

The Impact of Financial Knowledge, Financial Behavior and Financial Attitude on Investment Decisions

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ABSTRACT:

This study investigates the impact of financial literacy on investment decision-making among Millennials and Gen Z individuals residing in Haryana, India. Utilizing both descriptive and causal research designs, the study assesses how financial knowledge, financial behavior, and financial attitude influence investment decisions. Data were collected through a structured questionnaire from 400 respondents and the analysis employed multiple regression and structural equation modeling (SEM) techniques. The findings revealed that financial literacy, encompassing knowledge, behavior, and attitude, significantly affects investment decisions. Specifically, financial attitude ($\beta = 0.315$), financial behavior ($\beta = 0.197$), and financial knowledge ($\beta = 0.231$) all have positive and significant impacts on investment decisions. The model fit estimates confirmed the robustness of the SEM model, with values indicating a strong fit. This study highlights the critical role of financial literacy in improving investment decision-making and suggests that enhancing financial education can lead to better financial outcomes.

Keywords: Financial Literacy, Investment Decisions, Financial Knowledge, Financial Behavior, Financial Attitude.

1. Introduction

The financial services industry is integral to economic growth, providing essential services that enable individuals and businesses to access capital, manage risks, and utilize various financial products. This industry encompasses a broad spectrum of activities, including banking, insurance, and investment management, all of which play a pivotal role in driving economic development. A key component of sustainable growth, particularly in both developing and developed economies, is effective investment decision-making. Such decisions require a strategic approach to resource allocation, where individuals and organizations must often sacrifice current spending for the promise of future returns (Alaaraj & Bakri, 2020). To navigate these complex decisions, a solid foundation in financial risk management, insurance, and retirement planning is essential, allowing investors to optimize their investment strategies and reduce potential risks (Kumari, 2020). Central to this process is financial literacy, which refers to the ability to understand and apply various financial concepts in real-life situations. Financial literacy enables individuals to make informed choices about saving, investing, insuring, and budgeting, thereby helping them achieve their financial goals (Huston, 2010; Mugo, 2016). It involves more than just knowledge of financial terms and concepts; it also requires the ability to make sound decisions that consider both short-term and long-term financial implications. Thus, financial literacy is not only about understanding how financial systems work but also about effectively utilizing skills, resources, and contextual knowledge to navigate the complexities of the financial world (Edirisinghe et al., 2017; Palm, 2014). The importance of financial literacy becomes evident when considering its role in investment decision-making. Individuals with higher levels of financial literacy are generally more capable of assessing risk, understanding the potential for returns, and making investment choices that align with their financial objectives. Behavioral factors, such as risk tolerance and investment experience, also play a significant role in shaping investment decisions (Awais et al., 2016). However, the impact of financial literacy is profound, as it empowers individuals to make more informed and confident choices, ultimately contributing to better financial outcomes. Despite its critical role, the relationship between financial literacy and investment decision-making is not uniformly understood across all contexts. Much of the existing research has been conducted in countries outside of Kenya, such as Saudi Arabia and Nigeria, as demonstrated in studies by Seraj et al. (2022) and Akims and Jagongo (2017). These studies have primarily focused on different socioeconomic and cultural environments, which may not be directly applicable to the Kenyan context. Furthermore, several of these studies have utilized

qualitative approaches, such as desk reviews, which provide valuable insights but may lack the quantitative rigor needed to generalize findings across diverse populations (Akims & Jagongo, 2017).

To bridge this gap, this study aims to explore the relationship between financial literacy and investment decision-making. Understanding this relationship is crucial for developing targeted financial education programs and policies that can enhance the financial decision-making capabilities of individuals and businesses. By promoting financial literacy, individuals are better equipped to understand key financial concepts such as risk and return, diversification, and compound interest. This enhanced understanding can lead to improved financial planning, increased savings, and more successful investment strategies. Ultimately, this study seeks to contribute to the body of knowledge on financial literacy by highlighting its importance in the context of investment decisions. By understanding how financial literacy affects investment behavior, policymakers and educators can develop more effective strategies to improve financial education, thereby fostering economic growth and stability.

