

International Journal Research Publication Analysis

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A STUDY ON FINANCIAL LITERACY AND ITS IMPACT ON INVESTMENT DECISION-MAKING OF INDIVIDUALS

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Article Received: 17 September 2026

Article Revised: 07 October 2026

Published on: 27 October 2026

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DOI: <https://doi-org/101555/ijrpa.6906>

ABSTRACT

Financial literacy can help people to understand financial products, assess the risk and return involved, and to make investment choices which are in line with their financial goals. The present study looks at people's self-reported level of financial literacy and the way in which they make investment decisions, focusing on their knowledge of financial products, awareness of the different investment options available, the extent to which they believe their financial knowledge affects their investment decisions, the length of their investment horizon, and their level of risk tolerance. A quantitative, descriptive and analytical survey method was employed. The primary data were gathered by means of a structured questionnaire and 104 valid responses were included. A convenience sample was used and the results were presented in the form of frequencies and percentages. The findings reveal that 48.08% of the respondents assessed their knowledge of financial products and services as average, while 37.50% rated it as good. A total of 65.38% said that they understood the risk–return concept. Moreover, 72.11% agreed or strongly agreed that financial knowledge has an influence on their investment decisions, and 82.70% agreed or strongly agreed that financial literacy enables them to make better investment decisions. Moderate risk was chosen by 58.65% of the respondents, and 39.42% preferred an investment period longer than five years. The results show that the respondents in general appreciate the value of financial literacy, even though their awareness of the various investment alternatives is still uneven. Since the study relies on a convenience sample and involves only descriptive analysis, the results should be seen as reflecting patterns within the sample and not as evidence of a statistically significant causal

effect.

KEYWORDS: Financial Literacy; Investment Decision-Making; Investment Behaviour; Risk–Return Understanding; Risk Tolerance; India.

1. INTRODUCTION

Investment decisions are part of financial management. Investment decisions ask people to decide how to use their savings by choosing between options that're different in risk, return, liquidity, safety and how long they need to keep the money. Common investment choices are bank deposits, fixed deposits, mutual funds, shares, gold and insurance-related products. Picking an investment option needs more than knowing the names of the products; investment decisions also need an understanding of what the products do and the ability to compare them with personal financial goals. I believe knowing these details helps you feel more confident.

Financial literacy means having the knowledge and understanding needed to make choices. In the world of investing financial literacy includes knowing about the products, understanding risk and return being able to read information and realizing how important planning is. People who have knowledge might still struggle to measure investment risks tell the difference between options or see when an investment does not fit their needs. At the time financial knowledge is not the only thing that affects how people act: income, age, education, job, personal goals and how people behave can also influence investment choices. I have noticed that people often forget how planning is important.

Previous studies have looked at literacy in relation to investment behavior and investment decisions. Research has looked at both knowledge and behavior factors showing that investment decisions can be a mix of knowledge, personal situations and decision-making biases. This study offers a view of these topics using survey responses, from 104 people. This study looks at how people rate their knowledge how they say they understand risk and return how they think financial knowledge affects them what investment period they prefer and how much risk they are willing to take. I found that the survey results show some patterns.

1.1 Problem Statement

There are many different investment opportunities that individuals have, but their financial knowledge and awareness of the risks involved in the same could vary greatly. It could become difficult for them to make an evaluation and come to a decision that is in line with their financial objectives. This research, therefore, analyzes the level of financial literacy that

has been stated by the respondents in the study.

1.2 Objectives of the Study

1. To find out how much the people say they know about products and services.
2. To find out how much the people say they know about the relationship between risk and return.
3. To look at what the people think about the role of knowledge, in making investment choices.
4. To learn about the investment preferences of the people how they plan to invest and how much risk they are willing to take.
5. To figure out which areas need improvement when it comes to education and investment awareness.

2. REVIEW OF LITERATURE

1.Savaliya(2024)

examined financial literacy and its association with investment behaviour among investors. The research adopted a descriptive approach and collected primary data from 100 respondents through a structured questionnaire using convenience sampling. The study focused on understanding how financial knowledge relates to investors' investment patterns and satisfaction with their investment decisions. The research highlighted the importance of promoting financial awareness to support informed investment choices and improve financial decision-making.

2.Palanichamy, Kumar and Kalpana (2024) explored the role of financial literacy and psychological influences in individual investment decisions. Their research examined how tendencies such as following other investors, excessive confidence in personal judgments, and relying on reference points may affect investment-related choices. The researchers collected questionnaire responses from 220 participants and analysed the data using structural equation modelling. Their findings indicated that different behavioural biases were associated with investment-related market anomalies, while financial literacy played a moderating role in the decision-making process. The study emphasised the relevance of financial knowledge in understanding investor behaviour and making informed investment choices.

