

Research Article

The Relationship Between Financial Literacy, Budgeting Behavior, and Household Economic Stability in Urban Communities

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Abstract: This study explores the significant role of financial literacy in shaping household budgeting behaviors and its impact on economic stability, particularly in urban households. By analyzing data from 300 urban households, the study reveals that financially literate households manage their expenses more effectively, saving, on average, 20% more annually compared to their less financially literate counterparts. These households also demonstrate better debt management and budgeting control, leading to greater financial stability. In contrast, households with low financial literacy exhibit higher debt ratios, poor budgeting practices, and struggle with maintaining financial equilibrium. The findings highlight the importance of financial literacy in fostering responsible financial decision-making, reducing financial distress, and promoting long-term economic resilience. Furthermore, the study identifies gaps in existing research, particularly concerning low-income and marginalized groups in urban settings. Despite better access to financial services, urban areas still show significant disparities in financial literacy, particularly among specific populations such as Indigenous Australians. The study suggests that addressing these disparities through targeted financial literacy programs could enhance household economic outcomes and reduce inequalities. It also emphasizes the need for policy interventions to integrate financial education into urban communities, particularly for low-income or less-educated households. The study calls for future research to explore longitudinal impacts and extend the focus beyond urban areas to include rural populations, thus broadening the understanding of financial literacy's role in economic stability across diverse contexts.

Keywords: Debt Management; Economic Stability; Financial Education; Financial Literacy; Household Budgeting.

Received: August 21, 2023

Revised: October 27, 2023

Accepted: December 24, 2023

Published: February 28, 2024

Curr. Ver.: February 28, 2024



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1. Introduction

In today's increasingly complex financial landscape, financial literacy is a critical life skill, enabling individuals to make informed and effective decisions regarding the management of their personal finances. Financial literacy encompasses a wide range of knowledge, including budgeting, saving, investing, and planning for retirement (Neuberger et al., 2022). With urbanization accelerating globally, urban households face unique financial challenges that make financial literacy even more vital. As cities grow, the variety of financial products and services available increases, demanding a higher level of financial understanding to avoid common pitfalls and ensure effective financial management (Li et al., 2023). In this context, financial literacy becomes an essential tool for navigating the complexities of urban financial markets, enabling individuals to manage their finances and make informed decisions (Lakshmi & Bharathi, 2023).

However, the lack of financial literacy can lead to several negative outcomes. Poor financial literacy is often associated with inadequate budgeting, financial instability, and diminished household welfare (Chaity et al., 2024). Without sufficient knowledge, individuals struggle to create and adhere to a budget, which can lead to overspending, high debt levels,

and a lack of savings, all of which contribute to financial instability (Neuberger et al., 2022). Moreover, the lack of effective budgeting and financial management can negatively impact household welfare, resulting in increased stress, limited investment in education and health, and a lower overall quality of life (Manoharan et al., 2024).

To mitigate these negative effects, improving financial literacy is essential. Several strategies can be employed to enhance financial knowledge, such as educational programs focused on budgeting, saving, and investing, and community initiatives tailored to the specific needs of urban populations (Barnard et al., 2021). Digital financial literacy programs also play a significant role in bridging the gap between technological advancements and financial understanding, promoting greater financial inclusion (Joshi et al., 2024). By enhancing financial literacy, urban households can better manage their finances, reduce financial instability, and improve their overall economic well-being (Peng & Mao, 2023).

In many urban communities, financial literacy remains strikingly low, contributing significantly to financial instability and poor budgeting behaviors among households. This issue is particularly prevalent among lower-income groups, where financial challenges often manifest as high levels of debt, lower credit scores, insufficient wealth accumulation, and inadequate retirement planning (Neuberger et al., 2022). The lack of financial literacy hampers efforts toward achieving financial inclusion and overall economic well-being, as individuals struggle with essential personal financial management practices (Omakhanlen et al., 2021). The consequences of poor financial literacy are far-reaching, often leading to household financial problems such as escalating debt and expenditures that exceed income, which can hinder long-term financial stability (Xu et al., 2022).

