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THE INFLUENCE OF FINANCIAL LITERACY ON THE QUALITY OF ECONOMIC DECISION MAKING AMONG URBAN COMMUNITIES

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ABSTRACT

To make wise financial decisions, especially amid the complexity of today's financial situations, financial literacy encompassing knowledge, skills, and confidence is crucial. Financial literacy is an essential ability in urban environments, where the economic dynamics are highly complex. This study examines how financial literacy influences the ability of urban residents to make wise financial decisions. A quantitative approach was used with a survey of 200 individuals with stable incomes, from the upper middle class in Lhokseumawe City, aged between 25 and 55 years. Purposive sampling was used to choose the sample. The questionnaire measured the quality of economic decision-making and financial literacy (knowledge, skills, and confidence) using a 5-point Likert scale. To analyze the relationships between variables, multiple linear regression, descriptive statistics, t-tests, and F-tests were applied. The findings showed that the regression model $Y = 0.298 + 0.223X1 - 0.096X2 + 0.766X3 + \epsilon$ illustrates the relationship between dependent and independent variables. Financial knowledge significantly improves the quality of economic decision-making (t-statistic 6.292, $p = 0.000$). Financial skills negatively affect economic decision-making (t-statistic -3.258, $p = 0.001$). Confidence significantly positively influences decision-making (t-statistic 18.947, $p = 0.000$). The F-test revealed an F-value of 244.043 with $p = 0.000$, confirming the significant impact of independent variables on the quality of economic decision-making. These findings highlight the importance of knowledge and confidence in economic decisions, while incorrect financial skills may pose risks.

***Keywords**: Financial Literacy, Economic Decision-Making, Financial Knowledge, Financial Skills, Self-Confidence*

INTRODUCTION

Financial literacy has become an essential skill in facing economic challenges in the modern era, especially for urban communities who are often exposed to a variety of complex financial choices. In the midst of urban economic dynamics, the ability to understand and use financial information effectively plays an important role in making wise economic (Ansong & Gyensare, 2012; Rieger, 2020). Financial literacy includes not only basic knowledge about money and financial products, but also practical skills and self-confidence in managing economic resources, all of which are important in achieving financial well-being.

Prior studies have demonstrated the beneficial effects of strong financial literacy on a person's capacity to control spending, make wise investment choices, and lower financial risk. For example, Murendo & Mutsonziwa (2017) found that individuals with better financial literacy were more careful in managing personal finances, and were better able to navigate risky economic situations. Additionally, strong financial literacy is also associated with better financial planning, which can improve overall economic well-being (Al-Bahrani et al., 2019; Taft et al., 2013).

On the other hand, inadequate financial literacy may lead to bad choices regarding investments, credit utilization, and debt management. Gunata et al. (2024) demonstrated that, particularly in populations with limited access to financial education, a lack of knowledge of fundamental financial principles frequently results in mistakes when allocating vital resources. This shows that the ability to make effective economic decisions requires adequate financial literacy, not only for daily decisions, but also for long-term planning (Desiyanti & Kassim, 2020; Mariana et al., 2025).

In urban areas like Lhokseumawe, a city experiencing ongoing shifts in its economic structure due to regional development, decentralization, and digital financial inclusion, financial literacy takes on additional importance. Despite having access to banking services and digital financial tools, many individuals in Lhokseumawe-especially from middle to upper-income backgrounds-still face challenges in effectively using these services to make optimal economic decisions. For instance, managing digital transactions, evaluating investment risks, or planning for long-term financial goals can be particularly difficult without a solid foundation in financial knowledge, skills, and confidence. According to Taft et al., (2013), people with greater education and access to financial education typically have higher financial literacy, which in turn facilitates better decision-making (A. Lubis et al., 2019).

To address the research gap, this study will explore the evolving role of financial literacy in response to recent technological advancements and the rise of digital financial services. While many existing studies focus on traditional financial education and decision-making models, limited attention has been given to how digital platforms and tools influence financial behavior in regional urban settings like Lhokseumawe. By examining the intersection of financial literacy and digital finance, this study aims to provide a more comprehensive understanding of how modern financial technologies impact the quality of economic decision-making.

