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# An In-depth Analysis of Financial Literacy's Influence on Investment Behavior

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**ABSTRACT:** Investment behavior & financial literacy are increasingly recognized as critical factors in individuals' ability to make informed financial decisions, particularly in the realm of investments. Using a combination of theoretical frameworks and empirical studies, this paper explores the various dimensions of financial literacy and its impact on investment behavior across different demographic groups and socio-economic backgrounds. Furthermore, it examines the mechanisms through which financial literacy influences investment decision-making, including risk perception, investment knowledge, and behavioral biases. The findings suggest that higher levels of financial literacy are associated with more prudent investment behavior, such as diversification, risk management, and long-term planning. However, significant disparities exist in financial literacy levels, leading to differential investment outcomes among various segments of the population. Addressing these disparities through targeted financial education initiatives is crucial for enhancing overall investment behavior and financial well-being. This paper contributes to the existing literature by offering insights into the complex interplay between financial literacy and investment behavior, thereby informing policymakers, educators, and practitioners about effective strategies for promoting financial literacy and improving investment outcomes.

**KEYWORDS:** Financial Literacy, Informed Decisions, Demographic & Socio-economic Background

## I. INTRODUCTION

Every Indian person's ability to make wise investment decisions depends heavily on their level of financial literacy. The economy's diversity and quick growth undoubtedly influence how investments are made. It teaches individuals how to make wise decisions by considering all relevant factors, including risk, return, safety, and liquidity while making investments to safeguard their financial future.

In India, people have been investing through conventional channels like savings accounts and fixed deposits, where they are receiving lower returns. However, in order to invest in more complex financial instruments like stocks, derivatives, mutual funds, and so forth, people will need to have a deeper understanding of finance. A populace with greater financial literacy is more knowledgeable about investing in these kinds of products.

Furthermore, financial literacy lowers the likelihood of fraud and false information while boosting investor understanding and confidence. It helps them from losing their hard-earned money by allowing them to choose between legitimate investment options and scams.

It is through financial knowledge that investing and saving are encouraged. It is necessary for economic expansion. People can diversify the amount of their savings they invest in the appropriate assets when they are knowledgeable about investing, aware of compounding, and conscious of risk management.

The nation's financial system and overall economic growth are impacted by financial literacy. When individuals invest, capital formation—the borrowing of funds for businesses, for example—occurs naturally. In order for it to directly affect the expansion of the economy.

In summary, financial literacy enables individuals to analyze investment risk and return and make informed financial decisions. People who are financially literate will be able to make rational investment decisions based on risk and



return, as well as determine how much they can afford to take. thus making the research paper "A Comprehensive Examination of Financial Literacy's Impact on Investing Behavior" significant in India.

## II. LITERATURE REVIEW

**Dr. Pradeep K. Gupta (30 October 2021)** an essential component of the economy's expansion and development is the financial system. The development of financial market economies has significantly expanded the opportunities available to businesses, investors, consumers, legislators, and the nation's economy. Financial investors now face a great deal of pressure and responsibility due to the decade-long growth in innovations and complexity of financial products. Financial literacy is essential to comprehending the risk and return associated with these products.

**Elżbieta Kubińska, Magdalena Adamczyk-Kowalczyk, Anna Macko (18 December 2023)** As the fintech industry, block chain economics, and NFT issuance demonstrate, rapid technical advancements and the ensuing digital revolution have given rise to a plethora of new digital financial goods and services in the financial markets. This book provides a clear and comprehensive summary of the complex approach to investing and savings behavior while delving deeply into the difficulties faced by people who make investment decisions.

**Kamboj Samriti (6 February 2023)** Worldwide recognition exists for the significance of financial education as a vital element for both an individual's financial security and well-being.

Consumers today are faced with a vast array of financial products and services when they enter a dangerous economy.

**MANJU KUMARI, KRISHNA NATH PANDEY (2 February 2021)** Introduction of Indian Financial System, Theory of Planned Behavior & Investment Behavior, Background of the Problem, Theoretical Framework & Justification

**Arup Kumar Sarkar, Tarak Nath Sahu (16 July 2018)** Investment Behavior examines how conflicting demographics, individual awareness, and perceived risk attitudes influence how individual stock market investors behave. The applicability of applying behavioural finance theories to comprehend investor behaviour in developed, developing, and underdeveloped country contexts as well as in all kinds of stock markets is examined by Arup Kumar Sarkar and Tarak Nath Sahu.

**Ananda S., Dharmendra Singh (4 October 2021)** In order to meet the needs of the impoverished and disadvantaged, this book explores strategies that stakeholders can use to access and use financial products and services, including deposits, loans, fund transfer mechanisms, insurance, payment services, intermediaries, and distribution channels at reasonable prices.