The primary objective of this study is to investigate the relationship between financial literacy and budgeting behavior and to explore how these factors impact the economic stability of urban households. This research specifically aims to examine the role of financial literacy in shaping budgeting practices, which are essential for sound financial management. Financial literacy, which includes financial knowledge, attitudes, and behaviors, plays a crucial role in making informed financial decisions that foster economic stability (Zou & Deng, 2019). A better understanding of this relationship could identify pathways to improve financial literacy and budgeting behaviors, which would ultimately contribute to enhanced economic outcomes for urban households.

Financial behavior, such as savings, spending, and investment decisions, is directly influenced by financial literacy. Higher levels of financial literacy lead to better financial decision-making and more favorable financial outcomes (Murendo & Mutsonziwa, 2017). For instance, individuals with a higher degree of financial literacy are more likely to participate in financial markets and manage their finances more effectively (Xu et al., 2022). Additionally, socio-economic factors, such as income, education, and gender, have been shown to play significant roles in determining financial literacy levels. Studies indicate that higher socioeconomic status and education levels are positively correlated with better financial literacy, while gender differences in financial literacy are generally minimal (Alfikry & Akbar, 2023).

Financial literacy is essential for ensuring economic stability, as it enables individuals to make informed financial decisions, manage debt, and plan effectively for the future. By improving financial literacy, individuals can mitigate common financial problems and improve their overall financial well-being, thus fostering long-term economic stability for urban households (Issac & Seranmadevi, 2024). This study seeks to explore these dynamics and contribute to the growing body of research on the importance of financial literacy in urban settings.

2. Literature Review

Financial Literacy and Household Budgeting

Financial literacy plays a critical role in influencing household budgeting behaviors, contributing to more effective financial management, savings, and investment decisions. Research shows that individuals with higher levels of financial literacy are more likely to make informed decisions regarding their finances, including managing their savings and retirement planning effectively (Mushtaq et al., 2024). Financially literate households are better equipped to avoid financial pitfalls such as overspending and accumulating debt, which often result

from poor budgeting practices. Households with advanced financial literacy are more adept at setting up realistic budgets, adhering to them, and making informed decisions about their financial futures, such as saving for emergencies and planning for retirement (Xu et al., 2019).

In addition to improved financial management, financial literacy also plays a significant role in preventing over-indebtedness. Households with sound financial knowledge can make responsible borrowing decisions, avoid excessive credit borrowing, and ensure they can meet their credit obligations. This helps to prevent the negative consequences of over-indebtedness, which often leads to financial instability and lower credit scores (Mrnjavac et al., 2024). Furthermore, households with higher financial literacy are more likely to make informed investment decisions. These decisions include participating in investment vehicles such as mutual funds, stocks, and other financial markets, ultimately contributing to better financial outcomes (Zhang & Sussman, 2024).

Household Financial Management

The role of information and communication technologies (ICTs) in household financial management has gained significant attention in recent years. ICTs, when combined with financial literacy, can enhance household financial management by facilitating access to financial markets, providing digital tools for budgeting, and improving retirement planning (Mushtaq et al., 2024). Digital platforms and financial apps can empower households to make better financial decisions, track their expenses, and engage with financial markets more effectively. Additionally, personal attributes such as self-efficacy, which refers to an individual's belief in their ability to manage finances, significantly contribute to household financial stability alongside financial literacy (Xu et al., 2022).

Budgeting Behavior and Economic Stability

Effective budgeting is essential for maintaining economic stability at the household level. Households that engage in effective budgeting practices are better able to manage their income and expenses, thus preventing financial crises that can arise from overspending or poor financial planning. By adhering to a budget, households can better prepare for unpredictable income fluctuations and sustain financial well-being during challenging times (Zhang & Sussman, 2024). Budgeting also encourages savings and the efficient management of expenses, both of which are vital for long-term economic stability (Xu et al., 2022).

