The Effect of Financial Literacy on Materialism, Propensity to Debt, and Compulsive Buying

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ABSTRACT

Purpose: This study aims to analyze the influence of financial literacy on materialism, propensity to debt, and compulsive buying among working-age individuals in Indonesia. The rapid development of financial technology (fintech), coupled with changes in consumer lifestyles, has driven a shift in the public's financial behavior. Easy access to digital financial services such as online loans and "buy now, pay later" features has the potential to increase excessive consumption, materialistic behavior, and dependence on debt if not balanced by adequate financial literacy. This study employs a quantitative approach using a survey method. Data were collected through the distribution of questionnaires to 160 respondents. Research findings indicate that financial literacy has a significant impact on materialism, propensity to debt, and compulsive buying. Individuals with high levels of financial literacy tend to have better abilities in managing finances, controlling spending, and making rational financial decisions. Additionally, good financial literacy also plays a role in curbing materialistic tendencies, reducing reliance on debt, and minimizing compulsive buying behavior driven by emotional factors. This study implies that improving financial literacy is a crucial aspect in fostering healthy and sustainable financial behavior, particularly amid the development of digital technology and the dynamics of modern lifestyles. Therefore, more intensive financial education efforts are needed so that the public can manage their finances wisely and avoid financial risks in the future

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INTRODUCTION

The emergence and rise of widespread and novel digital innovations have brought about significant transformations, particularly in the financial sector, which has now become the primary focus of technological advancements in the banking industry. In the financial services industry, the emergence of Financial Technology (FinTech) represents an innovation that integrates traditionally manual financial processes into digital finance through the sophistication of information and communication technology (Khan, 2024). This transformation has made all financial activities from payments to loans faster and easier through the integration of digital wallets. In Indonesia, the rapid growth of fintech has been accompanied by an increasingly consumerist lifestyle, particularly among the working-age population (Agrawal et al., 2024). This phenomenon is reinforced by social trends such as You Only Live Once (YOLO). Adherents of this lifestyle tend to pursue pleasure, which manifests in compulsive buying of non-essential items, such as vacations, attending music concerts, and shopping for clothing, cosmetics, or skincare and body care products. The situation is compounded by the fact that young people do not have a plan for their expenses on a weekly or monthly schedule (Angelyna & Tannia, 2025)

This is what drives compulsive buying behavior. Routines such as visiting trendy coffee shops that are currently trending, owning branded tumblers and bags costing millions of rupiah, and taking vacations under the guise of selfcare all of these have become part of a lifestyle considered normal among today's younger generation. In the face of these various phenomena, financial literacy becomes a crucial factor. Financial literacy describes the combination of skills, actions, and behaviors that enable people to achieve financial well-being. Studies show that financially literate individuals are more likely to adopt prudent financial behaviors, whereas those with low financial literacy are more prone to difficulties in managing their finances and accumulating debt (Warokka et al., 2025).

However, the improvement in financial literacy in Indonesia has not been fully accompanied by an improvement in the public's financial behavior. In fact, the use of financial products and services can be improved and made more prudent through financial literacy, while also mitigating the risk of falling into illegal investment schemes (Tannia et al., 2023). This indicates a gap between knowledge and its implementation in daily life. Several previous studies have shown inconsistent results regarding the influence of financial literacy on financial behavior, particularly in terms of materialism, propensity to debt, and compulsive buying. Therefore, this study is important to re-examine the role of financial literacy in influencing individual financial behavior, particularly among the working-age population in Indonesia. This study aims to analyze the influence of financial literacy on materialism, propensity to debt, and compulsive buying, as well as to provide a more comprehensive understanding of how financial literacy can foster healthier and more sustainable financial behavior amidst technological advancements and the dynamics of modern lifestyles.

LITERATURE REVIEW

1. Financial Literacy

Financial literacy is rooted in formal financial education and life experiences, as well as in the accumulation of knowledge, cognitive beliefs, and practical skills that enable an individual to allocate resources efficiently and engage in sound long-term planning, enabling them to avoid issues related to finances such as the risk of falling into debt and continuously improve their overall financial well-being (Tannia et all, 2026). In alignment with that definition, Khan et al. (2024) state that financial literacy is also defined as the ability to apply information and manage finances. The existence of modern financial instruments emphasizes the importance of introducing financial literacy education as early as elementary school (Simbolon et al., 2022). According to previous research, financial literacy can decrease materialism and compulsive buying (Purwanto et al., 2022) and plays a role in decreasing the tendency to accumulate debt (Kamalatsyah & Lutfi, 2023).