2. Review of Literature

Financial literacy is commonly defined as a combination of knowledge and skills that enable consumers and investors to understand financial products, concepts, and risks, allowing them to make informed decisions and take actions that enhance their financial well-being (Madi & Yusof, 2018). This definition underscores the importance of understanding financial risks and opportunities, making informed choices, knowing where to seek help, and taking effective actions to improve one's financial condition. A substantial body of research has explored the relationship between financial literacy and investment decisions across different contexts and populations. For instance, Arianti (2018) investigated this relationship among students and found no significant link between financial literacy and investment decisions. In contrast, other studies have demonstrated a more positive association. Edirisinghe et al. (2017) define financial literacy as the process by which individuals use a mix of skills, resources, and contextual knowledge to process information and make decisions with an awareness of the financial consequences. They argue that many investors may rely on subjective beliefs when solving financial issues, leading to the mismanagement of cash and suboptimal financial decisions. The study by Seraj et al. (2022) focused on financial literacy and investment decisions in Saudi Arabia, involving 180 participants who completed questionnaires. The findings demonstrated a positive link between financial literacy and investment decisions. Similarly, Garang (2016) analyzed financial literacy and investment decisions in South Sudan, using bank participants and questionnaire data, and found that financial literacy directly predicted investment decisions. Janor et al. (2016) conducted a comparative examination of financial literacy and investment decision-making in the United Kingdom and Malaysia. They found that the overall level of financial literacy in both countries was quite low, highlighting a critical need for improved financial education. In Kenya, Amisi (2012) studied financial literacy among fund managers of pension funds and found a significant positive relationship between financial literacy and investment decisions. Wolfe-Hayes (2010) also emphasized the urgent need for financial literacy across all societal sectors, including individuals, companies, and governments. Furthermore, Alaaraj and Bakri (2020) explored the link between financial literacy and investment decision-making in Lebanon. Their study, which utilized a quantitative approach with bank investors, revealed that financial literacy had a direct and positive impact on investment decisions. Additional studies have highlighted the diverse impacts of financial literacy on investment behavior. For example, Lusardi and Mitchell (2021) found that individuals with higher levels of financial literacy are more likely to plan for retirement and accumulate wealth over time, indicating that financial literacy not only improves investment decision-making but also long-term financial planning. Similarly, Van Rooij, Lusardi, and Alessie (2019) demonstrated that individuals with greater financial knowledge tend to participate more actively in the stock market, suggesting a link between financial literacy and investment engagement. Moreover, Agarwal et al. (2009) discovered that older adults with lower financial literacy are more susceptible to making errors in complex financial tasks, such as calculating interest rates, selecting appropriate investment products, and managing debt. Their findings underscore the critical need for targeted financial education programs to mitigate such errors and improve investment outcomes. In developing countries, Gaurav, Cole, and Tobacman (2019) showed that providing simple, low-cost financial education interventions to farmers in India significantly increased their willingness to purchase insurance products. This finding suggests that even basic financial education can substantially impact investment decisions in resource-constrained settings. Other research has also examined the types of risks considered in investment decision-making. For example, Musundi (2014) identified several risks, including market, liquidity, strategy, and regulatory risks, that significantly influence investment decisions. These findings suggest that financial literacy is not just about understanding financial products but also involves managing various risks associated with investing. Song et al. (2023) sought to analyze the influence of financial literacy on the financial behavior of individual investors. Additionally, they explored the role of financial risk tolerance as a mediator and the impact of emotional intelligence as a moderator. The study gathers time-lagged data from 389 financially autonomous individual investors who are enrolled in prominent educational institutions in Pakistan. The data

are analyzed using SmartPLS (version 3.3.3) in order to assess the measurement and structural models. The results indicated that there is a considerable correlation between financial literacy and the financial behaviour of individual investors. Furthermore, the extent to which individuals are willing to take on financial risks serves as a partial mediator in the connection between their level of financial knowledge and their financial actions.

