

The impact of financial literacy on finance and economy: A literature review

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ABSTRACT: Financial literacy encourages individuals and society to improve their financial well-being. Thus, elevate their capabilities to participate in economic life. This paper intends to examine the impact of financial literacy on finance and economics. An extensive review of financial literacy literature is carried out, with a particular focus on its correlation with financial and economic aspects. This study finds that financial literacy impacts personal financial decisions, consumptive behavior, saving and retirement, investment, financial risk tolerance, business development, and economy. This paper will be useful to economists and technologist about the urgency of financial literacy with the suggestions on the role of financial technology (FinTech) in enhancing financial literacy, hence financial well-being as well as overall well-being towards industrial revolution 4.0 (IR 4.0).

Keywords: Financial literacy; Finance; FinTech

1 INTRODUCTION

Financial literacy (FL), is the combination of financial knowledge, financial skills, and financial attitudes that assists individuals and society in improving their financial well-being and participation in economic life [1]. However, the report from [2] shows low FL amongst Malaysians represented by Klang Valley residents. The study concludes that Malaysia has only 51.54 percent basic FL level. Meanwhile, advance FL scores only 37 percent.

Meanwhile, financial markets are rapidly changing with developments in technology, as well as new and more complex financial products. Thus, decisions related to these financial products have implications on individuals' well-being.

In that sense, it is important to understand the benefits of having a financially literate population for individuals' well-being and national economies. Financially literate individuals are believed to encourage participation in more suitable financial products that match their financial goals. Therefore, this study highlights the urgency of FL by exploring its implications specifically on finance and the economy from studies around the globe.

Then, this study will discuss the policy

implementations to increase FL in Malaysia using FinTech for financial education in IR 4.0.

IR 4.0 is referred to the automation and data exchange in manufacturing technologies including internet things. In FinTech, IR 4.0 gives impact by digital innovation and fast financial process.

2 LITERATURE REVIEW

This study carries out an extensive literature from five recent years of studies. From the studies reviewed, particular focus is given to the effects of FL on finance and economy. Table 1 represents the findings from this study indicating the influence of FL on finance and economy.

Table 1 Literature summary of the impacts of financial literacy

Impacts	Population	Findings
Personal financial decision	United States [3]	Correlates negatively with the use of payday loans
Consumptive behavior	Jawa Tengah [4]	Positively influences consumptive behavior
Saving and retirement	Ghana [5]	Positively impacts on domestic saving
	Spanish [6]	Predicts behavior towards retirement
Investment	Iran [7]	Gives impact on motivation in joint venture funds
	Netherlands [8], Japan [9]	Gives impact on individuals' stock
Financial risk tolerance (FRT)	Turkey[10]	Positively impacts on FRT and eases complicated financial decision-

		making.
Business development	Spain [11]	Positively affects business innovation
National economy	Sri Lanka [1]	Affects rural poor women's economic empowerment

From the table obtained, FL was found to be influential in the decision of financial products consumption, such as saving, retirement, and investment.

3 THEORETICAL FRAMEWORK

From the findings of studies reviewed, a theoretical framework in Figure 1 is constructed. The independent variable in this study is FL. Whereas the effects of FL on finance and economy are the dependent variables.

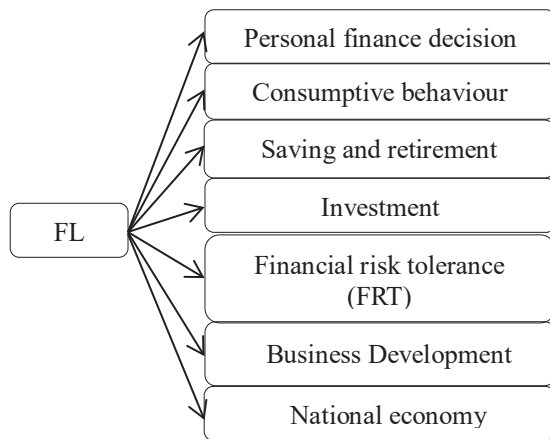


Figure 1 Theoretical framework of factors influencing financial risk tolerance

4. CONCLUSIONS

This study has revealed the impact of FL on several financial and economic subjects. Hence, financial education should be implemented in high schools, higher institutions, and workshops to increase the FL level in Malaysia. For that purpose, FinTech is believed to have the potential to enhance financial capability. For instance, smartphone apps should be utilized to enhance financial capability. Financial literacy can be evaluated by smartphone apps that linked to specific financial institutions. Therefore financial institutions play active roles in financial well-being.

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