Thus, enhancing personal financial well-being requires a high level of financial literacy. According to earlier studies, improving financial literacy helps people comprehend different financial products more thoroughly, which eventually leads to a higher standard of living and more stable finances (Akca et al., 2018; Reich & Berman, 2015).

Therefore, this study aims to examine the partial and simultaneous effects of three key indicators-financial knowledge, financial skills, and self-confidence-on the quality of economic decision-making among urban communities in Lhokseumawe. These objectives are based on the hypothesis that each of these aspects of financial literacy significantly influences economic decision quality, either independently or in combination.

RESEARCH METHOD

This study investigates the relationship between financial literacy and the standard of economic decision-making in urban populations using a quantitative technique and survey instruments. Because it enables objective and systematic measurement of the variables under study and for broader applicability of the findings, a quantitative method was selected (Fajri et al., 2023; Mariana et al., 2020; Satayarak & Benjangkaprasert, 2022). The degree of financial literacy is described by the research design using a descriptive design, and the relationship between financial literacy and the caliber of economic decision-making is explained using an explanatory design (Liza & Mariana, 2023; Mariana & Ramadana, 2020; Tyasnurita et al., 2023).

The population in this research is people with middle to upper income who live in Lhokseumawe City. By drawing samples using a purposive sampling technique, 200 respondents were selected based on the criteria of age 25-55 years and having a fixed income (Herdhiana et al., 2023). The research instrument is a 5-point Likert scale questionnaire that measures financial literacy (knowledge, skills and self-confidence) and the quality of economic decision making.

The validity of the questionnaire was tested using the Pearson Product Moment technique to verify whether the instrument measured the concept in question accurately. Meanwhile, the reliability test uses Cronbach's Alpha to ensure the internal consistency of the questionnaire, with a value above 0.7 considered reliable (Mariana, Ramadana, et al., 2024; Rai et al., 2019; Ramadana & Mariana, 2023).

The effects of financial literacy on the standard of economic decision-making is assessed using multiple linear regression models, and data processing is done using SPSS version 27 (Chytis et al., 2020; Mariana & Liza, 2024):

$$Y=\alpha+\beta 1X1+\beta 2X2+\beta 3X3+\epsilon$$

Information:

Y : Quality of economic decision making
X1 : Financial knowledge
X2 : Financial skills
X3 : Self-confidence
α : Intersection

$\beta 1, \beta 2, \beta 3$: Regression coefficients
ϵ : Error term

The analysis of the collected data will employ several statistical methods. Initially, descriptive analysis will provide an overview of the quality of economic decision-making (Y) and the levels of the independent variables: financial knowledge (X1), financial skills (X2), and self-confidence (X3). This will entail providing a summary of important metrics including standard deviations, means, and frequencies. Subsequently, each independent variable's partial effects on the dependent variable will be evaluated using a t-test to see if it has a statistically significant effect on the quality of economic decision-making. The simultaneous impacts of all independent variables will then be assessed using an F-test to see whether financial knowledge, financial abilities, and self-confidence all work together to affect the caliber of economic decision-making. These methods will offer a comprehensive understanding of the connections between the variables (Mariana et al., 2020, 2018). Furthermore, standard assumption tests were conducted, such as multicollinearity, heteroscedasticity, and normality tests, to guarantee the validity and dependability of the regression model (Mariana, Liza, et al., 2024; Ramadana et al., 2023).

RESULTS AND DISCUSSION

The first phase that can give a thorough picture of the properties of the variables employed in research is descriptive data. Values like the average, standard deviation, minimum value, and maximum value are determined from the examined data using descriptive statistics (Korkmaz, 2011; Mariana et al., 2020). Following is the Descriptive Statistics Table:

Table 1. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Quality of Economic Decision Making	2.00	5.00	3.4800	0.60117
Financial knowledge	2.00	5.00	3.6750	0.65691
Financial skills	2.00	5.00	3.4650	0.67159
Self-confidence	2.00	5.00	3.5200	0.57555
Valid N (listwise)		200		

According to the descriptive analysis, respondents' scores on the quality of economic decision-making range from a minimum of 2.00 to a maximum of 5.00, with an average (mean) score of 3.48 and a standard deviation of 0.60. This implies that although the majority of respondents are able to make sound financial judgments, there is still considerable variation in their decision-making skills, suggesting that participant-specific factors affecting decision quality may vary.

