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The Influence of Financial Literacy and Education Level on Financial Management and Its Impact on Residents' Income

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ABSTRACT

Purpose – This study analyses the influence of financial literacy and education level on financial management and its impact on the income of residents of Pasirkratonkramat Village, Pekalongan City. **Design/methodology/approach** – This quantitative research used a survey method involving 78 members of the Village Community Institution selected through accidental sampling. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to test the direct and indirect relationships between variables. **Findings** – Financial literacy and education level have a positive but not significant effect on financial management. Financial literacy does not significantly affect residents' income, while education level has a positive and significant effect. Residents' income has a positive and significant effect on financial management and mediates the relationship between education level and financial management, but does not mediate the relationship between financial literacy and financial management. **Research limitations/implications** – The sample is relatively small and drawn from a single village through accidental sampling, so generalisation is limited. The findings imply that financial management is determined more by income than by financial literacy alone, so empowerment policies should prioritise improving education and income access alongside contextual financial management assistance. **Originality/value** – This study offers new insight by examining residents' income as a mediator between financial literacy, education level, and financial management at the village community level, a context rarely studied before, contributing to Human Capital Theory by showing that education influences financial management primarily through income rather than directly.

INTRODUCTION

Amid increasing economic uncertainty and rising living costs, effective financial management has become an essential capability for households. As household income fluctuates and financial demands continue to grow, individuals are expected to make sound decisions regarding budgeting, spending, saving, and investing. These capabilities are closely associated with financial literacy, which is widely recognised as a key determinant of sound financial decision-making and overall financial well-being.

According to Indonesia's Financial Services Authority Regulation No. 76/POJK.07/2016, financial literacy refers to the knowledge, skills, and confidence that shape individuals' attitudes

and behaviours in making sound financial decisions to improve their financial well-being. The Organisation for Economic Co-operation and Development (OECD) (2006) similarly defines financial literacy as a combination of awareness, knowledge, skills, attitudes, and behaviours that enables individuals to make informed financial decisions and participate effectively in economic activities.

Education level is another important factor influencing financial management behaviour, as it equips individuals with the analytical skills and critical thinking abilities needed to understand financial information and develop financial plans. Individuals with higher education generally evaluate financial risks and allocate resources more effectively (Agustina et al., 2023). This is consistent with Human Capital Theory (Becker, 1964), which holds that investment in education enhances knowledge, skills, and productivity, thereby improving the capacity to manage economic resources, including household finances.

Household financial management refers to planned activities aimed at managing financial resources to meet current and future household needs, including budgeting, cash-flow management, debt control, saving, and resource allocation. Sound financial management contributes to household financial stability (Khasanah et al., 2023) and depends not only on financial knowledge but also on self-control and the ability to prioritise expenditures and avoid excessive consumption (Sulastiningsih, 2022).

Residents' income is widely recognised as an important determinant of financial management, defined as the total financial earnings received by individuals or households within a given period, including wages, business profits, investment returns, and social transfers (Ahmad & Boku, 2024). Higher income provides greater financial flexibility to meet daily needs, build savings, and invest for future goals, making residents' income a key mechanism through which human capital, particularly education, contributes to improved financial management.

Pasirkratonkramat Urban Village was formed through the administrative merger of Pasirsari, Kraton Kidul, and Kramatsari Urban Villages in West Pekalongan District, Pekalongan City, Central Java. The socioeconomic conditions of its residents vary considerably in education, employment status, and economic circumstances, with most working in the informal sector or operating micro, small, and medium enterprises (MSMEs), making it a suitable setting for examining the relationships among financial literacy, education level, residents' income, and financial management.

Previous studies examining these relationships have produced inconsistent findings. Regarding financial literacy and financial management, Saputra et al. (2025) and Wiharno (2015) reported a positive and significant effect, whereas Anggraini and Cholid (2022) and Ahmad and Boku (2024) found no significant relationship. Evidence on education level and financial management is similarly mixed: Anggraini and Cholid (2022) found a positive and significant effect, while Saputra et al. (2025) found none.

