



A Study Of Financial Literacy And Investment Behaviour Among Individuals

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ABSTRACT

Financial literacy has emerged as a critical factor influencing individuals' financial decision-making and investment behaviour. This study examines the relationship between financial literacy and investment behaviour among individuals across different demographic backgrounds. Primary data was collected from 250 respondents using a structured questionnaire. Statistical tools such as correlation, regression, ANOVA, and Chi-square tests were applied to analyze the data.

The findings reveal a significant positive relationship between financial literacy and investment behaviour. Individuals with higher financial knowledge tend to make informed investment decisions, diversify their portfolios, and exhibit better risk management practices. However, a considerable proportion of respondents still demonstrate moderate financial literacy, indicating the need for continuous financial education. The study concludes that improving financial literacy can enhance investment participation and overall financial well-being.

KEYWORDS

Financial Literacy, Investment Behaviour, Risk Tolerance, Financial Decision-Making, Investment Awareness

INTRODUCTION

In today's rapidly changing financial environment, individuals are increasingly exposed to a wide range of investment opportunities such as mutual funds, equities, bonds, insurance products, and digital financial instruments. The advancement of financial markets, along with technological developments and easy access to online platforms, has significantly transformed the way individuals manage their finances. However, the growing complexity of financial products requires individuals to possess adequate knowledge and skills to make informed decisions. Without proper understanding, individuals may find it difficult to choose suitable investment options and manage financial risks effectively.

Financial literacy plays a crucial role in enhancing an individual's ability to make sound financial decisions. It refers to the knowledge and understanding of key financial concepts such as savings, investment, risk and return, budgeting, and financial planning. Individuals with higher financial literacy are better equipped to evaluate various financial alternatives, diversify their investments, and achieve long-term financial goals. On the other hand, a lack of financial literacy can lead to poor financial decisions, inadequate savings, and limited participation in investment activities, ultimately affecting an individual's financial well-being.

Despite the availability of numerous financial products and services, many individuals continue to rely on traditional savings methods due to limited awareness and understanding of modern investment avenues. Factors



such as fear of risk, lack of confidence, and insufficient financial education contribute to conservative financial behaviour. As a result, individuals may miss opportunities for wealth creation and fail to optimize their financial resources. Investment behaviour is influenced not only by financial literacy but also by demographic factors such as age, income, education, and occupation, which shape an individual's financial preferences and risk-taking ability. Therefore, understanding the relationship between financial literacy and investment behaviour is essential for promoting better financial practices among individuals. This study aims to examine the level of financial literacy and its impact on investment behaviour, while also analyzing the influence of demographic factors on financial decision-making. The findings of the study will provide valuable insights for policymakers, financial institutions, and educators to design effective financial literacy programs and encourage informed investment decisions, ultimately contributing to improved financial stability and long-term economic well-being.

REVIEW OF LITERATURE

The review of literature indicates that financial literacy plays a crucial role in shaping investment behaviour, savings habits, and overall financial decision-making. Annamaria Lusardi and Olivia S. Mitchell (2014) highlighted that financial literacy significantly influences individuals' ability to plan for retirement and make sound investment decisions. Their study concluded that low financial knowledge often leads to poor financial planning and limited wealth accumulation. Similarly, Robert J. Shiller (2013) emphasized the importance of behavioural factors in financial decision-making and investment behaviour, noting that lack of financial awareness increases vulnerability to market volatility and irrational investment choices. Nittai K. Bergman and Stefan Nagel (2015) found that individuals with higher financial literacy are more likely to participate in stock markets and are better able to diversify their portfolios while avoiding common investment biases.

Studies focusing on youth and early financial education also reveal the importance of financial knowledge. Lewis Mandell (2008) found that many young individuals lack basic financial knowledge, stressing the need for early financial education to improve long-term financial behaviour. Likewise, Haiyang Chen and Ronald P. Volpe (1998) examined financial literacy among college students and reported low levels of financial knowledge, emphasizing the necessity of financial education to improve investment decision-making among younger generations.

Several studies have also linked financial literacy with savings and investment habits. Adele Atkinson and Flore-Anne Messy (2012) found that financial literacy levels are directly associated with savings and investment patterns, concluding that improved financial education contributes to better financial decisions and greater economic stability. Maarten van Rooij, Annamaria Lusardi, and Rob Alessie (2011) demonstrated a strong relationship between financial literacy and stock market participation, showing that individuals with low literacy are less likely to invest in complex financial products.

