Enrichment: Journal of Management, 14 (2) (2024)

Published by: Instiute of Computer Science (IOCS)

Enrichment: Journal of Management

Journal homepage: www.enrichment.iocspublisher.org

Interaction of mental accounting, financial self-efficacy, and financial attitude on financial behavior

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ARTICLE INFO

Article history:

Received May 06, 2024
Revised May 07, 2024
Accepted May 22, 2024

Keywords:

Financial attitude;
Financial behavior;
Financial self-efficacy;
Mental accounting.

ABSTRACT

The purpose of this study is to investigate how mental accounting, financial attitude, financial knowledge, and financial self-efficacy affect the financial behavior of university students that engaged in business startups. A total of 400 questionnaires were collected from startup business owners, predominantly aged under 25 and with less than 3 years of business experience. Hypotheses were tested using SMART-PLS. The results indicate that financial attitude and financial self-efficacy have an impact on financial behavior, while mental accounting influences financial self-efficacy and financial attitude, and financial behavior. Furthermore, financial knowledge influences financial attitude, although it does not directly affect financial attitude and mental accounting.

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INTRODUCTION

The increase in various financial products in the banking sector and non-banking financial institutions has made people's financial literacy increasingly important. The higher the financial literacy, the more people are expected to understand various financial products and utilize them to improve their welfare. Current technological advances create financial innovations in cashless cards, payment applications, and even electronic savings and loan applications that encourage individuals to save, invest, and have insurance quickly and easily. However, suppose this is not driven by adequate financial knowledge. In that case, people will not be interested in buying financial products and will be unable to manage finances properly, so they cannot optimize available financial products.

By understanding financial behavior amid global economic changes and technological developments, individuals and businesses can make wiser decisions, protect their assets, and take advantage of new opportunities to achieve better financial well-being. This research will be important in shaping an individual's financial well-being. When individuals manage their finances well, this positive impact extends to society, creating a more stable and financially prosperous environment. Financial education and targeted interventions to improve these aspects can contribute significantly to social well-being.

Policymakers, education, and financial industry players can feel some of the benefits of research. Policymakers, especially in education, can develop curricula focusing on developing financial attitudes and increasing financial self-efficacy. Policymakers can create regulations, such as protecting consumers from deceptive financial practices and ensuring transparency of financial products. For education, this research is useful in implementing financial education programs that include budget management (implementation of mental accounting), increasing confidence in managing finances, developing a positive attitude in investing, and managing daily finances. This research can support the implementation of smart banking applications for industry players. For example, banks can develop banking applications that can provide monthly expense reports, ways to manage finances practically but responsibly, and modules on correct financial management.

This research uses students as a population. The student stage is an important stage because it is a transition from study to finding a job. Students who previously earned money from their parents after completing their studies become employees who earn their own money and must manage well. Therefore, in college, they must be able to practice managing finances properly and correctly. Students who can manage finances wisely are expected to impact financial management when they work. So this study chose students as a population because students must be able to manage finances well.

Financial Behavior is essential in current and future life. Financial Behavior will affect how a person perceives his well-being and feels satisfied with his economic condition (Saurabh & Nandan, 2018). Parrey & Hakeem (2018) and Yong, Yew, & Wee (2018) found that individuals with good financial Behavior will be able to exercise financial control, discipline in paying bills, and commit to financial planning in the future. So, the more a person has high financial Behavior, the more he will be satisfied with his financial condition.

Srivastava, Sharma, & Srivastava (2019) found that human brain factors affect financial Behavior, especially when making financial decisions—the human brain functions in such a way. The brain seems to create different accounting accounts, and this affects decision-making. This difference is due to a psychological aspect called mental accounting (Hsee & Kunreuther, 2000). Mental accounting is a cognitive aspect individuals and households use to organize, evaluate, monitor, and track financial activities (Thaler, 1999). The definition states that mental accounting is how a person perceives, classifies, and treats his finances. Some treat their finances by looking at several aspects, namely the ability to get income today, what wealth is currently owned, and how the ability to earn income in the future. Mental accounting is influenced by a person's knowledge and understanding of finance (Shefrin & Thaler, 1988). From this description, it can be said that mental accounting can be shown by the Attitude of individuals to implement accounting principles in their financial activities, which will affect financial Behavior.