2. **Materialism**

Materialism is described as a consumer tendency to pursue happiness through shopping (Octavie & Susilawaty, 2026). In financial markets, the efficient market hypothesis states that there is a relationship between prices and available information, meaning that market participants consistently make rational decisions based on the available information (Judijanto & Azwar, 2025). However, in practice, irregularities and anomalies can occur, making the efficient market hypothesis unrealistic (Oktryani et al., 2024). Many phenomena in financial markets are influenced by individual psychological and emotional factors because there are other factors at play, this has led to the development of an approach in finance known as behavioral finance (Suriani, 2022). In this context, from a financial behavior perspective, materialism is characterized by consumers who tend to seek happiness through shopping. Materialism often seek material satisfaction through possessions, financial advancement, and the use of money.

3. **Propensity To Debt**

The act of borrowing money, checks, or goods that have not yet been repaid, typically in the form of installments paid over a specific period of time, is referred to as being in debt (Satrida & Lutfi, 2024). Spending more than one’s income can lead to debt. This indicates an imbalance between income and expenses, which makes people feel they don’t have enough and drives them to take on debt to cover the shortfall (Reski et al., 2025). A person's propensity to debt begins with pressing needs and is fueled by the habit of taking advantage of opportunities or having easy access to loans or credit (Farrenlie & Pamungkas, 2024). A tendency to go into debt can negatively affect a person’s mental well-being and drive them to engage in harmful behaviors, such as breaking the rules and harming others, simply to pay off their debts (Wijaya & Garvin, 2024).

4. **Compulsive Buying**

Compulsive buying manifests in two forms: impulsive buying and obsessive compulsive buying. Impulsive buying occurs spontaneously, driven by an irresistible urge, while obsessive compulsive buying involves obsessive thoughts that lead to repetitive purchases to reduce anxiety (Japutra *et al*., 2025). This is often done without any clear need, with the aim of gaining emotional satisfaction, reducing stress, or boosting one's mood for a moment (Black, 2022). This goal oriented behavior drives compulsive buying, which provides temporary relief from negative emotions, even though these emotions resurface after the purchase (Japutra *et al*., 2025). Individuals with compulsive buying behavior can be identified by the following characteristics a strong determination to achieve something, a desire to try something new, an inability to resist the urge to buy something whether needed or not an impulse to buy immediately upon feeling the urge, and a tendency to purchase more than one item while shopping (Ananda *et al*., 2024).

METHODOLOGY

The primary objective of this case study is to investigate the relationships and influences among the variables the use of quantitative methods in this study is considered most appropriate based on the preceding discussion, namely the relationship between financial literacy and materialism, propensity to debt, and compulsive buying. This study employs a questionnaire to systematically collect data the questionnaire is used as a survey method (Creswell & Creswell, 2023). By using purposive sampling to select respondents, the characteristics of the respondents in this study were defined as Generation Z individuals working in the Jakarta, Bogor, Depok, Tangerang, and Bekasi areas. The sampling technique employed purposive sampling, with criteria including respondents aged 17–27 years who have an income. PLS is a predictive-causal method in SEM that aims to explain the variation in the dependent variable within the model (Hair, Jr. et al., 2022). This method is used because it can analyze complex relationships among variables and is suitable for research involving models with many latent variables. Therefore, the data in this study were analyzed using PLS-SEM techniques in SmartPLS 4.1.1 software.

RESULTS

The model summary in Table 1 shows the extent to which the model explains the variation in the dependent variable (Financial Literacy). Expressed as a percentage, R^2 indicates the proportion of the variation in the dependent variable that can be explained by the model below.

Table 1. R-Square Result

Variable	R Square	Adjusted R Square
Compulsive Buying	0,069	0,063
Materialism	0,123	0,118
Propensity To Debt	0,094	0,088

Therefore, based on the results in the table above, Compulsive Buying has an R-squared value of 0.069. This indicates that, in this study, it explains only 6.9%, while the remaining 93.1% is explained by other factors outside the research model. This value falls into the weak category ($R^2 < 0.25$). Materialism has an R-squared value of 0.123, meaning it can only explain 12.3%, while 87.7% is influenced by other variables not examined in this study; this value is also classified as weak. Propensity to Debt has an R-square value of 0.094, indicating that the model explains only 9.4%, while 90.6% is influenced by factors outside the model; this value also falls into the weak category.

