

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Money is an essential element in modern life. Almost all activities, from shopping for daily necessities, paying bills, to pursuing education and a luxurious lifestyle, require money. However, does having a lot of money always guarantee happiness and well-being? The answer is, not always. A person's well-being is more than just the amount of money a person have; the ability to manage finances well is the real key to a more peaceful and planned life (Lusardi & Messy, 2023).

Financial literacy is the ability to understand and apply basic concepts of money management, such as budget planning, saving, investing, and debt management. Research from the Journal of Financial Literacy and Wellbeing states that individuals with good financial literacy tend to have stronger financial balance, reduce stress, and have more savings for the future (Lusardi & Messy, 2023). The meaning of financial literacy according to OJK (2024) is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity.

OJK divided a person financial literacy level into 4 categories, namely Well Literate, Sufficient Literate, Less Literate and finally Not Literate. Included in the Well Literate category is a person who has knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services and has skills in using financial products and services. The Sufficient Literate category is almost the same as the Well Literate category, except that a person who is included in the Sufficient Literate category lacks skills in using financial products and services. The Less Literate category is a person who has knowledge of financial service institutions and financial products and services, but does not have knowledge of the features, benefits and risks related to financial products and services and is not skilled in using financial products and services. And finally, Not

Literate is a person who has no knowledge and confidence in financial service institutions and their financial products and services, plus they have no skills in using financial products and services.

The National Financial Literacy and Inclusion Survey (SNLIK) conducted by OJK is a survey that aims to evaluate as well as map the condition of financial literacy and inclusion in Indonesian society. This survey is conducted every 3 years starting in 2013. Since the start of the survey in 2013 until the most recent, in 2024, the financial literacy index of the Indonesian people appears to be increasing. This is evident from the results obtained by OJK through a survey, in 2013 the financial literacy index was 21.84%, followed by the following 3 years, in 2016 with a rate of 29.70%, then in 2019 it was 38.03%, in 2022 with an acquisition of 49.68% and in 2024 the financial literacy index of the Indonesian people is 65.43% (OJK & BPS, 2024).

However, the 2024 OJK SNLIK report shows that financial literacy among students is at 56.42%, which is lower than the national average of 65.43%. Although there has been an increase in overall financial literacy in Indonesia, students are still in the group with a relatively low level of financial literacy (OJK & BPS, 2024).

OJK states that one of the impacts of low financial literacy is the high level of fraud under the guise of investment, where most Indonesians are trapped in fraudulent investment schemes due to a lack of understanding about safe and profitable investments. Analyst, Deputy Director for Supervising the Behavior of Business Actors in Financial Services, Education and Consumer Protection, South Sulawesi and West Sulawesi Province OJK Meilthon Purba stated that throughout 2017-2023 the Indonesian people experienced losses of IDR 139 trillion due to illegal investments. In a CNBC Indonesia report on March 16, 2022, Chairman of SWI (Investment Alert Task Force) Tongam L Tobing said there were 3 main factors that caused people to become entangled in illegal investments, one of which was the low level of public financial literacy. The chairman of SWI said that the condition of Indonesia's investment world was deteriorating due to massive advances in digital technology amidst low public financial literacy. This low understanding of financial

literacy makes people easily influenced by the lure of large profits from illegal investment schemes (Rahadian, 2022).

Apart from illegal investment, the impact of the low level of financial literacy in Indonesian society is that they are trapped in online lendings, both legal and illegal. In the Republika report on August 25, 2023, the Head of the Education and Consumer Protection Subdivision of the Riau Province OJK, Mochmad Taufiq, on an occasion at a technical guidance event for public information instructors in Pekanbaru, said that financial literacy is needed so that people are not easily caught in illegal online lendings. Based on an OJK survey, this lack of understanding of financial literacy makes people get into online lending debt and to pay off these loans people use illegal online lendings (Raharjo, 2023).

Cases such as fraud under the guise of investment and online lending traps also happen to many students. The background to this problem is a lack of understanding of financial literacy among students and also the encouragement of a hedonistic lifestyle. In the Liputan 6 report on November 16, 2022, hundreds of IPB students were deceived by fake investments and were also caught in online lendings. In this case, several students invested in someone with the promise of large profits, but due to limited funds, a group of students used an online lending application to obtain funds for investment. After the funds had been collected and invested, it turned out that the profits never came, which ultimately left the students with a lot of online lending debt (Sudarno, 2022).

There are different cases involving students and online lendings. In the CNN report on September 12, 2023, the case involving Yogyakarta Muhammadiyah University students was based on the desire to fulfil a hedonistic lifestyle. As many as 58 students took out online lendings solely to fulfil their lifestyle, such as replacing a new cellphone, buying a motorbike and other lifestyle needs which ended up being entangled in online lending debt. This is very unfortunate because many students take out online lendings solely for a hedonistic lifestyle (Tim CNN, 2023).

The hedonism lifestyle is a lifestyle that only prioritizes pleasure and satisfaction. The word hedonism comes from the Greek word 'hedone' which means pleasure. The hedonic lifestyle is a lifestyle that believes that happiness can only be obtained by seeking as much pleasure as possible. Habits such as hanging out in expensive cafes, eating at fancy restaurants, watching movies in cinemas and so on, can become bad habits if done too often and unknowingly can be a triggering factor in increasing student spending (Parmitasari et al., 2018). The level of consumption that aims only for the pleasures of life will affect a person financial management (Pulungan et al., 2018).

