Chapter 1 Introduction

1.1 Background of the study

Financial Decision is the capability of implementing the correct financial duty to earn the positive outcome possibilities and prevent financial loss resulting from an error in decisions toward the faced situations (Sunderaraman et al., 2022). An individual will always be faced with financial decision as the world revolves around economic in terms of fulfilling the scarce resource and finance is related to the money, which then the activities within the financial decision scope would be connected to as such the management of investing, borrowing, saving, and even the cash holdings (Zaleskiewicz & Traczyk, 2020).

Students especially university students with the age range of 21 to 24 or early 20s are already considered as independent individuals who are on the process on reaching the peak critical thinking decision toward their cognitive ability in which it is better off to also develop great understanding of personal finance independency (Karahan & İskifoğlu, 2020). According to the national data survey of Indonesian demographic in the year of 2022, the age of 20 to 24 has the highest number of resident in Indonesia which is around 22,577,300 people, indicating that university students hold dominance for the age group of Indonesia resident (BPS, 2022). Upon managing its personal finance there could be a lot of financial challenges that requires wise decision. In most cases, the financial challenges faced by university students would be through the subjective well-being that could involve the psychology and background of the financial situation from the family of the student which drives into their behaviour of spending and saving if measured from the economic perspective (Pretorius & Blaauw, 2020). Overtime, these

behaviours driven by the university students with their financial decision would shape the future economic just as the cycle continues to go on that starts from the personal wealth management finance area. Recently, the economic GDP growth in Indonesia has been favourable as reported by the Bank Indonesia that through the second quarter of 2022 to the first quarter of 2023 financial year, the economic growth of Indonesia has been above 5% with consumption expenditure that also increase specifically in the level of household or personal consumption for this thesis research is around 4.54% growth (Haryono, 2023).

Figure 1. 1 Indonesian Economic growth from 2018 to 2022 (worldbank.org)
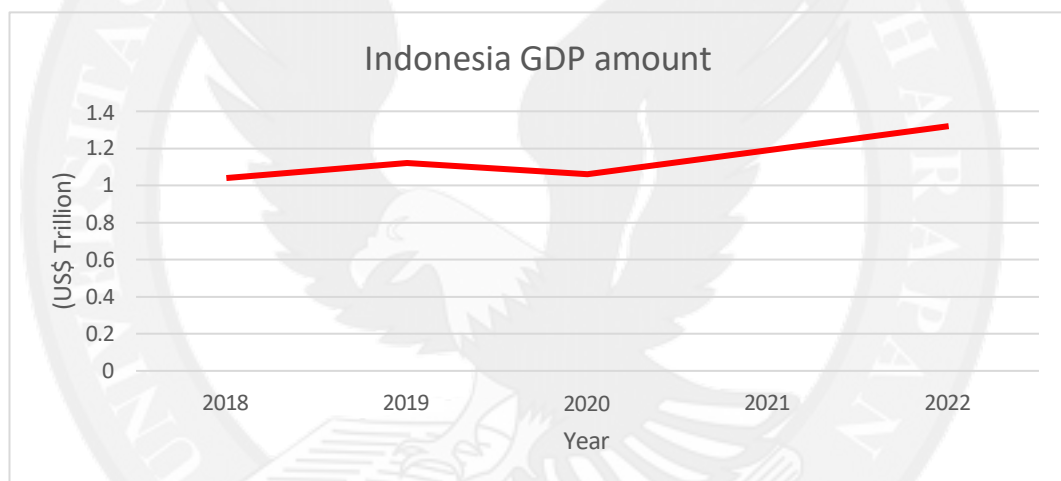
This economic background analysis would then support and be aligned with research that personal wealth management creation strategy has been valued more than it used to be overtime, especially since nowadays with economic and financial market growth that have been more attractive and complex in terms of building wealth that would even require the service of financial planning (Sinha et al., 2021). Furthermore, the financial decisions driven by students would potentially affect the banking and finance industry or even the educational industry toward the degree of university level because the fees of university need to be adjusted throughout the

economic inflation while still being generally affordable by students within the expected quality that the university offered (Khurshid et al., 2023). The financial services of Indonesian has seen to be developed with the most outstanding growth is mainly from the capital market sector as of the second quarter of 2020, as it holds a lot of underlying assets of investors that reflects the increasing demand on financial planning and services market such as mutual funds, bonds, etc (Otoritas Jasa Keuangan, 2020).

