

## The Influence of Financial Literacy on Rational Financial Decision-Making in Modern Individual Financial Management

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### Abstract

This study aims to analyze the influence of financial literacy on rational financial decision-making in modern individual financial management. This research uses a quantitative approach with a survey method by distributing questionnaires to respondents. The number of respondents in this study was 100 individuals involved in managing personal finances. The data analysis techniques used include validity tests, reliability tests, correlation analysis, simple linear regression analysis, and hypothesis testing using the t-test. The results show that financial literacy has a positive and significant influence on rational financial decision-making. This indicates that individuals with higher levels of financial literacy tend to better understand financial information and are able to make more rational financial decisions in managing their personal finances. Therefore, improving financial literacy is an important factor in supporting more effective and sustainable individual financial management.

Keywords: Financial Literacy, Rational Financial Decision-Making.

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### 1. Introduction

In the modern era marked by technological developments and the complexity of the financial system, the ability of individuals to manage finances has become increasingly important (Maulina et al., 2023). Lifestyle changes, easy access to various financial products, and increasing digital-based consumption require individuals to have a good understanding of personal financial management (Rahayu, 2025). Without adequate knowledge, individuals have the potential to make inappropriate financial decisions, which can ultimately have an impact on long-term financial conditions (Saputra & Zoraya, 2024).

One of the important factors that affect a person's ability to manage finances is financial literacy (Edmore, 2017). Financial literacy is not only concerned with understanding the basic concepts of finance, but also includes the ability of individuals to use that knowledge to make informed financial decisions. According to the Organisation for Economic Co-operation and Development, financial literacy is a combination of knowledge, skills, attitudes, and behaviors needed to make effective financial decisions to achieve individual financial well-being (Fadila et al., 2025).

A good level of financial literacy can help individuals understand various financial products and services, such as savings, investments, insurance, and loans (Alshater et al., 2022). With that understanding, individuals can assess the risks and benefits of each financial decision taken. Conversely, low financial literacy can

cause individuals to make less rational decisions, such as excessive consumption, uncontrolled use of debt, or lack of long-term financial planning (Arianti, 2022).

From a behavioral economics perspective, rational financial decision-making is one of the main goals in individual financial management. This concept is related to the theory of Rational Choice *Theory*, which explains that individuals tend to make decisions based on logical considerations to obtain maximum benefits with minimal risk. In the context of financial management, rational financial decisions can be reflected in behaviors such as budgeting, saving regularly, making planned investments, and avoiding unnecessary expenses (Putri, 2025).

But in practice, not all individuals are able to make rational financial decisions. Various factors such as lack of financial knowledge, the influence of the social environment, and consumptive behavior often affect the way individuals manage their finances. This shows that financial literacy has an important role in shaping more rational and responsible financial decision-making patterns (Subur, 2025).

In the life of modern individuals, good financial management is one of the important factors in achieving financial well-being. Individuals with high levels of financial literacy tend to be better able to plan their finances, manage income and expenses effectively, and make wiser investment decisions. Conversely, low financial literacy can increase the risk of errors in financial decision-making that can negatively impact an individual's economic stability (Manek, 2026).

Based on this description, research on the influence of financial literacy on rational financial decision-making is important to be conducted. This study aims to analyze the extent to which financial literacy affects the ability of individuals to make rational financial decisions in personal financial management in the modern era. The results of this research are expected to contribute to increasing understanding of the importance of financial literacy in shaping better financial management behavior.

## **2. Research Methods**

This study uses a quantitative approach with a survey method to Analyze The Influence of Financial Literacy on Rational Financial Decision Making in Modern Individual Financial Management. The quantitative approach was chosen because this study aims to test the relationship between variables empirically through statistical analysis (Aveling et al., 2015).

### **a. Types and Approaches to Research**

The type of research used is associative research, which is research that aims to determine the relationship or influence between independent variables and dependent variables. In this study, the independent variable is financial literacy, while the dependent variable is rational financial decision-making (Njie & Asimiran, 2014).

### **b. Population and Sample**

The population in this study is individuals who are active in managing personal finances in daily life. The research sample was taken using the purposive sampling technique, which is a sample determination technique with certain criteria that are in accordance with the research objectives. The criteria

for respondents in this study were individuals who have their own income and are involved in personal financial decision-making (Ishtiaq, 2019).

The number of samples in this study is 100 respondents which are considered sufficiently representative of the population for statistical analysis purposes.

#### c. Data Collection Techniques

The data used in this study is primary data obtained through the distribution of questionnaires to respondents. The questionnaire was compiled using the Likert scale with five levels of answers, namely:

- 1) = strongly disagree
- 2) = Disagree
- 3) = Neutral
- 4) = Agree
- 5) = Strongly Agree

The research instrument consists of several statements that measure the variables of financial literacy and rational financial decision-making.