In addition, Justine Hastings, Brigitte C. Madrian, and William Skimmyhorn (2013) examined financial literacy in complex markets and concluded that financial education enhances individuals' ability to choose suitable investment options. Sumit Agarwal, John Driscoll, Xavier Gabaix, and David Laibson (2009) found that financial mistakes are more common among people with lower financial literacy, while improved knowledge helps reduce costly borrowing and investment errors.



A global perspective was presented by Leora Klapper, Annamaria Lusardi, and Peter Van Oudheusden (2015), who revealed significant differences in financial literacy levels across countries and emphasized that improving financial knowledge is essential for greater financial inclusion and investment participation. OECD (2016) also stressed the importance of financial education in enhancing financial capability, noting that higher literacy leads to better saving habits and informed investment behaviour. Furthermore, Marianne A. Hilgert, Jeanne M. Hogarth, and Sondra G. Beverly (2003) concluded that individuals with higher financial literacy demonstrate stronger money management skills and better investment practices. Overall, the literature consistently confirms that financial literacy is a key determinant of effective financial behaviour, wealth creation, and informed investment decisions.

RESEARCH METHODOLOGY

Research Design

Research design refers to the overall plan and structure adopted for conducting the research study. It provides a systematic framework for collecting, analyzing, and interpreting data in order to achieve the objectives of the study. A well-defined research design ensures that the research problem is addressed effectively and the findings are reliable and valid.

In the present study, both descriptive and analytical research designs are adopted. The descriptive research design is used to describe the characteristics of respondents such as their financial literacy level, investment preferences, and demographic profile. It helps in presenting a clear picture of the existing situation. On the other hand, the analytical research design is used to examine the relationship between financial literacy and investment behaviour, and to analyze how various factors influence financial decision-making. This combination of research designs enhances the depth and accuracy of the study.

Nature of the Study

The nature of the study is both quantitative and empirical. It is quantitative in nature as it involves numerical data collected through structured questionnaires and analyzed using statistical tools. The empirical aspect of the study is reflected in the collection of primary data directly from respondents, which is used to draw meaningful conclusions.

The study focuses on understanding real-world financial behaviour of individuals and their level of financial literacy. It aims to identify patterns, relationships, and trends in investment behaviour based on measurable data. Thus, the study is practical and data-driven in nature, providing realistic insights into financial decision-making.

Sources of Data

The study is based on both primary and secondary sources of data. Primary data is collected directly from respondents through a structured questionnaire designed for the purpose of the study. The questionnaire includes questions related to financial knowledge, investment behaviour, awareness levels, and demographic details. Since this information is gathered firsthand from respondents, it is original in nature and specifically relevant to the research objectives. Secondary data is collected from various published sources such as research journals, books, websites, government reports, and previous studies related to financial literacy and investment behaviour. This secondary information helps in developing the theoretical background of the study and provides support for the analysis and interpretation of findings.



Variables are the key elements measured and analyzed in the research. In this study, both independent and dependent variables are considered. The independent variable is financial literacy, which refers to the level of knowledge and understanding of financial concepts such as savings, investment, risk, and financial planning. The dependent variable is investment behaviour, which refers to the manner in which individuals make investment decisions, including their preferences, risk tolerance, and investment choices. In addition, demographic variables such as age, gender, income, education, and occupation are also considered, as they may influence both financial literacy and investment behaviour.

The collected data is analyzed using suitable statistical tools to derive meaningful conclusions. Percentage analysis is used to present the distribution of respondents according to factors such as age, gender, income, and investment preferences, thereby simplifying the data for easy understanding. The Chi-Square test is applied to examine the association between two categorical variables and to determine whether a significant relationship exists between financial literacy and investment behaviour. Correlation analysis is used to measure the strength and direction of the relationship between these two variables, indicating whether they are positively or negatively related. Regression analysis is employed to determine the impact of financial literacy on investment behaviour and to identify how changes in financial literacy influence investment decisions. ANOVA (Analysis of Variance) is used to compare differences among various groups based on demographic factors such as income or education level, helping to identify whether significant variations exist among the groups.

DATA ANALYSIS AND INTERPRETATION

Reliability Statistics

Cronbach's Alpha	N of Items
.872	6

Interpretation:

The reliability analysis was conducted using Cronbach's Alpha to test the internal consistency of the variables related to financial literacy and financial behaviour (Questions 13–18). The obtained Cronbach's Alpha value is 0.872, which is higher than the standard acceptable limit of 0.70. This indicates that the items are highly consistent and well correlated with each other. A value above 0.80 shows strong reliability, confirming that the questionnaire effectively measures the intended constructs.