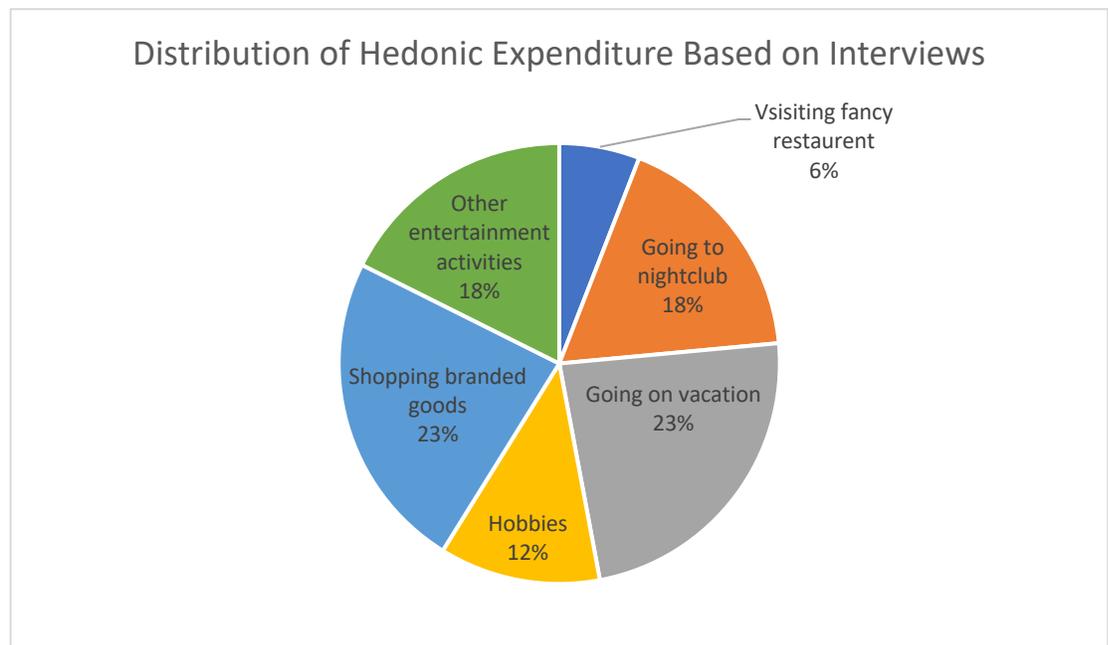
Many students in Indonesia have fallen into the trap of using online lending (pinjol) due to the pressure of a hedonism lifestyle. This type of lifestyle is characterized by the pursuit of immediate gratification and consumerism, is strongly associated with Fear of Missing Out or FOMO and the desire to indulge in trendy and pleasurable experiences. As a result, it leads students to borrowing money through online lending platforms to maintain their social status or satisfy lifestyle desires, despite the long term financial risks. Recent research from UGM showed that nearly 60% of university students' problems is financial problems, many students turning to online lending as a quick problem fix (Priatmojo, 2024).

Illegal online lending practices (pinjol) often offer easy access to credit with minimal requirements, but with very high interest rates and intimidating debt collection, which adds to the burden on borrowers. Many cases in Indonesia show that these illegal pinjol are not registered with the OJK and operate without adequate supervision, causing many consumers to be trapped in debt with unreasonable interest rates and unlimited fines. Collection from illegal pinjol is often carried out in a harsh manner, including threats and harassment, which aims to pressure borrowers to pay immediately. Some cases even involve the distribution of borrowers' personal data as a form of intimidation (OJK, 2021).

Several studies have shown that hedonism affects a person in managing their financial resources. The hedonism lifestyle affects a person's financial management (Sampoerno & Asandimitra, 2021). Influence of a hedonism lifestyle on financial

management is negative influence, which means that the more hedonistic a person's lifestyle is, the worse a person ability to manage finances. Other studies also show results that the hedonism lifestyle has a negative effect on financial management. Hedonism lifestyle has a significant effect on student financial management behavior, with the more hedonistic student lifestyles the worse the ability to manage student finances (Pulungan et al., 2018).

In interviews with several students of Universitas Diponegoro, it was revealed that some of students support a hedonistic lifestyle as a way to enjoy life and celebrate personal achievements. These students consider a hedonistic lifestyle as a form of self-appreciation, for example by buying branded goods, visiting fancy restaurants, going to the nightclub or following the latest trends. Here are the percentage of hedonist activity according to the respondent answers from interview



**Picture 1.1** Distribution of Hedonic Expenditure of Undip Students Chart

As we can see from the data, going on vacation and shopping branded goods has the highest percentage with the number of 23%, going to the nightclub and other entertainment activities is at 18%, hobbies 12% and lastly visiting fancy restaurant is at 6%. However, some students also admit that this habit sometimes has a negative impact on financial condition, especially when spending exceeds income. Several

other students have a more moderate view, stating that they try to limit excessive spending and prioritize needs over wants. This shows that a hedonistic lifestyle, although it provides momentary emotional satisfaction, can be a challenge in maintaining financial balance, especially for students who have a limited budget. This phenomenon reflects the importance of financial literacy in helping students manage finances wisely, while also highlighting the potential risks of the influence of a hedonistic lifestyle on personal financial management (primary data, 2024).