#### d. Data Analysis Techniques

The data that has been collected is then analyzed using several statistical analysis techniques, namely (Almalki, 2016):

##### 1) Validity Test

The validity test was carried out to find out whether the research instrument was able to measure the variables being studied precisely.

##### 2) Reliability Test

The reliability test is used to determine the level of consistency of research instruments in measuring research variables.

##### 3) Simple Linear Regression Analysis

Simple linear regression analysis was used to determine the influence of financial literacy variables on rational financial decision-making.

##### 4) Correlation Analysis

Correlation analysis is used to determine the strength of the relationship between financial literacy and rational financial decision-making.

##### 5) Hypothesis Test (t-Test)

The t-test is used to find out whether the financial literacy variable has a significant effect on rational financial decision-making.

Through this research method, it is hoped that a clear picture can be obtained of the influence of financial literacy on rational financial decision-making in modern individual financial management.

### 3. Results and Discussion

#### 3.1. Research results

##### 3.1.1 Respondent Characteristics

This study involved 100 respondents who were individuals who were active in managing personal finances. The characteristics of the respondents

in this study were classified based on gender, age, and education level to provide an overview of the profiles of respondents involved in the study.

**Table 1. Respondent Characteristics**

Yes	Characteristics	Categories	Quantity	Percentage
1	Gender	Male	48	48%
		Women	52	52%
2	Age	18–25 Years	40	40%
		26–35 Years	35	35%
		>35 Years	25	25%
3	Education	High School/Equivalent	30	30%
		Diploma/S1	55	55%
		S2	15	15%
Total			100	100%

Data source: processed 2026

Based on the table, the majority of respondents in this study are women with a percentage of 52%. In addition, most of the respondents were in the age range of 18–25 years with a percentage of 40%, and were dominated by respondents with a Diploma/S1 education level.

### 3.1.2 Validity Test

The validity test was carried out to determine the extent to which the research instrument was able to measure the variables studied. Validity testing was carried out by comparing the value of  $r$  calculated with the  $r$  table at a significance level of 0.05 with the number of respondents as many as 100 people. The  $r$ -value of the table in this study was 0.197.

**Table 2. Validity Test Results**

Statement Items	$r$ Count	$r$ Table	Remarks
X1	0,621	0,197	Valid
X2	0,587	0,197	Valid
X3	0,654	0,197	Valid
X4	0,602	0,197	Valid
Y1	0,638	0,197	Valid
Y2	0,601	0,197	Valid
Y3	0,675	0,197	Valid
Y4	0,612	0,197	Valid

Data source: processed 2026

Based on the validity test results, all statement items have a greater calculated  $r$  value than the  $r$  table. Thus, all statement items in the questionnaire are declared valid and can be used in the research.

### 3.1.3 Reliability Test

The reliability test was carried out to determine the level of consistency of the research instrument. Reliability testing is carried out using Cronbach's Alpha value with the provision that an instrument is declared reliable if Cronbach's Alpha value is greater than 0.60.

**Table 3. Reliability Test Results**

Variable	Cronbach's Alpha	Remarks
Financial Literacy (X)	0,782	Reliable
Rational Financial Decisions (Y)	0,801	Reliable

Data source: processed 2026

Based on the results of the reliability test, both variables had a Cronbach's Alpha value greater than 0.60 so it can be concluded that the research instrument has a good level of reliability.

### 3.1.4 Simple Linear Regression Analysis

Simple linear regression analysis is used to determine the influence of financial literacy on rational financial decision-making.

The regression equation model in this study can be written as follows:

$$Y = a + bX$$

Where:

Y = Rational Financial Decision

X = Financial Literacy

a = Constant

b = Regression coefficient

**Table 4. Results of Simple Linear Regression Analysis**

Variable	Regression Coefficients	t Count	Sig
Constant	8,214	-	-
Financial Literacy	0,652	6,321	0,000

Data source: processed 2026

Based on the results of the regression analysis, the following equations were obtained:

$$Y = 8.214 + 0.652X$$

These results show that financial literacy has a positive influence on rational financial decision-making. This means that any increase in financial literacy will improve the individual's ability to make rational financial decisions.

### 3.1.5 Hypothesis Test (t-Test)

The t-test was conducted to find out whether the financial literacy variable had a significant effect on rational financial decision-making.

The results of the analysis showed that the calculated t-value was 6.321, while the table t-value was 1.984 at a significance level of 0.05. Since  $t_{\text{calculated}} > t_{\text{table}}$ , the research hypothesis is accepted.

Thus, it can be concluded that financial literacy has a significant effect on rational financial decision-making in the financial management of modern individuals.