Furthermore, effective budgeting is not only essential at the household level but also has macroeconomic implications. Fiscal management, which includes responsible budgeting practices, plays a crucial role in maintaining macroeconomic stability. Balanced fiscal policies that avoid excessive debt and deficit cycles are fundamental to fostering sustainable economic growth (Flores-Sotelo et al., 2024; Sun, R., et al., 2021). Government policies promoting financial literacy and effective budgeting can significantly enhance the financial stability of households, thereby contributing to broader economic stability (Bogolib, 2014).

Challenges and Recommendations

Households with unpredictable income streams often face challenges in budgeting, which negatively impacts their financial well-being. Policies designed to address income unpredictability, such as unemployment insurance or income stabilization programs, can help mitigate these adverse effects. Furthermore, environmental factors, such as political stability and market conditions, can influence the effectiveness of budgeting practices. In emerging economies, the volatility of these factors plays a significant role in shaping the success of budgeting practices, making it essential for governments to consider these factors when promoting financial literacy and budgeting programs (Zhang & Sussman, 2024).

Previous Findings on Financial Literacy and Household Welfare

Impact on Savings Rates

Financial literacy has been found to significantly improve household savings behavior. A study in South Africa demonstrated that households receiving financial literacy training showed higher savings rates, highlighting the role of financial education in encouraging responsible saving habits (Steinert et al., 2018). Additionally, financial literacy is associated with better retirement planning and savings habits, especially among working adults. Financially literate individuals tend to save more and plan effectively for retirement, ensuring long-term financial security (Liu et al., 2024).

Debt Management

Financial literacy is also crucial for effective debt management. Higher levels of financial literacy are linked to more responsible credit use and better debt management. Households that are financially literate tend to have lower borrowing rates and experience less financial distress (Steinert et al., 2018). Moreover, financial literacy helps households manage their debt, reducing the psychological burden of indebtedness and improving mental health by alleviating the stress associated with financial difficulties (Makhija et al., 2021).

Economic Resilience

Financial literacy contributes significantly to economic resilience, enhancing households' ability to manage financial disturbances, such as economic shocks or crises. Studies show that households with higher financial literacy are better equipped to handle financial disruptions, such as those caused by the COVID-19 pandemic, by maintaining financial stability during challenging times (Katnic et al., 2024). Improved financial literacy promotes long-term financial stability, helping to reduce inequalities and fostering inclusive economic growth (Liu et al., 2024).

Gaps in Existing Research

Urban Communities

Despite the importance of financial literacy, there is a notable gap in research focusing on financial literacy within urban communities, particularly among lower-income individuals. These populations often face higher levels of debt, lower credit scores, and poor retirement planning due to lower financial literacy levels (Neuberger et al., 2022). Although urban areas tend to have better access to financial services, significant disparities in financial literacy still exist, especially among marginalized groups such as Indigenous Australians (Adee & Lau, 2022).

Youth and Gender Disparities

Financial literacy among youth, especially in urban settings, remains under-researched. Many young people lack practical financial education, which is essential for ensuring long-term economic stability (Makhija et al., 2021). Furthermore, gender disparities in financial literacy persist, with women generally exhibiting lower levels of financial literacy compared to men. This gender gap limits women's economic participation and decision-making power, particularly in developing countries (Adee & Lau, 2022).

Technological Integration

The role of financial technology (fin-tech) in enhancing financial literacy and its impact on household welfare is another area that requires further exploration. While fin-tech has shown potential in urban areas, its benefits are not equally distributed, especially in rural settings (Makhija et al., 2021). The integration of fin-tech solutions into financial literacy programs could provide more inclusive opportunities for improving financial management practices across diverse demographic groups.