3. Shroff and Paliwal (2024)

The focus of the research was financial literacy, financial resilience, and investment decisions for individuals living in Ahmedabad and Vadodara. Their work analyzed the levels of financial literacy and how they relate to the decision-making process for investments. Their

results showed a positive relationship with financial literacy and the decision-making process. The results supported the idea that a high level of financial literacy can enable individuals to select the correct investments to meet their financial needs and make better decisions.

4. Chaturvedi, Singh, Jain and Chaturvedi (2024)

This research was designed to examine how investment behaviour was impacted by the level of financial literacy in the young investment population of India. Financial literacy, investment behaviour, and financial attitude were all examined in the study. Their results confirmed the importance of financial literacy for this young population when it comes to the decision-making process and selecting investment opportunities that are appropriate.

5. Kumaraswamy and Tamizhjyothi (2026) conducted a systematic literature review on financial literacy and investment decisions among Indian retail investors. The study identified financial literacy as an important factor influencing financial behaviour and investment choices. It also highlighted emerging research areas, including digital financial literacy, behavioural finance and financial inclusion. The review emphasised the need to consider developments in digital financial services when examining investment decision-making.

6. Suresh (2021)

examined the influence of financial literacy and behavioural biases on investment decision-making among individual investors. The study considered factors such as heuristic bias, framing effect, cognitive illusions and herd mentality. The findings highlighted the importance of financial literacy in understanding financial concepts and making informed investment decisions. The study also recognised that behavioural biases can influence investors' choices.

7. Sarwar and Iqbal (2023)

investigated financial literacy and its impact on household investment decisions using the OECD/INFE financial literacy questionnaire. The findings indicated a positive and significant relationship between financial literacy and household investment decisions. The study also considered demographic factors such as income, age and gender. It highlighted the importance of improving financial knowledge, behaviour and attitude to support better financial decisions.

8. Arianti (2018)

studied the influence of financial literacy, financial behaviour and income on investment decisions. The research considered financial literacy alongside financial behaviour and

income as factors associated with investment choices. The study provides a basis for examining how financial knowledge and personal financial circumstances may influence individuals' investment decision-making.

9. Baihaqqy et al. (2020)

examined the effect of financial literacy on investment decisions. The study focused on the importance of financial knowledge in understanding investment-related information and evaluating investment alternatives. It highlighted the relevance of financial literacy in supporting informed investment choices and provides a useful foundation for studying the relationship between financial literacy and investment decision-making.

2.1. Research Gap

The studies reviewed underscore the importance of financial literacy in investment decisions and behavioral biases, as well as other relevant determinants such as income and demographic characteristics. Nevertheless, further research is required to investigate the relationship between individuals' financial literacy and their investment planning, understanding of risk and return, evaluation of investment options, risk tolerance, and investment decisions. Hence, the current study examines the financial literacy and its effect on the investment decision making of individuals in terms of their financial knowledge, investment practices and demographic characteristics.

2.2 Conceptual Perspective

Financial literacy helps people understand products compare different investment options and make smarter financial choices. Based on the literature this study looks at literacy as the knowledge individuals have about financial products and services their grasp of risk and return and how aware they are of various investment options.

Investment decision-making is explored through factors like investment planning the choice of investment instruments the length of the investment period the person's ability to take risks and the things individuals think about before investing. These elements help explain how people decide where to put their money and how they see the role of knowledge in picking the right investment options.

The study assumes that people with financial knowledge and a better understanding of risk and return may be more capable of comparing investment options and selecting investments that match their financial goals and risk tolerance.. Investment choices aren't made just based on financial knowledge. Other things like income, age, education, personal preferences and psychological biases also play a part.

Because of this the study looks at literacy and investment decision-making using survey responses and the investment behaviors reported by participants. However the questionnaire does not measure literacy with an objective score or test the link between financial literacy and investment results statistically. That's why the connection between literacy and investment decision-making is treated as a conceptual framework, in this study not as a proven cause-and-effect relationship.

3. RESEARCH METHODOLOGY

3.1 Research Design and Approach

The study follows an approach with descriptive and analytical intent. The descriptive part summarises the information of the respondents and their reported views on finance and investments. The analytical part looks at patterns that relate to the connection between literacy and investment decision-making. I notice that the analysis, in this paper is only based on frequencies and percentages; there is no report of any test that shows a relationship. Financial literacy is a focus and investment decision-making is the main outcome that the study examines.

3.2 Population, Sample and Sampling Technique

The target population comprises individuals who make or participate in personal investment decisions. The study includes 104 valid responses collected using a structured questionnaire. Convenience sampling was used because respondents were selected on the basis of accessibility and willingness to participate. As this is a non-probability sampling method, the sample may not fully represent the wider population

3.3 Data Collection Instrument

Primary data were collected using a questionnaire created by the researcher. This questionnaire was shared through Google Forms. It included questions about age, gender, education and other basic personal details. It also asked about how people think they know financial products and services. People were asked how much they understand about risk and return in investments. The survey looked at how aware they're of different investment options. It also asked about how they believe financial literacy affects their decisions. Respondents shared which investment tools they prefer how they plan to invest how much risk they are willing to take and what factors influence their choices. For the background of the study the researcher used information, from research articles listed in the references.