## 3.2. Discussion

The results of the study show that financial literacy has a positive and significant influence on rational financial decision-making. This shows that individuals who have a better level of financial literacy tend to be able to understand financial information better and be able to make smarter financial decisions.

Individuals with high levels of financial literacy tend to be better able to manage income, control expenses, and plan savings and investments more effectively (Ramin, 2021). In contrast, individuals with low levels of financial literacy tend to be more susceptible to less rational financial decision-making, such as overconsumption or uncontrolled debt management (Kulintang & Putri, 2024).

Financial literacy includes an in-depth understanding of basic financial concepts such as compound interest, inflation, and risk diversification (Hasanah & Lubis, 2025). According to economists Annamaria Lusardi and Olivia Mitchell in their fundamental works, financial literacy is not just about knowing numbers, but about the ability to process economic information and make informed decisions regarding retirement planning, savings, and loans. The dimension of financial literacy is generally divided into three main pillars: financial literacy (*Financial Knowledge*), financial behavior (*Financial Behavior*), and financial attitudes (*Financial Attitude*) (Dani, 2025).

Financial literacy involves a theoretical understanding of how money works in the world. Financial behavior is concerned with the real actions of individuals, such as budgeting and paying bills on time. Meanwhile, financial attitudes reflect an individual's psychological inclination toward money, whether they are more

concerned with short-term consumption or long-term financial security (Ferbianti, 2025).

### 3.2.1 Rational Financial Decision-Making

In classical economics, individuals are assumed to be *Homo Economicus* who always act rationally to maximize their utility based on the available information. Sound financial decision-making involves an objective evaluation of risks and returns (*Risk and return*). Expected utility models (*Expected Utility Theory*) states that individuals will choose the option that provides them with the highest usability value (Wicaksono et al., 2025).

However, in practice, humans are often influenced by cognitive bias. This is where financial literacy plays a balancing act. With high literacy, individuals can mitigate the impact of *Behavioral biases* such as *loss aversion* (tendency to fear loss more than desire to make a profit) or *Herding Behavior* (follow market trends without analysis). Financial literacy provides a logical framework that allows individuals to calculate opportunity costs (*opportunity cost*) of every decision taken (Iqbal et al., 2025).

### 3.2.2 The Influence of Literacy on Modern Financial Management

Modern society faces much more complex challenges than previous generations, including the digitization of banking, the rise of crypto assets, and the shift of retirement responsibilities from employers to individuals. The influence of financial literacy on individual financial management can be seen in several crucial aspects (Miller et al., 2018):

- a) Savings and Investment Planning: Financially literate individuals tend to have an emergency fund and invest in instruments that fit their risk profile. They understand the compound interest formula:

$$A = P \left( 1 + \frac{r}{n} \right)^{nt}$$

where;

A = is the final total,

P = is the starting capital,

r = is the annual interest rate,

n = is the frequency of fertilization of flowers, and

t = is the time of the year.

- b) Debt Management: Financial literacy is negatively correlated with excessive debt levels. Individuals who understand interest costs will be more cautious about using credit cards or *online loans* that have high interest rates.
- c) Preparation for Old Age: Research shows that those with high financial literacy scores are more likely to start saving for retirement early, taking advantage of the effects of time in wealth accumulation.

### 3.2.3 The Relationship between Financial Literacy and Financial Welfare

Financial well-being (*Financial Wellbeing*) is the end result of rational financial decisions. It's not just about being rich, but about having control over daily finances, having the capacity to absorb financial shocks, and being on track to achieve financial goals. Financial literacy acts as a catalyst that converts income into wealth through efficient management. Without literacy, even high incomes can be depleted due to consumptive lifestyles and poor investment decisions (Martínez De Ibarreta et al., 2025).

In the information age, the main challenge is not the lack of information, but rather the ability to filter out relevant information. Financial literacy provides such "filters", allowing individuals to distinguish between legitimate investment advice and fraudulent schemes.

## 4. Conclusion

Based on the results of research on the influence of financial literacy on rational financial decision-making in modern individual financial management, it can be concluded that financial literacy has an important role in influencing the way individuals make decisions related to finance. Individuals with better levels of financial literacy tend to be able to understand a wide range of financial information, so they can weigh the risks and benefits before making financial decisions.

The results of the analysis show that financial literacy has a positive and significant effect on rational financial decision-making. This means that the higher a person's level of financial literacy, the better the individual's ability to manage personal finances wisely, such as managing expenses, saving, and planning investments for the future.

Thus, financial literacy is one of the important factors that can support the creation of more effective and rational individual financial management. Therefore, increasing financial literacy through financial education and socialization is very necessary so that people are able to make more appropriate financial decisions and achieve financial prosperity in the long term.

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