Tabel 2. Average Variance Extracted (AVE), Cronbach's Alpha, Composite Reliability

Variable	AVE	Cronbach's Alpha	Composite Reliabi
Financial Literacy	0,642	0,723	0,843
Materialism	0,584	0,764	0,849
Propensity To Debt	0,567	0,744	0,839
Compulsive Buying	0,662	0,748	0,854

The results of the AVE tests for the four variables in this study showed values above 0.50, which is in line with the guidelines described and indicates that all four variables are valid. Furthermore, the Cronbach's alpha values in this study show results for the four variables Compulsive Buying, Financial Literacy, Materialism, and Propensity to Debt with values above 0.70. Additionally, the composite reliability in this study also yields values above 0.70 for all four variables. Thus, the reliability test in this study is deemed valid.

Tabel 3. Path Coefficient Test Results

Hypothesis	O Sample	T-Statistic	P-Values	Result
H1 = Financial Literacy -> Materialism	-0,351	4.686	0,000	Negative, Significant
H2 = Financial Literacy -> Propensity To Debt	-0,307	4.064	0,000	Negative, Significant
H3 = Financial Literacy -> Compulsive Buying	-0,263	3.460	0,001	Negative, Significant

Based on these findings, it is appropriate to reject the null hypothesis and accept the alternative hypothesis. Thus, it can be concluded that financial literacy influences materialism, propensity to debt, and compulsive buying. The results of the study indicate that financial literacy has a significant influence on materialism, propensity to debt, and compulsive buying among working-age individuals in the JABODETABEK region. Respondents with higher levels of financial literacy tend to be better able to manage their expenses, distinguish between needs and wants, and make more rational financial decisions. Furthermore, improved financial literacy is associated with a decrease in materialistic tendencies, debt-taking tendencies, and compulsive buying behavior. These findings imply that sound financial understanding serves as a moderating factor in individual consumption behavior. Amid the development of financial technology and easy access to digital services, financial literacy has become a crucial skill to ensure individuals are not easily swayed by consumerist impulses or excessive debt.

DISCUSSION

The findings of this study support the view that financial literacy is a crucial foundation for fostering healthy financial behavior. Individuals with high levels of financial literacy tend to better understand the consequences of every financial decision they make, enabling them to control consumption impulses that do not align with their needs. This explains why improving financial literacy can reduce tendencies toward materialism and compulsive buying behavior. Additionally, the research results indicate that financial literacy also plays a role in reducing the tendency to take on debt. Understanding financial management, loan risks, and long-term financial planning helps individuals exercise greater caution when using credit facilities and "pay-later" services, which are becoming increasingly accessible. Thus, financial literacy not only enhances the ability to manage daily finances but also supports the creation of long-term financial stability.

CONCLUSIONS AND RECOMMENDATIONS

This study aims to analyze the influence of financial literacy on materialism, propensity to debt, and compulsive buying among working age individuals in the JABODETABEK region. The results indicate that financial literacy has a significant influence on all three variables. Individuals with higher levels of financial literacy tend to manage their finances more rationally, control their consumption behavior, and reduce their tendency to take on debt and engage in compulsive buying. These findings underscore that financial literacy is a critical factor in fostering healthy financial behavior amid the advancement of financial technology and the ease of access to digital services. A good understanding of financial management helps individuals distinguish between needs and wants, thereby reducing materialistic tendencies and encouraging more responsible financial decision making. Consequently, improving financial literacy must be a priority for various stakeholders including the government, educational institutions, and the financial sector as an effort to enhance the public's financial well-being and mitigate the risks of harmful financial behavior in the future.

FURTHER STUDY

Given the limitations of this study, it is recommended that future research expand the scope of its research subjects and participants by involving respondents from various regions and different generational groups in order to obtain a more comprehensive understanding of the phenomenon under study. Additionally, different research methods, such as qualitative approaches, could be employed to explore more in-depth information regarding the factors influencing this phenomenon.

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