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Impact of Financial Literacy on Stock and Mutual Fund Investment Decisions

¹Mragank Shakyawar

Assistant Professor, Govt. S.L.P. P.G. College, Gwalior (M.P)

²Kanchan Shakya

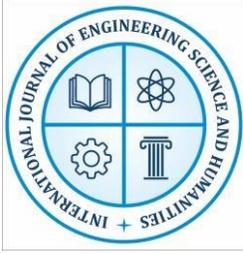
Assistant Professor, Govt. V.J.B. Girls College, Gwalior (M.P)

Abstract- It is the energy of the financial market and the consequent increase of expectation of good investment skills especially in stock and mutual funds investment by individual investors. Financial literacy and its effect on stock and mutual fund investment decision is evaluated in terms of risk perception of investors, investor confidence and demographic differences in the present research paper. The research design is the quantitative study or descriptive and analytical research which is dedicated to measuring the level of financial literacy of stock and mutual funds investors, the behavior and preferences in investment and finding the correlation between the level of financial literacy and the decision to invest. The use of structured questionnaire was used to collect primary information, which was to study 384 conventional individual investors, and secondary data was collected through published literature and reports. These independent variable was considered financial literacy and the dependent variables were considered the mutual fund and stock investment. The data were analysed with the help of descriptive statistics, correlation analysis, regression analysis and ANOVA (5 level of significance). The findings of the study show that moderate-high financial literacy with regard to the respondents with basic financial literacy is greater than the advanced financial literacy. It has been observed that the financial literacy and stock investment decisions has a strong relationship (0.642, $p < 0.05$) and the regression analysis has revealed that the effects of financial literacy on stock investment decisions of mutual funds is strong (0.581, $p < 0.05$). Risk perception among investors also depends greatly on financial literacy and it was observed that the gap in risk perception between investors of varying education levels was also considerably high. The results also indicate that financial literacy is applicable in quality and informed decision as far investments are concerned.

Keywords: Financial Literacy, Stock Investment Decisions, Mutual Fund Investments, Risk Perception, Retail Investors

1. Introduction

Over the last few years, economics have experienced a massive transformation of personal finance and investment through economic globalization, technological development, and growth of financial markets. The stock markets and mutual funds have become some of the recognized investment destinations that individuals are turning towards to get a chance to make wealth, to



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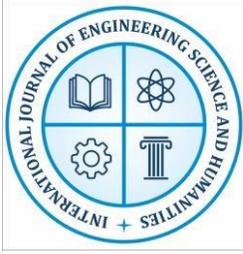
diversify their portfolio, and to secure their long-term financial future. But to play in these financial instruments one not only needs access to capital, one needs to have a good grasp of financial concepts, risks and market dynamics. Financial literacy in this regard has emerged as a crucial factor in investment decisions that people make especially concerning stocks and mutual funds (Lusardi & Streeter, 2023; Nyakurukwa & Seetharam, 2024; Rehman et al., 2024; Song et al., 2023).

Financial literacy can be defined as the skills of the individual to perceive and use a number of financial skills such as the budget, saving, investment and risk management skills. It is made of financial product knowledge, awareness and the ability to have an evaluation of investment options in the market mechanism. A financially literate investor is more likely to make decisions easier on trading-offs of risk-reward, how volatile the market is and make informed investments decisions in accordance with his or her financial needs. Conversely, the probable results of low financial literacy are bad investment choices, excessive risk taking, relying on informal advice or failure to invest in the capital markets at all (Carlsson Hauff & Nilsson, 2023; Lusardi & Mitchell, 2023; T. ming Yeh & Ling, 2022; Yue et al., 2023).