However, having good understanding in financial literacy is proven to improve skills in financial management. For students, insufficient financial literacy and expertise frequently lead to poor money management, increased stress, and trouble focusing. This is evident from a journal entitled “The Effect of Financial Literacy, Parents' Social Economic and Student Lifestyle on Student Personal Financial Management” in which the journal found that financial literacy results had a significant impact on student personal financial management (Novitasari et al., 2021). Furthermore, financial literacy has a significant impact on financial decision making, there are 3 main roles of financial literacy, namely Financial literacy plays an important role in the process of good financial planning, financial literacy plays an important role in making the right financial decisions, and finally financial literacy plays a role in achieving financial prosperity (Yuwono et al., 2023).

A student's financial management and decision making will be better if their understanding of financial literacy is also good. Students who have a higher understanding of financial literacy have better financial management abilities than students who have a low understanding of financial literacy (Aslam & Bamatraf, 2023). However, there are still many students whose understanding of financial literacy is still relatively low. From a journal written by Mario & Ikraam (2023) which examined the level of financial literacy among economics faculty students in Palembang City, of the 433 respondents studied, there were 272 respondents at a low level of financial literacy, 108 respondents at a medium literacy level, and only 53 respondents are at a high literacy level. This research proves that the average level of financial literacy among students is still low and students need education

regarding financial literacy and good financial management so that they are more financially literate and not easily fooled by fraudulent investment schemes and illegal online lendings (Mario & Ikraam, 2023).

The increase in financial literacy rates over recent years is encouraging, but the prevalence of fraudulent investment schemes and the susceptibility of individuals, especially students, to online lending traps highlight significant gaps in financial knowledge and skills. The rise of unethical practices by online lending providers, such as intimidation of debt collection and non-transparent interest, is increasingly disturbing, especially among students. With low financial literacy, students are easily trapped in a cycle of debt. The impact of hedonistic lifestyles further exacerbates financial mismanagement, leading to debt and economic hardship. This underscores the importance of comprehensive financial education, which should start early and continue throughout life. By enhancing financial literacy, individuals can make informed decisions, achieve financial stability, and contribute to the overall economic well-being of society. The pursuit of financial literacy is not just about individual prosperity but is a crucial component of national economic health and resilience.

For this reason, researchers are interested in conducting a study entitled "The Impact of Financial Literacy and Hedonism Lifestyle Toward Financial Management" which aims to determine the level of understanding of financial literacy among students, and also to find out whether the hedonic lifestyle of students are able to influence student's financial management. The study is conducted at Universitas Diponegoro, Semarang, Indonesia. Students were chosen as research subjects because students are the nation's next generation who will lead this nation in the future, as is the goal of a golden Indonesia in 2045 (Rurit & Dewanto, 2021). Meanwhile, Universitas Diponegoro was chosen as the research location since it is an environment that is very close to the researchers in conducting the research.

## **1.2 Problem Formulation**

Based on the description of the background above, the research problems can be formulated as follows:

1. Does financial literacy affect financial management behavior?
2. Does hedonism lifestyle affect financial management behavior?
3. Does financial literacy and hedonism lifestyle affect financial management behavior?

## **1.3 Research Objectives**

Based on the description of the background above, it can be concluded that the objectives of the study are as follows:

1. To determine the effect of financial literacy on financial management behavior.
2. To determine the effect of hedonism lifestyle on financial management behavior.
3. To determine the effect of financial literacy and hedonism lifestyle on financial management behavior.

## **1.4 Benefits of Research**

The benefits of this research are:

1. For Author

To implement the knowledge that author has obtained from the lecture activities, and to give insight for academic writing regarding to financial literacy, hedonism lifestyle and financial management

2. For Readers

To provide insight regarding financial literacy, financial management, and behaviors that lead to unfavorable things such as impulsive buying behavior to readers. And recognize gender-based differences in understanding financial literacy, financial management behavior, and impulse buying behavior between men and women.

### 3. For Students

Provide insight into financial literacy and provide awareness to students on the importance of understanding financial literacy and also train themselves to manage their finances well before entering the world of work and being separated from their parents.

### 4. For Researchers

As input data for researchers who want to make further research that will be carried out related to financial literacy, financial management, and impulsive buying behavior.

### 5. For Business

Provides strategic value for financial businesses, not only in understanding the student market but also in creating relevant products, increasing consumer trust, and reducing operational risks. By supporting the improvement of financial literacy, financial institutions can play a key role in building a sustainable financial ecosystem.

## 1.5 Theoretical Framework

### 1.5.1 Financial Literacy

Financial literacy consists of a number of abilities and knowledge about finances owned by a person to manage or use a certain amount of money to improve their standard of living and aim to achieve prosperity (Novitasari et al., 2021). Financial literacy is knowledge to manage finances so that they can live more prosperously in the future (Ariska et al., 2023).

