



# A Study on the Impact of Financial Literacy on Investment Decision Making of Individual Investors

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**Abstract** – This study examines the impact of financial literacy on the investment decision-making behavior of individual investors in an increasingly complex financial environment. With the rapid growth of financial markets and availability of diverse investment options, individuals are required to possess adequate financial knowledge to make informed decisions. However, many investors lack a clear understanding of financial concepts such as risk, return, inflation, and diversification, which affects their ability to invest wisely. The research highlights the importance of financial literacy as a key factor in improving financial decision-making and overall financial well-being. The primary objective of the study is to analyze how financial literacy influences investment choices, risk assessment, and long-term financial planning among individual investors. The research is based on a descriptive design using primary data collected through a structured questionnaire from 100 respondents. The study evaluates various aspects such as investment awareness, sources of financial knowledge, decision-making behavior, and risk tolerance. Statistical tools like percentage analysis and graphical representation are used to interpret the data and identify patterns in investor behavior. The findings of the study indicate that most respondents possess moderate to high levels of financial literacy, which positively influences their investment decisions. A majority of investors actively research before investing, consider risk factors, and prefer moderate-risk investment options. The study also reveals that financially literate individuals are more likely to diversify their portfolios, rely on expert advice, and engage in long-term financial planning. Furthermore, financial literacy significantly enhances investors' ability to assess risks, avoid impulsive decisions, and achieve better financial outcomes. In conclusion, the study establishes a strong relationship between financial literacy and effective investment decision-making. It emphasizes the need for promoting financial education through awareness programs, workshops, and digital platforms to improve financial knowledge among individuals. Enhancing financial literacy not only helps investors make rational and informed decisions but also contributes to economic stability and growth. The research provides valuable insights for policymakers, financial institutions, and educators to design strategies that strengthen financial awareness and investor confidence.

**Keywords-** Financial Literacy, Investment Decision-Making, Individual Investors, Risk and Return, Financial Awareness, Investment Behavior, Portfolio Diversification, Risk Assessment, Financial Planning, Investor Behavior

## I. INTRODUCTION

In today's rapidly evolving financial environment, individuals are required to make increasingly complex financial decisions. The expansion of financial markets, technological advancements, and the availability of diverse investment options such as stocks, mutual funds, bonds, and digital assets have significantly transformed the investment landscape. While these opportunities provide potential for wealth creation, they also expose investors to higher levels of risk and uncertainty. As a result, making informed and rational investment decisions has become more challenging for individual investors.

Financial literacy plays a crucial role in helping individuals navigate this complex financial system. It refers to the ability to understand and effectively use financial knowledge and skills, including budgeting, saving, investing, and risk management. A financially literate individual is better equipped to evaluate investment options, understand financial risks, and make decisions aligned with their financial goals. In contrast, a lack of financial literacy can lead to poor financial planning, excessive debt, and vulnerability to financial losses and fraud.

The importance of financial literacy has increased significantly in recent years due to the growing complexity of financial products and services. Factors such as inflation, fluctuating interest rates, and economic instability further complicate the decision-making process. Many individual investors rely on informal sources such as friends, family, or social media for financial advice, which may not always be reliable. This often leads to irrational decisions influenced by emotions like fear and greed rather than logical analysis.

Financial literacy also has a direct impact on investment behavior and risk perception. Investors with higher levels of financial knowledge are more likely to diversify their portfolios, assess risk-return trade-offs effectively, and adopt a long-term investment approach. On the other hand, individuals with limited financial knowledge tend to make impulsive decisions, focus on short-term gains, and fail to manage risks properly. This highlights the need to understand how financial literacy influences the investment decision-making process.

Therefore, this study aims to examine the relationship between financial literacy and investment decision-making among individual investors. It seeks to analyze how financial knowledge affects investment choices, risk tolerance, and financial planning behavior. The study also



attempts to identify gaps in financial awareness and provide suggestions to improve financial literacy. By doing so, it contributes to a better understanding of investor behavior and offers valuable insights for policymakers, financial institutions, and educators.