With a mean of 3.68 and a standard deviation of 0.66, the respondents' financial knowledge scores, which varied from 2.00 to 5.00, showed that they usually understood financial concepts well. The majority of respondents seem to have a firm grasp of financial concepts based on these figures, although some would benefit from further instruction to enhance their comprehension.

Financial skills, with a mean score of 3.47 and a standard deviation of 0.67, reveal a slightly higher variability than financial knowledge. This implies that while respondents show an overall reasonable level of financial skills, there is a wider range of ability, suggesting that some individuals may face challenges in effectively applying their financial knowledge to real-world situations.

The analysis was based on data from 200 verified respondents, providing a reliable foundation for understanding the general financial literacy levels within this urban population.

Table 2. Validity Test

Statement	Variable	Correlation Coefficient
Knowledge_Indicator_1	Financial Knowledge (X1)	0.451
Knowledge_Indicator_2		0.303
Knowledge_Indicator_3		0.574
Knowledge_Indicator_4		0.5
Knowledge_Indicator_5		0.71
Skills_Indicator_1	Financial Skills (X2)	0.353
Skills_Indicator_2		0.448
Skills_Indicator_3		0.661
Skills_Indicator_4		0.386
Skills_Indicator_5		0.655
Confidence_Indicator_1	Self-Confidence (X3)	0.446
Confidence_Indicator_2		0.568
Confidence_Indicator_3		0.408
Confidence_Indicator_4		0.658
Confidence_Indicator_5		0.248
Economic_Decision_Indicator_1	Quality of Economic Decision Making (Y)	0.379
Economic_Decision_Indicator_2		0.461
Economic_Decision_Indicator_3		0.592
Economic_Decision_Indicator_4		0.455
Economic_Decision_Indicator_5		0.643

The table displays the correlation coefficients for the various elements of the Financial Knowledge (X1), Financial Skills (X2), Self-Confidence (X3), and Quality of Economic Decision Making (Y). The Financial Knowledge (X1) section's coefficients all exhibit moderate to high positive relationships with other factors and are statistically significant ($p < 0.001$). They range between 0.303 and 0.710. This implies that, in the context of the study, better results are associated with more financial literacy. Comparably, the coefficients for Financial abilities (X2) show substantial positive associations, ranging from 0.353 to 0.661, indicating that improved positive outcomes are linked to an increase in financial abilities.

In the Self-Confidence (X3) category, correlation coefficients range from 0.248 to 0.658. While some statements indicate strong correlations, the lowest value highlights a weaker relationship, yet all are statistically significant, underscoring the importance of self-confidence in economic decision-making. Finally, the Quality of Economic Decision Making (Y) section displays significant positive associations with coefficients ranging from 0.379 to 0.643. This implies that greater financial knowledge, proficiency, and self-assurance are associated with better economic decision-making. Overall, the results show that improving the caliber of economic decision-making requires a strong foundation in financial knowledge, abilities, and confidence.

Table 3. Reliability of Research Variables (Alpha)

Variable	Cronbach's Alpha	Reliability
Financial Knowledge	0.671	Reliable
Financial Skills	0.649	Reliable
Self-Confidence	0.61	Reliable
Quality of Economic Decision Making	0.667	Reliable

The table 3 shows that all four variables, Financial Knowledge (0.671), Financial Skills (0.649), Self-Confidence (0.610), and Quality of Economic Decision Making (0.667), exhibit Cronbach's Alpha values above 0.60, indicating their reliability. Both Financial Knowledge and Quality of Economic Decision Making demonstrate strong internal consistency, while Financial Skills also shows reliability. Self-Confidence, with a value of 0.610, is marginally reliable, reflecting some variability in respondents' perceptions. Overall, these findings suggest that the instruments used effectively capture the intended constructs, allowing for accur ate analysis of the relationships among these variables.