Financial Behavior is inseparable from several aspects that influence it, such as financial Attitude, financial Attitude, and financial self-efficacy. However, the interaction between these variables is still inconsistent (Asaff, Suryati, &; Rahmayani, 2019; Çoşkun & Dalziel, 2020; Faique et al., 2017; Factor et al., 2020; Ismail et al., 2017, 2020; Kirbis, Vehovec, &; Galic, 2016; Zamri, Bakar, &; Bakr, 2020). However, research investigating the interaction of mental accounting with financial aptitude and financial self-efficacy in influencing financial Behavior is still not widely conducted.

Research on financial Behavior has been widely studied using a sample of students, both students and university students (Agnew & Harrison, 2015; Sarigül, 2014; Ibrahim, Aaron, & Isa, 2010; Radianto, Efrata, & Dewi, 2019; Huston, 2010; Sugiyanto, Radianto, Efrata, &; Dewi, 2019). This research is different from previous research, which used students who attended entrepreneurship education and already had a business. Therefore, the respondents' criteria in this study are interesting because they have different characteristics from those of previous studies.

Financial Behavior is essential in influencing individuals' well-being in households, communities, nations, and the world (Mudzingiri, Muteba, Keyser, & Nicolaas, 2018). Internal factors influence financial behavioral cognitive abilities and psychological factors, while external

factors include social and economic conditions (Capuano & Ramsay, 2012). Financial behavior is related to a person's behavior in managing finances, obtaining income, and planning expenses. The Theory of Planned Behavior frames the study. This theory describes the relationship between beliefs, attitudes, wills or intentions, and financial Behavior. This theory explores the interaction between financial knowledge, financial Attitude, and financial self-efficacy to stimulate financial Behavior (Ajzen, 2012).

Financial attitude, opinion, and assessment of personal finances are applied to attitudes concerning finances (Rai, Dua, & Yadav, 2019). Financial attitudes are essential in determining the success or failure of someone to manage finances (Çoşkun & Dalziel, 2020). Borden, Lee, Serido, & Collins (2008) and Herdjiono et al. (2016) found that financial Attitude affects Behavior, so the first hypothesis is as follows:

H1= Financial Attitude Influences Financial Behavior, Financial knowledge is explicitly related to understanding financial concepts and products (Huston, 2010). Financial knowledge implies that a person must have financial knowledge to support financial decision-making. Thus, a person will be open to financial information and able not to be impulsive in consuming. High financial knowledge will impact a high financial attitude. Namely, someone will have a positive attitude toward the future to live wisely, manage their finances, and always be oriented to the future (Lind et al., 2020). Someone who has financial self-efficacy has high confidence to be able to manage finances well. Amanah et al. (2016) found, in general, that high financial knowledge will increase a person's confidence in making financial decisions. A person's confidence and attitude are based on their level of financial knowledge (Yong et al., 2018). This shows the influence of financial knowledge on financial self-efficacy. Shefrin & Thaler (1988) and Thaler (1985) stated that a person's knowledge and understanding of finance, including how to respond to financial decisions, will affect the person's accounting mentality. The previous descriptions underlie the following second, third, and fourth hypotheses. H_2= Financial knowledge influences financial Attitude, H_3= Financial knowledge influences financial self-efficacy, H_4= Financial knowledge influences mental accounting.