## II. REVIEW OF LITERATURE

The concept of financial literacy has gained significant attention in academic research due to its strong influence on individual financial behavior and economic well-being. According to studies by Lusardi and Mitchell, financial literacy is defined as the ability to understand key financial concepts such as interest rates, inflation, and risk diversification, enabling individuals to make informed financial decisions. Their research highlights that financial knowledge can be viewed as a form of human capital investment, which improves individuals' ability to manage savings, investments, and long-term financial planning.

A growing body of literature emphasizes that financial literacy plays a critical role in shaping investment behavior. Research findings indicate that individuals with higher financial literacy are more likely to participate in financial markets, diversify their portfolios, and plan effectively for future financial goals such as retirement. In contrast, individuals with low financial literacy tend to avoid complex financial instruments and rely on informal advice, which often leads to poor investment decisions and financial instability.

Several empirical studies have also explored the determinants of financial literacy and its outcomes. A systematic review of financial literacy research suggests that factors such as education, income, age, and gender significantly influence the level of financial knowledge among individuals. Moreover, financial literacy has been found to positively impact financial inclusion, savings behavior, and the effective use of financial products and services. These findings highlight the broader socio-economic importance of financial literacy in promoting sustainable development and financial stability.

In addition to knowledge-based factors, behavioral aspects also play a crucial role in investment decision-making. Research on investor behavior indicates that psychological biases, emotions, and cognitive limitations often influence financial decisions. While financial literacy improves decision-making quality, it does not completely eliminate behavioral biases such as overconfidence, herd behavior, and loss aversion. Instead, financial knowledge works alongside psychological factors to shape financial attitudes and investment choices.

Furthermore, studies on financial planning behavior reveal that financially literate individuals are more likely to engage in disciplined financial planning, including budgeting, saving, and long-term investment strategies. Lack of financial literacy, on the other hand, is associated

with poor financial habits, increased debt levels, and inadequate retirement planning. This indicates that financial literacy not only influences investment decisions but also contributes to overall financial resilience and security.

Recent research also highlights the importance of financial education programs in improving financial literacy. While such programs have shown positive effects on financial awareness and behavior, their effectiveness varies depending on design and implementation. Studies suggest that continuous education, practical training, and use of digital platforms can enhance financial knowledge and help individuals make better financial decisions in a dynamic financial environment.

## III. RESEARCH METHODOLOGY

### 1. Research Design

- The study adopts a descriptive research design to systematically examine the relationship between financial literacy and investment decision-making.
- It focuses on describing patterns, behaviors, and characteristics of individual investors without manipulating variables.
- This design helps in understanding how financial knowledge influences investor decisions in real-life situations.

### 2. Nature of Study

- The study is analytical in nature as it evaluates the relationship between different variables.
- It is quantitative since it relies on numerical data collected from respondents.
- The research focuses on measurable outcomes related to financial literacy and investment behavior.

### 3. Data Collection

- Primary data is collected through a structured questionnaire administered to individual investors.
- Secondary data is gathered from books, research journals, reports, and reliable online sources for theoretical support.

### 4. Sampling Method

- The study uses a purposive sampling technique to select respondents relevant to the research objectives.
- Only individuals with some experience or exposure to financial investments are included in the sample.

### 5. Sample Size

- The total sample size of the study consists of 100 respondents.
- All respondents are individual investors actively participating in financial markets.

### 6. Data Collection Instrument

- A structured questionnaire is used as the main tool for collecting primary data.



- The questionnaire includes mostly close-ended questions for easy analysis and interpretation.
- It is divided into sections covering demographics, financial literacy, investment behavior, and risk perception.

**7. Data Analysis Tools**

- Percentage analysis is used to present data in a simple and understandable format.
- Frequency distribution is applied to identify trends and patterns among responses.
- Graphical tools such as bar charts and pie charts are used to visually represent the data.

