

# FINANCIAL EDUCATION TOWARDS EARLY INVESTMENT IN HIGH SCHOOL STUDENTS: EVIDENCE FROM A RANDOMIZED EXPERIMENT

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## ABSTRACT

This study investigate the effect of financial literacy towards investment decision among high school students in Jabodetabek. Students were provided with workshop of financial investment. This study address the following questions : are young people are financially literate? How can we enhance their financial literacy? We did pre test and post test for them. From pre test analysis, we found that most young peoples are not familiar with financial literacy. Because, only 39% from sample are familiar with concept of inflation. We use “interest rate” and “inflation” questions to be tested whether respondents were knowledgeable about those two criteria. This paper uses randomized experience to explore how financial literacy changes investment decision among young peoples. The effect of financial literacy program are strong. After having workshop, students are more knowledgeable about financial literacy that might be useful for their financial decision.

**Keywords : Investment, Financial Literacy**

## 1. Introduction

Financial education is becoming a crucial dimension on human capital development, especially in the wake of global financial crisis. Lack of financial literacy will lead some negative effects on every individual well being (Keese, 2010). From every individual person, people with over debt burdens will lead to serious consequences not only for their productivity and financial conditions, but also their health. Financial education at young age is also important because an increasing number of young people are involved with debt and financial management issues with accumulation of credit card debts (Becchettia, Caiazzab, & Coviello, 2013).

Every individual commonly faces complicated financial decisions at a young age in this recent dynamic financial environment. Financial mistakes made early in life can be costly. In order to mitigate this problem, it is critical to explore how financially knowledgeable young adults are. As the complexity of financial decisions increases and individuals are put in charge of making these decisions even at young age. It is important to find ways to equip people with adequate financial knowledge. Many young peoples may be unable to manage their finance effectively and planning about future.

Many previous research have shown that financial literacy can have important implications for financial behavior (Lusardi, Mitchell, & Curto, 2009). The importance of this research is about financial literacy which performs importance role for individual well being

through understanding of investment. From every individual person, people with over debt burdens will lead to serious consequences not only for their productivity and financial conditions, but also their health. This paper added to many previous research about exploring how young peoples exposed about financial literature that determined from two questions about interest rate and inflation. However, many financial education program simply assess whether individuals increase their investmen after exposed to financial literacy.

## 2. Literature Review

Financial Literacy is defined as the ability of people to make financial decisions in their own (Mandell, 2008). Financial literacy is a key element for financial decision making which may affect well being and every aspect of people’s lives. Inadequate level of financial education, especially for young generation will lead to a serious problem. Financial literacy could be defines as measuring how well an individual can understand and use personal finance-related information. According to international studies on financial literacy, the factors that can lead higher financial education include changing demographic profiles, development of new financial products, complexity of financial markets, changes in political, demographic and economic factors and decrease in personal savings while personal indebtedness is increasing.

Financial Literacy training were more attune to making choices that can described as investments in the future and delaying gratification (Jarboui, 2015). To examine how well equipped young people are to make financial decisions, we analyzed financial literacy questions such as interest rates, effect of inflations and Risk differsification based on differences between bonds & stocks. These questions aim to measure financial literacy of the respondent. We replicate these questions from (Lusardi & Mitchell, 2009).

1. Interest Rate Qustions : Suppose you had Rp 2,000,000,- in your bank’s savings account and interest rate was 3.5% per year. After 5 years, how much do you have in your account?
2. Inflation Questions : Imagine interest rate on banks was 2.5% per year and inflation was 3.5% per year. After 1 year, would you be able to buy more than, exactly the same or less than your money today?
3. Do you think this following statement is true or false : Buying a stock is safer than invest in Bonds?

Interest rate and inflation questions were tested to respondent to know whether the respondents were knowledgeable about inflation and basic financial numeracy. The third questions about risk diversification was tested to know whether respondents knows about diversification aspect, a crucial element on investment decision (Lusardi & Mitchell, 2009).

## 3. Research Method

Data collection method was done through primary sources. We distribute the questionnaires to respondents to be answered. The questionnaires is true/false type questions based on basic financial literacy. Sample from this study is high school students from Jabodetabek who were invited in UPH Gallery Investment Tangerang. There were 33 high school students who participated in this workshop. We choose high school students because they represents young investor’s criteria that match with our topic.

At the beginning of our session, we did a pretest before the workshop to measure respondent’s financial knowledge. After workshop, we did a post test. This is conducted to know the effect

of Financial Education toward investment behavior among high school students. Table 3.1 showed pre test study toward a sample.