Need for This Study

Given the identified gaps, there is a clear need for targeted research on financial literacy, particularly in urban communities. Many urban, low-income populations face unique financial challenges, such as managing high levels of debt, inadequate savings, and poor retirement planning. This study aims to develop and evaluate financial literacy programs tailored to these communities, addressing their specific needs and providing the knowledge necessary to make informed financial decisions (Neuberger et al., 2022). Such programs should focus on critical areas such as debt management, savings habits, and retirement planning to improve the overall financial stability of these households.

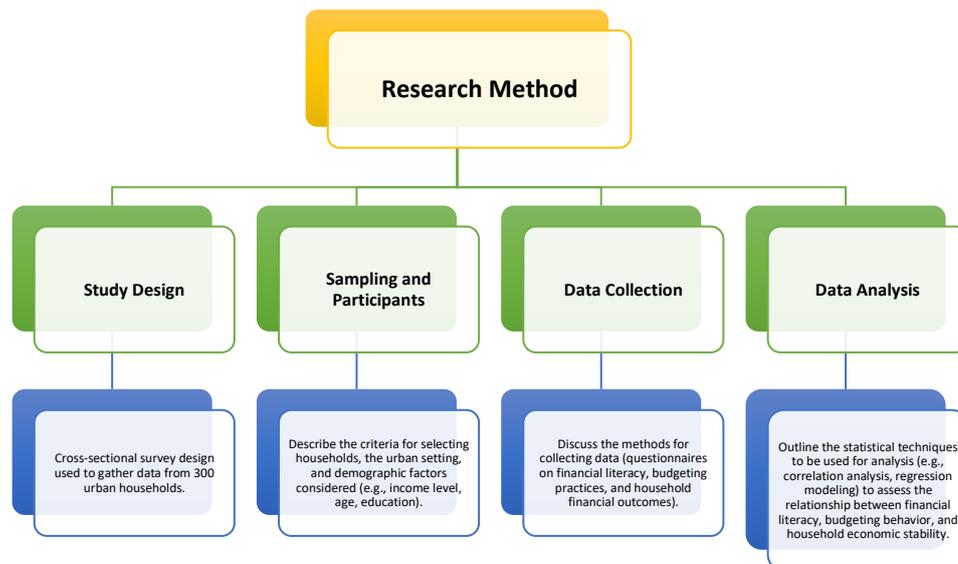
Furthermore, addressing gender disparities in financial literacy is crucial to promote equitable economic participation. Women, particularly in lower-income and marginalized urban populations, often have lower financial literacy levels than men, limiting their ability to make informed financial decisions and participate fully in the economy (Adee & Lau, 2022). It is essential that financial literacy programs incorporate gender-sensitive strategies to empower women and reduce these disparities.

The integration of fin-tech solutions into financial literacy programs can further enhance household welfare by improving access to financial resources and tools. Digital platforms have shown significant potential in bridging gaps in financial inclusion, particularly for underbanked populations in urban areas. Leveraging financial technology can help provide

more accessible financial education, resources for budgeting, and tools for savings and investment, thereby promoting greater economic stability (Makhija et al., 2021).

3. Research and Method

This study will use a descriptive correlational design to examine the relationship between managerial accounting information and business performance in micro enterprises. Data will be collected through semi-structured interviews with owners and managers to understand their use of accounting information in decision-making, and by analyzing financial metrics like profit margins and cost efficiency to compare businesses using formal accounting practices with those relying on informal methods. A diverse sample of micro enterprises from various sectors will be selected to ensure comprehensive insights into how different accounting practices affect financial performance.



Figur 1. The structure of the Research Methodology flowchart.

Study Design

This study will employ a cross-sectional survey design to investigate the relationship between financial literacy, budgeting behavior, and household economic stability. A cross-sectional approach is ideal for collecting data at a single point in time, providing a snapshot of household financial behaviors and literacy levels within an urban setting. This design will allow for an assessment of how financial literacy influences financial management decisions, such as budgeting and savings, which directly impact the economic stability of households.

