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THE INFLUENCE OF FINANCIAL LITERACY AND ISLAMIC FINANCE AWARENESS ON FINANCIAL BEHAVIOUR: STUDENTS` PERSPECTIVE

BY

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Dissertation Submitted to
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in Partial Fulfilment of the Requirement
for the Master of Science (International Accounting)
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Abstract

This study aims to examine the influence of financial literacy and Islamic finance awareness on financial behaviour among Kolej MARA Kuala Nerang (KMKN) students. A sample of 350 active students was selected to complete an internet survey, consisting of questions on students’ demographic background, financial literacy, Islamic finance awareness and financial behaviour. This study hypothesises financial literacy and Islamic finance awareness significantly influence financial behaviour. The findings show that on average, 48% of the students answered the questions on financial literacy correctly. In addition, they are also aware and have the knowledge about Islamic finance but with limited ability to explain the concept. Further, students’ financial behaviour is found to be at moderate level. Regression analysis shows Islamic finance awareness positively and significantly influence students’ financial behaviour. This finding may assist policymakers in developing programmes that inculcate Islamic values to encourage good financial behaviour.

Keywords: financial literacy, Islamic finance awareness, financial behaviour
Abstrak


Kata kunci: celik kewangan, kesedaran kewangan Islam, tingkah laku kewangan
Acknowledgement

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<th>Full Form</th>
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<tbody>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>CRRC</td>
<td>Consumer Research and Resource Centre</td>
</tr>
<tr>
<td>PTPTN</td>
<td>Perbadanan Tabung Pendidikan Tinggi Nasional</td>
</tr>
<tr>
<td>CCDMA</td>
<td>Credit Counselling and Debt Management Agency</td>
</tr>
<tr>
<td>TPB</td>
<td>Theory of Planned Behaviour</td>
</tr>
<tr>
<td>TRA</td>
<td>Theory of Reasoned Action</td>
</tr>
<tr>
<td>KMKN</td>
<td>Kolej MARA Kuala Nerang</td>
</tr>
<tr>
<td>AKPK</td>
<td>Agensi Kaunseling dan Pengurusan Kredit</td>
</tr>
<tr>
<td>ERA</td>
<td>Education and Research Association</td>
</tr>
<tr>
<td>MARA</td>
<td>Majlis Amanah Rakyat</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
</tr>
<tr>
<td>PSD</td>
<td>Public Service Department</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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Chapter 1: Introduction

1.1 Introduction

The financial system plays a vital role in any economy. The financial system allows the financial intermediation process that facilitates the flow of funds between savers and borrowers, thus ensuring the efficient allocation of financial resources and encouraging economic growth. Financial stability refers to a situation where the financial intermediation process functions smoothly and there is confidence in the operations of major financial institutions and market economies (BNM, 2016).

Money is a part of the financial system and an asset that plays an important role in daily lives, especially under the current conditions of economic uncertainty. Without money, many necessities of life cannot be fulfilled perfectly. Although there is a saying, ‘money is not everything’, but in reality, almost all dealings require money. In view of the importance of money, it must be managed properly to improve the quality of life.

1.2 Background of the Study

The Education and Research Association for Consumers (ERA Consumer Malaysia) and Consumer Research and Resource Centre (CRRC) have conducted a study on the behaviour and habits of Malaysians with regards to saving and spending; the finding is that younger Malaysian workers do not have enough financial knowledge; some are mired in debt; and some spend in excess of their ability (Raj, Zakaria & Mohd Yusof, 2013).

Zakaria (2012), in his study, stated that knowledge in financial management among Malaysians should be enhanced. This concurs with the findings that the
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