



A Study on the Impact of Financial Literacy on Investment Decisions of Young Investors

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Abstract – In the present financial environment, individuals are exposed to a wide range of investment opportunities, making financial literacy an essential skill. This study aims to analyse the impact of financial literacy on the investment decisions of young investors. The research is based on primary data collected from 100 respondents through a structured questionnaire. Descriptive research design has been used, and tools such as percentage analysis and Chi-square test have been applied for interpretation. The findings indicate that financial literacy significantly influences investment behaviour, risk perception, and decision-making ability. The study also reveals that young investors with higher financial knowledge prefer modern investment avenues like stocks and mutual funds. Overall, the research highlights the importance of financial education in improving investment outcomes and financial stability.

Keywords – Financial Literacy, Investment Decisions, Young Investors, Investment Behaviour, Risk Perception, Financial Knowledge, Mutual Funds, Stock Market, Financial Education, Decision-Making, Investment Awareness, Financial Stability

I. INTRODUCTION

Financial literacy refers to the ability of individuals to understand financial concepts such as saving, investing, budgeting, and risk management. In today's dynamic financial world, individuals are required to make complex financial decisions, and lack of proper knowledge can lead to poor financial outcomes.

Young investors are increasingly participating in financial markets due to easy access to digital platforms and information. However, many of them do not have sufficient knowledge to evaluate different investment options. This creates a gap between financial opportunities and the ability to use them effectively.

Financial literacy helps individuals to understand the relationship between risk and return, compare different investment options, and make informed decisions. It also improves confidence and reduces dependency on others while investing.

This study focuses on analysing the level of financial literacy among young investors and its impact on their investment decisions.

II. REVIEW OF LITERATURE

Recent research highlights that financial literacy among young investors is gradually increasing; however, the ability to apply this knowledge in real-life investment situations remains limited. Sharma and Gupta (2024) observed that although many young individuals are familiar with basic financial concepts, they often struggle when making practical investment decisions. Their study emphasized the need for more application-oriented financial education rather than purely theoretical learning.

In another study, Patil (2024) examined the influence of digital platforms on financial awareness. The findings suggested that the internet and social media have become primary sources of financial knowledge for the youth. However, the study also pointed out that the quality and reliability of online information vary significantly, which may lead to uninformed or incorrect investment choices. Therefore, the importance of accessing credible and verified financial information was highlighted.

Furthermore, Kumar and Singh (2023) analyzed the financial behaviour of young investors and found a strong association between financial literacy and investment patterns. According to their findings, individuals with higher financial knowledge tend to adopt diversified investment strategies and focus more on long-term financial goals. This indicates that financial literacy not only improves knowledge but also positively influences investment planning and discipline.

Similarly, Reddy (2023) explored the relationship between financial literacy and risk-taking behaviour. The study revealed that financially literate individuals are more capable of assessing risks and are willing to take calculated investment decisions. In contrast, individuals with lower financial knowledge often avoid riskier investment options, even when such options may offer better returns.

A global perspective is provided by OECD (2023), which emphasized the critical role of financial literacy in effective financial planning and wealth creation. The report indicated that individuals with higher financial literacy are more likely to develop consistent saving habits, make informed investment decisions, and avoid excessive debt. It also recommended integrating financial education into academic curricula to prepare young individuals for real-world financial challenges.



ISSN:3048-7722

Objective

1. To study the level of financial literacy among young investors and understand their awareness about financial concepts.
2. To understand the investment behaviour and preferences of young investors in different financial instruments.
3. To analyse the impact of financial literacy on the investment decisions taken by young investors.
4. To examine the relationship between financial literacy and risk-taking ability of young investors.

Hypothesis

H0: Financial literacy has no significant impact on investment decisions

H1: Financial literacy has a significant impact on investment decisions

The Chi-square test results show that the calculated value is higher than the critical value at 5% level of significance. Therefore, the null hypothesis is rejected.

This indicates that financial literacy has a significant relationship with investment decisions of young investors.

Data Collection

Primary Data: Primary data was collected directly from respondents through a structured questionnaire. This data is original and specific to the research topic.

Secondary Data: Secondary data was collected from various sources such as books, research papers, journals, reports, and financial websites. This data helped in gaining a better understanding of the topic and supporting the research findings.

Sample Size and Sampling Technique

The study is based on a sample size of 100 respondents, mainly young investors. The convenience sampling technique was used, where respondents were selected based on easy availability and willingness to participate. This method is suitable for collecting data quickly and efficiently.