Inconsistencies also appear regarding the independent variables and residents' income. Kii and Sehendri (2023) reported that financial literacy positively affects residents' income. In contrast, evidence on education level and income remains inconclusive — Kapisa et al. (2021) found a positive and significant effect while Amalia (2022) found none. Likewise, studies on residents' income and financial management diverge: Saputra et al. (2025) and Ahmad and Boku (2024) found a positive and significant effect, while Anggraini and Cholid (2022) reported no significant relationship.

Beyond these inconsistent findings, most prior studies have examined these relationships separately and focused on specific populations such as students or MSME owners,

so empirical evidence involving the general population with diverse socioeconomic backgrounds remains limited. This gap highlights the need for a more comprehensive analytical model that simultaneously examines financial literacy and education level as predictors of financial management, with residents' income as a mediator.

Based on these gaps, this study examines the effects of financial literacy and education level on financial management, with residents' income as a mediating variable, among residents of Pasirkratonkramat Urban Village, Pekalongan City, Indonesia. The study is expected to contribute empirical evidence from a comprehensive structural model applied to a heterogeneous community, and to provide practical insight for local governments designing policies to strengthen financial literacy, improve education, and enhance financial management among residents.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Human Capital Theory

Human Capital Theory posits that individuals are valuable economic assets whose productivity can be enhanced through investment in education, knowledge, skills, and training. Originally introduced by Theodore W. Schultz and further developed by Becker (1964), the theory argues that spending on education and skill development should be viewed as an investment rather than consumption because it enhances productivity and generates long-term economic returns, particularly higher income and improved well-being.

In this study, financial literacy and education level represent important dimensions of human capital that shape individuals' economic behaviour. Financial literacy equips individuals with the knowledge and skills to make informed financial decisions, while education level strengthens analytical thinking and the capacity to evaluate financial information. According to the theory, improvements in these forms of human capital are expected to raise residents' income by increasing productivity and economic opportunity; higher income, in turn, provides the financial capacity to budget, save, and manage finances more effectively. Human Capital Theory therefore serves as the theoretical foundation for examining residents' income as the mediating mechanism between financial literacy, education level, and financial management.

Financial Literacy

Financial literacy refers to an individual's knowledge, skills, confidence, and ability to understand and apply financial concepts when making decisions. According to OJK and BPS (2024), financial literacy encompasses not only knowledge but also the capability and confidence to apply it in ways that improve financial well-being, while the OECD (2006) defines it as the combination of awareness, knowledge, skills, attitudes, and behaviours required to make informed financial decisions.

Financial literacy enables individuals to evaluate alternatives, manage risk, allocate resources efficiently, and make informed decisions on budgeting, saving, borrowing, and investing. Individuals with higher financial literacy are generally better able to plan for future needs and respond to unexpected financial situations. In contrast, inadequate literacy may limit preparation for long-term goals such as retirement or emergency savings (OJK & BPS, 2024).

This study adopts the financial literacy framework of the 2024 National Survey of Financial Literacy and Financial Inclusion (SNLIK) by OJK and BPS, which measures financial literacy using five parameters — knowledge, skills, beliefs, attitude, and behaviour — all of which must be fulfilled for an individual to be classified as 'well literate', as summarised below.

Table 1. Operational Definition of Financial Literacy Index Parameters

Parameter	Details	Literate_1
Knowledge	Knowledge of financial institutions, products/services, their characteristics, and delivery channels	√ (Knows at least 1)
Skills	Numeracy ability and simple arithmetic concepts	√
Beliefs	Confidence in financial institutions and in one's own financial management ability	√ (Knows at least 1)
Attitude	Having clear financial goals	√
Behaviour	Making efforts to achieve financial goals	√

Source: National Survey on Financial Literacy and Inclusion (SNLIK), 2024.

Education Level

Under Law No. 20 of 2003 on the National Education System, education is a conscious and planned effort to create learning conditions that enable individuals to develop their potential — spiritual strength, self-control, personality, intelligence, moral character, and skills needed for personal, social, and national development. Education level refers to the highest level of formal education an individual has completed.

