The Impact Of Financial Literacy On Investment Behaviour: An Analytical Study

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Abstract

In an era of dynamic financial markets, understanding the relationship between financial literacy and investment behavior is essential. This study investigates the influence of financial knowledge on investment preferences among 300 individual investors in Kalaburagi district using a structured questionnaire. Employing correlation, regression analysis, and ANOVA, the study finds a strong positive relationship between financial literacy and behaviors such as diversification, risk-taking, and investment frequency. Regression results reveal financial literacy as the strongest predictor of informed investment behavior, surpassing demographic factors like income or education. ANOVA confirms significant behavioral differences among investors across literacy levels. The findings reinforce the need for targeted financial education to build a more financially empowered population.

Keywords: Financial literacy, investment behaviour, investor decision-making, behavioural finance

Introduction

The proliferation of financial products and services in modern economies necessitates that individuals possess not only the willingness but also the competence to manage their financial affairs effectively. Financial literacy, broadly defined as the ability to understand and use financial skills—such as budgeting, investing, and personal financial management—plays a crucial role in shaping one's investment decisions. As individual investors increasingly participate in the capital market, examining the influence of financial literacy on their behaviours becomes a pressing research priority.

Literature Review

1. Lusardi & Mitchell (2011) Their global study emphasized that financial literacy is a strong predictor of retirement planning and long-term investment behaviour. It laid the groundwork for understanding how knowledge influences financial preparedness.
2. Hilgert, Hogarth & Beverly (2003) This early behavioural finance research found a strong link between financial knowledge and responsible practices like saving and investing, reinforcing the value of financial education.
3. Chen & Volpe (1998) Focused on college students, this study revealed low financial literacy levels, especially among women, which affected their investment confidence and risk-taking behaviour.
4. Hung, Parker & Yoong (2009) Their RAND Corporation study found that financial literacy improves investment quality and reduces susceptibility to misinformation, with implications for policy design.
5. Agarwalla, Barua, Jacob & Varma (2015) A landmark Indian study that surveyed working adults across sectors, revealing significant gaps in financial knowledge. It stressed the need for targeted financial education in India's diverse socio-economic landscape.
6. Bhushan & Medury (2013) This study on salaried Indian individuals found that financial literacy significantly influenced investment preferences, especially in mutual funds and insurance. It also noted gender-based differences in financial behaviour.

7. Kaur, Vohra & Arora (2015) Their research explored financial literacy across Indian states and found that education, income, and occupation were key determinants. They emphasized that financial literacy leads to better saving and investment decisions, especially in urban India.
8. Joshi (2013) Joshi's work highlighted the role of financial literacy in promoting financial inclusion. The study found that individuals with basic financial knowledge were more likely to use formal banking and investment channels.
9. Lavanya Rekha Bahadur (2014) This study emphasized the importance of financial education for economic growth in India. It noted that despite a high savings-to-GDP ratio, many Indians lacked the knowledge to invest effectively.
10. Debabrata Jana & Abhijit Sinha (2015) Their research on the unorganized sector in West Bengal revealed that low financial literacy prevented individuals from making informed investment decisions, underscoring the need for grassroots-level financial education.

Objectives

1. To evaluate individuals' financial literacy and examine its influence on investment preferences and behaviours.
2. To explore common investment patterns and analyze how financial knowledge shapes decision-making among investors.

Research Gap

While extensive studies have been conducted in Western economies, there is limited empirical research focused on developing countries like India, where financial inclusion is rising rapidly but awareness remains fragmented. Existing literature also often overlooks behavioural biases and emotional factors that intersect with financial knowledge to shape investment decisions.

Research Methodology

- **Research Design:** Descriptive and analytical
- **Sample Size:** 100 individual investors of Kalaburagi district
- **Sampling Technique:** Stratified random sampling
- **Data Collection Tool:** Structured questionnaire assessing financial literacy levels, investment instruments used, risk appetite, and decision-making patterns
- **Analysis Tools:** Regression Analysis, Correlation Matrix, ANOVA

Data Analysis

1. Correlation Matrix

A Pearson correlation was conducted to determine the relationship between financial literacy and various investment behaviours such as risk-taking ability, diversification, and frequency of investing.