The stocks and mutual funds are very difficult to understand and are affected by various economic and behavioral variables. Stocks just like the former have the advantage of possibly yielding better returns but also have greater risk and require more knowledge of the market trends, financial statements, and economic indicators. Although they are relatively more accessible and professionally run, mutual funds make investors understand the goals of fund, asset allocation, cost ratios, and the performance indicators. Financial literacy is critical in helping investors to distinguish between these investment alternatives and use instruments that suit their level of risk and investing time frame (Ghose & Dhar, 2022; Shaik et al., 2022; Xu et al., 2022; T. M. Yeh, 2022).

The empirical research carried out on the developed and developing economies has remained to show that there is a positive correlation between financial literacy and the stock/ mutual fund participation in the market. He or she will be more certain about his or her investment, will perform more diversification behavior, will possess the long-term attitude to the investment. Conversely, the behavioral biases exhibited by financially illiterate investors are in most cases, herding, overconfidence or loss aversion which may have a negative impact on investment performance. This makes it important to teach people financial education that will help them make rational decisions and increase market efficiency (Adil et al., 2022; Firdaus et al., 2022).

This is more important in such emerging economies like India where the participation of retail investors in capital markets is rapidly increasing. The availability of the market has been enhanced with the government effort, the digital trading, and awareness in the mutual funds but the disparity in financial knowledge is still evident in the people investment behavior. The policy maker, financial institution and educator might be interested in the knowledge of the implications



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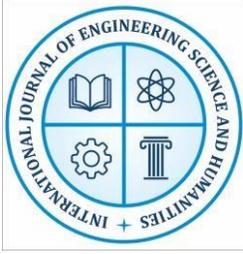
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of financial literacy on stock and mutual fund investment decision making, therefore, the study will be conducted to explore the effect of financial knowledge on risk perception, confidence and investment instruments of investors. Under this relationship, the study shall be seeking to add information to the literature as well as enable establishment of measures that would result in informed investments and financial health.

2. Literature Review

(MALIK & RASUL, 2025) The use of digital banking models of FinTech industry in Pakistan (i.e. consumer trust and perceived risk; technological innovation) are explored. The research is conducted on the premises of the UTAUT2 and the Technology Acceptance Model to actualize the determinants that are to be cited when formulating the behavioral intentions (BI) regarding the digital banking. The quantitative cross sectional study that was adopted in the present Ph.D. thesis was a quantitative study that employed information of digital banking users in which Structural Equation Modeling (SEM) was employed in explaining the gathered information. The findings indicate that, Perceived Usefulness (PU) (= 0.63) contributes towards the BI and Perceived Risk (PR) (= 1.03) is contrary to the risk theories at hand as it has a positive relationship with BI. But the statistical unimportance of the Performance Expectancy (PE), Trust (TR) and Social Influence (SI), demonstrates the substitution of the old conditions of adoption with the emphasis on the awareness of the security and good of the grassroots. At that, the research paper contributes to the theoretical information, further elaborating the adoption of the models that embrace the embracement of dynamic FinTech dynamics. It adds to the body of literature based on the empirical nature of the study by the necessity to demonstrate that perception of risk among the digital banking consumers, introduction of innovation, and useability of the app correlate in the adoption of digital banking in new markets. On the ground, they ought to enhance AI-based security functionality, usability, and risk reports in order to gain consumer trust. Future research that can be conducted is also in the longitudinal trends, AI individualization and rules of various markets. Nevertheless, the research has weaknesses in the coverage of the geographical areas, methods and suggests the use of qualitative and experimental research to enhance generalizability.