**8. Variables of Study**

- Financial literacy is considered the independent variable influencing investor behavior.
- Investment decision-making is treated as the dependent variable affected by financial knowledge.

**9. Study Area**

- The study focuses on selected individual investors from a specific geographical area.
- It aims to understand investment behavior within the chosen sample group.

**10. Scope of study**

- The study analyzes the impact of financial literacy on the investment decision-making of individual investors.
- It examines how financial knowledge influences the selection of various investment options.
- It studies the role of financial literacy in risk perception and risk management.
- It evaluates how financial literacy supports financial planning and long-term goal setting.
- The study is limited to individual investors and is based on a sample of 100 respondents.

**11. Limitations of Study**

- The study is limited by a relatively small sample size, which may affect generalization.
- Data is based on self-reported responses, which may include bias or inaccuracies.
- The geographical scope of the study is restricted, limiting broader applicability.

**IV. DATA ANALYSIS & INTERPRETATION**

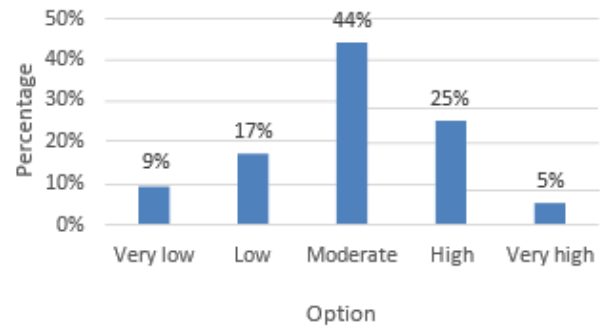
**1. How would you read your knowledge of basic financial concept?**

**Table:**

Option	Count	Percentage
Very low	9	9%

Low	17	17%
Moderate	44	44%
High	25	25%
Very high	5	5%
Total	100	100%

**Bar graph**



**Interpretation**

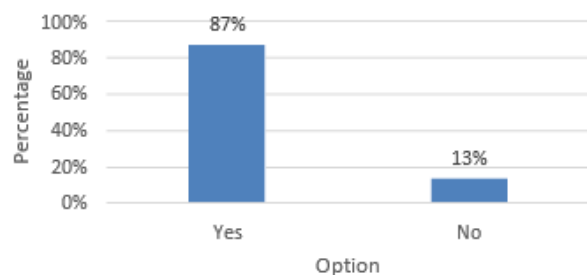
The data shows that most respondents rate their knowledge of basic financial concepts as moderate (44%), making it the largest group. A significant portion also reports high knowledge (25%), while 5% consider their knowledge very high. On the lower side, 17% rate their knowledge as low and 9% as very low. This indicates that while a majority have at least an average understanding, a notable segment still lacks strong financial knowledge. Overall, the sample reflects moderate financial awareness with room for improvement.

**2. Do you understand the concept of risk and return in investment?**

**Table**

Option	Count	Percentage
Yes	87	87%
No	13	13%
Total	100	100%

**Bar graph**





**Interpretation**

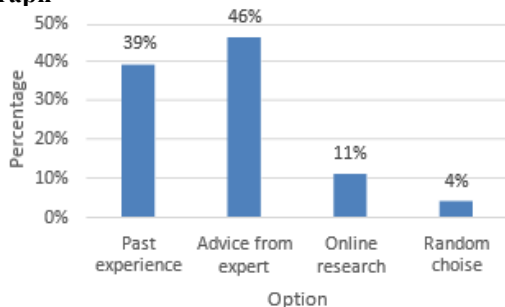
The data shows that most respondents (87%) understand the concept of risk and return in investment, while 13% do not. This indicates a strong overall awareness of this key investment principle among the participants. However, a small portion still lacks understanding, which may affect their ability to make informed investment decisions. Overall, the findings suggest a generally high level of financial knowledge regarding risk and return.

