



# Financial Literacy and Investment Decision-Making Among Young Adults in India: A Conceptual Review

Dr. R.S.Gupta

Assistant Professor, Arihant College, Indore, Madhya Pradesh, India

**Abstract** – Financial literacy can help individuals understand financial products, assess risk, compare costs and make informed saving and investment choices. This conceptual review examines the relationship between financial knowledge and investment decision-making among young adults in India. It considers budgeting, inflation, compounding, diversification, risk tolerance, digital access and behavioural influences. Drawing on established financial-literacy research and public financial-education resources, the paper argues that knowledge is important but may not be sufficient: confidence, social influence, access to trustworthy advice and behavioural biases also shape decisions. The paper recommends practical financial education, transparent product disclosures and stronger evaluation of financial-literacy programmes. It uses secondary literature and does not report original survey findings.

**Keywords** - Financial literacy; investment decisions; young adults; risk tolerance; financial education; India

## I. INTRODUCTION

Young adults increasingly encounter a wide range of financial products, including bank deposits, mutual funds, shares, insurance products, pension schemes and digital investment platforms. The availability of information and easy-to-use applications can widen access, but it can also expose inexperienced investors to misleading claims, unsuitable products and impulsive decisions. Making an informed choice requires more than knowing where to invest: individuals need to understand risk, return, liquidity, inflation, fees and the time horizon of an investment.

Financial literacy is therefore relevant to personal financial well-being and to the broader development of financial markets. For young adults, early habits involving saving, borrowing and investing may influence later financial resilience. This paper reviews the potential contribution of financial literacy to investment decisions and identifies factors that may support or weaken its effect.

## II. REVIEW OF LITERATURE

Lusardi and Mitchell (2014) review research showing that financial literacy is associated with important economic decisions, including saving and retirement planning. Their work highlights the value of understanding fundamental concepts such as compound interest, inflation and risk diversification. The OECD (2020) also treats financial literacy as a combination of awareness, knowledge, skills, attitudes and behaviours needed to make sound financial decisions.

These perspectives indicate that financial knowledge should be considered alongside practical capability and

behaviour. A person may understand diversification but still concentrate investments because of overconfidence or social pressure. Likewise, access to online information does not guarantee that the information is accurate or appropriate. In India, financial education initiatives and investor-awareness resources provide useful support, but the effectiveness of such programmes depends on accessibility, relevance and whether learning translates into better decisions.

### Objectives of the Study

The study aims to: (i) explain the relevance of financial literacy to investment decision-making among young adults; (ii) identify key financial concepts needed for informed investment; (iii) examine behavioural and digital influences on investment choices; and (iv) suggest measures to strengthen financial education and investor protection.

## III. RESEARCH METHODOLOGY

The paper adopts a descriptive conceptual-review method using established academic literature and public financial-education resources. Themes include basic financial knowledge, risk assessment, behavioural influences, digital information and investor protection. No questionnaire, interview or primary dataset was used. Consequently, the paper does not claim a measured level of financial literacy among Indian young adults or a statistical causal relationship between literacy and investment performance.

## IV. DISCUSSION AND ANALYSIS

### 1. Core Financial Concepts

Informed investment decisions require understanding the relationship between risk and potential return, the impact



of inflation on purchasing power, the effect of compounding over time, and the importance of diversification. Investors should also consider fees, lock-in periods, liquidity, taxation and the possibility of losing capital. Product suitability depends on personal goals and circumstances rather than popularity alone.

## 2. Risk Tolerance and Time Horizon

Investment decisions should reflect an individual's ability and willingness to bear losses, the time available to meet a goal and the need for emergency funds. A long time horizon may allow an investor to tolerate some volatility, but it does not remove market risk. Short-term essential expenses should not be exposed to unsuitable levels of risk. This paper does not recommend a specific product for any individual.

## 3. Behavioural Influences

Herd behaviour, fear of missing out, overconfidence, loss aversion and the tendency to rely on recent market performance can distort choices. Social-media posts and peer recommendations may encourage decisions without adequate evaluation. Financial education should therefore include practical exercises on recognising misleading promises, checking sources and resisting pressure to act immediately.

## 4. Digital Platforms and Information Quality

Digital platforms can make financial information and transactions more accessible. At the same time, simplified interfaces may make risky products appear easier to understand than they are. Young investors should verify that an intermediary is appropriately registered where required, read official disclosures and avoid guaranteed-return claims that appear unrealistic. Passwords, PINs and one-time passwords must remain confidential.

## 5. From Knowledge to Behaviour

Classroom knowledge alone may not lead to better decisions if people lack confidence, face financial constraints or cannot access suitable products. Practical budgeting, goal-setting, comparison of product costs and simulated investment exercises may help translate knowledge into habits. Financial education should be age-appropriate, culturally relevant and independent of sales incentives.

## Major Findings

The conceptual review identifies several themes. First, understanding inflation, compounding, risk and diversification provides a foundation for investment decisions. Second, financial knowledge works alongside behaviour, confidence and access to reliable information. Third, digital access increases convenience but also creates exposure to misinformation and unsuitable products.

Fourth, practical and repeated learning may be more useful than one-time information delivery. These are conclusions drawn from the literature, not empirical findings from a newly surveyed sample.

## Suggestions

Educational institutions should integrate practical financial education into student development programmes, covering budgeting, saving, borrowing, investment risk and fraud awareness. Activities can include comparison of hypothetical products, calculation of compound growth and analysis of misleading advertisements. Financial institutions and regulators should provide plain-language disclosures and accessible grievance mechanisms. Researchers should evaluate financial-education interventions using pre- and post-programme measures and follow-up assessments of behaviour. Studies should also consider differences in income, educational background, gender, location and access to formal financial services without assuming that one group has uniform needs.

## V. CONCLUSION

Financial literacy is an important foundation for informed investment decision-making, particularly as young adults encounter an expanding range of financial products and digital channels. However, knowledge alone cannot guarantee good outcomes. Behavioural biases, product complexity, financial constraints and information quality also matter. A coordinated approach combining practical education, transparent disclosures and investor protection can help young adults make more considered decisions. Further empirical research in diverse Indian settings is needed to establish which educational approaches produce durable improvements in financial behaviour.

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