(Paramadana et al., 2025) The attained higher rate of digital banking development in Indonesia requires further insight on the incentive of staying loyal to the customer especially the correlation of satisfaction and trust. Despite the historical studies concerning the problem of trust in loyalty, the moderating role of trust in online banking is not well-studied. The perceived benefit, ease of use and service innovation performance in increasing the satisfaction and the consequential loyalty (share-of-wallet and word-of-mouth) is discussed as well in the present paper, the moderating power of trust is also tested. A quantitative survey of 278 Indonesian users of digital banking was also analyzed with the help of PLS-SEM. Service innovation, perceived benefit and easy usage are some of the factors that lead to innovation of the service to form satisfaction that



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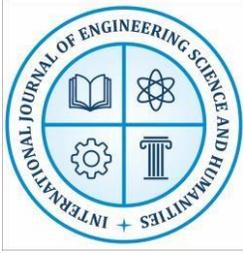
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leads to direct benefits in terms of loyalty. Trust is however not a mediating factor of the relationship between satisfaction and loyalty as people would think. The results are contrary to the common sense one implying that the traditional wisdom could not be put on the latter but on the usability and innovation. On the academic level, the research builds upon the SOR framework and applies it to the context of digital banking and the practitioners may use it to understand the retention strategy. Its weaknesses entail the article-specific sample that serves as a call to do cross-national researches in the future.

(Musyaffi et al., 2024) In the internet banking and heavy use of the internet, security has emerged as a major issue to users and the banking sector more so. The research question of the present research is as following: How trust, security and personal innovativeness affect the acceptance of the user of digital banking sites? On 598 people that answered a survey through Google forms, a survey of individuals using online banking tools was conducted. The data obtained under the Partial Least Squares (PLS) was analysed using the Smart-pls version 4 software. Out of the 11 hypotheses that were tested, all the hypotheses were accepted therefore suggesting that trust, security and personal innovativeness apply to the key constructs of Technology Acceptance Model (TAM) that were, Perceived Ease of Use (EUDB), Perceived Usefulness (UDB) and Intention to Use (INDB). It is interesting to note that the individual innovativeness was identified to have an intense influence on the perceived ease and benefits of digital banking, and it is therefore worth paying much attention to it. The second one was the trust which also needed to impact the user perception of the benefits of digital banking. The banking industry must, therefore, pay attention to system upgrades that are synonymous to the requirements of the users with features that make banking easier. The evidence on TAM is excellent in this study as the findings show that individual innovativeness, assurance, and safety are significant in motivating users to use digital banking tools.

(Harahap et al., 2024) The digital banking change is affected by customer communication, trustworthiness, transparency, and innovation. It is also carrying out research on transformation of digital banking and the impact it has had on the financial behavior of the customers. It was given through a structured questionnaire to ten banks in Indonesia which are the digital bank customers. The number of digital bank customers in this study was 187. Analysis of the data was performed with the assistance of the Partial Least Squares Structural Equation Modeling (PLS-SEM) regression analysis with the WarpPLS 6.0. The customer communication, trust, transparency and innovations have a positive influence, according to the findings, on the transformation of digital banking. It further shows that digital banking change affects customer financial behavior positively. The literature identifies gaps in the study that have never been studied, especially the issue of digital banking transformation as a stimulant that can force consumers to be involved in the management, planning, and investment of their money, which can severely affect the behavior of consumers in making their financial decisions. The results



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presented in the current article demonstrate the significance of delivering the full awareness of the existence of digital banks to the customers. The financial behavior of consumer decision making process will change with the introduction of digital banks. Moreover, the government can protect and ensure the people to access online banking. The objective of Indonesia becoming a developed country is sure to be achieved with the introduction of the pace of digitalization, and sufficient set of laws.

(Osei et al., 2023) The digitization has already entered every sphere of life, and the application of digital technologies in provision of banking services has become more popular. The paper was meant to include a deep review and definition of the intellectual framework of the research area which is the digital banking transformation (DBT). Bibliometric and network analysis were used in the research to determine a single network study and 268 published papers in this study that have been published between 1989 and 2022. These are the UK, USA, Germany and China whose researches have carried out the majority of the works concerning the transformation of digital banking. China and India are the ones considered to be emerging economies, all the rest are looking at it through the prism of the developed economy perspective. Manual research is also attested by the reality that the articles under A and A rating often release articles concerning the digital banking transformation. Once again, when analysing, critical theoretical foundations, new lines of research and trends are determined. The current trend of study is FinTech, block chain, mobile financial services application, artificial intelligence, mobile banking service platforms and sustainable business models. The stress on the necessity to develop further research in these spheres of the work is difficult to overestimate because the blockchain technology and the popularity of the digital currency remain popular in the literature. It seems to be the pioneer research, which analyses theoretical research of the digital banking transformation through bibliometrical analysis. The second aspect of originality is that of the various dimensions of the influence of technology in banking industry, which involves customer, company, bank, regulation authority and society.