Table 4. Partial Test Results

Variabel	B	Std. Error	t	Sig.
(Constant)	0.298	0.165	1.811	0.072
Financial Knowledge (X1)	0.223	0.035	6.292	0
Financial Skills (X2)	-0.096	0.029	-3.258	0.001
Self-Confidence (X3)	0.766	0.04	18.947	0

Table 4 shows the discoveries of a relapse examination that appears the relationship between the subordinate variable and the autonomous factors Budgetary Information (X1), Budgetary Aptitudes (X2), and Self-Confidence (X3). The anticipated esteem of the subordinate variable when all autonomous factors are zero is demonstrated by the steady esteem of 0.298. The subordinate variable will increment by 0.223 for each unit increment in Monetary Information, concurring to the coefficient of 0.223. This is supported by the t-statistic of 6.292 and the significance value (Sig.) of 0.000, both of which point to a highly significant effect. Its value of -0.096, however, means that the dependent variable will fall by 0.096 for every unit rise in Financial Skills. Furthermore, a considerable influence is suggested by its t-statistic of -3.258 and Sig. 0.001. According to the coefficient of 0.766, the dependent variable for self-confidence will increase by 0.766 for each unit increment. The t-statistic of 18.947 and Sig. 0.000 show that the effect is highly significant.

Table 5. Determinant Test (Model Summary and F Test)

Statistik	Value
R	0.888
R Square	0.789
Adjusted R Square	0.786
F Test	244.043
Sig.	0

As can be watched in Table 5 over, the demonstrate comes about illustrate a great relationship between the autonomous and subordinate factors with a R esteem of 0.888. The autonomous factors are accepted to account for roughly 78.9% of the change within the subordinate variable, concurring to the R Square score of 0.789. The Balanced R Square, at 0.786, gives a more exact appraisal of the model's capacity to clarify. The F esteem of 244.043 at a centrality level of assist bolsters the relapse model's factual noteworthiness by illustrating that at slightest one autonomous variable altogether influences the subordinate variable. By and large, the discoveries demonstrate that budgetary information and self-confidence have a positive and critical affect on the degree of financial decision-making, though monetary abilities have a negative impact. This relapse show is reliable and successful, and it may account for a noteworthy portion of the instability within the dependant variable.

The quality of economic judgment and financial literacy have been the subject of recent research, and the evidence to date points to a favorable correlation between the two. With a t-value of 6.292, a regression coefficient of 0.223, and a significance level of 0.000 ($p < 0.001$), the study demonstrates a correlation between more financial knowledge and superior decision-making quality. This finding aligns with the literature that highlights the significance of financial literacy in making informed decisions.

Selvia et al. (2020), for instance, point out that people who possess a high level of financial literacy are more likely to make wise financial decisions (Palaci et al., 2017). Similarly, Lusardi (2019) found a substantial correlation between financial literacy and good financial practices, such as better financial planning and decision-making skills (Loza et al., 2024). In support of these findings, Świecka et al. (2021) examined how consumer financial knowledge affected payment behavior and showed that financial behaviors are positively correlated with both objective and subjective financial knowledge (Wang & Loh, 2023). The current study's claim that financial literacy is essential for encouraging sound economic judgment is supported by this collection of evidence.

Moreover, the influence of financial knowledge extends to behavioral changes. Jorgensen & Savla (2010) demonstrated that financial knowledge significantly impacts financial attitudes, which subsequently shape financial behaviors (Cude et al., 2020). The claim that financial knowledge is essential for sound economic decision-making is supported by their research, which shows that good financial attitudes and behaviors rise in tandem with financial knowledge. In a related context, Ali & Talha (2022) examined how financial knowledge affected financial management behavior during the COVID-19 pandemic and found that financial management practices were highly impacted by both subjective and objective financial information (Damayanti & Wicaksana, 2021). In line with the results of the current study, this emphasizes how important financial literacy is for navigating economic uncertainty.

The significance of financial education is profound. Findings from the current study align with extensive research that promotes the development of financial education programs. Walstad et al. (2010) for example, demonstrated how financial education significantly improves high school students' financial knowledge, suggesting that educational strategies can effectively increase financial literacy and, consequently, improve the caliber of economic decision-making (Tubastuvi et al., 2023). Additionally, Hayeemaming (2022) emphasizes the importance of financial literacy in both emerging and mature economies, where many still do not have a full grasp of financial concepts (Suhana et al., 2021). This underlines the critical role financial education plays in advancing economic decision-making capabilities across various settings.