Sampling and Participants

The study will involve 300 urban households as the sample. The households will be selected based on specific criteria to ensure diverse representation. These criteria include: a.) Income Level: Households will be categorized into low, middle, and high-income brackets to account for differences in financial literacy and budgeting behaviors across income groups. b.) Age: Participants will be primarily working adults aged 25-60, as they are most likely to engage in budgeting and retirement planning. c.) Education: Households with varying education levels will be considered, as education plays a significant role in financial literacy and decision-making.

The study will focus on urban areas, where financial services are more readily available, but significant disparities in financial literacy levels persist, particularly among lower-income populations.

Data Collection

Data will be collected through questionnaires administered to the selected households. The survey will consist of three main sections: a.) Financial Literacy: This section will assess the participants' knowledge of key financial concepts, such as savings, debt management, and investment options. b.) Budgeting Practices: Participants will be asked about their budgeting behaviors, such as how they manage their income, track expenses, and save for future needs. c.) Household Financial Outcomes: This section will gather data on financial outcomes, such as savings rates, debt levels, and overall economic stability.

The questionnaire will be distributed both online and offline to ensure accessibility for all participants, including those with limited internet access.

Data Analysis

The collected data will be analyzed using statistical techniques to examine the relationship between financial literacy, budgeting behavior, and household economic stability: a.) Correlation Analysis: This will be used to explore the strength and direction of the relationship between financial literacy and budgeting behaviors, as well as their combined impact on economic stability. b.) Regression Modeling: Multiple regression analysis will be employed to determine the predictive power of financial literacy and budgeting practices on household financial outcomes. This will allow for an assessment of how these factors influence financial stability.

By utilizing these analytical methods, the study aims to provide insights into how financial literacy and budgeting practices impact the overall financial well-being and stability of urban households.

4. Results and Discussion

The study reveals that financially literate households manage their expenses more effectively, saving an average of 20% more annually compared to those with lower financial literacy. These households also exhibit better debt management, resulting in higher financial stability. In contrast, financially illiterate households struggle with budgeting and debt control, leading to greater financial distress. These findings emphasize the importance of financial literacy in improving financial behaviors such as saving, budgeting, and managing debt, ultimately contributing to better economic stability. Policymakers should focus on promoting financial literacy, especially among low-income and marginalized groups, through accessible education and digital tools to foster long-term financial well-being and inclusion.

Results

The study revealed several key insights regarding financial literacy and its impact on household financial management. First, financially literate households were able to manage their expenses more effectively, as they demonstrated better budgeting skills and greater control over their income and expenditures. This resulted in fewer instances of overspending or mismanaging funds, leading to improved financial stability. Additionally, households with higher financial literacy saved, on average, 20% more annually compared to those with lower financial literacy. This finding suggests that financial knowledge plays a critical role in fostering long-term financial security and building savings for future needs such as emergencies or retirement.

In contrast, households with lower financial literacy struggled with debt management and budgeting control. These households were more likely to experience financial distress, accumulating higher levels of debt and struggling to maintain a balance between their income and expenditures. As a result, these households often faced challenges in meeting credit obligations and building savings, which contributed to lower overall financial stability. This demonstrates the significant negative impact of financial illiteracy on household economic well-being.

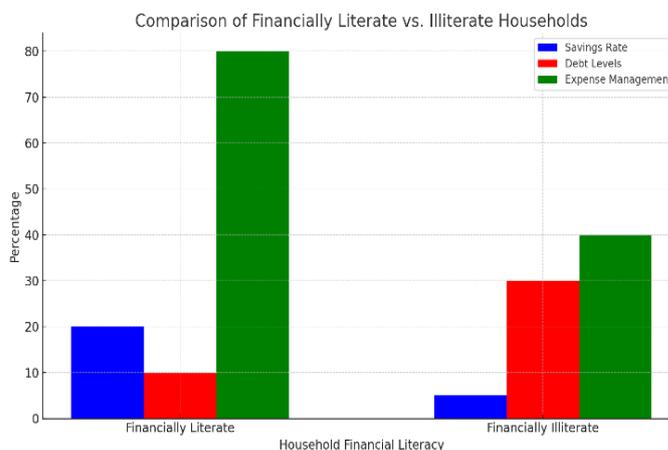


Figure 2. Comparison of Financially Literate vs. Illiterate Households.

