
The Role of Financial Literacy in Improving Financial Well-being

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Article Info

Received:

20/12/2024;

Received in revised form:

08/01/2025;

Accepted:

10/01/2025;

Available online:

18/03/2025;

2549-9505/© 2025 The
Authors. Published by
Universitas Muhammadiyah
Purwokerto.

DOI: [10.30595/jssh.v9i1.25152](https://doi.org/10.30595/jssh.v9i1.25152)

Abstract

This study aims to determine the role of financial knowledge, financial attitudes, and financial behavior as components of financial literacy in influencing the improvement of financial well-being of economics education students. Through questionnaires measured on a Likert scale, this study collected data from 342 economics education students as a research sample determined based on proportional random sampling at three state universities in Central Java. The results of descriptive analysis show that financial knowledge, financial behavior, and financial attitudes are classified in the good category, while financial well-being is in the moderate category. Structural Equation Modeling (SEM) analysis shows 26% Financial well-being is influenced by financial knowledge, financial attitudes and financial behavior. The results of hypothesis testing of the three variables have a significant positive effect on financial well-being.

Keywords: Financial Knowledge, Financial Attitude, Financial Behavior, Financial Well-Being



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1. Introduction

Financial well-being is one of the important elements in the sustainability of one's life. Along with the development of technology today, financial well-being has become one of the crucial issues for teenagers and adults with daily lives that tend to spend money to follow trends (Mahdzan et al., 2023). Financial threats are especially vulnerable for 20 - 30 years old (Brüggen et al., 2017). Limbu & Sato (2019) found that financial well-being is lowest among students than other groups. Students often do not consider the aspects of needs and wants, then have an impact on the condition of spending more than the pocket money they have. One of the ways students overcome this condition is by applying for online loans, which then triggers continuous worries about unstable financial conditions and has an impact on the student's financial well-being.

Joo (2008) with the personal financial wellness framework explaining that financial well-being reflects financial stability, security and well-being. Several relevant previous studies have examined

factors that can affect the achievement of financial well-being, one of which is financial literacy. Financial knowledge as one aspect of financial literacy affects the financial decision-making process to achieve financial well-being. Fan & Henager (2022) explains that adequate financial knowledge is needed to understand the complexity of the financial system. An adequate understanding of various financial aspects will support the best financial decisions (Silva & Dias, 2023). In addition, financial knowledge can help you avoid financial problems and achieve financial well-being (Sang, 2021).

Therefore, as an important part of the construction of financial literacy, financial knowledge is considered to be able to contribute to the achievement of financial well-being. Financial attitude refers to how a person's attitude is related to all aspects of their finances (Lestari & Mangifera, 2023). She et al. (2022) mentioned that individuals with positive financial attitudes throughout their lives will be better at managing and earning money for future sustainability. Individual financial attitudes will affect the individual's cognitive in making decisions related to financial management (Serido et al., 2013). This ability is then able to improve the individual's financial well-being.

The third factor that can affect financial well-being is financial behavior. Financial behavior itself relates to the way a person makes decisions related to money including daily financial decisions that can make the person with the actions taken (Kamakia et.al, 2017). The existence of good financial behavior can prevent expenses that should not occur, thus increasing the individual's financial well-being. (Prameswari et al., 2023), as Mahdzan et al. (2023) mentioned that positive financial behavior can improve financial well-being and vice versa.

2. Data, Theory, and Methodology

This research is a type of quantitative research with a hypothesis testing design. The measurement of financial well-being refers to the Consumer Financial Protection Bureau scale (Fan & Henager, 2022). Financial behavior is proxied by 10 statement items developed by Magli et al., (2021), Financial attitude is proxied by four dimensions which include financial anxiety, interest in financial issues, decision style, precautionary saving, and spending money (Vishwakarma, 2024), while the measurement of financial knowledge includes basic financial knowledge, and advanced knowledge (Yanto et al., 2021).

The study population was students of economics education study program in public universities in Central Java. The sample determination was based on proportional random sampling, the total sample of 243 obtained using the slovin formula, with a sample proportion of 128 Semarang State University students, 96 Sebelas Maret University students, and 19 Jenderal Soedirman University students. The data analysis used includes descriptive statistical analysis, and AMOS 29 Structural Equation Modeling Analysis, to hypothesis testing.

3. Findings and Discussions

3.1 Research Instrument Analysis

Validity and reliability analysis of the instrument was conducted using the corrected-item total correlation (CITC) value and Cronbach's alpha coefficient. De Vaus (2013) stated that an instrument is considered valid if it has a coefficient above 0.3, and an instrument is considered reliable if the Cronbach's alpha coefficient is above 0.7. It shown in [Table 1](#).