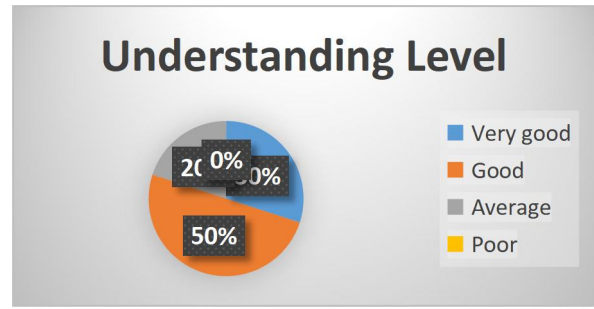
Data Analysis Tools and Techniques

The collected data was analysed using simple statistical tools. The main method used for analysis is the percentage method, which helps in understanding the proportion of responses. The data was presented in the form of tables, charts, and graphs to make it easy to understand and interpret. These tools help in identifying patterns and trends in the responses.

III. GRAPHICAL REPRESENTATION

1. How would you rate your understanding of financial concepts like risk and return.

Very Good	30%
Good	50%
Average	20%
Poor	0%

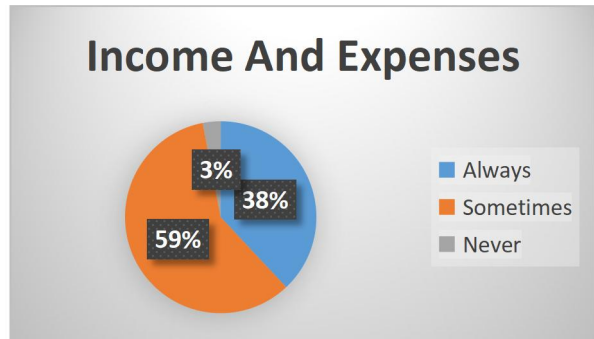


Interpretation

The above data shows that a majority of respondents (50%) have a good understanding of financial concepts like risk and return. Around 30% of respondents rated their knowledge as very good, which indicates a strong level of financial awareness among many participants. However, 20% of respondents have only an average understanding, showing there is still scope for improvement. Interestingly, none of the respondents rated their knowledge as poor. Overall, the results suggest that most young investors have a decent level of financial knowledge, which can help them make better investment decisions.

2. Do you regularly track your income and expenses?

Always	38%
Sometimes	59%
Never	3%



Interpretation

The data shows that a majority of respondents (59%) sometimes track their income and expenses, which indicates irregular financial management habits. Around 38% of respondents always track their finances, showing a good level of financial discipline. However, a small percentage (3%) never track their income and expenses, which reflects poor financial awareness. Overall, the results suggest that while many young investors are aware of tracking finances, consistency is still lacking. Improving regular tracking habits can help in better financial planning and decision-making.

3. Which sources mainly helps you gain financial knowledge?

Family	13%
Internet	54%
Book/Course	24%
Family Advisor	9%



ISSN:3048-7722

Interpretation

The data shows that the internet is the main source of financial knowledge for most respondents, with 54% relying on it. This indicates that young investors prefer online platforms like websites, videos, and social media for learning. Around 24% gain knowledge through books or courses, showing some interest in formal learning. A smaller group (13%) depends on family, while only 9% take guidance from a financial advisor. Overall, the results suggest that digital sources play a major role, but professional guidance is still less preferred.

IV. FINDINGS

The study reveals that a majority of young investors possess moderate to high levels of financial literacy; however, the distribution of knowledge is not uniform across all respondents. It is observed that investment preferences are shifting towards modern financial instruments such as stocks and mutual funds. Financial literacy significantly enhances decision-making ability and helps individuals make informed investment choices. The internet emerges as the primary source of financial information, although reliance on digital platforms raises concerns regarding information reliability. Additionally, while respondents demonstrate an understanding of risk and return, there is still scope for improvement in practical application.

Suggestions

1. Financial literacy should be integrated into academic curricula at an early stage.
2. Regular financial awareness programs should be conducted to educate young investors.
3. Reliable and verified financial education platforms should be promoted.
4. Government initiatives should focus on improving financial inclusion and literacy.
5. Individuals should seek professional financial advice before making investment decisions.
6. Digital financial education should be strengthened to ensure accurate knowledge dissemination.
7. Awareness regarding risk and return should be enhanced.
8. Young individuals should be encouraged to develop disciplined investment habits.

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