OJK divides financial literacy levels into 4 levels, namely:

- a) Well Literate: If a person is at this level, it means that person has knowledge and beliefs regarding financial service institutions. In addition, the person is also familiar with financial products and services. The person also understands the features, benefits, risks, rights and obligations related to financial products and services. They also have skills in using financial products and services.
- b) Sufficient Literate: A person at this level has knowledge and beliefs regarding financial service institutions and financial services products. The person is also

familiar with the features, benefits, risks, rights and obligations related to financial products and services.

- c) Less Literate: For those who are at this level only have knowledge and also beliefs related to financial service institutions and products from financial services only.
- d) Not Literate: For people who are at this lowest level, they do not have knowledge and do not have confidence regarding financial service institutions and products of financial services

Chen & Volpe (1998) stated in their research that, people with low levels of financial literacy tend to have negative opinions about finances and tend to make wrong decision. The indicator for financial literacy according to (Chen & Volpe, 1998) have four aspects, that are:

- a) General personal finance knowledge: The ability to understand a person's basic financial knowledge that is used for themselves.
- b) Saving and borrowing: The level of individual understanding of saving and loans, for instance credit card usage.
- c) Insurance: The individual knowledge regarding to the important of insurance and its product.
- d) Investment: The knowledge of investment instruments such as market interest rates, mutual funds and investment risk.

Financial Literacy is the concept of understanding financial products and concepts with the help of information and advice, as the ability to identify and understand financial risks in order to make appropriate financial decisions (Wicaksono et al., 2022). Financial literacy can also be interpreted as financial knowledge that has the aim of achieving prosperity (Dwi Putra et al., 2020). Financial literacy is known as a way for each person's ability to carry out financial information obtained and made an evaluation of financial planning, financial accumulation, retirement fund, and debt (Novitasari et al., 2021).

Financial literacy is something that is needed by everyone to be able to apply a scale of priorities in managing their finances (Wahyuni et al., 2023). Financial

literacy will make a person understand about finance and possible financial risks that might occur to avoid financial problem (Azhima & Pinem, 2024). Another understanding of financial literacy is an understanding of financial concepts and the ability to properly manage finances in making long-term and short-term decisions in accordance with economic conditions (Yuwono et al., 2023).

### **1.5.2 Hedonism Lifestyle**

Lifestyle is how people live, how they spend money and how they allocate their time (Vivian, 2020). Lifestyle dimension is a classification of consumers based on Activities, Interest, Opinion (Sampoerno & Asandimitra, 2021). It is very clear that every person has a different lifestyle to another, it is because every person has their own activities, interest and opinion. For several person, they tend to live a hedonistic lifestyle. Aspects of the hedonic lifestyle are as follows:

- a. **Activities:** This aspect is a real action that can be observed. The activities of hedonists are more aimed at seeking pleasure, such as spending more time out, buying things that are not needed, going to shopping centers, and wasting money just for the sake of satisfaction.
- b. **Interest:** This aspect is the level of pleasure that arises specifically. The interest of hedonists is to seek pleasure and satisfaction in life, whatever is done to fulfill their desires such as buying luxury and branded goods, following the latest fashion trends, and always wanting to be the center of attention.
- c. **Opinion:** This aspect is a person's response or opinion both orally and in writing. The hedonists argue that by wearing expensive and branded clothes, likes to party, entering a nightclub is a trendy person.

Hedonism lifestyle is a lifestyle pattern in which all of their life activities lead only to seek the pleasure of life, most of their time is often spent outside, time and money is spent for play around in order to get sense of pleasure, often spent their money to buy expensive stuff to fulfill their desires, they are tend to follow other people and being the center of attention is their main desires (Sampoerno & Asandimitra, 2021). In other word hedonism lifestyle is closely related to consumptive lifestyle.

A hedonistic lifestyle is closely attached to a person's life, this lifestyle is often seen in everyday life when a person's lifestyle tends towards pleasure, enjoyment, or avoiding uncomfortable feelings (Aprilia & Mahfudzi, 2020).

The characteristics of people who have a hedonic lifestyle, namely:

- a. Likes to seek attention: As already mentioned, hedonic people tend to have a desire to be the center of attention. Anything will be done so that everyone pays attention to it, including wasting money to buy luxury goods just to get people's attention.
- b. Extravagance: extravagant is a trait that cannot be eliminated for people who live a hedonistic lifestyle. They like to shop just for the sake of satisfaction and pleasure. Even though the purchased items are actually of no use to them at all.
- c. Picking friends: hedonic people tend to have a habit of choosing friends. They only want to be friends with those who can give them pleasure. Not infrequently the chosen friends are also hedonistic.
- d. Spending time just for fun: always spend time doing activities that bring pleasure, even if what they do brings no benefit at all.

Quoting from the OCBC NISP (2021) news page Hedonism is a term derived from the Greek "Hedone" meaning pleasure. So what hedonism is a lifestyle that focuses on seeking unlimited pleasure and satisfaction. The nature of hedonism is trying to avoid things that are painful or troublesome by maximizing pleasant feelings. and the characteristics are as follows:

- a. Happiness Becomes a Goal: Because happiness cannot be separated from a hedonistic lifestyle, the characteristics of hedonism are that the main goal in life is just a mere pleasure. They will choose things or behaviors that are pleasing to them.
- b. Selfish: The nature of hedonism is selfish. Don't care about other people's happiness. However, her happiness is something that is worth fighting for. They are even willing to let other people suffer for the pleasure they get.
- c. Never Feel Satisfied: Even though they have had a lot of fun and enjoyment, hedonists will always feel lacking.