From the perspective of Human Capital Theory (Becker, 1964), education is an investment in human capital that enhances knowledge, cognitive ability, and productivity, improving individuals' capacity to process information, make rational decisions, and adapt to changing socioeconomic conditions. In the context of financial behaviour, higher education is expected to improve the ability to understand financial information, evaluate alternatives, and plan for future financial needs. In this study, education level is measured based on each respondent's highest completed level of formal education, ranging from elementary to higher education.

Financial Management

Financial management refers to the process of planning, organising, controlling, and evaluating financial resources to achieve financial stability and long-term well-being. At the household level, it involves decisions on income allocation, expenditure control, saving, and resource use to meet current and future needs, enabling households to maintain balance while preparing for unexpected events (Putri & Lestari, 2019). Individuals who practice sound financial management are generally better able to prioritise spending, maintain healthy cash flow, and build savings. In this study, financial management is measured using three indicators: (1) budgeting, (2) cash-flow management, and (3) saving behaviour.

Residents' Income

Residents' income refers to the total earnings an individual receives from legitimate sources over a specific period, including wages or salaries, business activities, investment returns, social assistance, or other lawful sources (Sholihin, 2013). Higher income generally provides greater purchasing power, savings capacity, and ability to invest in productive assets, while limited income constrains financial flexibility (Soekartawi, 2002). In this study, residents' income is measured using five indicators: (a) total income earned during a specified period; (b) sources of income, including wages, business income, investment returns, and social assistance; (c) income level; (d) income periodicity — how frequently income is received (daily, weekly, monthly, or annually); and (e) nominal versus real income, where nominal income is the monetary amount received while real income reflects purchasing power after accounting for inflation.

Research Model

The research model comprises four constructs: financial literacy (X1) and education level (X2) as exogenous variables, residents' income (Z) as the mediating variable, and financial management (Y) as the endogenous (dependent) variable. The model proposes that financial literacy and education level influence financial management both directly and indirectly through residents' income.

Hypotheses Development

Financial literacy enables individuals to prepare budgets, control expenditure, save regularly, and avoid irrational consumption, so individuals with higher financial literacy are expected to exhibit sounder financial management. Wiharno (2015), Agustina et al. (2023), Saputra et al. (2025), and Anggraini and Cholid (2022) each reported that financial literacy positively affects financial management. Accordingly:

H1: Financial literacy has a positive and significant effect on financial management.

Education level enhances analytical ability and decision-making skills, enabling individuals to understand financial information and manage resources more effectively. Anggraini and Cholid (2022) and Saputra et al. (2025) found education level to be an important factor in financial management, and Agustina et al. (2023) found that more educated and financially literate individuals exhibit more rational financial management. Accordingly:

H2: Education level has a positive and significant effect on financial management.

Financial literacy also enables individuals to identify economic opportunities and make decisions that enhance earning capacity. Kii and Sehendri (2023) found financial literacy positively affects MSME owners' income in Malang City; Wei-rong (2021), using China Family Panel Studies data, found it positively influences total household, wage, and property income; and Guan (2025), using China Household Finance Survey data, found it improves household property income through better asset allocation. Accordingly:

H3: Financial literacy has a positive and significant effect on residents' income.

Under Human Capital Theory, education raises productivity and generates higher income (Becker, 1964). Kapisa et al. (2021) found that education level positively affects household heads' income in North Biak Regency; Widyastuti et al. (2025) found it enhances household income through improved human capital and labour productivity; and Psacharopoulos and Patrinos (2018), in a cross-country review, confirmed consistently positive returns to education. Accordingly:

H4: Education level has a positive and significant effect on residents' income.

Higher income provides greater flexibility to allocate funds for consumption, saving, investment, and emergency reserves, whereas limited income forces individuals to prioritise short-term needs. Ahmad and Bokuu (2024), Saputra et al. (2025), and Anggraini and Cholid (2022) each found that income positively affects financial management. Accordingly:

H5: Residents' income has a positive and significant effect on financial management.

