



FINANCIAL LITERACY AND ITS IMPACT ON INVESTMENT BEHAVIOR: A QUANTITATIVE INVESTIGATION

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ABSTRACT

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Financial services play a vital role in driving economic growth by providing access to capital, risk management, and financial products. In this context, financial literacy is essential for the development of the financial sector. This research investigates how financial literacy influences investors' decision-making and satisfaction with their investments. The study explores the relationship between the financial knowledge of investors and their investment patterns, as well as the impact on their overall satisfaction with the investment outcomes. A convenience sampling method was used to collect primary data through a structured questionnaire administered to 100 respondents. The findings offer valuable insights for financial institutions, planners, and investment advisors, emphasizing the need to raise public awareness about financial literacy. By encouraging informed financial decisions, the study aims to contribute to better financial outcomes for individuals and corporations, thereby supporting the broader economic growth.

KEY WORDS: *Financial Literacy, Investment Decisions, Investor Behaviour, Financial Awareness, Economic Growth*

INTRODUCTION

The financial services sector includes a broad range of activities such as banking, insurance, and investment management. It serves as a foundation for economic development by offering individuals and businesses access to capital, tools for managing risk, and a variety of financial products.

Financial literacy refers to an individual's understanding of financial concepts and their ability to make sound, informed financial decisions. It enables people to manage their money effectively, plan for the future, and navigate the complexities of the financial system.

Investment is a critical component of financial services, involving the allocation of money with the aim of earning returns. Investment options include stocks, bonds, mutual funds, real estate, and alternative assets. A strong grasp of investment principles is vital for wealth creation and achieving long-term financial objectives.

Enhancing financial literacy helps individuals make wiser investment choices by familiarizing them with concepts such as risk-return trade-off, diversification, compound interest, and available investment avenues. Higher financial knowledge promotes improved financial planning, greater

savings, and more effective investment outcomes

LITERATURE REVIEW

Paula Andrea et al. (2025) this study reviewed financial literacy among university students, highlighting two main themes: financial knowledge and financial behavior. Key areas include gender differences, determinants of financial education, social awareness, financial well-being, and adoption of financial services. Limitations include restricted databases and keywords, suggesting future research should expand sources and terms to capture broader perspectives and improve coverage.

Vidhi Savaliya (2024) financial literacy is crucial for individuals to achieve their personal and financial goals, yet its level in India remains relatively low compared to developed countries. The study highlights that while return on investment is the primary factor influencing investment decisions, demographic factors such as age, gender, and income have little effect, emphasizing the need to promote financial literacy across all segments of society.

Shailendra Kumar Shukla (2024) this paper reviewed literature on financial literacy, examining its dimensions, determinants, and measurement tools. Findings indicate that financial literacy is influenced by demographics, education,

and location, with disparities across gender, income, and educational backgrounds. Promoting financial education and awareness through targeted initiatives is essential to improve financial knowledge, foster positive money attitudes, and support sound financial behavior

Pranusha U P (2023) financial literacy is crucial for personal financial management and national economic growth. It enables individuals to earn, save, invest, and manage money effectively. In India, only about 24% of the population is financially literate, limiting economic progress. Enhancing financial literacy across the population is essential for individual empowerment and the country's overall development

Anjana Raviprolu et al. (2020) the study revealed that students possess limited financial literacy, with awareness largely confined to basic financial schemes and minimal engagement in saving habits. Additionally, parental involvement in guiding financial decisions is low, underscoring the urgent need for enhanced education and support to improve students' financial knowledge, decision-making skills, and overall financial behaviour.

Financial Literacy and Investment Behaviour

Financial literacy refers to an individual's understanding of financial concepts, tools, and systems that enable effective management of money. It includes skills such as budgeting, saving, investing, and assessing financial risks, allowing individuals to make informed decisions, plan for the future, and navigate the complexities of personal finance.

Investment behavior involves the choices and actions individuals take regarding their investments. This includes decisions about asset allocation, diversification, risk tolerance, and selecting instruments like stocks, bonds, mutual funds, and real estate. Investment decisions are influenced by financial objectives, time horizons, risk appetite, market conditions, and personal preferences.

A strong grasp of financial literacy covers key concepts such as debt management, inflation, interest rates, savings, and the principles of investing, including risk-return relationships, diversification, and compounding. Effective financial management requires careful planning and budgeting to allocate resources efficiently and save for short-term and long-term goals, including emergencies, education, and retirement.