Individuals' involvement in their financial products reflects how well they manage their finances and are financially responsible and forward-minded (Bandura, 1978). The more the individual believes that he can manage finances well, the more it will impact his behavior in managing finances. Several studies have been conducted previously and found that financial self-efficacy affects Financial Behavior (Farrell, Fry, & Risse, 2016; Laili Rizkiawati & Asandimitra, 2018; Serido, Shim, & Tang, 2013). This research shows that individuals have confidence in managing finances better. This is what underlies the fifth hypothesis, namely:

H_5= Financial self-efficacy influences financial behavior, Thaler (1999) defines mental accounting as economic behavior when a person in his thinking classifies inputs and outputs based on specific items or accounts and in accounting models. Someone with an accounting mentality tends to group their finances into different accounts based on subjective criteria, such as funding sources and income utilization purposes (Angle, Konidala, Ujwal, Vishnu, & Misra, 2019). So, mental accounting will affect a person's attitude in making financial decisions. According to Silaya & Persulessy (2017), mental accounting will limit someone from spending. This is because the mindset of the category of shopping items and the process of evaluating money management will affect a person's financial behavior. Mental accounting continuously evaluates a person's financial decisions (Henderson & Peterson, 1992). When a person can evaluate his finances well, it will increase his confidence in the ability to manage finances, such as how to manage finances in accordance with items that have been divided into sources and goals. So, mental accounting focuses on how a person should respond to and evaluate situations when there are two or more possible results related to finance. These descriptions form the basis for three subsequent hypotheses: H_6= Mental Accounting influence financial Attitude, H_7= Mental Accounting Influences Financial Behavior, H_8= Mental Accounting influences financial self-efficacy

RESEARCH METHOD

This study used primary data collected through questionnaires and survey methods. Questionnaires are sent to business pioneering entrepreneurs using the help of enumerators who meet prospective respondents directly. A total of 600 questionnaires were distributed. There were 461 collected, meaning the return rate is 77%. Nevertheless, as many as 400 are filled, or 86.7 percent.

A summary of the operational definition of research variables and their indicators is presented in Table 1.

Table 1. Variable Operational Definition

Variable	Indicator	References
Financial Knowledge	One's knowledge in managing finances for financial decision-making	Van Rooij, Lusardi, & Alessie (2012), Potrich, Vieira, Coronel, & Bender Filho (2015)
Financial Attitude	A person's judgment, opinion, or state of mind toward finances that is applied to his attitude	PotAttitudettitudeoronel, & Bender Filho (2015)
Financial Self-Efficacy	Confidence a person can manage his finances well	Lown (2011)
Mental Accounting	Cognitive operational sets are used to manage, evaluate, and ensure financial activities as planned	Shefrin & Thaler (1988), H. Thaler (1999)
Financial Behavior	Behavior related to financial management	Potrich, Vieira, Coronel, & Bender Filho (2015)

Each of the indicators presented in Table 1 is expressed on a Likert scale, i.e., choice one for Strongly Disagree and so on up to seven for Strongly Agree option. The analysis tool in this study uses Partial Least Square (PLS) analysis. PLS is a powerful analysis method because it is not based on many assumptions and can explain the relationship between latent variables (Ghozali, 2013).

As mentioned earlier, there is a total of 400 data sets that can be processed and become the final sample of the study. The demographic distribution of respondent data is shown in Table 2.

Table 2. Distribution of Respondents' Demographics (n=400)

No	Information	Description	Sum	Percentage
1	Jenis kelamin	Man	256	64%
		Woman	144	36%
2	Usia	< 20 years	106	27%
		20-25 years	212	53%
		> 25 years	82	21%
3	Pengeluaran perbulan	< 5 million	280	70%
		5 -10 million	88	22%
		> 10 million	32	8%
4	Etnis	Javanese ethnic	130	32.5%
		Chinese ethnic	241	60.3%
		Sunda Ethnic	2	0.5%
		Batak Ethnic	1	0.3%
		Arab ethnic	2	0.5%
		etc	24	6.0%
5	Long Time in Business	< 3 years	295	74%
		3-5 years	70	18%
		> 5 years	35	9%

As shown in Table 2, male respondents accounted for 64 percent and female respondents 36 percent. The average study respondents were less than 20 years old, as many as 106 people (27 percent), and aged between 20 to 25 years, as many as 212 people (53%). Most respondents have expenditures below 5 million, namely 280 people (70%). The ethnicity of respondents was dominated by Javanese, as many as 130 people (32.5 percent), and Chinese ethnicity, as many as

241 people (60.3 percent). The rest consisted of Sundanese, Batak, Arab, and other ethnicities. Most respondents have been in business for less than three years, and as many as 295 people (74 percent) have been in business. Data in Table 2 shows that the characteristics of respondents involved in this study are young entrepreneurs who have been in business for less than three years, ethnic Javanese, and Chinese with monthly expenditures below 5 million.