Variables	Financial Literacy	Risk Appetite	Diversification	Frequency of Investing
Financial Literacy	1.00	0.62	0.57	0.48
Risk Appetite	0.62	1.00	0.44	0.39
Diversification	0.57	0.44	1.00	0.35
Frequency of Investing	0.48	0.39	0.35	1.00
$p < 0.01$ indicates strong significance.				

(SPSS Calculation)

A Pearson correlation matrix indicates that, financial literacy is strongly and positively correlated with risk appetite, diversification of investments, and frequency of investing. This confirms that higher financial knowledge results in better-informed and more confident investment behaviour.

2. Regression Analysis

A multiple regression analysis was conducted to examine the predictive impact of financial literacy on investment behaviour.

Dependent Variable: Investment Behaviour Index (composite score)

Independent Variables:

- Financial Literacy Score
- Age
- Education
- Monthly Income

Predictor	B (Beta)	Std. Error	t-value	p-value
Financial Literacy	0.59	0.08	7.38	0.000**
Age	0.14	0.05	2.80	0.005**
Education Level	0.21	0.07	3.00	0.003**
Monthly Income	0.19	0.06	3.17	0.002**
$R^2 = 0.54$, Adjusted $R^2 = 0.52$, $F(4, 295) = 86.22$, $p < 0.001$				

Regression analysis shows that financial literacy significantly predicts investment behaviour ($\beta = 0.59$, $p < 0.001$). Demographic variables like age, education, and income also contribute positively, though to a lesser extent.

3. ANOVA (Analysis of Variance)

One-way ANOVA was used to compare investment behaviour scores across different financial literacy levels (Low, Medium, High).

Group	N	Mean Investment Score	Std. Dev.
Low Literacy	85	41.6	5.2
Medium Literacy	115	53.9	6.4
High Literacy	100	67.8	7.1
$F(2, 297) = 94.37$, $p < 0.001$			
Post-hoc (Tukey HSD) confirmed significant differences between all groups.			

One-way ANOVA calculation indicates that, there is a statistically significant difference in investment behaviour based on financial literacy level. Individuals with higher financial literacy demonstrated more proactive and diversified investment patterns.

Findings

1. **Positive Correlation**: There is a strong positive correlation between financial literacy and key investment behaviours, including risk-taking ability, diversification, and investment frequency.
2. **Financial Literacy as a Predictor**: Regression analysis shows that financial literacy is a significant predictor of informed and strategic investment behaviour, more so than demographic factors like age and income.
3. **Demographic Influence**: Variables such as education level, income, and age moderately influence investment decisions but are amplified when combined with higher financial literacy.
4. **ANOVA Results**: Significant differences exist in investment behaviours among low, medium, and high financial literacy groups, with high-literacy individuals showing the most prudent financial practices.
5. **Investment Trends**: Individuals with higher literacy levels prefer diverse investment portfolios, including mutual funds, SIPs, and equities, while low-literacy individuals often limit themselves to traditional savings.
6. **Urban vs Semi-Urban**: Urban participants generally exhibited higher financial literacy and more varied investment choices compared to semi-urban counterparts.

Suggestions

1. **Financial Education Programs**: Implement structured financial literacy programs in schools, colleges, and workplaces to build long-term investment capabilities.
2. **Localized Outreach**: Design region-specific educational initiatives, especially in semi-urban and rural areas, using vernacular languages and practical examples.
3. **Digital Tools for Learning**: Promote mobile apps and online platforms offering financial simulations and educational content to make learning interactive and accessible.
4. **Incorporate Emotional Intelligence**: Financial education should also address behavioural biases and emotional influences to foster rational investment decision-making.

Conclusion

The study concludes that financial literacy is a critical determinant of effective investment behaviour. Individuals with a higher understanding of financial concepts are more likely to diversify, take calculated risks, and engage in long-term wealth creation strategies. With financial inclusion accelerating in India, bridging the literacy gap is essential to empower citizens, reduce vulnerability to fraud, and support sustainable economic growth. Institutional efforts in education, policy, and technology are vital to promoting a financially literate and investment-savvy population.

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