Overall, the literature indicates that while there are some contexts where the link between financial literacy and investment decisions may not be significant, a substantial body of evidence demonstrates a positive relationship. This underscores the importance of financial literacy in enhancing investment decision-making capabilities across different demographic groups and regions. Improved financial literacy can lead to more informed, confident, and effective investment decisions, ultimately contributing to better financial outcomes for individuals and society.

3. Research Methodology

The objective of this study is to examine the effects of financial literacy on investment decisions among Millennials and Gen Z individuals residing in Haryana, India. To achieve this, the research will employ both causal and descriptive research designs. The descriptive research design will be utilized to outline the current state of financial literacy and investment decisions within the target population, aiming to provide a comprehensive profile of financial behaviors, attitudes, and knowledge. Following this, the causal research design will analyze how variations in financial literacy impact investment decisions, focusing on identifying and understanding the relationships between financial literacy and investment decisions. The study population will consist of Millennials and Gen Z individuals living in Haryana. Data for the study will be collected from both primary and secondary sources. Primary data will be gathered through a structured questionnaire, which will include 17 statements assessing financial behavior, 6 statements evaluating financial attitudes, 8 statements measuring financial knowledge, and 19 statements analyzing investment decision. Though more than 600 questionnaires were distributed but 400 were found useful for the study. Secondary data will be collected from existing literature, reports, and databases to support and contextualize the findings. Given the geographic dispersion of this population, a mixed sampling method will be utilized. Specifically, random sampling will be used to select five out of the twenty-two districts in Haryana. Purposive sampling will then be applied to target individuals within the Millennial and Gen Z age groups.

4. Analysis and Findings

The following section provides a detailed analysis of the research data, focusing on the reliability of the constructs, the effectiveness of the predictive model, and the structural relationships among variables. The analysis includes reliability statistics, regression modeling, and structural equation modeling (SEM) to assess the impact of Financial Knowledge, Financial Behavior, and Financial Attitude on Investment Decisions.

Table 1: Reliability Analysis of various Constructs

S. No.	Constructs	No. of variables	Cronbach’s alpha
1	Financial Knowledge	6	0.783
2	Financial Behavior	17	0.797
3	Financial Attitude	8	0.759
4	Investment Decisions	19	0.784

The reliability analysis showed that the constructs used in the study had good internal consistency. The Financial Knowledge construct, with 6 variables, had a Cronbach’s alpha of 0.783, indicating acceptable reliability. The Financial Behavior construct, which included 17 variables, achieved a Cronbach’s alpha of 0.797, reflecting strong reliability. The Financial Attitude construct, comprising 8 variables, had a Cronbach’s alpha of 0.759, demonstrating satisfactory internal consistency. Lastly, the Investment Decisions construct, with 19 variables, reported a Cronbach’s alpha of 0.784, suggesting reliable measurement of the construct.

Table 2: Model Summary

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.493 ^a	.243	.231	.72700	.243	20.946	3	196	.000	1.626

a. Predictors: (Constant), Financial Knowledge, Financial Behavior, Financial Attitude
b. Dependent Variable: Investment Decisions

The R value of 0.493 indicates a moderate positive correlation between the predictors and the dependent variable, suggesting that the model explains a substantial portion of the variability in investment decisions. The R Square value of 0.243 signifies that approximately 24.3% of the variance in investment decisions can be explained by the combined effects of Financial Knowledge, Financial Behavior, and Financial Attitude. The Adjusted R Square of 0.231 adjusts this value for the number of predictors in the model, providing a slightly lower but still significant estimate of explained variance. The Change Statistics section shows that the change in R Square is 0.243, and the F Change statistic of 20.946 with degrees of freedom ($df_1 = 3$, $df_2 = 196$) is statistically significant with a p-value of 0.000. This result suggests that the model's predictors collectively contribute significantly to explaining the variance in investment decisions. Lastly, the Durbin-Watson statistic of 1.626 assesses the presence of autocorrelation in the residuals of the regression model. The value is within the acceptable range, indicating that there is no significant autocorrelation in the residuals.