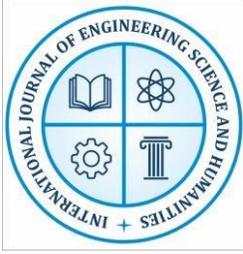
3. Research Methodology

3.1 Research Design

The research design is the descriptive and analytical research design which is developed to study the correlation between financial literacy and investment related stocks and mutual fund. The chosen design will be suitable as it will allow measuring the current levels of financial knowledge and influence the level of financial knowledge on the decision-making behavior of investors.

Objectives of the Study

1. To assess the level of financial literacy among individual investors.
2. To examine investors' awareness and understanding of stock market and mutual fund investment options.



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3. To analyze the investment behavior and preferences of investors towards stocks and mutual funds.
4. To study the relationship between financial literacy and stock investment decisions.
5. To examine the impact of financial literacy on mutual fund investment decisions.
6. To analyze the influence of demographic factors such as age, income, education, and investment experience on financial literacy and investment decisions.
7. To evaluate the role of financial literacy in shaping risk perception and confidence among investors.

Hypotheses of the Study

Null Hypotheses (H_0)

- **H₀₁**: There is no significant relationship between financial literacy and stock investment decisions.
- **H₀₂**: There is no significant relationship between financial literacy and mutual fund investment decisions.
- **H₀₃**: Financial literacy does not have a significant impact on investors' risk perception.
- **H₀₄**: There is no significant difference in financial literacy levels among investors based on demographic factors such as age, education, and income.

Alternative Hypotheses (H_1)

- **H₁₁**: There is a significant relationship between financial literacy and stock investment decisions.
- **H₁₂**: There is a significant relationship between financial literacy and mutual fund investment decisions.
- **H₁₃**: Financial literacy has a significant impact on investors' risk perception.
- **H₁₄**: There is a significant difference in financial literacy levels among investors based on demographic factors such as age, education, and income.

3.2 Nature of Research

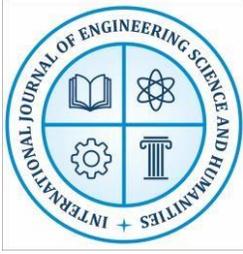
The research is **quantitative in nature**, focusing on numerical data collected through structured instruments to measure financial literacy and investment behavior objectively.

3.3 Population of the Study

The target population will be individual retail investors who actively invest or have already invested in stocks and/or mutual funds. This covers employees who are paid salaries, the self employed, and the professionals whose incomes and educational levels vary.

3.4 Sample Size and Sampling Technique

The current research uses a probability-based method of sampling which is mainly the simple random sampling to sample respondents where possible. Convenience sampling is also used in a case where the entire population frame is not available, which would guarantee them reasonable



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participation. This mixed method enables the researcher to acquire credible information and at the same time make it a practical undertaking.

The study population will comprise of individual retail investors who invest in stocks and/or mutual funds. Appropriate and statistically reliable sample size is calculated using Cochran formula (1977) of sample size determination. This formula is a standard formula in the social science research to estimate sample size in case population is large or unknown.