Figure 1. 2 Indonesia's financial service industry development
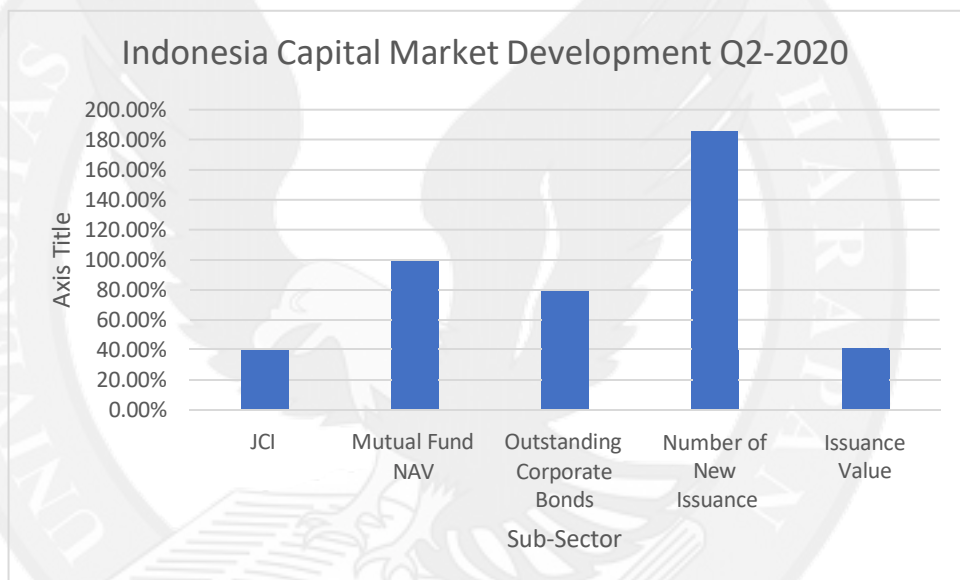
The thesis focuses on the factors that are related and affecting the university students' level of financial decision making in the scope of Indonesian university students. The purpose of this journal is to fulfil the gap on the research of university students' financial decision in which it is already considered as rare in the first place, but the scope would be within Indonesian university students that would also be useful for the universities, household, or even the government in implementing better system of education of personal finance. Another insightful purpose that is

relevant enough to be justified on university students' level is because having the correct mindset on factors that could result in a better financial planning could improve the long-term wealth accumulation. The lack of good financial decisions would cause individuals to implement poor decisions habit that could overall decrease the standard quality of living or even forced the individual to become more careless with their credit or borrowing decisions in which eventually results in a personal bankruptcy due to the excessive indebtedness (Baulkaran, 2022).

This research is also made in a sense to shed light or give ideas on several potential problem factors that could affect better financial decision with the first one such as national financial literacy level of Indonesia in which based on the data of national survey on 2019 , the nation index of financial literacy in Indonesia is only 38.03%, only 16.23% higher than 2013 that was 21.80%, it shows the level of financial literacy in Indonesia is still considered low especially on rural areas compared to urban areas such as DKI Jakarta (Otoritas Jasa Keuangan, 2021).

Figure 1. 3 Indonesians financial literacy index (Source: OJK, 2021).

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A second fact that support the background ideas on the importance of this research topic is that the government financial service agency OJK has implemented the savings socialization and events to Indonesian students specifically as it has the means of improving financial inclusion with long-term financial growth in Indonesia in which it even stated that around 80 % or 52 million students have their own bank account with the amount accumulated around Rp 4,000,000,000,000 as of the year 2023, reflecting the pursuance of financial independence on ethical and attitude money management for Indonesian university students (Kominfo, 2023).

The third supporting fact would be the increasing average daily stock trading amount from Rp 7,603.33 to Rp 14,706.9 billion, approximately 93.43% increase while IHSG was only around Rp 6,355.65 billion to around Rp 6,850.62 billion in 2022, around 7.79% increase over the 6 years' time period (OJK, 2022). The increased number of shares invested in Indonesia support the idea of economic growth in Indonesia as ownership residual fund supported to the corporates would also improve their business and capital structure (Zhu et al., 2004). This report from the OJK suggested that Indonesian should take advantage of the growing economic to start investing better to take the opportunity of further wealth creation in the area of activities within the financial market and instrument especially for university students that soon pursue their own career.

Figure 1. 4 Indonesian daily value of stock trading trend

Indonesia Development of Daily Stock Trading and IHSG

All the report provided from the OJK or Otoritas Jasa Keuangan as the means of consistent financial service activities that are also useful in spreading the financial awareness to the university students of Indonesia that soon is starting to manage their money independently.

Therefore, the author would like to develop a data explanation regarding the financial decision of Indonesian university students to be relevant toward the discussed age range, the effect to the economy of Indonesia and strategies to shape a better individual in managing money. In determining the factors of student financial decision, this study uses six independent variables, one mediating variable, and a single dependent variable in which the independent variables consist of financial experience, money attitude, money ethics, financial literacy, financial socialisation agent, and time preferences, while the mediating variable and dependent variable are financial self-efficacy and the student's financial decision (Khurshid et al., 2023). All the variables will be explained further in detail together with their dimensions each in the literature review section.

