

**THE EFFECT OF FINANCIAL LITERACY AND INCOME ON THE EFFECT OF
INVESTMENT DECISIONS**

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Abstract

The purpose of this research is to examine and measure the effect of income and financial literacy on investment decisions. The type of examination used is qualitative with the literature review method. Sources of data from books and journal articles serve as the type and source of data. This study found that investment decisions are not significantly influenced by financial literacy. Conclusion: (1) Multiple linear regression test shows that the positive constants and variable coefficients show a unidirectional relationship in the equation. (2) The T-test shows that the financial literacy variable has no significant effect on investment decisions; (3) It is known from the results of the F test that the income and financial literacy variables have a significant effect on the overall investment decision.

Keywords : *Financial Literacy, Income, Investment decision*

A. INTRODUCTION

Financially literate everyone needs to be financially literate because they often find themselves in situations where they have to give up one interest for another (I Nyoman Patra Kusuma, 2020). According to (Ningtyas & Andarsari, 2021) someone's financial literacy, such as managing or allocating their finances properly, will have a positive impact with sufficient amounts.

As a result of consumerism that is rampant in today's society, there is no longer a culture of saving or investing in society. There are still many people who do not understand the importance of having personal financial management because they still think that personal financial investment planning is only done by those with high incomes. However, there are also rich people who do not have a specific financial investment plan (Pritazahara, Ritma. & Sriwidodo, 2015). According to (Baiq Fitri Arianti, 2021) states that most of the funds are allocated for various purposes, including consumption, savings, and investment. Investment is the type of allocation that will yield the greatest future benefit out of these three options. Personal financial investment planning is important because it is a self-directed process of learning how to manage your finances now and in the future.

Investment is sacrificing now to reap greater returns in the future (Landang, Widnyana, & Sukadana, 2021). Capital or also called funds is one of the conditions for

making an investment. Loans or personal funds can be used to raise money. Investment decisions are also influenced by income and investment experience, in addition to financial knowledge. The more money a person has and the more experience he has in managing money, the better he will be at managing money in the future by calculating risk and having tolerance for it (Fitriarianti, 2018).

According to survey findings conducted by the World Bank, only 20% of Indonesians are financially literate. This is lower than the Philippines 27%, Malaysia 66%, Thailand 73% and Singapore 98% in the ASEAN region. Therefore, improving the economy requires financial literacy.

Products, services and financial markets are not only becoming increasingly complex for younger generations of students, but they will also face financial risks in the future (Munawar, Suryana, & Nugraha, 2020). Student financial behavior and lack of financial literacy are the subject of this research. This can be seen from the initial observations of a number of students from the Faculty of Economics at Pamulang University who admit that they are still not able to control their own patterns and lifestyle due to high levels of consumer behavior which causes them to be irrational in buying their needs. These students also have to make a number of challenging financial decisions when it comes to managing the money they receive from their parents or scholarship sponsors, such as paying tuition fees or paying rent for housing or boarding houses. The application of psychology to the field of finance has been stimulated by this fact in the development of behavioral finance theory. When making investment decisions, financial behavior is very important. Investors do not always act in a way that is consistent with the assumptions they make based on how they view and understand the information they receive (Lindananty & Angelina, 2021).

Individuals are somewhat dominated by expected utility theory when making investment decisions. Decisions based on expected utility theory aim to achieve maximum returns while taking risks. This theory assumes that people who make decisions are rational, but most people who make decisions are irrational. When risk conditions are based on human psychological factors, criticize the utility theory used to make investment decisions. Prospect theory was born after the utility theory was developed. Because human decision-making is influenced by psychological factors, making risky choices can be seen as a choice or a gamble (Siregar & Anggraeni, 2022).

Sumtoro & Anastasia (2015) stated that psychological factors play an important role in decision-making and investors use forecasts of the prospects for their investment instruments. Examine the ways in which emotional and psychological factors, such as financial decisions and financial markets, can be influenced by (Rini Prihastuty & Rahayuningsih, 2018) by defining behavioral financial theory, which is the study of how people actually act when making financial decisions. An approach known as behavioral finance (behavioral finance) explains how psychological factors influence human investment decisions or financial activities.

The problem of this research is contrary to research conducted (Welly, Kardinal, & Juwita, 2016) which shows that elements of financial literacy, such as general knowledge about personal finance, savings and loans, insurance, and investment simultaneously (total), have a significant effect on lecturers' investment decisions. , employees, and students at STIE Multi Data Palembang (Rasuma Putri & Rahyuda,

2017) who found that financial education has a greater influence on a person's choice of emotional behavior than sociodemographic characteristics. Meanwhile, research shows that locus of control, financial literacy, and income of Makassar City residents have a beneficial influence on their investment choices (Musdalifa, 2016).

B. LITERATURE REVIEW

Financial Literacy

In everyday life, personal finance management skills and knowledge are very important. According to Yushita (2017) financial literacy helps individuals avoid financial difficulties.