The recent findings indicating that higher financial skills are associated with a decrease in economic decision-making quality ($\beta = -0.096$, t-value = -3.258, Sig. = 0.001, $p < 0.01$) challenge much of the existing literature on financial literacy and decision-making. These results suggest that increased financial skills may not always correlate with better decision-making outcomes. For instance, Kakinuma (2022) argues that financial literacy enhances individuals' ability to navigate financial technologies and manage risks effectively, leading to better decision-making. This perspective contrasts with the current study, which shows that financial skills alone may not necessarily result in better decision-making, highlighting the complexity of how financial skills influence economic choices (Jorgensen & Savla, 2010).

The connection between financial skills and the quality of economic decision-making has attracted considerable attention in recent research, especially given findings that suggest higher financial skills do not always result in better decision-making outcomes. This challenges the prevailing notion that enhanced financial literacy invariably leads to improved financial decision-making. For example, recent studies indicate a complex relationship between financial skills and decision-making quality, raising critical questions about the simplistic view of financial literacy as a universal solution for economic decision-making challenges (Xiao & Porto, 2017).

Contrary to the perspective that financial skills always enhance decision-making, some research suggests that financial literacy equips individuals with the necessary tools to navigate complex financial landscapes and manage risks effectively, thereby enhancing decision-making capabilities (Kakinuma, 2022). This view is supported by studies highlighting that financial literacy is essential for fostering economic resilience, particularly among micro, small, and medium enterprises (MSMEs) (Tubastuvi et al., 2023). Their findings indicate that financial skills are crucial for sound decision-making in business contexts, adding complexity to the narrative that higher financial skills could lead to poorer outcomes. This complexity is further emphasized by Jorgensen & Savla (2010), who note the multifaceted nature of financial decision-making, indicating that factors beyond mere financial knowledge influence outcomes (Xiao & Porto, 2017).

Supporting the notion that financial education can enhance knowledge without necessarily improving financial behaviors, some studies demonstrate that cognitive biases, such as overconfidence, can lead to suboptimal choices (Xiao & Porto, 2017). Additionally, individuals with higher financial skills may exhibit increased confidence, which can paradoxically result in riskier decisions (A. W. Lubis, 2020). This suggests that there may be psychological influences at play in the complex link between financial literacy and decision-making.

These findings have important ramifications for financial policy and education. Programs for financial literacy that are tailored to the unique requirements of different populations are crucial since a general strategy is insufficient (Azeez & Banu, 2021). This sentiment is echoed by Adewumi & Cele (2023), who stress the importance of comprehensive financial literacy programs that integrate both knowledge and practical skills, highlighting that financial skills alone are inadequate for improving decision-making quality. Furthermore, financial pleasure and decision-making are significantly influenced by subjective financial literacy, suggesting that how financial information is perceived may be just as relevant as the knowledge itself (Xiao & Porto, 2017).

The recent findings revealing a strong positive association between self-confidence and economic decision-making quality ($\beta = 0.766$, t-value = 18.947, Sig. = 0, $p < 0.001$) significantly enhance the understanding of how psychological factors influence economic behavior. These results align with previous studies, emphasizing the pivotal role of self-confidence in improving decision-making processes across various contexts. For example, Damrah et al. (2022), demonstrated that self-confidence directly influences decision-making, accounting for 6.7% of the variance, suggesting that individuals with higher self-confidence tend to make better decisions (Selvia et al., 2020). Similarly, Maraş et al. (2023)Maraş et al. found that nursing students with higher self-confidence made superior clinical decisions during the COVID-19 pandemic, further illustrating how self-confidence not only improves decision quality but also helps individuals maximize learning opportunities (Jorgensen & Savla, 2010).

In professional settings, self-confidence continues to play a crucial role. DEMİR ACAR et al. (2022), found that increased self-confidence enhances competence in clinical decision-making, paralleling the current study's findings that self-confidence boosts decision-making quality across professional domains (Ali & Talha, 2022). Liu et al. (2019), provided a more nuanced view, showing that while moderate self-confidence improves decision efficiency, overconfidence can lead to poor outcomes, emphasizing the need for balanced self-assessment (Walstad et al., 2010).

These findings carry important implications for education and training programs. Bektas et al. (2021), noted that metacognitive awareness enhances self-confidence, which subsequently improves decision-making skills, suggesting that interventions aimed at boosting self-confidence can lead to better decision-making outcomes (Hayeemaming, 2022). Xiao-Yan et al. also found that positive parenting styles foster self-confidence, leading to improved career decision-making efficacy among students, underscoring the importance of nurturing self-confidence from an early age to promote better decision-making in various life contexts, including professional and economic scenarios (Tubastuvi et al., 2023).