1.2 Research Questions

1. How is the influence of Financial Literacy to Students Financial Decision?

2. How is the influence of Money Ethics to Students Financial Decision?

3. How is the influence of Money Attitude to Students Financial Decision?

4. How is the influence of Time Preference to Students Financial Decision?

5. How is the influence of Financial Experience to Students Financial Decision?

6. How is the influence of Financial Socialization Agents to Students Financial Decision?

7. How is the influence between the Financial Self-Efficacy as the mediating variable with Financial Literacy, Money Attitude, Financial Experience, and Financial Socialisation Agent to the Student Financial Decision?

1.3 Research Objectives

1. To find the relation between Financial Literacy and Students Financial Decision.

2. To find the relation between Money Ethics and Students Financial Decision.

3. To find the relation between Money Attitude and Students Financial Decision.

4. To find the relation between Time Preference and Students Financial Decision.

5. To find the relation between Financial Experience and Students Financial Decision.

6. To find the relation between Financial Socialization Agents and Students Financial Decision.

7. To find the relationship between the Financial Self-Efficacy as the mediating variable with Financial Literacy, Money Attitude, Financial Experience, and Financial Socialisation Agent to the Student Financial Decision.

1.4 Research Scope

This research scope is limited to be well-structured with the expected result of the research topic due to the field research is wide and applicable throughout the world. Below is the list on the scope of the research:

1. This research is catered toward Indonesian people with a test regarding their financial decisions aspect and development such as the financial literacy, money ethics, money attitude, time preference, financial experience, financial socialisation agents, financial self-efficacy, and the financial decision itself.

2. The research only applies to Indonesian students who are currently studying in a university toward all degree levels which includes bachelor, master, and doctoral studies so long as they do not work full-time.

3.   However, the respondent of this research is not limited to Indonesian students who are studying in Indonesia, it is applicable to Indonesian students studying overseas.

4.   The Indonesian university student respondent toward this research does not have to be in a business major degree or related.

5.   The age range of the respondent are specified into young adults or is at maximum would be 30 years old.

1.5 Research Contributions

Throughout this research, there are two types of research contribution which are the theoretical and practical contribution:

1. Theoretical Contribution

    The most important thing for a research is to be able to conduct a theoretical analysis to contribute some support for certain theories toward the researched topic in which there are three broad themes underlying the theoretical contribution research which are the requirements of multiple elements of theory validity, support compelling evidence of the topic researched, and the theory could propose alternatives or remedies beyond the research (DiFonzo & Bordia, 1998). This research is improving the original research of "Factors Affecting Financial Decisions of University Students in Pakistan" as it is researched through out the Indonesian university students scope to be able to properly know what are the factors that could help students in Indonesia to have better financial decision toward management or any financial asset planning decisions while at the same

time covering a type of personal finance research that has been uncommon for a finance research topic in the first place (Khurshid et al., 2023).

2. Practical Contribution

Practical contribution would be the benefits that the research discussion could contribute into a real-practice scenario. The analysis and discussion of what are the factors that affect Indonesian university students financial decision could contribute relevant data to a lot of education like schools and universities while also toward the financial institutions and association such as banks and financial planners to properly analyse how is the future economic and financial market of Indonesia going to be with educational institution considers further on what could be improved for better student's life financial decision to prevent financial fraud of Indonesian citizens.

1.4 Research Systematic Outlines

A systematic outline set this research into five main chapters with sub-chapters for each of the main chapters throughout the study.

- Chapter I: Introduction

This chapter starts off with the background and purpose analysis of why this research topic does is conducted with further sub-chapters of the research objectives, questions, scope, contributions, and the systematic outline itself in which all the elements are to give the reader the idea of this thesis.

- Chapter II: Literature review

The second chapter describe and explain the whole theoretical review with its framework that is developed throughout the research with the

relevant journal references toward each variable and hypothesis development based off previous studies in accordance with the research topic of financial decisions main area.

- Chapter III: Research Methodology

The Research Methodology explains the technical aspects of how the research is conducted from the indicators with measurement scale to pre-testing with internal data reliability and validity test, this chapter covers all the necessary information about the research conduct.

- Chapter IV: Data analysis and discussions

This chapter fully explained the situation after the research is conducted for its relationship between variables in comparison to the hypothesis developments and each result through the statistical tests for the underlying research problems to be explained further under the conclusion chapter.

- Chapter V: Conclusions and Recommendations

This is the final chapter of the research in which it wraps up the whole result in the data analysis and discussions chapter to be interpreted for the purpose of the research with the back up evidence of the statistical data and tested hypothesis for recommendations.