The Cochran's formula is given as:

$$n_0 = \frac{Z^2 \times p \times q}{e^2}$$

Where:

- n_0 = required sample size
- Z = Z-value at 95% confidence level (1.96)
- p = estimated proportion of the population possessing the attribute (0.5)
- $q = 1 - p$ (0.5)
- e = acceptable margin of error (0.05)

Substituting the values:

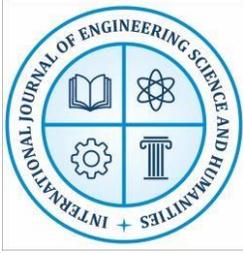
$$\begin{aligned} n_0 &= \frac{(1.96)^2 \times 0.5 \times 0.5}{(0.05)^2} \\ n_0 &= \frac{3.8416 \times 0.25}{0.0025} \\ n_0 &= \frac{0.9604}{0.0025} = 384.16 \end{aligned}$$

Thus, the **sample size is 384 respondents**.

In that regard, 384 investors will be chosen to be included in the study. It is believed that such sample size is adequate in terms of providing the level of statistical reliability, representativeness, and extrapolation of the results. The sample is also sufficiently varied in respect to population in terms of age, gender, education level, income level, and experience in investment and financial literacy coupled in analyzing the difference in financial literacy and investment decision making behavior.

3.5 Sources of Data

- **Primary Data:** Directly gathered by the use of a structured questionnaire amongst the respondents.
- **Secondary Data:** Obtained from published research papers, books, reports, financial journals, government publications, and official websites related to financial literacy and investment behavior.



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3.6 Research Instrument

The self-administered structured questionnaire is the primary research tool. The questionnaire will be divided into sections that will respond to:

- Demographic profile of respondents
- Financial literacy indicators (basic, intermediate, and advanced financial knowledge)
- Stock and mutual fund investment behavior and preferences
- Risk perception and investment decision factors
- Responses are measured using a Likert scale where appropriate.

3.7 Variables of the Study

- **Independent Variable:** Financial Literacy
- **Dependent Variable:** Stock and Mutual Fund Investment Decisions
- **Control Variables:** Age, income, education level, occupation, and investment experience

3.8 Data Collection Procedure

The information is obtained via online surveys and offline surveys following the informed consent of the respondents. Anonymity and confidentiality will be guaranteed to the respondents so that they can give honest answers.

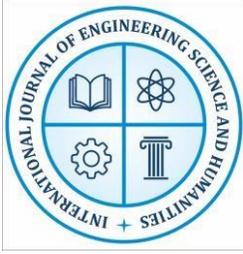
3.9 Tools and Techniques of Data Analysis

Coding and analysis of the data required are done using statistical package SPSS/ MS Excel. The following are the techniques employed:

- a) Descriptive statistics (mean, percentage, standard deviation)
- b) Correlation analysis with a view to testing the relationship between financial literacy and investment decisions.
- c) Regression analysis to determine the effect of financial literacy in stock and mutual fund investments.
- d) Hypothesis testing using t-test or ANOVA where applicable
- e) **Hypothesis Testing:** Proper null and alternative hypotheses are constructed to examine the significance of the relationship between financial literacy and making investment decisions at a given level of significance (usually, 5%).
- f) **Reliability and Validity of the Instrument:** The test of reliability of the questionnaire is done using Cronbachs Alpha which ensures that internal consistency is present. It has content validity which is gained through expert validation and reference to the already existing literature.

3.10 Ethical Considerations

The research is conducted according to the terms of ethical research as it is a voluntary activity, informed consent of the participants is obtained, no disclosure of information and no other use of the information other than academic.



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4. Data Analysis and Interpretation

The answers were coded and analysed in SPSS and MS Excel of the 384 respondents. There were the descriptive and inferential statistical methods with regard to the goals and hypotheses of the study. The level of significance was determined as 5% ($p < 0.05$).