Understanding risk is an essential part of financial literacy, helping individuals evaluate their comfort with uncertainty and make investment decisions that align with their tolerance levels. Similarly, long-term financial planning, including retirement and estate planning, is closely linked to informed investment behavior. Staying updated on economic trends, market developments, and financial news is crucial for making sound decisions, as financial literacy is an evolving skill that requires continuous learning.

Overall, financial literacy equips individuals with the knowledge to make prudent financial choices, while

investment behavior reflects the practical application of this knowledge. Together, they are critical for achieving financial goals, ensuring long-term security, and fostering overall financial well-being

Exploring the Importance of Financial Literacy and Investment Behavior among Investors

❖ **Smart Investment Decisions**

Financial literacy enables investors to make informed choices by understanding financial concepts, investment options, and associated risks, allowing them to align decisions with their goals and risk tolerance.

❖ **Effective Risk Management**

It equips investors to assess, manage, and diversify risks, promoting balanced and well-structured portfolios.

❖ **Fraud Prevention**

Knowledgeable investors are better protected against scams and misleading investment schemes, reducing potential financial losses.

❖ **Strategic Financial Planning**

Financial literacy emphasizes long-term planning, including retirement, major life expenses, and sustainable financial management.

❖ **Active Market Engagement**

A solid understanding of financial markets encourages broader participation, contributing to market efficiency and economic development.

❖ **Behavioral Insights in Investing**

Recognizing psychological factors such as overconfidence, risk aversion, and loss aversion helps investors make rational and effective decisions.

❖ **Policy Guidance and Educational Programs**

Research on financial literacy informs policymakers and supports the creation of targeted educational programs to address knowledge gaps and improve financial behavior.

❖ **Wealth Growth and Economic Resilience**

Financial literacy fosters wealth accumulation, responsible investing, and overall economic stability, promoting individual well-being and long-term economic growth.

RESEARCH METHODOLOGY

This observe turned into accomplished by way of amassing both primary and secondary data. The primary date accumulated as of 100 customers on convenient sampling foundation. We have been organized a structured questionnaire to acquire primary data. We had long gone thru the academic literatures, journals, magazines and additionally diverse sources of secondary facts were used for the observe.

Tool of Analysis

The primary and secondary data collected for the study has analysed practically and logically to find a conclusion. the statistical tools applied for data analysis are graphs, various test like ANOVA, Chi-Square etc.

DATA ANALYSIS

Level of basic financial literacy

1. H_0 : Respondents’ do not agree with commonly held notions about financial literacy.
2. H_1 : Respondents’ do agree with commonly held notions about financial literacy.

Result: Respondents’ do not agree with commonly held notions about financial literacy. Hence, investors have basic financial literacy.

Relation between the percentage of income invested and the expected rate of return on investment

3. H_0 : There is no significance impact of the percentage of income invested on the expected rate of return on investment.
4. H_1 : There is significance impact of the percentage of income invested on the expected rate of return on investment.

Result: we can interpret that there is no significance correlation between the percentage of income invested by individuals and the expected rate of return on investment by individual.

The financial literacy level of respondents for different investment alternatives

• Hypothesis for investment type (Factor A):

1. H_0 : There is no significance difference in financial literacy among different investment types (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).

2. H_1 : There is significance difference in financial literacy among different investment types (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).

• Hypothesis for Statement Veracity (Factor B):

1. H_0 : There is no significance difference in financial literacy among different statement veracities (True, False, do not know).
2. H_1 : There is significance difference in financial literacy among different statement veracities (True, False, do not know).

• Hypothesis for interaction:

1. H_0 : There is no interaction effect between investment type and statement veracity on financial literacy.
2. H_1 : There is interaction effect between investment type and statement veracity on financial literacy.

In summary, the null hypothesis is rejected for the investment types and interaction sources of variation, suggesting that there is significance difference in financial literacy based on the type of investment and an interaction effect between investment type and statement veracity.

Gender and the tenure of the investment

Expected values $X^2 = 0.805336$

So, $X^2 = 0.805336$

Result: Here, the X^2 tabulated is greater than X^2 statistics.

So, the null hypothesis is accepted.

As per the result, we can say that there is no significance between the tenure of investment and gender.

Table 1:

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1832.1455	10	183.21455	0.0193402	0.899999253	2.53901
Within Groups	274757.2	44	6244.4818			
Total	276589.35	54				

Table 2:

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1717.7	4	429.425	0.594919	0.507052	3.55568
Within Groups	9269.25	15	617.95			
Total	10986.95	19				

Table 3:

ANOVA: Two-Factor with Replication ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Sample	1533.667	3	511.2222	0.817338	0.496975	3.008787
Columns	110829.4	2	55414.69	88.59657	8.3E-12	3.402826
Interaction	9654.167	6	1609.028	2.572501	0.045562	2.508189
Within	15011.33	24	625.4722			
Total	137028.6	35				

Result: F critical value is less than the F statistic value, hence the hypothesis is rejected.