Table 1. Validity and Reliability Test

	CITC Min	CITC Maks	Cron. Alpha	Description
Financial Well-being	0,469	0,754	0,870	Valid and Reliable
Financial Knowledge	0,406	0,650	0,801	Valid and Reliable
Financial Attitude	0,324	0,539	0,755	Valid and Reliable
Financial Behavior	0,507	0,667	0,869	Valid and Reliable

Source: Research data processed, 2024.

Referring to [Table 1](#), it can be seen that the lowest CITC value is the financial attitude variable of 0.324. This value proves that all statement items have met the threshold value of 0.3, so they are said to be valid. Furthermore, [Table 1](#). shows the minimum Cronbach's alpha value of 0.755. This value is greater than the reliability requirement threshold of 0.7 so that it can be said that all variables are reliable.

3.2 Descriptive Statistical Analysis

Descriptive statistics of each variable were analyzed to determine and describe the distribution of data collected. Each variable is measured using a questionnaire with 45 statement items consisting of 10 statement items for financial well-being, 9 statement items of financial knowledge variables, 16 statements of financial attitude variables, and 10 statement items measuring financial behavior variables. The following are the results of descriptive analysis of each research variable.

Based on [Table 2](#), it is known that each variable has good data variance. In addition, it can be seen that all independent variables are classified as good with an average of 38.93; 63.10; and 38.28 respectively. Meanwhile, financial well-being is classified in the moderate category with an average value of 35.11.

Table 2. Descriptive Statistical Analysis

Variabel	Min	Max	Average.	Std. Deviasi
Financial Well-being	20	50	35,11	5,21
Financial Knowledge	22	45	38,93	7,19
Financial Attitude	41	79	63,10	6,81
Financial Behavior	20	50	38,28	6,78

Source: Research data processed, 2024.

3.3 Structural Equation Modeling Analysis

This study uses 5 latent variables represented through 45 statement items, meaning that the model developed through structural equation modeling will have 45 parameters. The overall model feasibility test is carried out by comparing the goodness of fit (GOF) and goodness of fit index (GOFI) metrics with the following developed structural equation modeling diagram that shown in [Figure 1](#).

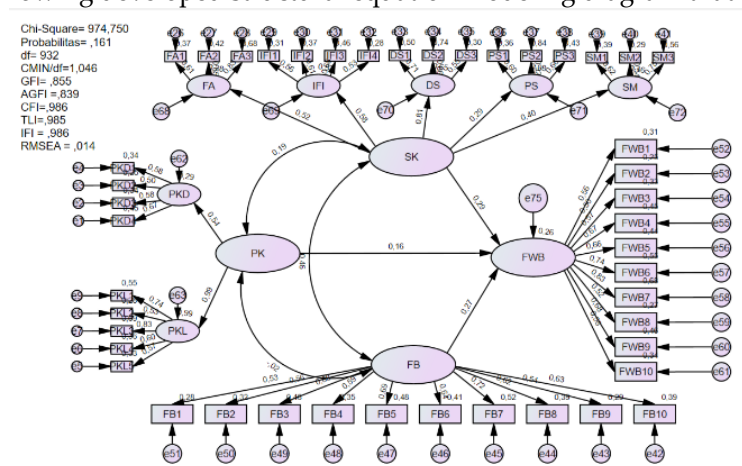


Figure 1. Structural Equation Model

Source: IBM SPSS AMOS 29 Graphic 2024

Based on the research model presented in [Figure 1](#) obtained the following goodness of fit index (GOFI) results that shows in [Table 3](#). Based on the results of the model feasibility test in [Table 3](#), it can be seen that the research model has met the fit criteria in most of the goodness of fit criteria indices, and

there are two indices in the med fit category so that the model can be used for testing the research hypothesis. Hypothesis testing is based on regression weight output.

Table 3. Goodness of Fit Index

GOFI	Cut-Off Value	Result	Description
Chi-square	Better small	974, 75	<i>fit</i>
Sig. Prob	>0,05	0,161	<i>fit</i>
Df	>0	932	<i>fit</i>
CMIN/DF	<2,00	1,046	<i>fit</i>
GFI	>0,90	0,855	<i>Med fit</i>
AGFI	>0,90	0,839	<i>Med fit</i>
CFI	>0,90	0,986	<i>fit</i>
TLI	>0,90	0,985	<i>fit</i>
IFI	>0,90	0,986	<i>fit</i>
RMSEA	<0,08	0,014	<i>fit</i>

Source: Research data processed, 2024.