Result:

The data is highly reliable and suitable for further statistical analysis.

Percentage Analysis

Age-Wise Distribution of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 25	91	36.4	36.4	36.4
	25-35	93	37.2	37.2	73.6
	36-45	43	17.2	17.2	90.8
	Above 45	23	9.2	9.2	100.0
	Total	250	100.0	100.0	

Interpretation:

The majority of respondents belong to the 25–35 age group (37.2%), followed by those below 25 years (36.4%). This indicates that younger individuals form the major portion of the study. Respondents above 45 years are the least represented. Younger individuals are more active in financial decision-making and investment activities.

Result:

Young individuals dominate the study and show higher involvement in investment behaviour.

Gender Wise Distribution of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	152	60.8	60.8	60.8
	Female	98	39.2	39.2	100.0
	Total	250	100.0	100.0	

Interpretation:

Male respondents (60.8%) are higher compared to female respondents (39.2%). This indicates a male-dominated sample. Gender differences may influence financial behaviour and investment decisions.

Result:

Male respondents have higher participation in investment activities compared to females.

Educational Qualification of Respondents



		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	UG	122	48.8	48.8	48.8
	PG	79	31.6	31.6	80.4
	Professional	39	15.6	15.6	96.0
	Others	10	4.0	4.0	100.0
	Total	250	100.0	100.0	

Interpretation:

Most respondents are undergraduates (48.8%) followed by postgraduates (31.6%). This indicates that the majority of respondents are well-educated, which positively influences financial literacy and awareness.

Result:

Higher education contributes to better financial literacy and investment behaviour.

Income of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below \$20,000	93	37.2	37.2	37.2
	\$20,000-\$40,000	89	35.6	35.6	72.8
	\$40,000-\$60,000	46	18.4	18.4	91.2
	Above \$60,000	22	8.8	8.8	100.0
	Total	250	100.0	100.0	

Interpretation:

The majority of respondents belong to lower and middle-income groups. Individuals earning below \$40,000 form the largest share. Income level affects investment capacity and financial decisions.

Result:

Income plays a significant role in influencing investment behaviour.

Occupation of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Student	75	30.0	30.0	30.0
	Employee	127	50.8	50.8	80.8
	Business	36	14.4	14.4	95.2
	Others	12	4.8	4.8	100.0
	Total	250	100.0	100.0	

Interpretation:



Most respondents are employees (50.8%), followed by students (30%). This shows that salaried individuals dominate the study, while students represent future investors.

Result:

Employees are more active in financial planning and investment activities.

Investment Participation of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	68	27.2	27.2	27.2
	No	182	72.8	72.8	100.0
	Total	250	100.0	100.0	

Interpretation:

A majority of respondents (72.8%) answered “No”, indicating low participation in investment activities. Only 27.2% actively invest.

Result:

Investment participation among respondents is relatively low.

Chi Square Analysis

Association Between Income and Investment

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.276 ^a	6	0.027
Likelihood Ratio	13.842	6	0.031
Linear-by-Linear Association	6.215	1	0.013
N of Valid Cases	250		

Interpretation:

The Chi-square value is 14.276 with a p-value of 0.027, which is less than 0.05. This indicates a statistically significant relationship between income and investment behaviour. Higher-income individuals tend to invest more compared to lower-income individuals.

Result:

Null hypothesis is rejected. There is a significant relationship between income and investment.

Descriptive Analysis

Financial Behaviour and Investment Behaviour Variables

	Mean	Std. Deviation
Under_Fin_Prod	.68	.466
Monthly_Income_Lvl	.76	.428
Know_Risk_return	.69	.463
Und_Diversif	.70	.459
Fin_Plan_Ability	.71	.454

Interpretation:

The descriptive statistics show that respondents have moderate to high financial literacy. Variables such as risk-return knowledge (0.69), diversification (0.70), and financial planning ability (0.71) indicate good understanding. The standard deviation values indicate moderate variation among respondents.

Result:

Respondents possess a moderate level of financial literacy with some variation.

Correlation Analysis

Correlation Between Financial Literacy and Investment Behaviour

	Correlation	Significance
Knowledge of Investment Options vs Investment Interest Level	0.365	0,003
Understanding Financial Products vs Investment Interest Level	0.298	0.008
Investment Interest Level vs Frequency of Investment	0.441	0.000
Confidence in Investment vs Investment Interest Level	0.389	0.001

Interpretation:

The correlation results show a positive relationship between financial literacy and investment behaviour. Knowledge of investment options is positively related to investment interest, frequency, and confidence. All p-values are less than 0.05, indicating statistical significance.