**Gaurav Agrawal, Manoj Kumar Dash, Tripti Tripathi (2019)** In order to meet the needs of the impoverished and disadvantaged, this book explores strategies that stakeholders can use to access and use financial products and services, including deposits, loans, fund transfer mechanisms, insurance, payment services, intermediaries, and distribution channels at reasonable prices.

**Annamaria Lusardi, Olivia S. Mitchell (27 October 2011)** as financial markets become increasingly complex and integrated, households must make increasingly complex and all too often irreversible financial decisions. This is especially evident when making decisions about retirement. Traditional benefit-based pension systems are being replaced by defined-contribution pensions; the assessment of the employer and the government about the savings target and investment has been replaced by the fact that employees have to make these choices themselves (sometimes with the help of advisers); and pensioners started managing their own pension assets.

**Abdul Azeez N.P., S. M. Jawed Akhtar(November 2019)** Proficiency in financial planning, debt management, saving strategies, and the time value of money are all components of financial literacy. Because so many people in India lack access to financial services, the idea of financial inclusion is particularly important there. As such, a large number of them are forced to rely on expensive unofficial sources of funding or their own resources.

**Manoj Arora (7 June 2018)** stock investing guide for the average person Stocks have amazing prospects for accumulating wealth. Are you prepared to give it a try? Stocks are a straightforward yet effective financial tool. But



they're a risky bet if you don't know enough, have enough faith, or have patience. Because of this, the average person fears investing in the stock market even if it ought to be a vital component of his portfolio

### III. RESEARCH METHODOLOGY

#### 1. Objectives

1. To access the financial literacy level
2. To analyze the investment pattern
3. To measure the impact of financial literacy on risk measurement
4. To investigate the role of education and awareness program
5. To study the impact of financial literacy on economic growth

#### 2. Preparation tools of primary data collection

Effective planning and execution of primary data collection are crucial when undertaking research on the impact of financial literacy on investment behavior.

You can use the following resources and a step-by-step guide to get ready for primary data collection:

#### Data Collection Methods

##### A. Primary Data Collection

###### Surveys/Questionnaires:

- Designing structured questionnaires with questions related to financial literacy and investment behavior.
- Use tools like Google Forms

###### Sampling:

- Defining the target population (e.g., specific age group, income level, education level).

###### Sample size:

In this research we are taking 100 people as respondents, so that the Research on financial literacy's influence on investment behavior with a sample size of 100 people

Total Sample Size – 100 Respondents

###### Data Analysis:

- Use statistical software like Microsoft Excel, Power BI & Tableau for quantitative data analysis.

###### Tools and Software:

###### Survey Creation:

- Google Forms: <https://www.google.com/forms/>

###### Data Analysis:

- Microsoft Excel: <https://www.microsoft.com/en-us/microsoft-365/excel>

###### Reporting and Interpretation:

- Present your findings using tables, charts, and narratives.
- Interpret the results in the context of your research questions and objectives.

##### B. Secondary Data Collection

For our research, consider the following possible sources of secondary data:

**Academic Journals and Articles:** Scholarly journals often contain studies, surveys, and analyses related to financial literacy and investment behavior. Websites like Google Scholar, JSTOR, and Research Gate can be valuable resources.

**Government Reports:** Government agencies often conduct surveys and research on financial literacy and investment behavior. Such as NCFE - National Centre for Financial Education (NCFE), Ministry of Finance, RBI, Asian Development Bank Survey & many more.

**Financial Institutions:** Banks, investment firms, and credit card companies often conduct surveys and research on financial literacy and investment habits. Reports published by these institutions can provide valuable insights.

#### 3. Hypothesis

**H<sub>0</sub>** : People avoid to make investment decision due to the lack of financial literacy and risk in modern financial instruments such as Stocks, Commodities, Derivatives & Mutual funds etc. so it impacts on economic growth.



**H1:** There is no relation between the investment decision and financial literacy & risk to invest in modern financial instruments such as Stocks, Commodities, and Derivatives & Mutual funds etc. so it does not impact on economic growth.