RESULTS AND DISCUSSIONS

A descriptive analysis of each research variable is presented in Table 3. It appears in the table that the average respondent's answer to financial attitude is close to six. As for financial self-efficacy, mental accounting, and financial behavior, there seem to be close to five. On average, respondents answered in agreement with the indicators asked.

Table 3. Descriptive Statistical Research Variables

No	Variables	Number of Indicators	Averages	Standard deviation
1	Financial Knowledge	5	0,6220	0,23887
2	Financial Attitude	8	6,3710	0,82611
3	Financial Self-Efficacy	6	4,9012	0,97781
4	Mental Accounting	9	5,0128	0,98128
5	Financial Behavior	9	5,5208	0,83819

The first step in testing the measurement model is the validity test. An indicator is valid if it has a loading factor above 0.5 against the intended construct. The SmartPLS output for the loading factor shows that all indicators have a loading factor value of more than 0.5. That is, overall, the validity requirements have been met. A detailed description of the results of data validity testing is as follows.

Validity testing for reflective indicators uses the correlation between an item's and construct scores. Measurements with reflective indicators show a change in an indicator in a construct if other indicators in the exact construct change (or are excluded from the model). Reflective indicators are suitable for measuring perception, so this study used reflective indicators.

According to Hair et al. (2017), all indicators with outer loading with a result of less than 0.4 are immediately eliminated, while outer loading between 0.4 and 0.7 should be considered gradually based on the values of AVE and CR. Indicators can be eliminated by increasing AVE and CR values above the threshold value. In line with Hair et al. (2017), the elimination process is carried out gradually so that the final model is obtained as follows:

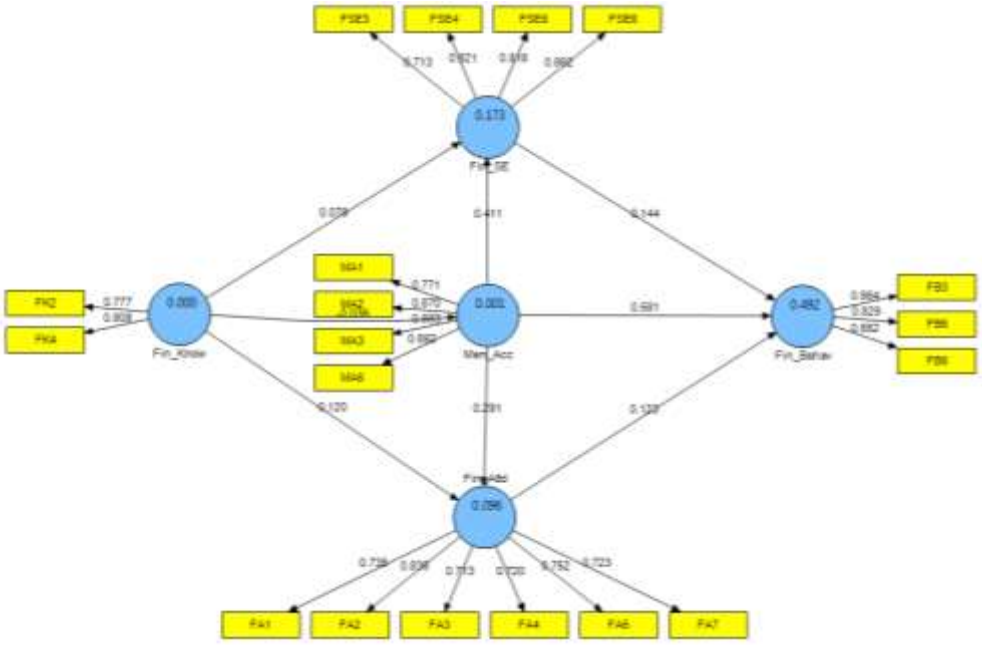

Figure 1. Measurement (Outer) Model Testing

Evaluation of measurement models for reflective variables includes internal consistency, measured from CR values, reliability indicators, convergent validity, AVE values, and discriminant validity (Hair et al., 2017). In PLS-SEM, reliability is prioritized individually rather than reliability, which is measured based on intercorrelation between variables in the model. For this reason, measuring composite reliability (CR) in PLS-SEM is considered more precise than using Cronbach Alpha (Hair et al., 2017).

Table 4. Composite Reliability

Variables	Composite Reliability
Financial Attitude	0,883
Financial Behavior	0,761
Financial Knowledge	0,771
Financial Self-Efficacy	0,880
Mental Accounting	0,882

Table 4 shows that the lowest composite reliability value is 0.761 in the Financial Behavior variable, and the highest value is 0.883 in the Financial Attitude variable. CR values between 0.70 and 0.90 can be considered satisfactory (Nunally & Bernstein, 1994).

The next step is to perform a Convergent Validity test. To measure convergent validity, each indicator in the variable must be ensured to be reliable. To measure the reliability indicator, the value of outer loading should be > 0.708. However, values below the threshold are still considered as long as the elimination of indicators can increase the value of average variance extracted (AVE) and composite reliability (CR) (Hair et al., 2017). Meanwhile, values below 0.4 should be eliminated (Hair et al., 2011). Correspondingly, the model has undergone refinement through the elimination of some indicators.

The minimum value of outer loading is mostly >0.708. However, there is still an outer loading value below the threshold value. This is still allowed as long as the AVE value of the variable is above 0.5. The AVE value is the total average of the squares of the loading values on each indicator divided by the number of indicators. This AVE value is used to determine the

convergent validity of each variable. A variable is considered convergent validity if the AVE value > 0.5.

Table 5. Average Variance Extracted

Variable	AVE
Financial Attitude	0,558553
Financial Behavior	0,517723
Financial Knowledge	0,628002
Financial Self-Efficacy	0,648669
Mental Accounting	0,652570

From table 5, it can be seen that the AVE value of each variable is >0.5. So, it can be concluded that, on average, constructs explain most of the variance of its indicators.

The final step of validity testing is Discriminant validity, which describes the extent to which the construct completely differs from the other constructs in the model. The validity here indicates that the construct in question is unique in capturing the existing phenomenon, which differs from other constructs in the model. A construct is said to meet the discriminant validity requirement if the outer loading indicator value is higher than all cross-loading values of other constructs. Discriminant validity testing using the Fornell-Larcker criterion (Hair et al., 2017; Fornell & Larcker, 1981). That is, the square root of AVE is compared with the absolute value of the variable correlation value. The root of the AVE value must be higher than the highest value of the variable correlation.

Table 6. Fornell-Larcker Criterion

Variable	Financial Attitude	Financial Behavior	Financial Knowledge	Financial Self-Efficacy	Mental Accounting
Financial Attitude	0,747364				
Financial Behavior	0,326208	0,719529			
Financial Knowledge	0,109267	-0,005519	0,792465		
Financial Self-Efficacy	0,251278	0,412518	0,063564	0,805399	
Mental Accounting	0,286614	0,675208	-0,035696	0,408210	0,807818

The diagonal values from Table 6 show the square root of the AVE values. The table shows that the square root value of AVE is higher than the correlation value of the variable, which is in the relevant row or column. So, it can be concluded that using these two test methods, each construct consistently meets the requirements of discriminant validity.

After the estimated model meets the criteria of the Outer Model, the next step is the structural model testing (Inner model). According to (Hair et al. 2017), structural model evaluation for PLS-SEM includes size and significance, coefficients of determination (R2), and predictive relevance (Q2).