- d. Consumptive Behavior: They will buy or shop something based on wants, not needs. So that the nature of hedonism will be followed by a wasteful lifestyle.
- e. Arrogance: Because they judge others based on wealth and physical appearance. So that a lifestyle of luxury and sheer pleasure creates a feeling of being better than other people.

### **1.5.3 Financial Management Behavior**

Financial management behavior plays an important role in our economic activities, without good financial management we can experience financial difficulties, financial management behaviour is a person ability to manage, planning, budgeting, checking, managing, controlling, finding and storing daily financial funds (Sampoerno & Asandimitra, 2021).

A person's financial management behaviour can be seen from (1) consumption; how they carry out their consumption activities, for instance what a person buys and why they buy it. (2) Cash-flow management; cash-flow is an indicator of financial health of a person which mean a measure of how good they manage their spending, how much their income and how they manage it. It can measure by whether a person pays bill on time, pays attention records of payments and makes financial budgets and future plans. (3) Saving and Investment; savings is a money that comes from income that is not used for daily needs or other interest and mostly people will use savings money for something more essential and long term, such as buy a house, child education funds, emergency funds and long-term investment. In general people save their money in the bank. Investment is allocating several funds with the aim of getting benefits in the future. (4) Credit management; is an ability to take advantage of debt so as not to make them go bankrupt or use debt to improve their welfare (Sampoerno & Asandimitra, 2021).

The better their ability in controlling those four things above, the better their personal financial management behaviour. Financial management behavior is the behavior of a person's responsibility in financial management, budgeting, and financial records (Azhima & Pinem, 2024). So that we can conclude that we have a full responsibility in managing our finance wisely. Financial Management is a

process of sorting income and expenses through a detailed financial plan. Because life goals and financial status might change, a person should be able to review a financial plan to achieve the financial goals (Markonah et al., 2023). Financial management behavior relates to a person's financial responsibilities regarding how to manage their finances. Financial responsibility is the process of managing money and other assets in a way that is considered productive. The main task of money management is the budgeting process. Healthy financial management behavior is indicated by good financial planning, management and control activities (Trisnowati et al., 2020).

## 1.6 Previous Research

**Table 1.1 Previous Research**

No	Researcher	Research Title	Year	Research Method	Result
1	(Wahyuni et al., 2023)	Pengaruh Literasi Keuangan, Lifestyle Hedonis dan Sikap Keuangan Pribadi Terhadap Perilaku Keuangan Mahasiswa	2023	Quantitative	Financial literacy has a positive and significant effect on financial behavior. Hedonism lifestyle has no effect on financial behavior.
2	(Yana & Setyawan, 2023)	Do Hedonism Lifestyle and Financial Literacy Affect to Student's Personal Financial Management?	2023	Quantitative	Hedonism lifestyle and financial literacy have a significant influence on personal financial management.
3	(Markonah et al., 2023)	Factors that influence Personal Financial Management at the Islamic Economics Student Institute Perbanas Jakarta	2023	Quantitative	Financial literacy has no effect on personal financial management. Hedonism lifestyle positively affect personal financial management
4	(Azhima & Pinem, 2024)	Analysis of Financial Literacy, Financial	2024	Quantitative	Financial literacy has a positive

		Technology, and Lifestyle on Financial Behavior of Generation Z in Pulo Village			effect on financial behavior. Hedonism lifestyle has a positive effect on financial behavior.
5	(Ajeng Trixsiana & Wiwik Lestari, 2024)	The Impact of Financial Literacy, Pocket Money, Financial Education in The Family and Hedonis Lifestyle on Students Financial Behavior	2024	Quantitative	Financial literacy has no significant effect on financial behavior. Hedonis lifestyle has significant negative effect on financial behavior
6	(Sianipar et al., 2023)	Pengaruh Literasi Keuangan dan Lifestyle Hedon Terhadap Perilaku Keuangan Gen-Z pada Mahasiswa Prodi Manajemen Angkatan 2020 Universitas Indo Global Mandiri Palembang	2023	Quantitative	Financial literacy and hedonism lifestyle have a positive and significant on financial behavior.
7	(Fajari & Rochayatun, 2023)	The Influence of Financial Literacy and Hedonistic Lifestyle on the Financial Behavior of Generation Z	2023	Quantitative	Financial literacy affects financial behavior. Hedonistic lifestyle affects financial behavior.
8	(Ariska et al., 2023)	Pengaruh Literasi Keuangan, Financial Teknologi dan Gaya Hidup Hedonisme terhadap Perilaku Keuangan Mahasiswa	2023	Quantitative	Financial literacy and hedonism lifestyle have a positive and significant effect on financial behavior