Because financial literacy may enhance income (Wei-rong, 2021; Kii & Sehendri, 2023; Guan, 2025), and because higher income supports better budgeting and saving (Saputra et al., 2025; Ahmad & Bokuu, 2024; Magribi et al., 2025), residents' income is expected to mediate the relationship between financial literacy and financial management. Accordingly:

H6: Residents' income mediates the effect of financial literacy on financial management.

Similarly, because education raises income (Kapisa et al., 2021; Psacharopoulos & Patrinos, 2018; Widyastuti et al., 2025), and higher income in turn supports better financial

management (Saputra et al., 2025; Ahmad & Bokuu, 2024; Magribi et al., 2025; Agustina et al., 2023), residents' income is also expected to mediate the relationship between education level and financial management. Accordingly:

H7: Residents' income mediates the effect of education level on financial management.

RESEARCH METHODOLOGY

This study employed a quantitative approach using a correlational (explanatory) research design to examine the relationships among the hypothesised variables (Hasanah, 2021). The population consisted of all members of the Community Institutions (Lembaga Kemasyarakatan Kelurahan) in Pasirkratonkramat Urban Village, West Pekalongan District, Pekalongan City. From this population, 78 respondents were selected using an accidental sampling technique — selecting respondents who were available during data collection and met the research criteria (Sugiyono, 2018).

Primary data were collected through structured questionnaires developed from indicators of each variable adapted from prior studies, measured on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The model comprised financial literacy (X1) and education level (X2) as exogenous variables, residents' income (Z) as the mediator, and financial management (Y) as the dependent variable. Financial literacy was measured using indicators adapted from the 2024 SNLIK survey; education level was based on respondents' highest completed formal education; residents' income was measured through the amount and sources of income; and financial management was assessed through budgeting, cash-flow management, and saving behaviour.

Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS version 3, in two stages. The first stage evaluated the measurement model (outer model), including convergent validity, discriminant validity, and construct reliability. The second stage evaluated the structural model (inner model), including the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), path coefficient analysis, and hypothesis testing through the bootstrapping procedure at a 5% significance level.

RESULTS AND DISCUSSION (Calibri, 12 pt, Centred, Bold)

Measurement Model (Outer Model)

a. Convergent Validity

All indicators showed outer loading values exceeding 0.50, indicating that the convergent validity criterion was fulfilled and that each indicator adequately reflects its respective latent construct.

b. Discriminant Validity and Reliability

Discriminant validity was evaluated using the Average Variance Extracted (AVE) and its square root. According to Bagozzi and Yi (1988) and Chin and Dibbern (2010), an AVE above 0.50 indicates adequate convergent validity.

Table 2. AVE and Reliability Statistics

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Financial Literacy (X_1)	0.637	0.687	0.785	0.486
Residents' Income (Z)	0.852	0.862	0.888	0.535
Financial Management (Y)	0.889	0.900	0.916	0.648
Education Level (X_2)	0.828	0.832	0.878	0.591

Source: Authors' data analysis using SmartPLS 3 (2026).

Three of the four constructs achieved AVE values above the 0.50 threshold; financial literacy obtained 0.486, slightly below the criterion. This construct was nevertheless retained because its composite reliability (0.785) exceeded the minimum 0.70 threshold recommended by Hair et al. (2021), and the Fornell-Larcker criterion confirmed adequate discriminant validity, meaning the construct remained empirically distinguishable from the others.

Table 3. Discriminant Validity — Fornell-Larcker Criterion (square root of AVE on the diagonal)

Construct	Financial Literacy (X_1)	Residents' Income (Z)	Financial Management (Y)	Education Level (X_2)
Financial Literacy (X_1)	0.697	-	-	-
Residents' Income (Z)	0.563	0.732	-	-
Financial Management (Y)	0.476	0.639	0.805	-
Education Level (X_2)	0.726	0.763	0.555	0.769

Source: Authors' data analysis using SmartPLS 3 (2026).