A series of procedures or activities aimed at increasing the skills, confidence, and knowledge of financial management of consumers and the general public is known as financial literacy (Kusnandar & Kurniawan, 2018).

According to Arianti (2020) emphasized that people need to be financially literate in order to survive in today's society. The complex concepts of spending, saving and investing fall under this foundational knowledge. Meanwhile, according to Soejono & Mendari (2019) defines financial literacy as individual knowledge of various financial instruments, such as savings, insurance or insurance, investments, and other financial instruments. Financial knowledge with the aim of achieving prosperity is what is meant by the term "financial literacy".

The description above can be used to conclude a person's ability to understand all of his financial circumstances, including savings, investments, debt, insurance, and other financial instruments. The four characteristics of financial literacy are: Basic financial literacy, savings and loans, security or insurance, and investment are some of the topics (Baiq Fitri Arianti, 2021).

Income

The level of people's income describes the economic development of a society. One measure of the welfare of a person or society is their income (Paita, Tewal, & Sendow, 2015). According to Mappigau & Ferils (2020), it is the amount that residents receive for their work performance during a certain period of time, either daily, weekly, monthly or yearly. The amount of money a person makes is largely determined by how much work they do, how many hours they work, and how much money they make per hour. All sources of income are used to calculate personal income. Wages and salaries make up a large part of total income.

Investment Decision

According to Fitriarianti (2018) investment decisions are truly unique and depend on independent people. Therefore, before making an investment decision, consider your possibilities thoroughly. Individual investment decisions have been divided into two categories: behavioral motivation (investment choices based on the psychological characteristics of the investor) and the extent to which the choice maximizes wealth (economic). Investment decisions are influenced by time, risk, and rate of return.

C. RESEARCH METHOD

This research is a type of literature review research that seeks theoretical references related to the cases or problems found. According to (Sudarmanto et al., 2021) states that a literature review is a written summary of journal articles, books, and other documentation that explains theory and knowledge, both past and present, and divides the literature into topics and documents as needed. The type of data used by the author in this study is literature review data. Literature research is a method of gathering information or sources related to the topics raised in the research. The data obtained were then analyzed using descriptive analysis methods. Descriptive analysis method is carried out by presenting facts, followed by analysis which not only describes but also provides sufficient understanding and explanation.

D. RESULTS AND DISCUSSION

From research (Fitriarianti, 2018) Judging from $t_{count} > t_{table}$ of $1.830 > 1.984$ and a significance level of $0.070 > 0.05$, this study shows that the financial literacy variable has no real effect on investment choices. This implies that financial knowledge has no discernible impact on investment choices. Research Welly et al. does not support this statement. (2016), shows that factors such as financial literacy, loans and savings, investment, and insurance do not have a significant influence on investment decisions at STIE Multi Data Palembang. This result is consistent with the results of the insurance industry's financial literacy variable. Research conducted by Melissa (Melisa, 2015) shows that financial support and education have a significant influence on company decisions at that time, and these results are in line with these findings.

The value of $t_{count} > t_{table}$ is $8.494 > 1.984$ with a significance level of $0.000 > 0.05$ indicating that income has a significant effect on investment decisions. The findings of this study are in line with the findings of Musdhalifa (2016) that income has a significant effect on investment decisions. This is also in accordance with the findings of research conducted by Kusumawati (2013) who found that a person's personal financial management is influenced by his income, with higher income being taken into account when making investment decisions. In addition, this finding is not in line with the research of Ni Made Dwiwana and Henny (2017), which shows that income does not have a significant impact on investment decision-making behavior. In other words, a person's income level should not be a measure of how they choose to invest. The same is true of research by Rita and Kusumawati (2010), who found that people with higher incomes tend to want to buy more than they need. Such people do not realize the benefits of saving or investing for the future. The value of $F_{count} > F_{table}$, $39.799 > 2.70$, and a significance value of $0.000 > 0.05$, both indicate that the variables X1 and X2 together have a significant effect on investment decisions.

The consequences of the research findings were discussed with universities in general and the Faculty of Economics, Pamulang University in particular. According to contemporary research, factors including income and financial knowledge have an impact on investment choices. This explains why one should consider their knowledge of personal financial management when making investment choices. This is a big undertaking for educational institutions, especially for students who already get monthly pocket money as their main source of income. Students must learn about

money management from a young age if they are to be well-educated students, able to handle money wisely, and live wealthy debt-free lives both now and in the future.

E. CONCLUSION

Based on previous journal research (Fitriarianti, 2018) that:

1. The constant and variable coefficient values are positive in the multiple linear regression test indicating that the equation has a unidirectional relationship
2. The results of the Ti test show that there is no significant relationship between financial literacy and investment decisions.
3. It is known from the results of the F test that the income and financial literacy variables have a significant influence on overall investment decisions.

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