The ANOVA Table 3 for the multiple regression analysis reveals the overall significance of the regression model in predicting investment decisions. The Sum of Squares for the regression model was 33.211, indicating the total variance in investment decisions explained by the predictors—Financial Knowledge, Financial Behavior, and Financial Attitude. The Mean Square for the regression model, calculated as 11.070, represents the average variance explained by each predictor. The F statistic of 20.946 is a measure of the ratio of the variance explained by the model to the variance unexplained by the model. The associated p-value of 0.000 signifies that the model's predictors have a statistically significant impact on investment decisions.

Table 3: ANOVA for multiple regression

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.211	3	11.070	20.946	.000 ^b
	Residual	103.591	196	.529		
	Total	136.803	199			
a. Dependent Variable: Investment Decisions						
b. Predictors: (Constant), Financial Knowledge, Financial Behavior, Financial Attitude						

The analysis presented in Table 4 examined the impact of Financial Attitude, Financial Behavior, and Financial Knowledge on investment decisions, with each predictor showing a significant effect.

H₀1: Financial Attitude has no significant effect on investment decisions.

H₁1: Financial Attitude has a significant effect on investment decisions.

- For Financial Attitude, the unstandardized coefficient was 0.315, with a standard error of 0.064 and a standardized coefficient (Beta) of 0.311. The t-value was 4.886, and the significance level was 0.000. Since the significance level is well below the alpha level of 0.05, we rejected the null hypothesis (H₀) that Financial Attitude has no significant effect on investment decisions. This result indicates that Financial Attitude does indeed have a significant positive impact on investment decisions. Specifically, an increase of one unit in Financial Attitude is associated with an increase of 0.315 units in investment decisions.

Table 4: Coefficients for multiple regression

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.921	.351		2.621	.009
	Financial Attitude	.315	.064	.311	4.886	.000

	Financial Behavior	.197	.065	.193	3.048	.003
	Financial Knowledge	.231	.061	.238	3.776	.000
a. Dependent Variable: Investment Decisions						

Ho2: Financial Behavior has no significant effect on investment decisions.

H2: Financial Behavior has a significant effect on investment decisions.

- b) Similarly, the analysis for Financial Behavior revealed an unstandardized coefficient of 0.197, with a standard error of 0.065 and a standardized coefficient (Beta) of 0.193. The t-value was 3.048, and the significance level was 0.003. This significance level is also below the 0.05 threshold, leading us to reject the null hypothesis (H0) that Financial Behavior has no significant effect on investment decisions. Therefore, Financial Behavior positively affects investment decisions, with each unit increase in Financial Behavior resulting in a 0.197 unit increase in investment decisions.

Ho3: Financial Knowledge has no significant effect on investment decisions.

H3: Financial Knowledge has a significant effect on investment decisions.

- c) Finally, Financial Knowledge had an unstandardized coefficient of 0.231, with a standard error of 0.061 and a standardized coefficient (Beta) of 0.238. The t-value was 3.776, and the significance level was 0.000. Given that this significance level is much lower than 0.05, the null hypothesis (H0) that Financial Knowledge has no significant effect on investment decisions was rejected. This suggests that Financial Knowledge significantly influences investment decisions, with a one-unit increase in Financial Knowledge leading to a 0.231 unit increase in investment decisions.

In short, all three predictors—Financial Attitude, Financial Behavior, and Financial Knowledge—were found to have significant positive effects on investment decisions, demonstrating their critical roles in shaping investment outcomes.