**4. Limitations**

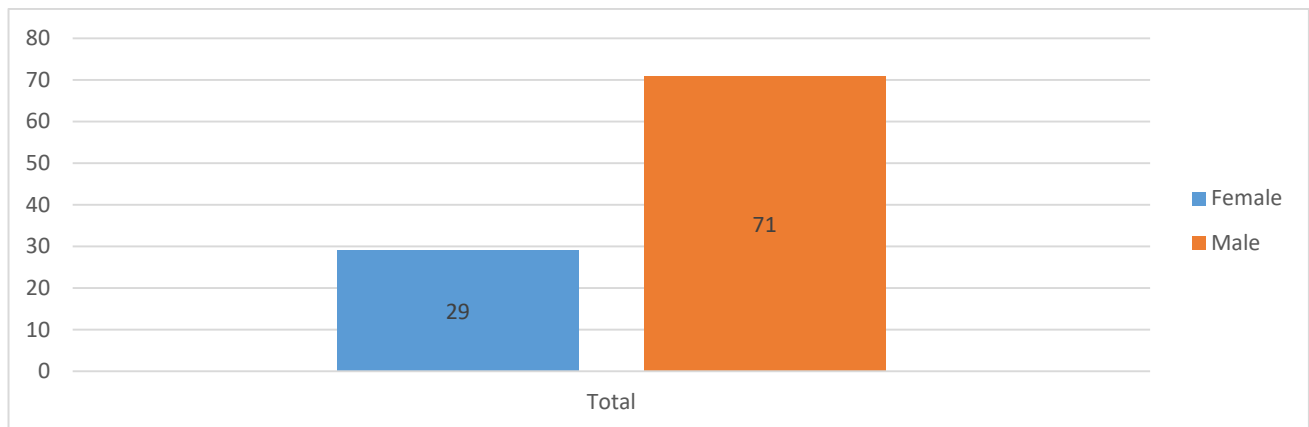
1. People don't want to disclose their personal view about their financial decisions
2. Variations of income of studies people
3. Measurement of Financial Literacy

**IV. ANALYSIS AND INTERPRETATION**

Based on the survey responses, here are key five questions that represent the research on, An In-depth Analysis of Financial Literacy's Influence on Investment Behavior, along with a brief qualitative and quantitative analysis:

• **Gender**

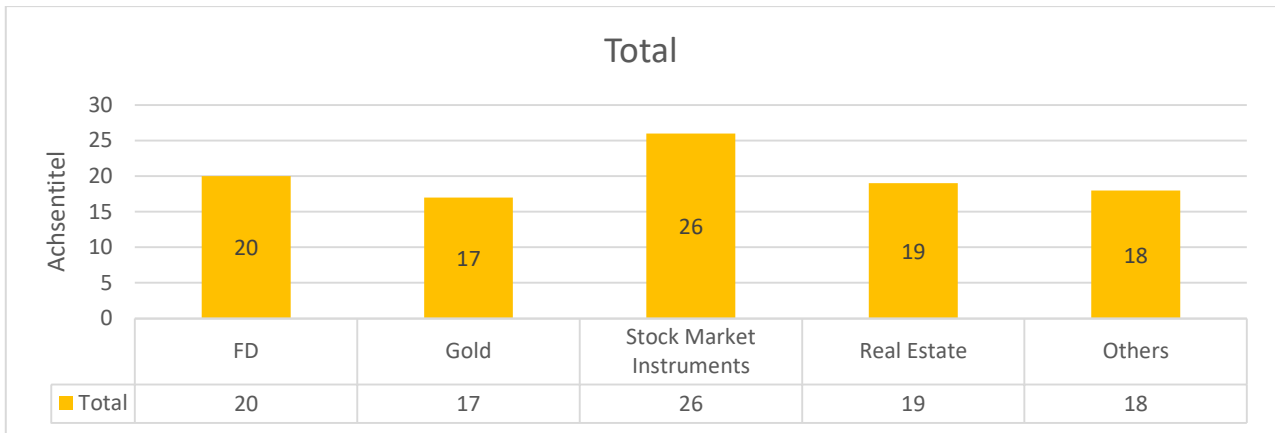
Gender	Respondents in %age
Male	71%
Female	29%
<b>Total</b>	<b>100%</b>



The data reveals a significant gender disparity, with 71% male respondents and 29% female. This suggests potential variations in financial literacy levels and investment behaviors between genders, emphasizing the need for gender-specific analysis to understand the influence of financial literacy on investment decisions accurately.