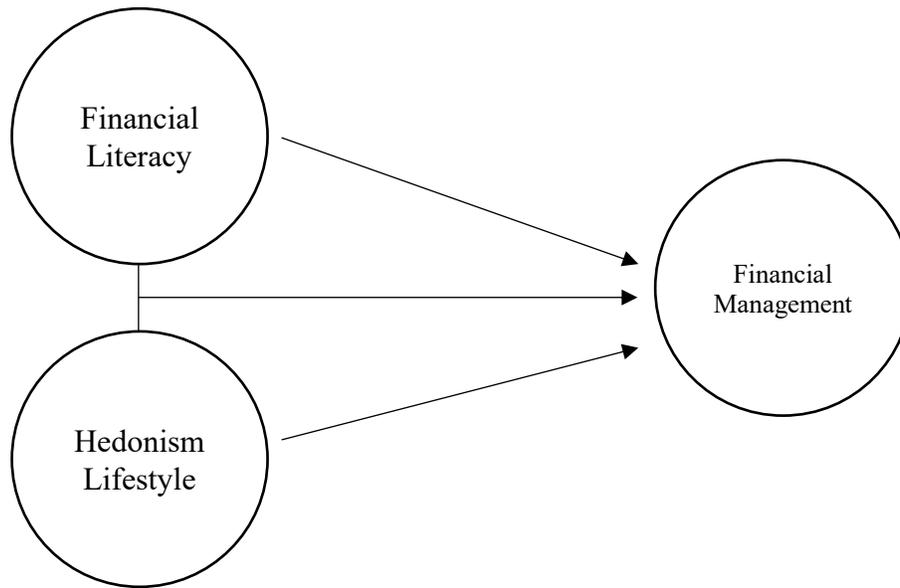
### 1.7 Hypothesis

The hypothesis is a temporary answer to the research problem formulation, where the research problem formulation is stated in the form of a question sentence (Sugiyono, 2023). Hypothesis is the researcher's provisional assumption of an

answer based on data from previous research. Therefore, the hypothesis is not a valid answer to a study. The hypotheses proposed in this research are:

1. H1: Financial Literacy has an effect on Financial Management.
2. H2: Hedonism Lifestyle has an effect on Financial Management.
3. H3: Financial Literacy and Hedonism Lifestyle has an effect on Financial Management

The research hypothesis model is described as follows:



**Picture 1.2 Hypothesis Framework**

### **1.8 Concept Definition**

Concept definition is the explanation stage regarding the limitation of understanding of the things observed. The definition of the concept of each variable in this study is as follows:

a. Financial Literacy

(Lusardi & Messy, 2023) defines financial literacy as knowledge to manage finances so that they can live more prosperously and achieve financial wellbeing in the future. Furthermore, (Lusardi & Messy, 2023) emphasized that

people with low levels of financial literacy tend to have negative opinions about finances and tend to make wrong decisions.

b. Hedonism Lifestyle

Hedonism lifestyle is a lifestyle pattern in which all of their life activities lead only to seek the pleasure of life, most of their time is often spent outside, time and money is spent for play around in order to get sense of pleasure, often spent their money to buy expensive stuff to fulfill their desires, they are tend to follow other people and being the center of attention is their main desires. The tendency of a hedonic lifestyle is a tendency the emergence of the frequency of individual behavior through one's social interactions related to the use of time, circumstances that are considered important and thoughts about themselves that aim to get pleasure or joy by ignoring norms (Aprilia & Mahfudzi, 2020)

c. Financial Management Behavior

Financial management behavior is a person ability to manage, planning, budgeting, checking, managing, controlling, finding and storing daily financial funds (Ida et al., 2020).

### 1.9 Operational Definition

The operational definition is an indication of how a variable is measured. Operational definition in this research has 2 independent variables namely financial literacy and hedonism lifestyle and 1 dependent variable namely financial management behavior. The following operational definition of the variables of this study are:

**Table 1.2 Operational Definition**

No	Variable	Dimension	Indicators
1	Financial Literacy	1. Financial behavior	1. Budgeting 2. Spending 3. Saving
		2. Financial knowledge	1. Financial planning

			2. Saving and investment knowledge
		3. Financial attitudes	1. Investment attitudes 2. Spending attitudes
2	Hedonism Lifestyle	1. Activities	1. Spending more time out 2. Going to shopping center 3. Buying things that are not needed 4. Wasting money for pleasure
		2. Interest	1. Buying luxury or branded goods 2. Following the latest trend 3. Intention to be center of attention
		3. Opinion	1. Having and using expensive goods 2. Entering nightclub 3. Likes to party
3	Financial Management	1. consumption	1. Comparing price 2. Impulsive buying 3. Seeking information before shopping
		2. Cash-flow management	1. Paying bills on time 2. Record spending 3. Maintain on budget

		3. Saving and investment	<ol style="list-style-type: none"> <li>1. Emergency fund</li> <li>2. Saving from income</li> <li>3. Saving for long-term</li> <li>4. Saving for retirement</li> <li>5. Invest in investment intrumenst</li> </ol>
		4. Credit management	<ol style="list-style-type: none"> <li>1. Pay off debts</li> <li>2. Apply for a loan based on capacity</li> <li>3. Consumer debt</li> </ol>

## 1.10 Research Method

### 1.10.1 Type of Research

This study uses a descriptive research type with a quantitative approach. descriptive research is a research method that describes the characteristics of a population or phenomenon being studied. The focus of descriptive research is to explain the object being studied in depth.