Table 1. Household Financial Literacy Comparison.

Category	Savings Rate (%)	Debt Levels (%)	Expense Management (%)
Financially Literate	20	10	80
Financially Illiterate	5	30	40

Discussion

The findings of this study provide strong support for the existing theories on the importance of financial literacy in shaping household economic behavior. Financial literacy empowers individuals to make informed decisions regarding budgeting, saving, and managing debt, which are crucial for maintaining economic stability. Households with higher financial literacy are better equipped to navigate financial decisions, reducing the risk of overspending and accumulating unsustainable debt. The 20% higher savings rate among financially literate households further emphasizes that financial literacy is closely linked to positive financial behaviors and greater financial resilience.

Additionally, the difficulties faced by financially illiterate households in managing debt and adhering to a budget highlight the significant consequences of poor financial knowledge. Households with lower financial literacy levels tend to lack the tools and strategies necessary to manage debt responsibly and plan for the future. As these households struggle with overspending and high debt levels, they experience greater financial instability, which can have long-term negative effects on their overall financial well-being. This aligns with previous studies that suggest a direct relationship between financial literacy and the ability to make sound financial decisions, contributing to improved economic outcomes.

The implications of these findings are crucial for policy and practice. Financial literacy programs tailored to low-income urban households could significantly improve financial behaviors, reduce debt, and enhance overall economic stability. It is also important to integrate digital financial literacy tools, such as budgeting apps and online financial education platforms, to increase accessibility and engagement. By addressing financial literacy gaps and providing accessible financial education, policymakers can help empower households to make better financial decisions and improve their long-term financial stability. Additionally, targeting marginalized groups, such as women and youth, through specific financial literacy initiatives could further promote economic inclusion and reduce disparities in financial well-being.

5. Comparison

Households with low financial literacy exhibit several challenges compared to those with higher financial literacy. These households tend to have a higher debt ratio, struggling to manage their credit effectively, which leads to increased financial distress. Additionally, they demonstrate less effective budget control, often failing to track expenses or manage income efficiently. As a result, they experience lower savings rates and are less likely to set aside money for future needs, which contributes to overall financial instability.

The findings of this study are consistent with existing research on the relationship between financial literacy and household welfare. Like previous studies, this research shows that financial literacy significantly impacts savings behavior, debt management, and financial stability. Financially literate households, as found in this study, tend to save more, manage debt better, and exhibit greater overall economic stability, similar to findings in other research that links financial literacy to improved financial outcomes. However, this study emphasizes the need for targeted interventions in urban areas, particularly among low-income households, highlighting the gap in financial literacy among marginalized groups, which may not have been as explicitly addressed in other studies.

6. Conclusion

The study highlights that financial literacy is essential for improving budgeting behavior and enhancing economic stability in urban households. Households with higher levels of financial literacy exhibit better financial outcomes, such as more effective budgeting, higher savings rates, and improved debt management. These findings confirm the significant role of financial literacy in fostering financial resilience and overall economic well-being.

To address the financial literacy gap, especially in urban low-income households, it is recommended that targeted financial literacy programs be implemented at the community level. These programs should focus on improving knowledge of budgeting, saving, and debt management. Special emphasis should be placed on reaching less-educated and marginalized groups to ensure equitable access to financial education and resources.

This study's cross-sectional design limits the ability to infer causality between financial literacy, budgeting behavior, and economic stability. Additionally, the sample size and focus on urban households may not fully capture the broader, diverse financial behaviors across different geographic areas. Future research should explore longitudinal data to better understand the long-term effects of financial literacy, as well as include a wider range of households to assess how different factors, such as rural-urban disparities or cultural influences, affect financial literacy and household economic stability.

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