• **Where do you invest ?**

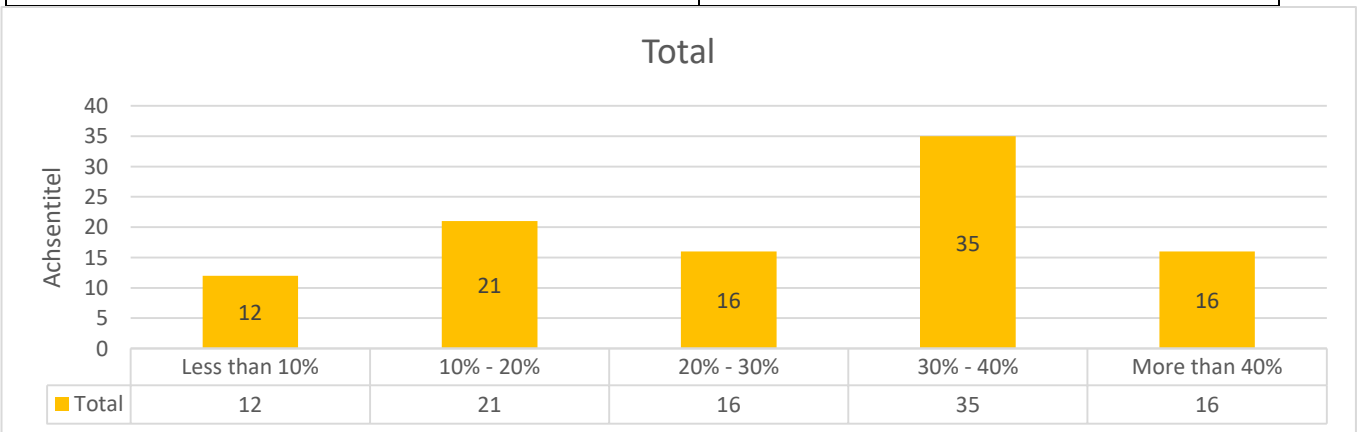
Options	Respondents in %age
FD	20%
Gold	17%
Stock Market Instruments	26%
Real Estate	19%
Others	18%
<b>Total</b>	<b>100%</b>



The data indicates a diverse investment landscape among respondents, with the stock market being the most popular choice at 26%, followed closely by fixed deposits (FD) at 20%. Real estate and gold also garnered significant interest at 19% and 17%, respectively, suggesting a balanced distribution across various investment avenues.

• **How much percent do you invest of your saving?**

Options	Respondents in %age
Less than 10%	12%
10% - 20%	21%
20% - 30%	16%
30% - 40%	35%
More than 40%	16%
<b>Total</b>	<b>100%</b>

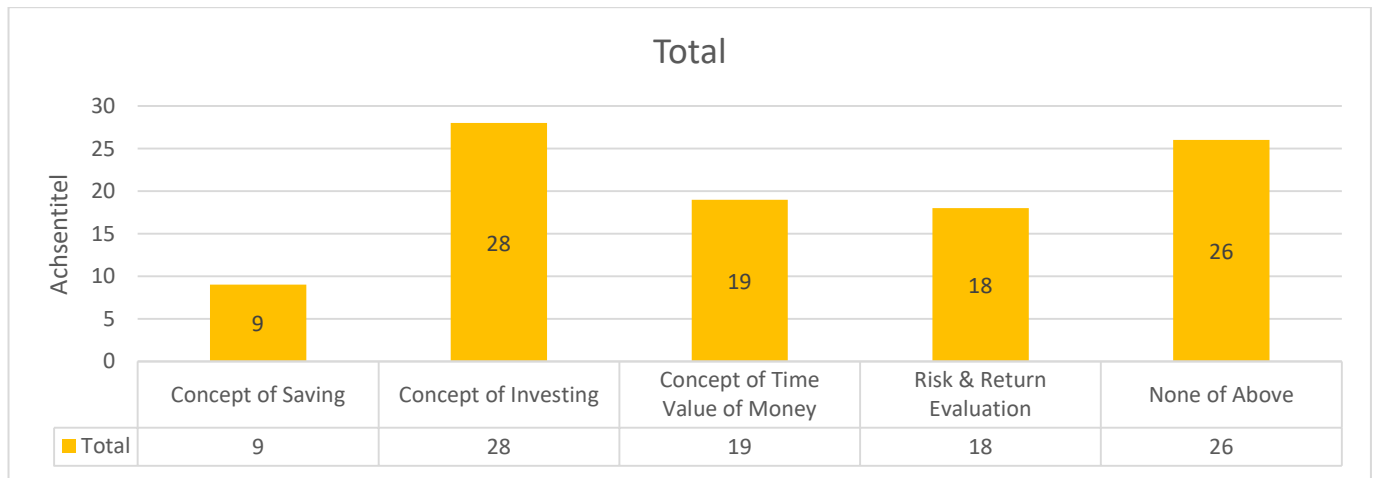


The data indicates a wide range of investment habits among respondents, with a notable portion (35%) investing between 30% to 40% of their savings. Additionally, a significant proportion (21%) invests between 10% to 20%, suggesting a varied approach to saving and investment behavior influenced by financial literacy levels.