Researchers want to explain the relationship between two or more variables. The variables from this research that will be examined are Financial Literacy (X1) and Hedonism Lifestyle (X2) as independent variables on Personal Financial Management (Y) as the dependent variable.

### 1.10.2 Population and Sample

#### 1.10.2.1 Population

Population is a generalization area consisting of objects/subjects that have certain quantities and characteristics determined by the researcher to be studied and then draw conclusions (Sugiyono, 2023). In other words, the population is the total number of research subjects that will be studied later. The purpose of determining the population is so that researchers have regional boundaries in determining research subjects. The population in this study were Universitas Diponegoro undergraduate students from all faculty in Universitas

Diponegoro with the total faculty are 11, the total number of populations is not yet known. The reason for choosing this population is because university students are the focus of research related to financial literacy and hedonism lifestyle and the influence on personal financial management.

#### **1.10.2.2 Sample**

The sample is a part of the whole as well as the characteristics possessed by a population (Sugiyono, 2023). In other words, the sample is part of the population to be studied. The purpose of taking samples is when the research population is too large, therefore in order to focus more on conducting research, several samples are taken from the entire population. The sample to be taken in this study amounted to 330 people from the students of Universitas Diponegoro. This total number of samples is based on the Roscoe (1975) by taking the total amount of sample that represent each faculty are 30 students ( $11 \times 30 = 330$ ).

#### **1.10.3 Sampling Technique**

Before determining which sample to choose, we must first determine the sampling technique. This is so that the samples we examine are in accordance with what we want and do not stray anywhere.

In this study, the sampling technique used non-probability sampling with a purposive sampling approach. Purposive sampling is a sampling technique that is carried out based on certain goals and considerations. Accidental sampling is also used if the researcher finds respondents who are deemed to have the appropriate criteria for research data.

The characteristics of respondents who can be used as research samples are as follows:

- Active Universitas Diponegoro undergraduate student
- All UNDIP study majors
- Male or female
- 18-25 years of age
- Willing to fill out the distributed research questionnaire.

#### **1.10.4 Data Type and Source**

##### **1.10.4.1 Data Type**

The type of data used in this research is quantitative data. Quantitative data can be measured or calculated directly and in the form of information or explanation expressed in the form of numbers. The type of data used is the assessment of Universitas Diponegoro students related to the level of understanding of financial literacy, hedonism lifestyle, personal financial management.

##### **1.10.4.2 Data Source**

Sources of data obtain in this research are primary data and secondary data. Primary data was obtained from questionnaires distributed to respondents. While secondary data were obtained from literature sources such as books, research journals, and the internet articles related to this research.

#### **1.10.5 Measurement Scale**

The measurement scale is needed because each variable has more than one indicator. Each variable has an indicator which will be used as a statement item. The scale used in this study is the Likert scale, which is used to measure attitudes, opinions, and perceptions of a person or group about social phenomena (Sugiyono, 2023). The determination of the Likert scale score is as follows:

- Score 4 if it strongly support the question
- Score 3 if it supports the question
- Score 2 if it does not support the question
- Score 1 if it does not really support the question

#### **1.10.6 Data Collection Technique**

Data collection techniques are methods used by researchers to collect information or data that is relevant to the research objectives (Sugiyono, 2023). The data collection techniques in this research are:

- Questionnaire: Data collection technique by asking some questions to respondents online.

- Literature study: collecting data from several literature sources in the form of research journals, books, internet and will be used in the preparation of the thesis.

#### **1.10.7 Data Processing Techniques**

After the data is obtained, the data will be processed and presented in the form of a table for analysis purposes, the data processing is as follows:

- a. Editing: This process is carried out after the data is collected. The editing process is carried out to see whether the answers to the questionnaire have been filled out correctly. In addition, the editing process also aims to get quality answers so that the answers to the conclusions are right.
- b. Coding: That is the process of giving a certain code to the various answers from the questionnaire to be grouped in the same category. The purpose of coding is to simplify respondents' answers so that they are easy to process in Smart PLS and make it easier to analyse.
- c. Scoring: The Likert scale is used which is one way to determine the score. Scoring is needed because each variable is measured using more than one indicator.
- d. Tabulating: Tabulation is a grouping of answers carefully and regularly, then calculated and added up to materialize in the form of a useful table. This grouping aims so that readers can see the research results clearly.

#### **1.10.8 Research Instrument**

The research instrument is a data collection tool that is used to measure the observed natural and social phenomena (Sugiyono, 2023). The research instrument used in this study was a questionnaire containing several questions that the research subjects had to answer. The preparation of the questionnaire is based on the theoretical construction that has been prepared previously. then from the theoretical basis it will be developed into indicators and then developed into questions where the scoring uses a likert scale.

### **1.10.9 Analysis Technique**

The analytical technique used in this research is quantitative analysis technique. Quantitative analysis is an analytical method with numbers that can be calculated or measured. Quantitative analysis is intended to estimate the magnitude of the influence quantitatively from changes in one or several other events by using statistical analysis tools.