Table 7. Size and Significance of Path Coefficient

Path	Coefficient	t - Statistics	p-Value
Financial Attitude →Financial Behavior ***	0.423066	2.656019	0.0082
Financial AAttitude**	Attitude	1.824398	0.0688
NS	0.121815	1.209322	0.2273
NS	-0.063591	0.496721	0.6197
FinancialBehaviorr ***	0.242349	3.025683	0.0026
Financial AAttitude***	0.124520	5.708730	0.0000
FinancialBehaviorr ***	0.852271	13.471601	0.0000
***	0.359230	8.007992	0.0000

H1, H2, H5, H6, H7, and H8 are proven, but for coefficients of determination (R2) and predictive relevance (Q2). As shown in Table 8, the value of R2 ranges from close to 0.5 to close to zero.

Table 8. Outer Model Testing

Variable	R^2	Q^2
Financial Attitude	0,096	0,043793
Financial Behavior	0,492	0,236004
Financial Knowledge		0,013126
Financial Self-Efficacy	0,172	0,104027
Mental_Accounting	0,001	-0,000943

Table 8 indicates, except for the Mental Accounting variable, all Q2 values are more than zero, thus supporting the predictive relevance of the model to endogenous variables. In the financial behavior variable (exogenous variable), the value of Q2 is 0.236 or greater than zero, which can mean predictive relevance to the structural model.

Financial attitude affects Financial Behavior. A person who has the right attitude about finances has an impact on how a person manages his finances and how he makes decisions regarding those finances. Someone who feels that managing finances is important will act carefully when spending his money. For example, when someone feels that controlling spending is very important when shopping, they will compare prices and check their financial condition. The higher one's financial attitude, the higher one's financial Behavior. This means that the right Attitude towards financial management will improve a person's ability to manage his money. This study supports research conducted by Çoşkun & Dalziel (2020), Borden, Lee, Serido, & Collins (2008), and Herdjiono et al. (2016).

Financial knowledge has a positive effect on financial attitude. The higher the financial knowledge, the higher the financial attitude. Someone with a good knowledge of stock investment will tend to reason that stocks are very important for investing in the future. Likewise, if someone understands the functions and benefits of saving, it will influence him that saving regularly is important as a precaution. This research supports previous research by Huston (2010) that someone with an understanding of finance will enable him to make financial decisions. This study also confirms research from Lind et al. (2020), which found that financial knowledge affects financial attitude.

However, this study found that financial knowledge did not affect financial self-efficacy and mental accounting. Understanding and level of financial knowledge does not guarantee confidence in his ability to manage finances (Prihartono & Asandimitra, 2018; Herdjiono, Damanik, & Musamus, 2016; Lianto & Elizabeth, 2017). Someone who has financial knowledge cannot be a benchmark for whether he has good financial behavior, as found by previous research (Rizkiawati & Asandimitra, 2018; Armilia & Isbanah, 2019; Hendra, Yohana, & Herlina, 2019). In this finding, despite having high knowledge, respondents are likely to feel unsure that they can meet their needs because of the relatively young age factor. Moreover, if the business situation is not yet established, they will feel anxious about not being able to meet their living needs. This can be expected from the relatively young business age of respondents, who are under three years old (74%) and still in business startups, as shown in Table 2. This proves that financial knowledge cannot always shape respondents' self-efficacy. The age of respondents, who are still the majority, are relatively young and seem unable to control themselves in making purchases even though they have good financial knowledge. Likewise, their financial knowledge does not guarantee discipline in financial monitoring, such as financial records discipline in financial planning. This can prevent financial knowledge from affecting mental accounting. These two new findings contribute to the study of financial knowledge. That is, the age of entrepreneurship and the length of business seem unable to optimize financial knowledge to form financial self-efficacy, which affects their accounting mentality.