Figure 1: Structure Equation Model for Financial Attitude, Financial Behavior, Financial Knowledge and Investment Decisions

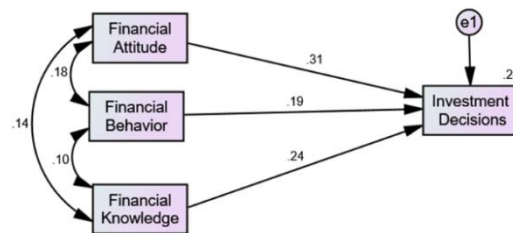


Table 5: Regression Weights as per SEM model

Dependent Variable		Independent Variable	Estimate	S.E.	C.R.	P
Investment Decisions	<---	Financial Attitude	.315	.064	4.923	***
Investment Decisions	<---	Financial Behavior	.197	.064	3.071	.002
Investment Decisions	<---	Financial Knowledge	.231	.061	3.805	***

The estimate for the effect of Financial Attitude on Investment Decisions was 0.315, with a standard error (S.E.) of 0.064 and a critical ratio (C.R.) of 4.923. The p-value associated with this estimate is indicated as statistically significant (***), which is typically below 0.001. This suggests that Financial Attitude has a substantial positive impact on Investment Decisions. Specifically, each unit increase in Financial Attitude is associated with a 0.315 unit increase in Investment Decisions. For Financial Behavior, the estimate was 0.197, with an S.E. of 0.064 and a C.R. of 3.071. The p-value for this

effect is 0.002, which is also statistically significant at the 0.01 level. This indicates that Financial Behavior positively influences Investment Decisions, with a 0.197 unit increase in Investment Decisions for each unit increase in Financial Behavior. The estimate for the effect of Financial Knowledge on Investment Decisions was 0.231, with an S.E. of 0.061 and a C.R. of 3.805. The p-value is marked as statistically significant (***), reflecting a high level of confidence in the result. This means that Financial Knowledge has a significant positive effect on Investment Decisions, with each unit increase in Financial Knowledge leading to a 0.231 unit increase in Investment Decisions.

Table 6: Model fit estimates

Estimates	Values	Threshold values
CMIN/DF	2.82	<3
CFI	.916	>0.90
GFI	.969	>0.95
AGFI	.920	>0.80
RMSEA	.006	<0.05
PCLOSE	.083	>0.05

Table 6 presents the model fit estimates for the structural equation modeling (SEM) analysis. The Chi-Square Minimum Degrees of Freedom Ratio (CMIN/DF) value of 2.82 is below the threshold of 3, indicating a good fit of the model to the data. The Comparative Fit Index (CFI) is 0.916, which exceeds the acceptable threshold of 0.90, suggesting that the model fits the data well compared to a baseline model. The Goodness of Fit Index (GFI) is 0.969, which is above the recommended value of 0.95, further supporting the model's good fit. The Adjusted Goodness of Fit Index (AGFI) of 0.920 also surpasses the threshold of 0.80, indicating a satisfactory fit. The Root Mean Square Error of Approximation (RMSEA) value is 0.006, well below the 0.05 threshold, reflecting a very good fit with minimal errors. Lastly, the PCLOSE value of 0.083 is greater than the recommended 0.05, suggesting that the model's fit is acceptable and that the fit indices support the validity of the model. Overall, these fit indices collectively indicate that the SEM model exhibits a strong fit to the data.

5. Conclusion

The study underscores the significant role of financial literacy in shaping investment decisions among Millennials and Gen Z individuals in Haryana, India. The analysis confirms that financial attitude, financial behavior, and financial knowledge each play a crucial role in influencing investment decisions. Specifically, individuals with a better understanding of financial concepts and more informed financial behaviors tend to make more effective investment decisions. The significant positive relationships observed suggest that enhancing financial literacy can lead to improved investment outcomes. Given these findings, there is a clear need for targeted financial education programs that address the specific needs of younger populations. Such initiatives could help individuals better manage their financial resources, make informed investment choices, and ultimately contribute to their overall financial well-being. The model fit estimates further validate the study's methodology and findings, reinforcing the importance of integrating financial literacy into broader economic and educational strategies.

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