Table1. Pretest : Responses to Financial Literacy Questions

	Correct	Incorrect
Interest Rate	36%	64%
Inflation	39%	61%
Risk Diversification	45%	55%

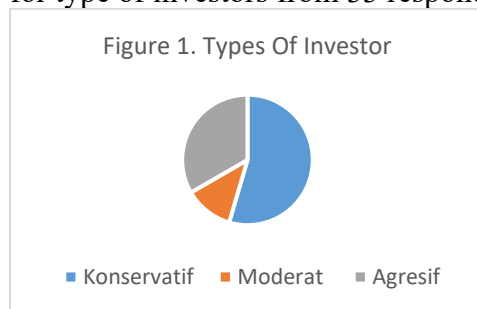
Source : Data Processing (2023)

#### 4. Results and Discussion

Workshop had been conducted on Saturday, 28 January 2023 from 08.00 until 14.00. After respondents filled the pre-test questionnaires, we deliver workshop materials about concept of inflation and time value of money. Some materials about investment has been delivered to them to enhance their knowledge about financial literacy. Some material for this workshop are as follow :

1. Time Value of Money & Inflation
2. The Importance of Investment
3. Types of Financial Instruments
4. Types of Investors

At the middle of workshop, we also spread a questionnaires about what types of investor they are. Respondents must know what type of investor because this is a crucial factor to know what kind of Financial Instruments that most suitable for each of them. We want to emphasize that every individual is unique and never follow other people’s step for investing. The result for type of investors from 33 respondents are as follow :



The result is predictable because most of them are still lack of knowledge about type of Financial Instruments, no wonder 54% from total respondents is conservative investors, 12% are moderat investors and 34% are aggressive investors. This result can be different after they are familiar enough with investing in capital market. These results are supported by (Irwin, 1993) which stated that the younger generation is more risk tolerant than the older generation. This is because the younger generation is more willing to take risks because they have more time to learn from miscalculations in investing. This is also supported by (Coco & Maunhout, 2005) which proves that a person's level of risk aversion will increase with age.

After each respondent knows what type of investor they are, we deliver every materials about types of financial instruments with more detail, one by one, risks involved in each type of instruments and tips and tricks for buying stocks. On the last session, we had a plenty of time for question and answer session.

Figure 2. Discussion Session with Each Respondent



After questions and answer session, we did post-test to know whether this workshop bring a real impact to them. Post test had been conducted through a questionnaires with same questions like pre test questionnaires. The result for Post test is as follow :

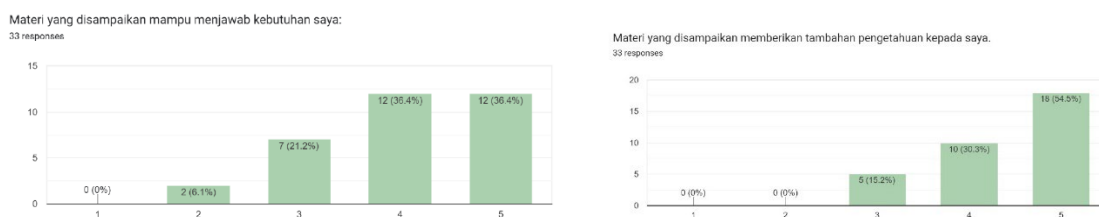
Table 2. Post test : Responses to Financial Literacy Questions

	Correct	Incorrect
Interest Rate	53%	47%
Inflation	51%	49%
Risk Diversification	77%	23%

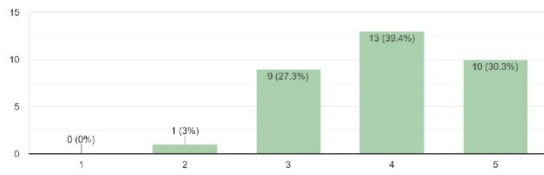
Source : Data Processing (2023)

Based on the result on Table 2, we can conclude that financial education can enhance their literacy. Increasing level of financial literacy can increase their willingness toward early investment. We also did survey questionnaires to know whether this workshop can bring a real impact for each of them. Type of questionnaires is likert scale (1 = Strongly Disagree , 5 = Storngly Agree).

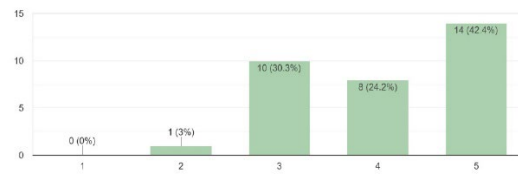
Figure 3. Survey Results from Respondents



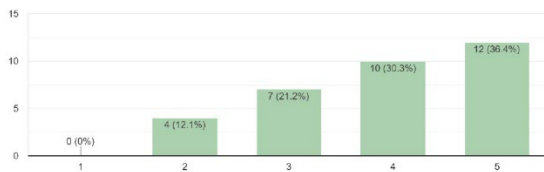
Materi yang diberikan membantu saya dalam pekerjaan/study.  
 33 responses



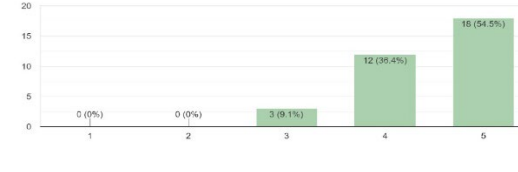
Pembicara memberikan materi dengan jelas  
 33 responses



Pembicara menguasai materi yang disampaikan  
 33 responses



Tim UPH bisa mengelola waktu dengan baik  
 33 responses



Source: Survey Data (2023)

## 5. Conclusion

Workshop about Financial Literacy to encourage early investment among high school students ran smoothly. The aim to enhance financial literacy to high school students has been delivered successfully. Likewise, the introduction of financial instruments to high school students has also been delivered well. However, there is a few students who still find any difficulties to do a real practice for real investment because their parents have not given them permission. There's not much the PKM team can do if they don't have permission from their parents. But at least having an understanding of financial literacy and the importance of investment can be an asset for students in managing their personal finances in the future.

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