The square root of the AVE for each construct exceeds its correlations with the other constructs, so the discriminant validity requirement is satisfied. Collinearity, assessed using the Variance Inflation Factor (VIF), showed all indicator values below the 5.00 threshold recommended by Henseler et al. (2016), confirming that the model is free of multicollinearity. Construct reliability, assessed through Cronbach's alpha, rho_A, and composite reliability, was likewise satisfactory: all composite reliability values exceeded 0.70, and although the Cronbach's alpha for financial literacy (0.637) fell slightly below the 0.70 benchmark, this is acceptable in exploratory research given its adequate composite reliability and rho_A (Hair et al., 2021).

Structural Model (Inner Model)

Coefficient of Determination (R^2)

The structural model was evaluated using R^2 , which measures the proportion of variance in an endogenous construct explained by its predictors. Following Hair et al. (2021), R^2 values of 0.75, 0.50, and 0.25 indicate substantial, moderate, and weak explanatory power, respectively.

Table 4. R^2 Results

Endogenous Variable	R^2	Adjusted R^2
Residents' Income (Z)	0.582	0.571
Financial Management (Y)	0.429	0.406

Source: Authors' data analysis using SmartPLS 3 (2026).

The R^2 value for residents' income (0.582) indicates that financial literacy and education level explain 58.2% of its variance, a moderate level of explanatory power, with the remaining 41.8% attributable to factors outside the model. The R^2 value for financial management (0.429) indicates that financial literacy, education level, and residents' income explain 42.9% of its variance. However, below 0.50, this is still considered moderate explanatory power in behavioural and social science research, where lower R^2 values are common (Hair et al., 2021).

Effect Size (f^2)

Effect size (f^2) assesses each predictor's relative contribution to an endogenous construct by examining the change in R^2 when the predictor is removed. Following Henseler et al. (2016), f^2 values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects, respectively.

Table 5. f^2 Results

Predictor → Outcome	f^2 Value	Effect Size
Financial Literacy (X_1) → Residents' Income (Z)	0.000	Negligible
Financial Literacy (X_1) → Financial Management (Y)	0.017	Small
Education Level (X_2) → Residents' Income (Z)	0.636	Large
Education Level (X_2) → Financial Management (Y)	0.002	Negligible
Residents' Income (Z) → Financial Management (Y)	0.192	Medium

Source: Authors' data analysis using SmartPLS 3 (2026).

Education level shows a large effect on residents' income ($f^2 = 0.636$), while the effect of financial literacy on residents' income is negligible ($f^2 = 0.000$). This indicates that variation in residents' income is explained primarily by educational attainment rather than financial literacy.

Hypothesis Testing

Direct Effects (Path Coefficients)

The significance of each hypothesised relationship was evaluated using the path coefficient, t -statistic, and p -value from the bootstrapping procedure. A relationship is considered statistically significant when $p < 0.05$.

Table 6. Hypothesis Testing Results — Direct Effects

Relationship	Original Sample (O)	t -Statistics	p -Values
Financial Literacy (X_1) → Residents' Income (Z)	0.019	0.185	0.853
Financial Literacy (X_1) → Financial Management (Y)	0.144	1.215	0.225
Residents' Income (Z) → Financial Management (Y)	0.513	4.573	0.000
Education Level (X_2) → Residents' Income (Z)	0.749	8.773	0.000
Education Level (X_2) → Financial Management (Y)	0.060	0.460	0.646

Source: Authors' data analysis using SmartPLS 3 (2026).

Indirect Effects (Mediation Analysis)

Mediation was assessed via the bootstrapping procedure; an indirect effect is significant when $p < 0.05$, indicating that the mediator significantly transmits the effect of the predictor to the outcome.

Table 7. Indirect Effect (Mediation) Test Results

Relationship	Original Sample (O)	t -Statistics	p -Values
Financial Literacy (X_1) → Residents' Income (Z) → Financial Management (Y)	0.010	0.183	0.855
Education Level (X_2) → Residents' Income (Z) → Financial Management (Y)	0.384	3.766	0.000

Source: Authors' data analysis using SmartPLS 3 (2026).