Table 4:

Gender	What is the tenure of the investment?			Grand total
	Up to 1 year (Short term)	1-3 year (Medium term)	Above 3 years (Long term)	
Female	22	9.2	8.8	40
Male	33	13.8	13.2	60
Grand total	55	23	22	100

Table 5:

Observed	Expected	Difference	(O-E) ²	X ² = (O-E) ² /E
23	22	1	1	0.045455
32	33	-1	1	0.030303
10	9.2	0.8	0.64	0.069565
13	13.8	-0.8	0.64	0.046377
7	8.8	-1.8	3.24	0.368182
15	13.2	1.8	3.24	0.245455

The study examined the financial literacy and investment behavior of respondents through multiple dimensions, including basic financial literacy, investment preferences, and the influence of demographics on investment decisions.

Level of Basic Financial Literacy

The research first explored whether respondents agreed with commonly held notions about financial literacy. The hypothesis tested was:

- **H0:** Respondents do not agree with commonly held notions about financial literacy.
- **H1:** Respondents do agree with commonly held notions about financial literacy.

The results revealed that respondents did not agree with commonly held notions, indicating that investors possess only a basic level of financial literacy.

Relationship between Income Invested and Expected Returns

The study also investigated whether the percentage of income invested affected the expected rate of return:

- **H0:** No significant impact of income percentage invested on expected returns.
- **H1:** Significant impact of income percentage invested on expected returns.

Analysis showed no significant correlation, suggesting that the proportion of income invested does not directly influence investors’ expectations of returns.

Financial Literacy across Investment Alternatives

The financial literacy of respondents was analyzed across different investment types (Equity, Preference Stock, Mutual Funds, Life Insurance, Bonds) and statement veracity (True, False, Do Not Know). The hypotheses tested included differences across investment types, statement veracity, and their interaction.

The results indicated significant differences in financial literacy based on the type of investment and a meaningful interaction between investment type and statement veracity.

This highlights that investors’ understanding varies across different financial instruments and contextual statements.

Gender and Investment Tenure

Chi-square analysis examined the relationship between gender and investment tenure (short-term, medium-term, long-term). The null hypothesis stated that no significant relationship exists. The calculated X² value (0.805) was less than the tabulated X², confirming the null hypothesis. Therefore, gender does not significantly influence investment tenure.

ANOVA Results

Analysis of variance (ANOVA) was conducted to examine differences in financial literacy across various factors:

- For investment types and interaction effects, F statistics exceeded F critical values, indicating significant differences.
- Within-group variations were not statistically significant.

These results further validate that financial literacy varies meaningfully depending on the type of investment and its associated statements.

FINDINGS

- **Basic Financial Literacy:** Investors generally possess only fundamental financial literacy, indicating a need for further education on financial concepts and instruments.
- **Investment Knowledge Varies by Type:** Understanding of financial instruments significantly differs across investment types, such as equity, mutual funds, insurance, and bonds.
- **Context Influences Understanding:** Investors’ comprehension is affected by the framing of financial statements, highlighting the importance of clear and contextual financial information.
- **Demographics Have Minimal Impact:** Factors like gender and the proportion of income invested do not

significantly influence financial literacy or investment tenure.

- **Need for Targeted Education:** The study underscores the importance of tailored financial education programs to enhance informed decision-making, improve saving and investment behaviors, and promote long-term financial well-being

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RECOMMENDATIONS

- **Implement Targeted Financial Education:** Develop programs focusing on investment instruments, risk management, and financial planning tailored to investor needs.
- **Promote Practical Investment Training:** Use workshops and simulations to help investors apply financial knowledge effectively in real-world scenarios.
- **Enhance Financial Communication:** Present investment information clearly and contextually to improve understanding of risks, returns, and options.
- **Integrate Financial Literacy in Education:** Include financial literacy in university and professional curricula to build long-term skills.
- **Leverage Technology and Tools:** Utilize apps, online platforms, and interactive resources to increase accessibility and continuous learning in financial literacy.

CONCLUSION

Overall, the study demonstrates that investors possess basic financial literacy, with notable variations across investment types and understanding of financial statements. Demographic factors such as gender and proportion of income invested do not significantly impact investment behavior or tenure. The findings underscore the need for targeted financial education programs to enhance investors' knowledge and facilitate informed decision-making, ultimately promoting more effective investment practices and financial well-being.

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