Quantitative analysis is data analysis using a quantitative data approach in which the measurements that state the numbers that have been arranged in tables and the calculations use statistical tests (SmartPLS).

#### **1.10.9.1 Validity Test**

The validity test is intended to determine whether the instrument used to obtain the data is valid or not. If it is valid, it means that the instrument can be used to measure the variables to be measured, and vice versa. In this study, the validity test was conducted using the Confirmatory Factor Analysis (CFA) method using Smart PLS. The validity test includes convergent validity and discriminant validity.

#### **1.10.9.1.1 Convergent Validity**

Convergent validity refers to the extent to which indicators of the same construct are highly correlated with each other. To test convergent validity, the Loading Factor is used. The convergent validity criteria are met if the Loading Factor for each indicator is  $> 0,7$ , indicating that the indicator has a strong correlation with the latent construct it measures (Sarstedt et al., 2021).

#### **1.10.9.1.2 Discriminant Validity**

Discriminant validity indicates the extent to which a construct differs from other constructs in the model, to test discriminant validity, can be analysed through Fornell-Larcker Criterion and the Average Variance Extracted (AVE). To be declared valid, the value of the Fornell-Larcker Criterion is  $> 0.7$ , while to be declared valid, the AVE value is  $> 0.5$ . Heterotrait-Monotrait Ratio (HTMT)  $< 0,90$  is considered to meet discriminant validity (Sarstedt et al., 2021).

#### **1.10.9.2 Reliability Test**

Reliability test is intended to test an instrument can be trusted or not. Reliable instruments will produce reliable data as well. If the data is indeed in accordance with the reality, then no matter how many times it is taken, it will still be the same. Reliability is calculated by Cronbach's Alpha and Composite Reliability (CR). Cronbach's Alpha  $> 0,7$  indicates that the questionnaire items have good internal consistency. Composite Reliability (CR)  $> 0,7$  indicates that the construct can be relied on as a consistent measurement (Sarstedt et al., 2021).

#### **1.10.9.3 Multicollinearity test**

Multicollinearity test is conducted to ensure that there is no collinearity that can affect the regression results in the model. The method used is to calculate the Variance Inflation Factor (VIF) value for each predictor in the model. The higher the VIF value, the greater the collinearity between the

predictor variables. A VIF value  $< 3$  is considered safe from significant multicollinearity problems. (Sarstedt et al., 2021).

#### 1.10.9.4 Path Coefficients Significance Test

Path coefficient are used to see the strength and direction of the relationship between variables in the structural model. To determine whether the relationship between latent variables is statistically significant, bootstrapping is performed on Smart PLS to calculate the t-statistic and p-value. t-statistic  $> 1.96$  with p-value  $< 0.05$  indicates that the relationship between variables is significant at the 95% confidence level. A positive coefficient indicates a positive influence, while a negative coefficient indicates a negative influence (Sarstedt et al., 2021).

#### 1.10.9.5 Effect Size Test ( $f^2$ )

To evaluate the impact of each independent variable on the dependent variable, the effect size ( $f^2$ ) test is carried out. This test measures the contribution or effect of each independent variable in explaining the variance of the dependent variable.

**Table 1.3 Effect Size Value Category**

$f^2$ Value	Interpretation of Effect Size
$> 0,35$	Large effect
$0,15 - 0,35$	Medium effect
$0,02 - 0,15$	Small effect
$< 0,02$	Very small or no effect

Source: (Sarstedt et al., 2021)

#### 1.10.9.6 Coefficient of Determination ( $R^2$ )

Coefficient of determination ( $R^2$ ) is used to measure how much the independent variables in the model are able to explain the variance of the dependent variable. The  $R^2$  value ranges from 0 to 1, where higher value indicate better predictive ability.

**Table 1.4 Coefficient of Determination category**

<b>R<sup>2</sup> Value</b>	<b>interpretation of predictive ability</b>
> 0,75	Predictive ability substantial
0,50 – 0,75	Predictive ability moderate
0,25 – 0,50	Predictive ability weak
< 0,25	Predictive ability very low

Source: (Sarstedt et al., 2021)

In this research, the R<sup>2</sup> value obtained shows how much the independent variables, such as Financial Literacy and Hedonism Lifestyle, able to explain the variance of Personal Financial Management. The higher the R<sup>2</sup> value, the better the model is in explaining the dependent variable (Sarstedt et al., 2021).

#### **1.10.9.7 Standardized Root Mean Square Residual (SRMR) Test**

The SRMR value measures the difference between the observed and expected correlation matrices in the tested model. An SRMR value > 0.08 is considered the ideal limit, indicating that the model has a good level of fit to the data. SRMR is used to identify potential model misspecification and helps ensure that the developed model fits the empirical data (Sarstedt et al., 2021).

#### **1.10.9.8 Predictive Relevance Test (Q<sup>2</sup>)**

A predictive relevance (Q<sup>2</sup>) test was conducted to assess the predictive ability of the model on the dependent variable. The Q<sup>2</sup> test was conducted using the Stone-Geisser's Test, which measures how well the model predicts the observed data. Q<sup>2</sup> > 0 indicates that the model has good predictive ability, while Q<sup>2</sup> < 0 indicates that the model does not have good predictive ability (Sarstedt et al., 2021).