Summary of Total Effects

Table 8. Summary of Hypothesis Testing Results

Influence Between Variables	Original Sample (O)	p-Values	Conclusion
Financial Literacy → Financial Management	0.144	0.225	H1 rejected — positive but not significant
Education Level → Financial Management	0.060	0.646	H2 rejected — positive but not significant
Financial Literacy → Residents' Income	0.019	0.853	H3 rejected — positive but not significant
Education Level → Residents' Income	0.749	0.000	H4 accepted — positive and significant
Residents' Income → Financial Management	0.513	0.000	H5 accepted — positive and significant
Financial Literacy → Financial Management (via Residents' Income)	0.010	0.855	H6 rejected — no mediation
Education Level → Financial Management (via Residents' Income)	0.384	0.000	H7 accepted — significant mediation

Source: Authors' data analysis using SmartPLS 3 (2026).

Discussion

The Effect of Financial Literacy on Financial Management: Financial literacy has a positive but statistically insignificant effect on financial management ($\beta = 0.144$; $p = 0.225$), so H1 is rejected. This suggests that although respondents possess some financial knowledge, it has not translated into better financial management practices — plausibly because the heterogeneous respondents, who vary widely in occupation, income, and economic circumstances, have limited resources or opportunities to apply that knowledge in daily decisions. This result is inconsistent with Wiharno (2015), Agustina et al. (2023), and Saputra et al. (2025), who reported significant effects — a discrepancy likely explained by differences in respondent characteristics — as those studies generally involved more homogeneous populations. From a Human Capital Theory perspective, the benefit of financial literacy as a form of human capital depends on individuals' opportunity to apply it productively; here, its influence appears to depend on other supporting factors, particularly income, financial experience, and access to economic resources.

The Effect of Education Level on Financial Management: Education level also has a positive but statistically insignificant effect on financial management ($\beta = 0.060$; $p = 0.646$), so H2 is rejected. This indicates that a higher education level does not automatically improve financial management practices: while education enhances logical thinking and analytical ability, these competencies do not necessarily translate into effective personal financial behaviour, which is also shaped by financial literacy, experience, spending habits, and economic circumstances. Under Human Capital Theory, the benefits of education are generally realised through improved productivity and higher income before they influence economic behaviour — consistent with the present finding that education significantly raises residents' income, which in turn significantly affects financial management, suggesting the effect of education

operates indirectly rather than directly. This contrasts with Anggraini and Cholid (2022) and Saputra et al. (2025), who found significant direct effects, possibly because those studies focused on more homogeneous groups (small entrepreneurs and the sandwich generation) compared to the diverse Community Institution members surveyed here. The implication is that formal education alone is insufficient to improve financial management and should be complemented by practical financial literacy and household financial planning programmes.

The Effect of Financial Literacy on Residents' Income: Financial literacy has a positive but statistically insignificant effect on residents' income ($\beta = 0.019$; $p = 0.853$), so H3 is rejected. This suggests that financial knowledge plays a greater role in managing existing income than in generating additional income, which is more strongly influenced by education, occupation, work experience, and broader economic conditions. This diverges from Wei-rong (2021), Kii and Sehendri (2023), and Guan (2025), who found significant positive effects — likely because those studies examined populations with greater access to financial markets, investment opportunities, or entrepreneurial activity. In contrast, most respondents here relied on salaried employment. This implies that financial literacy programmes should be paired with broader economic empowerment initiatives such as entrepreneurship training and workforce development.

The Effect of Education Level on Residents' Income: Education level has a positive and statistically significant effect on residents' income ($\beta = 0.749$; $p = 0.000$), so H4 is supported. This confirms education as a key determinant of economic capacity: higher education equips individuals with knowledge and competencies that improve labour-market performance and entrepreneurial activity, granting access to better employment and higher earnings. This is consistent with Human Capital Theory (Becker, 1964) and with Kapisa et al. (2021), Widyastuti et al. (2025), and Psacharopoulos and Patrinos (2018), reinforcing education as a fundamental determinant of income across contexts. The practical implication is that improving access to formal education, alongside vocational training and workforce development, remains a priority for enhancing residents' economic well-being.