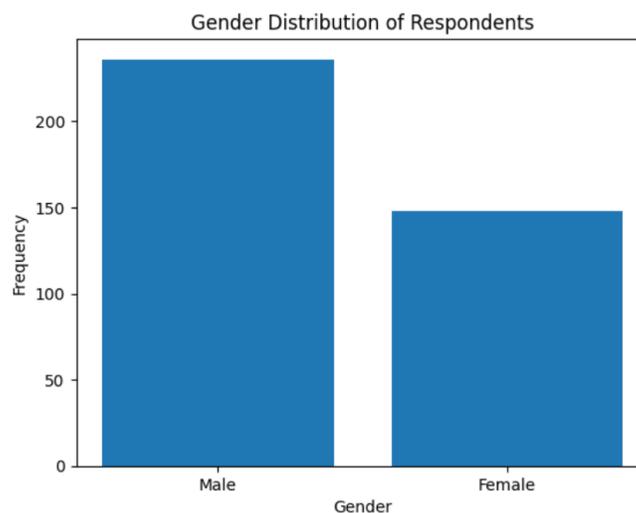
4.1 Demographic Profile of Respondents

Objective Addressed: To explore the effects of demographics (age, income, education and experience in investments).

Table 4.1 Demographic Characteristics of Respondents (N = 384)

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	236	61.5
	Female	148	38.5
Age (Years)	Below 30	98	25.5
	31–40	142	37.0
	41–50	96	25.0
	Above 50	48	12.5
Education	Graduate	164	42.7
	Postgraduate	142	37.0
	Professional	78	20.3
Annual Income	Below ₹5 Lakhs	118	30.7
	₹5–10 Lakhs	156	40.6
	Above ₹10 Lakhs	110	28.7

The sample is a good demographic mix as there is sufficient representation of the age, education, and income groups. This helps in the meaningful analysis of the demographic impact on financial literacy and investment behaviour.





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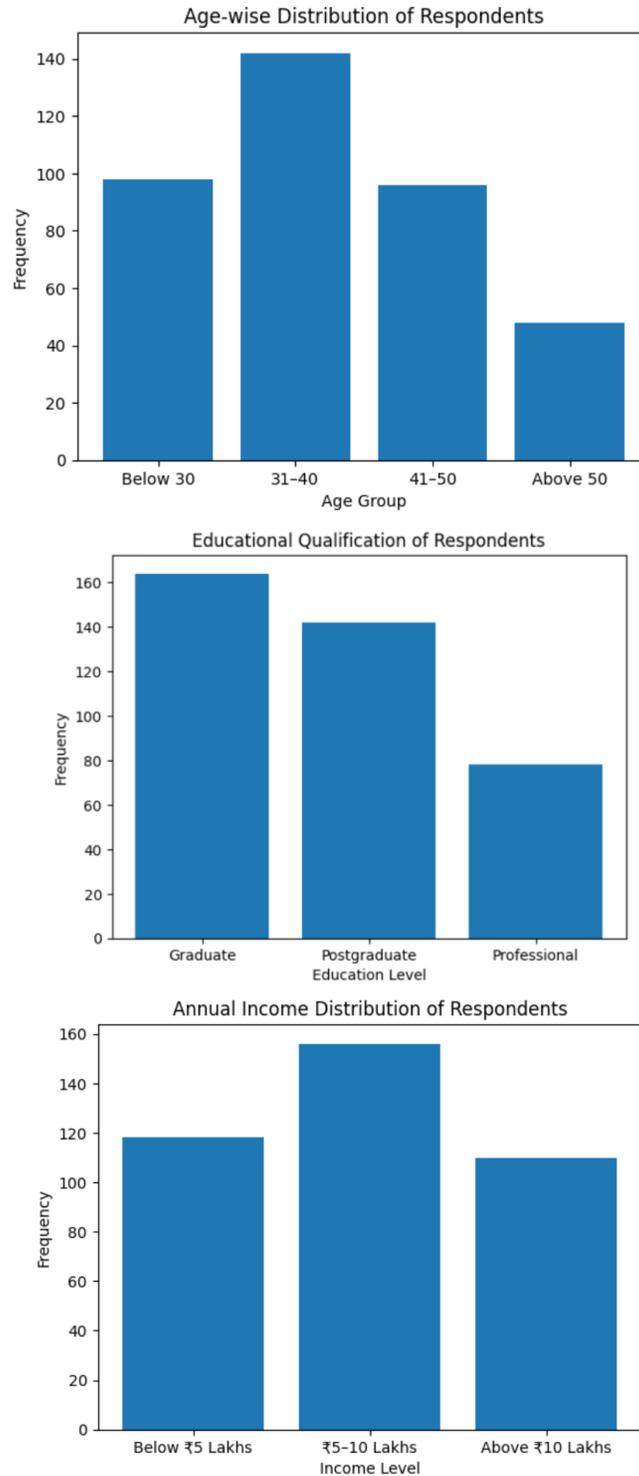
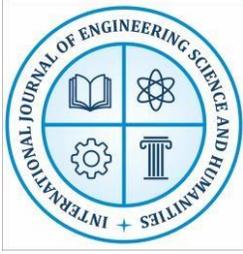