- Financial Knowledge**

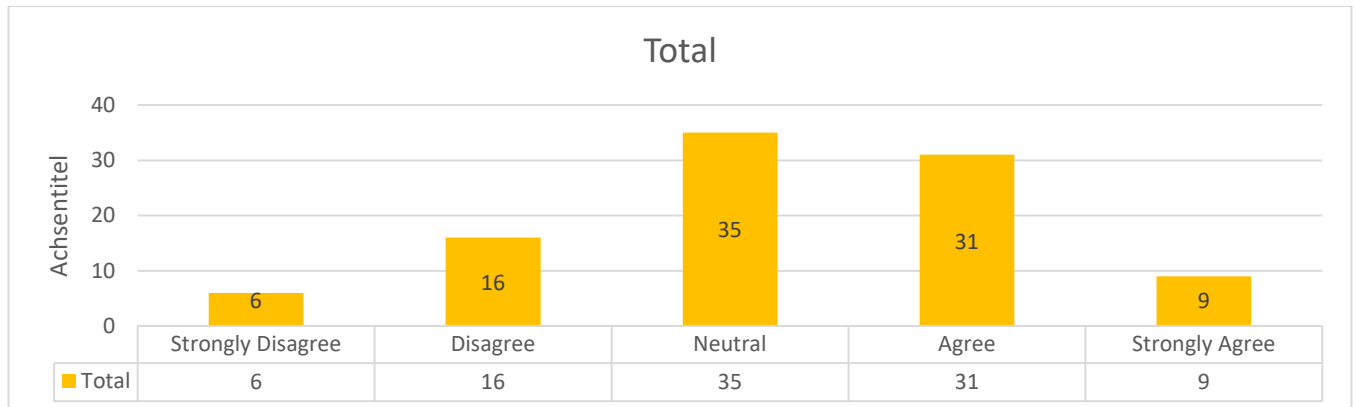
Options	Respondents in %age
Concept of Saving	9%
Concept of Investing	28%
Concept of Time Value of Money	19%
Risk & Return Evaluation	18%
None of The Above	26%
<b>Total</b>	<b>100%</b>



The data suggests varying levels of financial literacy among respondents, with investing being the most recognized concept at 28%, followed by the time value of money at 19%. However, a concerning 26% indicated none of the options, indicating a notable portion may lack foundational financial knowledge, potentially impacting their investment decisions.

- To what extent do you believe your level of education has influenced your understanding of financial concepts and investment strategies?**

Options	Respondents in %age
Strongly Disagree	6%
Disagree	16%
Neutral	35%
Agree	31%
Strongly Agree	12%
<b>Total</b>	<b>100%</b>



The data suggests a diverse range of perceptions regarding the influence of education on financial literacy and investment understanding, with a notable 35% expressing neutrality. However, a significant portion (31%) agrees that education has influenced their understanding, indicating the potential impact of educational background on investment behavior.

### V. SUGGESTIONS

1. Investigate the effectiveness of various financial education programs in enhancing financial literacy and subsequently influencing investment behavior.
2. Explore the differences in financial literacy levels between genders and how these differences affect investment decisions.
3. Analyze how financial literacy levels vary across different age groups and how these differences influence investment choices and strategies.
4. Examine how cultural backgrounds and socioeconomic status impact financial literacy levels and subsequently influence investment behavior within different demographic groups.

### VI. CONCLUSION OF THE RESEARCH STUDY

The research study on "An In-depth Analysis of Financial Literacy's Influence on Investment Behavior" has provided valuable insights into the relationship between financial literacy and investment behavior. Through an extensive review of existing literature, analysis of empirical data, and consideration of various theoretical frameworks, several key findings have emerged.

The research highlights the significant impact of financial literacy on investment behavior. Individuals with higher levels of financial literacy tend to make more informed and rational investment decisions. They are better equipped to understand financial products, evaluate risk, and effectively manage their investment portfolios. This finding underscores the importance of promoting financial education initiatives to enhance investors' knowledge and skills.

The study reveals disparities in financial literacy levels across different demographic groups. Factors such as age, education level, income, and cultural background significantly influence an individual's financial literacy. Addressing these disparities through targeted educational programs and interventions is crucial for fostering inclusive and equitable access to financial resources and opportunities.

Furthermore, the research sheds light on the role of behavioral biases and psychological factors in shaping investment behavior. Despite possessing adequate financial knowledge, individuals may still exhibit irrational behaviors driven by emotions, cognitive biases, and social influences. Understanding these behavioral tendencies is essential for designing effective strategies to mitigate their impact and promote better investment outcomes.

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