Financial self-efficacy affects financial behavior. Financial efficacy, which is the belief that someone can manage finances, was proven in this study. The higher a person's confidence in his ability to manage finances, the more he will be able to make financial decisions correctly. For

example, when a financial emergency occurs, he is sure that he will be able to meet these needs so that he will spend money wisely, that is, ahead of needs, not wants. Likewise, suppose a person has high financial self-efficacy. When he has debt, the obligation will not interfere with his cash flow, so he will spend his money carefully and set aside his income for funds if he even puts his investment in the right investment product. This means someone has confidence in managing finances effectively and efficiently. This study supports several previous studies that show that financial self-efficacy affects financial behavior (Farrell, Fry, & Risse, 2016; Serido, Shim, & Tang, 2013).

This study found that mental accounting interacts positively with financial attitudes, behavior, and self-efficacy, so all three hypotheses are accepted. This research proves that mental accounting affects a person's Attitude in making financial decisions. The more someone has an accounting mentality, the more it increases one's attitude toward correct financial management. The more mental accounting affects a person's thinking, the more the person can make financial decisions correctly. These findings support the CFP Board, Zhang, & Sussman (2018), which found that mental accounting can influence behavior in choosing what investments suit him. For example, when a person rationally thinks that keeping a regular record of expenses is essential, he can monitor his monthly expenses. As a result, he will be more careful in making financial decisions, such as shopping, investing, debt, and even saving activities. This research supports the research (Silaya & Persulessy, 2017). Mental accounting influences a person in increasing his confidence that he can manage his finances well.

Someone who has a mental accounting will feel uncomfortable if they don't do financial planning. So, the more disciplined he is in financial planning, the more confident he will manage his finances, especially in investing and saving. Through disciplined and orderly financial planning, he will be more confident that his future will be materially prosperous. This study supports the findings of Henderson & Peterson (1992). One important aspect of mental accounting is self-control. The tighter a person's self-control, the more he can control his financial attitude. He can also refrain from buying unnecessary items, including other expenses that are not necessary (financial behavior), and he firmly believes that the savings he makes will help him live more prosperously in the future (self-efficacy). This finding is a novelty of this study, namely that mental accounting affects financial attitude and financial self-efficacy, which has not been studied much before.

CONCLUSION

This study examines the influence of mental accounting, financial attitude, financial knowledge, and financial self-efficacy on financial behavior in students starting a business. Compared to previous studies, the uniqueness of this study is that respondents have a dual role as students and business people. The total questionnaire that can be processed is 400 respondents of business startup owners, the majority of whom are less than 25 years old and have only been in business for less than three years. Hypothesis testing is performed with SMART-PLS. The results showed that financial attitude and financial self-efficacy affect financial behavior, mental accounting affects financial self-efficacy and financial behavior, and financial knowledge affects financial attitude. In contrast, financial knowledge does not affect financial attitude and mental accounting.

These findings contribute mainly to the role of mental accounting, which has been proven to affect financial self-efficacy, financial behavior, and financial attitude. In this case, the mental thinking process of accounting further increases one's confidence in managing finances well. The mental accounting process also increases a person's effectiveness in making financial decisions. Mental accounting can also improve a person's ability to respond to his financial condition and make financial decisions. The following research contribution is that entrepreneurial financial

knowledge that is still in the process of starting a business cannot affect accounting mentality and financial attitude

This research also contributes to the theory of planned behavior, especially in the context of financial behavior. Individual financial management behavior can be explained through how a person processes financial information using his accounting mentality. Financial behavior will be limited by self-control and mental budgeting, which are important parts of mental accounting. According to this theory, the most important determinant of a person's behavior is the intention to behave. The intention of positive behavior in financial management is how the accounting mentality will monitor and control financial management. In this case, financial behavior based on the mental process of accounting is believed to be accurate, and a person believes what he is doing is right.

A limitation of this study is that it does not correlate with the family backgrounds of the respondents. Different family backgrounds will undoubtedly affect the financial behavior of respondents. This will certainly open up new opportunities for further research. Further research can also be done by filling the research gap in this study, namely the possibility of mediating variables between financial knowledge with financial self-efficacy and mental accounting. This study has not included elements of mental accounting bias, so it is hoped that future studies will include this aspect.

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