Figure 4.1 Demographic Characteristics of Respondents



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4.2 Level of Financial Literacy Among Investors

Objective Addressed: To determine the degree of financial literacy among the individual investor.

Table 4.2 Descriptive Statistics of Financial Literacy

Financial Literacy Dimension	Mean	Std. Deviation
Basic Financial Knowledge	3.84	0.62
Intermediate Knowledge	3.56	0.71
Advanced Financial Knowledge	3.12	0.79
Overall Financial Literacy	3.51	0.68

(Likert Scale: 1 = Very Low, 5 = Very High)

The findings show that financial literacy of respondents is moderate to high. The elementary knowledge is the highest, however, the advanced knowledge (market instruments, risk diversification) is the lowest.

4.3 Investment Behavior Towards Stocks and Mutual Funds

Objective Addressed: To analyze the investment behavior and preferences of investors.

Table 4.3 Investment Preferences

Investment Instrument	Frequency	Percentage (%)
Only Stocks	104	27.1
Only Mutual Funds	136	35.4
Both Stocks & Mutual Funds	144	37.5

A majority of investors prefer mutual funds or a combination of stocks and mutual funds, suggesting growing risk awareness and preference for diversified investment options.

4.4 Relationship Between Financial Literacy and Stock Investment Decisions

Objective Addressed: To examine how financial literacy and stock investment decisions are related.

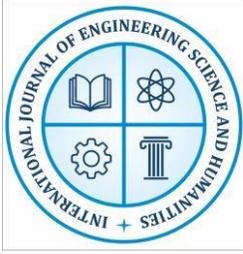
Hypothesis Tested

- **H₀₁:** There is no significant relationship between financial literacy and stock investment decisions.
- **H₁₁:** There is a significant relationship between financial literacy and stock investment decisions.

Table 4.4 Correlation Analysis

Variables	Pearson Correlation (r)	Sig. (p-value)
Financial Literacy & Stock Investment Decision	0.642	0.000

The correlation coefficient ($r = 0.642$) can be regarded as strong positive relationship. On $p < 0.05$ the null hypothesis H_0 is rejected and the acceptance of H_1 occurs. Financial literacy is a significant product of stock investment decisions.



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4.5 Impact of Financial Literacy on Mutual Fund Investment Decisions

Objective Addressed: To examine how financial literacy influences the investment in mutual funds.

Hypothesis Tested

- **H₀₂:** There is no significant impact of financial literacy on mutual fund investment decisions.
- **H₁₂:** There is a significant impact of financial literacy on mutual fund investment decisions.

Table 4.5 Regression Analysis

Model	β Coefficient	t-value	Sig.
Financial Literacy \rightarrow Mutual Fund Decision	0.581	12.46	0.000

financial literacy has a positive influence on the investment decision-making in mutual funds. H₀₂ null hypothesis is rejected and H₁₂ accepted.

