Financial Literacy and Demographics of Investment Decisions: A Study of the Young Generation in JABODETABEK

Celine Putri Wijaya and Novia Utami[(✉)]

Atma Jaya Catholic University of Indonesia, Jakarta, Indonesia
`novia.utami@atmajaya.ac.id`

Abstract. This study aims to examine the relationship between financial literacy and demographics with investment decisions made by young people in the JABODETABEK area, Indonesia. The sample collection used a convenience sampling technique through online questionnaires. Then, a total of 130 samples were processed using the Structural Equation Model (SEM - PLS). The test results show that financial literacy and demographics measured using gender, education, and investment experience have a significant influence on investment decisions.

Keywords: Financial Literacy · Demographics · Investment Decision

1 Introduction

Nowadays, with the development of technology and changes in lifestyle, well-being is believed to be a life goal that is always wanted to be pursued at any cost. Therefore, everyone is willing to sacrifice many things to achieve this well-being by making investments that promise high returns without any risk. This situation is often misused by certain parties to take advantage of themselves. For example, the rise of fraud under the guise of investment using Ponzi schemes. According to data from the Investment Alert Task Force, 13 entities made unlicensed offers and 71 online loans (peer-to-peer lending) that were illegal, which had the potential to harm the public. Losses due to fraudulent investments in 2022 reached more than 109.67 trillion. This figure is higher than the losses of fraudulent investments from 2018 to 2021, which amounted to 13.84 trillion. Based on this data, many people in Indonesia are still trapped by the lure of investments that provide high returns to achieve prosperity, but the money is lost and harmful. One of the elements that form well-being is finance. Therefore, people must be able to manage and make decisions on their money so that what is done with it can improve their living standards and make them more prosperous. By understanding financial literacy, people can make wise decisions in investing. The public also contributes to the growth of the financial services sector in Indonesia. It is expected that many people will utilize financial products and services appropriately according to their needs and abilities while still paying attention to the risk aspects of using these financial products.

According to Lusardi & Mitchell [1], financial literacy is a combination of knowledge and understanding of financial ideas, risks, and instruments, as well as the drive and confidence to apply these abilities in making financial decisions. Financial literacy can also be interpreted as a person's ability to make decisions and manage their funds wisely [2]. Research conducted by Suresh [3] also supported the idea that financial literacy affects a person's investment decisions. Unfortunately, the level of financial literacy of people in Indonesia is still relatively low. This figure indicates that most people have not been able to understand financial management to make the right financial decisions. Another study by Wahyuni & Astuti [4] directly measured the relationship between demographic factors and investment decisions. The study concluded that age and educational background influenced investors' investment decisions.

Financial literacy plays an essential role in determining one's investment decisions. A good understanding and knowledge of financial management, products, and services will determine better financial decisions [2]. With that knowledge, it can also help a person take effective financial actions to improve their financial well-being based on behavior, skill, knowledge, and attitude as financial literacy measurement. In this study, the indicators of gender, education, and investment experience are used because the research subjects already represent the younger generation, where the average age and income are still the same. Demographic factors of investors need to be considered because these factors are thought to influence investment decision-making.

Investors should consider all aspects of investment to get the best return including financial or non-financial information, and psychological factors, all of which are necessary in making optimal investment decisions. There are several indicators to measure investment decisions, namely: (1) Return, which measures the level of profit from investment; (2) Risk, which refers to getting a high return must be accompanied by high risk as well; and (3) Time value of money, indicating the length of the investment period is very important because it can determine how much return and risk investors must face. Individuals with good financial knowledge will be more selective in making financial decisions according to their needs, which will positively impact investment levels and economic growth. Research conducted by Senda [5] showed that demographic characteristics in the form of age, income, and investment experience also significantly influenced investment decisions. While financial literacy and demographics had a positive effect on investment decisions.

2   Research Method

The instrument in this study used an online questionnaire, considering the broader range of data and relying on the internet. The object of this research was the young generation aged 10 to 24 years old, which is a potential generation in Indonesia also known as Generation Z. The JABODETABEK region or the combined districts of the economic center areas in Indonesia, namely the Jakarta, Bogor, Depok, Tangerang, and Bekasi areas. This region was chosen as the research population area because it is the center of the economy and industry in Indonesia and because of its easy access to reach the younger generation. Furthermore, the sample was selected using a convenience sampling technique by considering accessibility, time, and cost factors. The sample collected was

130 respondents, which was then processed in several stages. The validity and reliability of the questionnaire were tested using SPSS. Hypothesis testing was done using SEM (Structural Equation Model) - PLS (Partial Least Square) analysis.