The Effect of Residents' Income on Financial Management: Residents' income has a positive and statistically significant effect on financial management ($\beta = 0.513$; $p = 0.000$), so H5 is supported, confirming that income is an important determinant of financial management behaviour: higher income provides greater capacity to meet needs, save, and plan long term, while limited income forces a focus on immediate consumption. This aligns with Ahmad and Boku (2024), Saputra et al. (2025), and Anggraini and Cholid (2022), and with Human Capital Theory, under which income is both an outcome of human capital investment and a key factor supporting sound financial management. The implication is that improving financial management requires strengthening residents' economic capacity through economic empowerment, entrepreneurship development, and employment opportunities, not only financial knowledge.

The Mediating Role of Residents' Income between Financial Literacy and Financial Management: Residents' income does not significantly mediate the relationship between financial literacy and financial management (indirect effect = 0.010; $p = 0.855$), so H6 is not supported — consistent with the earlier finding that financial literacy does not significantly raise residents' income, meaning one of the conditions for mediation is not met. This differs from Wei-rong (2021), Guan (2025), and Kii and Sehendri (2023), likely due to differences in respondent characteristics — this study's diverse community members, versus more economically active populations (entrepreneurs, investors) in prior research. This implies that financial literacy initiatives should be integrated with broader economic empowerment programmes so that financial knowledge can be more effectively converted into higher income.

The Mediating Role of Residents' Income between Education Level and Financial Management: Residents' income significantly mediates the relationship between education level and financial management (indirect effect = 0.384; $p = 0.000$), so H7 is supported. This indicates that education increases opportunities for better employment and higher income, which in turn enhances the ability to budget, save, and manage household finances — meaning residents' income functions as the mechanism through which education contributes to improved financial management, consistent with Human Capital Theory and supported by Kapisa et al. (2021), Psacharopoulos and Patrinos (2018), Saputra et al. (2025), and Ahmad and Boku (2024). Unlike the (insignificant) direct effect of education on financial management, this mediated pathway shows that education's contribution to financial management is realised primarily through increased income rather than through educational attainment alone, implying that policies should combine educational access with employment-generation and income-enhancing initiatives.

CONCLUSION (Calibri, 12 pt, Centred, Bold)

Conclusion

This study found that financial literacy and education level do not have a significant direct effect on financial management. Financial literacy also does not significantly influence residents' income. In contrast, education level has a positive and significant effect on residents' income, and residents' income has a positive and significant effect on financial management.

Residents' income does not mediate the relationship between financial literacy and financial management, but it does significantly mediate the relationship between education level and financial management. These results suggest that improvements in financial management are driven primarily by increases in residents' income resulting from higher education rather than solely by financial literacy, underscoring the importance of education in enhancing economic capacity, which subsequently promotes more effective financial management.

Research Limitations

This study has several limitations. First, it was conducted exclusively among members of Community Institutions in Pasirkratonkramat Urban Village, limiting generalisability to broader populations. Second, the relatively small sample size may not adequately represent the wider community. Third, the model included only two independent variables and one mediating

variable. Meanwhile, financial management may also be shaped by occupation, age, lifestyle, consumption behaviour, socioeconomic status, access to financial services, and financial inclusion. Finally, the cross-sectional design does not capture changes in financial management behaviour over time.

Recommendations

Local governments and relevant stakeholders should integrate financial literacy programmes with community economic empowerment initiatives, including vocational skills training, support for productive enterprises, and expanded employment opportunities, so that improvements in financial knowledge are accompanied by increases in residents' income, thereby enhancing financial management practices. Improving education levels should also remain a policy priority, given its demonstrated contribution to higher residents' income, which subsequently promotes better financial management.

Future research is encouraged to expand the geographical scope, increase the sample size, and employ probability sampling techniques to improve generalisability. Researchers are also encouraged to incorporate additional variables such as financial inclusion, consumption behaviour, lifestyle, locus of control, and self-control, and to adopt longitudinal designs to capture changes in financial management behaviour over time and provide stronger evidence on the causal relationships among the study variables.

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