4.6 Impact of Financial Literacy on Risk Perception

Objective Addressed: To assess the financial literacy importance in risk perception.

Hypothesis Tested

- **H₀₃:** Financial literacy does not significantly impact risk perception.
- **H₁₃:** Financial literacy significantly impacts risk perception.

Table 4.6 Regression Results

Predictor	β	t	Sig.
Financial Literacy	0.497	10.12	0.000

Financial literacy significantly improves investors' ability to understand and manage risk. Hence, H₀₃ is rejected and H₁₃ is accepted.

4.7 Difference in Financial Literacy Across Demographic Groups

Objective Addressed: To analyze differences in financial literacy based on demographics.

Hypothesis Tested

- **H₀₄:** No significant difference exists in financial literacy across demographic groups.
- **H₁₄:** Significant differences exist.

Table 4.7 ANOVA Results (Education vs Financial Literacy)

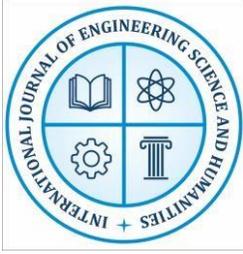
Source	F-value	Sig.
Between Groups	6.84	0.001

Since $p < 0.05$, financial literacy significantly differs across education levels. Thus, H₀₄ is rejected, and H₁₄ is accepted.

4.8 Reliability Analysis

Table 4.8 Reliability Statistics

Scale	Cronbach's Alpha



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Financial Literacy	0.82
Investment Decision Scale	0.86

The values of Alpha (greater than 0.7) represent high internal consistency and reliability of the instrument.

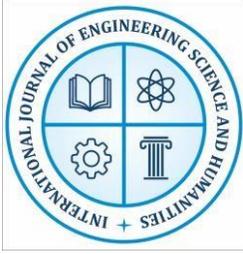
4.9 Summary of Hypothesis Testing

Hypothesis	Result
H ₀₁	Rejected
H ₀₂	Rejected
H ₀₃	Rejected
H ₀₄	Rejected

With such an analysis, it is quite evident that financial literacy is one of the relevant variables that can dictate whether to invest in stocks and mutual funds, risk perception, and investor confidence, hence, fulfilling all the research objectives.

5. Conclusion

The current research concludes that the financial literacy is a decisive factor when an investment decision is under consideration when stock and mutual funds are involved. This factual evidence has provided a concise picture that the more the financial knowledge of the investors the greater the capacity to make the respective decisions on the risk-return trade-offs, to employ the relevant instruments of investment, and their diversified investment strategies. The findings have found out that financial literacy is highly correlated with the stock investment decision with a large degree of correlation and that financial literacy positively influences mutual fund investment decision. This means that the economically astute investor is more confident and bold enough to take the risk of capital market operations. The article further indicates that financial literacy plays a significant role in the risk perception of the investors since they might be better positioned to view the risk of investment besides the ability to manage the risk of investments since the level of financial literacy differs greatly across demographic variables with the need of having certain financial education programs justifying the need. The findings also show that better-educated investors are more prone to have a superior financial knowledge and make a more informed decision, and therefore, the financial literacy programs must be enhanced to increase the involvement of retail investors and lead to a rational behavior in the financial market. Teachers and financial institutions should also come up with comprehensive and realistic financial education interventions that would also take into consideration the diverse needs of the demographics through collaboration. With heightened financial literacy, investors will be able to make improved policies regarding stock and mutual fund investments and eventually the financial markets will be functional and sound in regard to the personal financial well being of the individual.



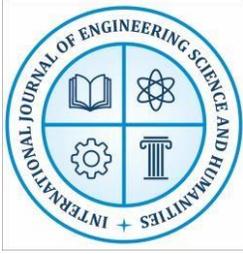
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