**3. How do you decide which investment to choose?**

**Table:**

Option	Count	Percentage
Past experience	39	39%
Advice from expert	46	46%
Online research	11	11%
Random choice	4	4%
Total	100	100%

**Bar graph**



**Interpretation**

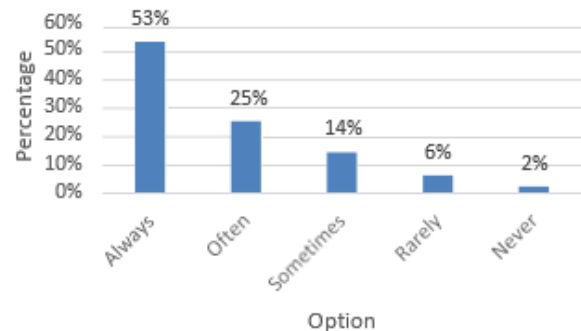
The data shows that the majority of respondents (46%) choose their investments based on advice from experts, making it the most common decision-making method. Past experience is also important, influencing 39% of respondents. A smaller portion relies on online research (11%), while only 4% make random choices. Overall, the findings indicate that most people prefer informed and experience-based methods rather than uninformed or random decisions when selecting investments.

**4. Do you research before making an investment decision?**

**Table**

Option	Count	Percentage
Always	53	53%
Often	25	25%
Sometimes	14	14%
Rarely	6	6%
Never	2	2%
Total	100	100%

**Bar graph**



**Interpretation**

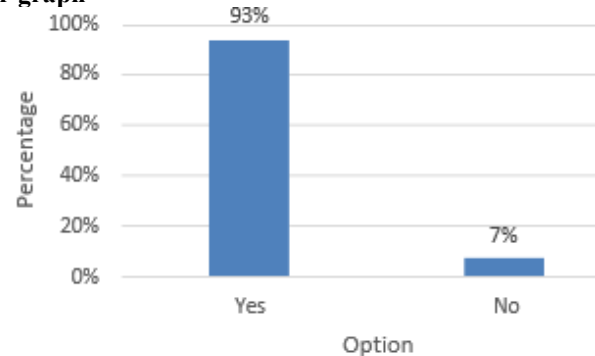
The data shows that a majority of respondents (53%) always research before making an investment decision, indicating strong financial awareness and careful decision-making. Another 25% often do research, while 14% do so sometimes. Only a small portion of respondents rarely (6%) or never (2%) conduct research before investing. Overall, the findings suggest that most individuals actively seek information before investing, reflecting a generally informed approach to financial decisions.

**5. Do you set financial goals before investing?**

**Table**

Option	Count	Percentage
Yes	93	93%
No	7	7%
Total	100	100%

**Bar graph**



**Interpretation**

The data shows that a vast majority of respondents (93%) set financial goals before investing, while only 7% do not. This indicates that most participants follow a planned and goal-oriented approach to investing. Overall, the findings suggest strong financial discipline and awareness among respondents when it comes to investment planning.



## V. CONCLUSION

The study concludes that financial literacy plays a significant role in influencing the investment decision-making behavior of individual investors. In a complex financial environment with multiple investment options, individuals with better financial knowledge are more capable of making informed, rational, and effective financial decisions. The findings reveal that most respondents possess moderate to high levels of financial literacy, which positively impacts their investment behavior.

The study further highlights that financially literate investors are more likely to understand key concepts such as risk and return, inflation, and diversification, enabling them to evaluate investment opportunities more effectively. They tend to conduct proper research, consider risk factors, and rely on expert advice or past experience rather than making impulsive or uninformed decisions. This leads to more stable and well-planned investment choices.

Additionally, the research shows that financial literacy encourages disciplined financial practices such as setting financial goals, planning for long-term objectives, and regularly reviewing investment portfolios. Investors with higher financial awareness also demonstrate better risk management by diversifying their investments and preferring balanced risk options.

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