta which provide class in major of business education and

Results and Discussion

The results of the description analysis for each variable used in this study are financial literacy variables and capital market knowledge variables. For financial literacy using 18 questions and for capital market knowledge using 13 questions. So there are 31 questions, with a score of 1 for those who answer correctly and 0 for those who answer incorrectly.

Financial Literacy

Table 1. Analysis of Description of Financial Literacy

Dimension	Right	Percentage	Wrong	Percentage
Numeracy	248	63%	146	37%
Interest Compounding	205	54%	189	46%
Inflation	254	65%	140	35%
Time Value of Money	238	60%	156	40%
Money Illusion	272	69%	122	31%
Investment and consumption behavior	227	58%	167	42%
Whole	240	61%	154	39%

Source: processed by researchers (2018)

The results reveal that on average the respondents level of financial literacy were at medium level (60%-80%) (Chen & Volpe, 1998). The finding on money illusion phenomenon still support the previous research that the people in Indonesia are not free from the phenomenon (Prabawani, 2018; Purwana, Warokka, & Buchdadi, 2012). Then, it seems there still a lot of thing to do for the improvement of financial literacy in Indonesia due to the respondents are the student of faculty of economics in Indonesia who lives in Capital City.

Capital Market Knowledge

Table 2. Analysis Description of Capital Market Knowledge

Dimension	Right	Percentage	Wrong	Percentage
Stock	257	65%	137	35%
Mutual Funds	200	51%	194	49%
Bond	200	51%	194	49%
Investment Risk	199	51%	195	49%
Rights Related to Financial Services Products	159	40%	235	60%
Whole	210	53 %	184	47 %

Source: processed by researchers (2018)

The findings show that the respondent were in medium level on capital market knowledge (Chen & Volpe, 1998). The best level is on stock market literacy. It seems the policy of Indonesia Capital market to introduce the market in universities has good impact on the student knowledge.

In addition, the study examines the differences test for two groups based on gender, time of study in university, class of education and class of science in faculty of economics.

Table 3. Anova test result

Admission Year	Group	F Value	Significance
2014 (4th years student)			
	Gender	0.008	0.930
	Major (Business education vs Business Science)	13.619	0.00048
2015 (3rd years student)			
	Gender	5.171	0.025
	Major (Business education vs Business Science)	0.282	0.596
2016 (2nd years student)			
	Gender	0.553	0.459
	Major (Business education vs Business Science)	0.884	0.350
2017 (1st year student)			
	Gender	23.332	0.000
	Major (Business education vs Business Science)	0.399	0.529

Sources: Data Processed

The results finding that gender is significantly different for the first-year student and the third years student that on average male student have higher score than female. It is also the confirmation of the previous finding (Soetiono, 2014). Perhaps the interest of financial literacy for the bachelor degree students are quite low. Probably they will have better interest on financial literacy when they already manage the whole family spending (Purwana et al., 2012). Yet, the major of study is also the crucial factor in the last year students. It seems students from business science have better financial literacy score than students from business education. Perhaps, the students from business education were not only focus on the financial literacy in the class, but they have to focus on the pedagogy skill in business.

Conclusions and Recommendations

In conclusion, the financial literacy and capital market literacy are in medium level. It is expected to the university to provide better lesson class or extra training for improving the skill and knowledge in both field.

The limitation of this research that the questions regarding the financial decision behavior of the people are not included on the questionnaire. The questions regarding the source of fund, the use of fund, and the choice of the investment could be included for future research.

References

- Basak, S., & Cuoco, D. (1998). An equilibrium model with restricted stock market participation. *Review of Financial Studies*, 11(2), 309–341. <https://doi.org/10.1093/rfs/11.2.309>
- Chen, H., & Volpe, R. P. (1998). An Analysis of Personal Financial Literacy Among College Students. *Financial Services Review*, 7(2), 107–128. [https://doi.org/https://doi.org/10.1016/S1057-0810\(99\)80006-7](https://doi.org/https://doi.org/10.1016/S1057-0810(99)80006-7)
- Guiso, L., & Jappelli, T. (2005). Awareness and stock market participation. *Review of Finance*, 9(4), 537–567. <https://doi.org/10.1007/s10679-005-5000-8>
- Huston, S. J. (2010). Measuring Financial Literacy. *THE JOURNAL OF CONSUMER AFFAIRS*, 44(2), 296–316. <https://doi.org/10.1111/j.1745-6606.2010.01170.x>

- Krishna, A. S. S., Sari, M., & Rofaida, R. (2007). Analisis Tingkat Literasi Keuangan Di Kalangan Mahasiswa dan Faktor-Faktor yang Mempengaruhinya. Survey Pada Mahasiswa Universitas Pendidikan Indonesia (Financial Literacy Level Analysis Among Students and Its Affecting Factors. Survey on UPI). *Academia.Edu*, (November), 1–6. Retrieved from http://www.academia.edu/download/39830776/Analisis_tingkat_literasi_keuangan_di_ka.pdf
- Lusardi, A., & Mitchell, O. S. (2011). *Financial Literacy and Planning: Implications for Retirement Wellbeing*. Retrieved from <http://www.nber.org/papers/w17078>
- Mihalčová, B., Csikósová, A., & Antošová, M. (2014). Financial Literacy – The Urgent Need Today. *Procedia - Social and Behavioral Sciences*, 109, 317–321. <https://doi.org/10.1016/j.sbspro.2013.12.464>
- Prabawani, B. (2018). Money Illusions: Post Redenomination Shopping Behavior. *Economics & Sociology*, 11(3), 161–169. <https://doi.org/10.14254/2071-789x.2018/11-3/10>
- Purwana, D., Warokka, A., & Buchdadi, A. (2012). Money Illusion and the Middle-Lower Metropolis: Managing the Financial Phenomenon. *The Journal of Southeast Asian Research*, (June 2015), 1–11. <https://doi.org/10.5171/2012.633412>
- Rooij, M. van, Lusardi, A., & Alessie, R. (2011). Financial Literacy and Stock Market Participation. *Journal of Financial E*, 101(2), 449–472.
- Skagerlund, K., Lind, T., Strömbäck, C., Tinghög, G., & Västfjäll, D. (2018). Financial literacy and the role of numeracy—How individuals’ attitude and affinity with numbers influence financial literacy. *Journal of Behavioral and Experimental Economics*, 74(August 2017), 18–25. <https://doi.org/10.1016/j.socec.2018.03.004>
- Soetiono, K. S. (2014). Promoting Financial Literacy through Life Cycle. Retrieved April 23, 2018, from https://www.ojk.go.id/id/data-dan-statistik/ojk/Documents/3rdPresentasiFinal_1397745329.pdf
- Tomášková, H., Mohelská, H., & Němcová, Z. (2011). Issues of financial literacy education. *Procedia - Social and Behavioral Sciences*, 28, 365–369. <https://doi.org/10.1016/j.sbspro.2011.11.069>
- Widayati, I. (2012). Faktor-faktor yang mempengaruhi literasi finansial mahasiswa fakultas ekonomi dan bisnis Universitas Brawijaya (Financial literacy determinant among students at faculty of economics and business, Universitas Brawijaya). *Asset:Jurnal Akuntansi Dan Pendidikan*, 01(01), 89–99. <https://doi.org/10.1107/S1600536809037635>
- Zait, A., & Berteau, P. E. (2014). Financial Literacy – Conceptual Definition and Proposed Approach for a Measurement Instrument. *Journal of Accounting and Management*, 4(3), 37–42.