Result:

Null hypothesis is rejected. There is a significant positive relationship between financial literacy and investment behaviour.

Regression Analysis

Impact of Financial Literacy on Investment Intention

Model Summary



R	R Square	Adjusted R Square	Std. Error of the Estimate
.612	.374	.362	.298

ANOVA

Source	F	Sig.
Model	14.762	.000

Coefficients

Variable	B	Beta	Sig
Un_Fin_Prđ	.218	.205	.001

Interpretation:

The R value (0.612) indicates a strong relationship, while R^2 (0.374) shows that 37.4% of investment intention is explained by financial literacy factors. The ANOVA result ($p = 0.000$) confirms the model is significant. All variables such as financial planning, risk-return knowledge, and diversification positively influence investment intention.

Result:

Financial literacy has a significant positive impact on investment intention.

Anova Analysis**One-Way ANOVA Test**

Source	F	Sig.
Invest_int_lvl	5.624	.001

Interpretation:

All variables such as investment intention (0.001), frequency (0.006), satisfaction (0.009), and confidence (0.001) have p-values less than 0.05. This indicates significant differences among groups.

Result:

Null hypothesis is rejected. There are significant differences between groups in investment behaviour.

RESULT AND DISCUSSION

The correlation analysis was conducted to examine the relationship between financial literacy variables and investment behaviour among respondents. The results indicate that all selected variables have a positive and statistically significant relationship with investment interest level.

Among the variables, the strongest relationship is observed between investment interest level and frequency of investment ($r = 0.441$, $p < 0.05$). This implies that individuals who show greater interest in investment are more likely to participate frequently in investment activities. Similarly, confidence in investment ($r = 0.389$, $p < 0.05$) and knowledge of investment options ($r = 0.365$, $p < 0.05$) exhibit moderate positive relationships with investment



interest level, indicating that better-informed individuals tend to have higher confidence and engagement in investments.

In addition, understanding of financial products ($r = 0.298$, $p < 0.05$) also shows a positive relationship, though comparatively weaker. This suggests that while respondents possess some level of awareness, there is still scope for improving in-depth financial knowledge.

The findings clearly highlight that financial literacy significantly influences investment behaviour. Individuals with higher financial knowledge and awareness are more confident, show greater interest, and actively participate in investment decisions. The positive relationships among all variables reinforce the importance of financial education in enhancing investment practices.

FINDINGS

- The reliability test shows a Cronbach's Alpha value of 0.872, indicating high internal consistency of the data.
- The majority of respondents belong to the 25–35 age group, showing that younger individuals are more actively involved in financial activities.
- The sample is slightly male-dominated, though female participation is also considerable.
- Most respondents are undergraduates and postgraduates, indicating a fairly educated sample with moderate financial awareness.
- A large proportion of respondents fall under the low and middle-income categories, influencing their investment capacity and preferences.
- Employees form the largest group, followed by students, reflecting a mix of working and early-stage individuals.
- Investment participation is relatively low, with many respondents not actively investing.
- The Chi-square test confirms a significant relationship between income and investment behaviour.
- Correlation and regression analysis reveal a positive and significant relationship between financial literacy and investment behaviour.
- Financial literacy factors such as financial planning, risk-return knowledge, and diversification significantly influence investment intention.
- ANOVA results indicate significant differences among groups in terms of investment behaviour variables.

SUGGESTIONS

- Financial literacy programs should be conducted regularly to improve awareness and understanding of financial concepts.
- Educational institutions should integrate financial education into their curriculum.
- Greater emphasis should be placed on explaining risk-return relationships and diversification in a simple manner.
- Efforts should be made to increase female participation in financial decision-making.
- Financial institutions should offer easy and accessible advisory services.
- Awareness initiatives should target low and middle-income groups to improve investment participation.



- Digital tools and platforms can be utilized to make investment processes more convenient.
- Individuals should be encouraged to adopt systematic and long-term investment practices.

CONCLUSION

The study concludes that financial literacy plays a crucial role in shaping investment behaviour. Individuals with better financial knowledge tend to show higher investment interest, confidence, and participation. Although the overall literacy level is moderate, actual investment involvement remains relatively low. The findings highlight the need for continuous financial education and awareness initiatives. Enhancing financial literacy can lead to improved investment decisions, increased participation in financial markets, and better financial well-being among individuals.

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