3   Results and Discussion

Based on the characteristics of the respondents in this study, the focus of the research was the younger generation, with most respondents being females, as much as 63.8%. Most respondents' education was in school or university, mainly undertaking the undergraduate program. Based on investment experience data, the highest number of respondents already had investment experience even though it is still under one year. This shows that the younger generation in JABODETABEK has started to care about investment from an early age (Table 1).

Hypothesis Testing

The results of the direct effect above show that: The coefficient of the influence of Demographics on Investment Decisions is 0.237 with a t-statistic of 3.154 and a p-value of 0.002. Because the coefficient is positive, and t-statistic > t-table (3.154 > 1.96) or p-value < 5% alpha (0.002 < 0.05), it can be concluded that Demographics are proven to have a positive and significant effect on Investment Decisions. The coefficient of the effect of Financial Literacy on Investment Decisions is 0.397 with a t-statistic of 5.747 and a p-value of 0.000. Because the coefficient is positive, and t-statistic > t-table (5.747 > 1.96) or p-value < 5% alpha (0.000 < 0.05), it can be concluded that Financial Literacy

Table 1. The Characteristics of the Respondents.

Characteristics	Frequency	Percentage
Age		
10–24 years	130	100%
Gender		
Male	47	36.2%
Female	83	63.8%
Education		
SMP	3	2.3%
SMA	53	40.8%
S1	74	56.9%
Investment Experience		
Never	30	23.1%
<1 year	83	63.8%
1–3 years	11	8.5%
3–5 years	2	1.5%
>5 years	4	3.1%

is proven to have a positive and significant effect on Investment Decisions (Fig. 1 and Table 2).

Based on the Table 3, the Adjusted R Square value is 0.480, meaning that Demographics and Financial Literacy are able to explain the Investment Decision by 48% while the rest $(100 - 28 = 52\%)$ is explained by other variables outside the research model. The results of this study indicate a significant positive effect of financial literacy and demographics on the investment decisions of the younger generation. The younger generation has a different character from the previous generation because they have an open attitude, like challenges, and tend not to think long. But, they have the awareness to set aside money for urgent and unexpected needs in the future. The young generation also familiarizes themselves with saving money, budgeting, and buying products based on needs and the principle of obedience. With financial literacy, the younger generation can make better investment decisions. The results also show that demographics measured using gender, education, and investment experience have an influence on investment decisions, which means it is necessary to consider those factors. Based on the characteristics of the respondents, most of the respondents in this study have studied undergraduate education and had the experience even though it is still under a year. This
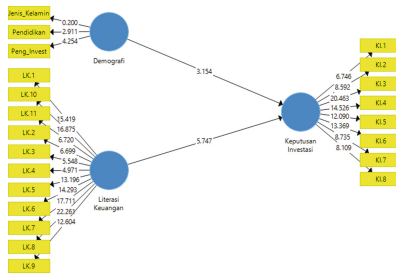

Fig. 1. Bootstrapping Results.

Table 2. Results of P-Value (Bootstrapping).

	Orig S (O)	S M (M)	(STDEV)	(|O/STDEV|)	P
Demog -> Invest Dec	0.237	0.254	0.075	3.154	0.002
Fin Lit -> Invest Dec	0.397	0.417	0.069	5.747	0.000

Table 3. The results of the coefficient of determination.

	R Square	R Square Adjusted
Investment Decision	0.491	0.480

indicates that the higher the level of education, the easier the younger generation to know about financial products and financial literacy so that the decision to invest is more likely to be made.

4 Conclusion

This study concludes that financial literacy and demographics affect the investment decisions of young people in the JABODETABEK area, Indonesia. Nevertheless, the younger generation has a greater opportunity to get financial information, so there is still plenty of time to learn financial management and measurement so that investment decisions will be made more wisely. The population in this study is limited to young people in the JABODETABEK area, Indonesia. Future studies can conduct research in the same direction using other populations as well as those throughout Indonesia, or focusing on specific populations, to ensure the generalization of results. It can also consider further analysis or different tests for the demographics variable on investment decisions to see more comprehensive results.

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