Statistical significance of the regression model, as indicated by an F value of 244.043 with a significance level of 0, confirms that at least one independent variable significantly influences the dependent variable in economic decision-making. These findings align with the literature emphasizing the importance of financial literacy and attitudes in shaping investment decisions. Specifically, while financial skills show a negative impact on decision-making quality, financial knowledge and self-confidence emerge as positive and significant factors. This indicates a complex dynamic where financial skills do not always result in effective decision-making, potentially due to overconfidence or improper application of knowledge (Asaad, 2015; Lind et al., 2020).

Previous studies reinforce the notion that financial knowledge is essential for making sound investment choices. For example, Gama highlights that individuals with higher financial knowledge tend to make better investment decisions because of their deeper understanding of financial concepts (Gama, 2023). Similarly, Ritonga's research reveals that positive financial attitudes significantly influence investment choices, supporting the idea that a good mindset can enhance decision-making outcomes (Ritonga & Muti'ah, 2023). Additionally, Asaad emphasizes the importance of self-confidence in financial decision-making, suggesting that confidence, when paired with knowledge, is a key element of sound financial behavior (Asaad, 2015).

In addition, the relapse model's capacity to clarify a noteworthy parcel of the change within the subordinate variable affirms its vigor. These discoveries are steady with the inquire about of Ndungu and Abdul, who utilized relapse examination to clarify the relationship between budgetary proficiency and venture choices, appearing that money related education essentially influences individual venture choices (Adiputra, 2021). The model's strength in explaining variance also aligns with broader literature suggesting that financial literacy and economic independence are key factors in guiding investment decisions (Tubastuvi et al., 2023).

Conversely, earlier studies have also highlighted the adverse effects of inadequate financial skills on decision-making quality. For instance, Lind et al. explain how overconfidence can lead to poor financial outcomes, emphasizing the need for a balanced approach that integrates knowledge and self-awareness in financial decision-making (Lind et al., 2020). Further demonstrating how financial behavior mediates the relationship between financial literacy and investment decisions, Ratnawati et al. contend that without appropriate behavioral application, financial knowledge is insufficient on its own (Ratnawati et al., 2022).

The findings of this regression analysis are consistent with earlier studies emphasizing the complexity of financial decision-making. Financial knowledge and self-confidence are crucial components that positively influence economic decision-making, while financial skills require a deeper understanding to avoid adverse effects. This collection of findings highlights the importance of a holistic financial education that goes beyond imparting knowledge to also cultivate positive financial attitudes and self-confidence. Such an approach is essential for enhancing the quality of economic decision-making in an increasingly complex financial environment.

CONCLUSION

Prior research provides strong support for the current study's findings, which show that financial knowledge improves the caliber of economic decision-making. These results highlight how important financial literacy is for improving decision-making skills. The importance of financial education programs aimed at enhancing financial literacy, which ultimately improves people's financial outcomes, is highlighted by the summary of multiple studies.

The findings on the negative influence of financial skills on economic decision-making quality present a complex narrative that contrasts with much of the existing literature. While financial skills are generally linked to improved decision-making, this study suggests that increased skills can sometimes lead to overconfidence and misapplication of knowledge, resulting in poorer outcomes. Future research should explore the contextual factors influencing this relationship and the implications for financial education and policy.

The study's findings regarding the strong positive influence of self-confidence on economic decision-making quality are well-aligned with existing research. The results highlight the critical role of self-confidence in enhancing decision-making capabilities. The synthesis of previous studies reinforces the importance of fostering self-confidence through educational initiatives and supportive environments to improve decision-making quality across diverse contexts.

Economic decision-making is multidimensional, with financial knowledge and self-confidence being key factors that positively influence decision quality. Meanwhile, financial skills require a deeper understanding to avoid negative impacts, such as overconfidence or improper application of knowledge. As a result, in an increasingly complex financial environment, comprehensive financial education-which not only imparts knowledge but also cultivates good financial attitudes and self-confidence is crucial to raising the standard of economic decision-making.

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