Table 4 shows the regression coefficient on the effect of financial knowledge on financial well-being of 0.271 with a p-value of 0.044, while financial attitudes have a regression coefficient of 0.569 with a p-value of 0.012, and the effect of financial behavior shows a regression coefficient value of 0.225 with a p-value of 0.003.

Table 4. Regression Weight

	<i>Est.</i>	<i>S.E.</i>	<i>C.R</i>	<i>P</i>
Finanacial knowledge → Financial well-being	0,271	0,135	2,014	0,044
Financial attitude → Financial well-being	0,569	0,225	2,523	0,012
Financial behavior → Financial well-being	0,225	0,076	2,951	0,003

Source: Research data processed, 2024.

3.4 The Effect of Financial Knowledge on Financial Well-being

The results of hypothesis testing show that the coefficient of the effect of financial knowledge on the financial well-being of economic education students is 0.271 with a probability value of 0.044. The results of this study explain that the higher the financial knowledge possessed by economic education students will lead to an increase in financial well-being. Conversely, if financial knowledge is low, then the financial well-being of economic education students will also be lower. Students with good financial knowledge have an understanding of financial risk. In addition, the existence of good financial knowledge makes students more prepared to face financial problems faced and make the best decisions to overcome these problems. This improvement in ability has a direct impact on the sense of control over finances, which ultimately improves financial well-being.

Guo & Huang (2023) proves that financial knowledge has a positive and significant influence on improving the financial well-being of low-income earners. Other research conducted by Kurniawati & Lestari (2022) proves that an increase in people's financial understanding will significantly encourage the achievement of their financial well-being. Other research conducted by Rafien et al. (2022) and research by Selvia et al. (2021) explains the important role of financial knowledge in achieving financial well-being, because without this understanding it will make the wrong mindset for financial

management which makes it difficult for individuals to achieve financial freedom which leads to financial well-being.

3.5 The Effect of Financial Attitudes on Financial Well-being

Financial attitudes have a positive effect on changes in the level of financial well-being of economics education students, with a coefficient value of 0.569 and a significant p-value. This means that the more positive the financial attitudes of students, the higher their level of financial well-being. Conversely, negative financial attitudes can hinder the improvement of financial well-being. Students with good financial attitudes tend to have more disciplined behavior in managing budgets, saving, and limiting unnecessary expenses. The existence of a good financial attitude will make students more careful in making financial decisions including the decision not to apply for loans through digital credit services which are currently growing rapidly, so students with a positive attitude towards finance tend to be more confident and less prone to panic in the face of challenging financial situations. They are better able to find rational solutions to overcome financial problems.

The results of this study support the findings of previous researchers, including Setiyani & Solichatun (2019) which explains that financial attitudes have a positive effect on financial well-being, because a good financial attitude makes individuals more careful in using money, because it is based on financial planning and consideration of their financial condition. These findings are reinforced by Adam et al. (2021); Lavonda et al. (2021); Sang (2021), three studies prove that financial attitude as one of the variables that has contributed significantly in encouraging the achievement of students' financial well-being.

3.6 The Effect of Financial Behavior on Financial Well-being

The results of the regression analysis show the influence of financial behavior on the financial well-being of economic education students with a regression coefficient value of 0.225, these results strengthen the research hypothesis. This means that the more positive the financial attitudes of students, the higher their level of financial well-being. Conversely, negative financial attitudes can hinder the improvement of financial well-being.

Good financial behavior directly supports the main dimensions of financial wellness which include the ability to manage daily needs, increase financial security, the ability to make wise financial decisions and readiness to face financial risks. Students with disciplined and planned financial behavior tend to be better able to avoid financial problems such as excessive debt or uncontrolled spending. When students have good financial habits, they can manage their financial resources more effectively, thus creating a sense of financial security and reducing financial stress, which leads to improved financial well-being.

Iramani & Lutfi (2021) explained that someone who is accustomed to setting aside income for savings and investment feels more comfortable because both routine and emergency needs are available so that the person does not feel anxious if an emergency occurs that requires large funds. Therefore, individuals with positive financial behavior will have higher financial well-being.

4. Conclusions

The conclusion from the results of this study is financial knowledge, financial attitudes and financial behavior contribute significantly in influencing financial well-being by 27%, so that financial literacy which includes knowledge, attitudes and behavior towards finance has an important role in achieving financial well-being.

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