3.4 Data Analysis

Responses were summarised by counting how often each answer appeared and turning those

counts into percentages. Percentages were calculated based on the sample of 104 respondents. The collected data were organised into tables to present the findings clearly. The analysis covers respondents demographic profiles, literacy, understanding of financial products and risk-return concepts and investment decision-making practices. Frequency and percentage analysis helped identify response patterns and trends. The findings were interpreted in relation to the objectives of the study. Regression, correlation, chi-square, ANOVA and other inferential statistical techniques were not included because the corresponding outputs were not available in the source analysis. Therefore the findings provide an overview of the survey responses rather, than establishing statistically significant relationships or causal effects.

3.5 Variables Covered in the Study

The main idea here is literacy. It is shown through how people rate their understanding of financial products and services. It also includes how well they say they understand risk and return and how aware they are of investment options. When it comes to investment choices we look at how people see the importance of knowledge what kind of investments they prefer how long they plan to hold them how much risk they are willing to take and what factors they consider when making decisions. We also use details like age, gender, education level, monthly income and job to describe who the people are.

These measurements come from surveys. The self-rated knowledge is about how confident people feel about their knowledge. It doesn't mean they actually know the answers. For example someone might think they understand interest rates. Not be able to explain how compound interest works. To improve this future studies could include questions, about inflation, compound interest, diversification and risk. They could also create a score to measure financial literacy more accurately.

3.5 Ethical Considerations

Participation in the survey was up to each person and everyone who took part did on their own choice. The results are shared as a group without showing what any one person said. All the information from the people who answered is kept private when the results are shown. Before sending the paper to a magazine the writer needs to check that the statement about consent in the survey is written correctly. Any information, about getting permission or not needing it should also be added, as the magazine asks for it

4. RESULTS AND ANALYSIS

This section presents selected results from the 104 responses. The tables retain the frequencies and percentages reported in the original research report. Interpretation is limited to the observed sample.

4.1 Demographic Profile

Characteristic	Category	Frequency	Percentage
Age	Below 20 years	13	12.50%
	21–30 years	54	51.92%
	31–40 years	25	24.04%
	Above 40 years	12	11.54%
Gender	Male	67	64.42%
	Female	37	35.58%
Education	Undergraduate	26	25.00%
	Graduate	32	30.77%
	Postgraduate	46	44.23%
Monthly income	Below ₹20,000	45	43.27%
	₹20,000–₹50,000	35	33.65%
	₹50,000–₹1,00,000	15	14.42%
	Above ₹1,00,000	9	8.65%
Occupation	Student	44	42.31%
	Salaried employee	37	35.58%
	Business	12	11.54%
	Self-employed	10	9.62%
	Housewife	1	0.96%

The demographic analysis of 104 respondents provides an overview of their age, gender, educational qualifications, monthly income and occupation. In terms of age, the majority of respondents (51.92%) belong to the 21–30 years age group, followed by 24.04% in the 31–40 years group. Regarding gender, 64.42% of respondents are male and 35.58% are female. In terms of education, postgraduates constitute the largest group (44.23%), followed by graduates (30.77%) and undergraduates (25.00%). The monthly income distribution indicates that 43.27% of respondents earn below ₹20,000, while 33.65% earn between ₹20,000 and ₹50,000, 14.42% earn between ₹50,000 and ₹1,00,000, and 8.65% earn above ₹1,00,000. Regarding occupation, students represent the largest group (42.31%), followed by salaried employees (35.58%), business owners (11.54%), self-employed individuals (9.62%) and housewives (0.96%). Overall, the sample primarily consists of young adults, male respondents, postgraduates, individuals with relatively lower monthly incomes and students. This demographic profile provides a background for examining financial literacy and investment decision-making among the respondents.

4.2 Financial Literacy and Knowledge

Measure	Response category	Frequency	Percentage
Self-rated knowledge of financial products	Low	5	4.81%
	Average	50	48.08%
	Good	39	37.50%
	Excellent	10	9.62%
Understanding of risk and return	Yes	68	65.38%
	Maybe	25	24.04%
	No	11	10.58%
Knowledge influences investment decisions	Strongly agree	41	39.42%
	Agree	34	32.69%
	Neutral	16	15.38%
	Disagree	9	8.65%
	Strongly disagree	4	3.85%
Financial literacy helps better decisions	Strongly agree	37	35.58%
	Agree	49	47.12%
	Neutral	13	12.50%
	Disagree/strongly disagree	5	4.81%

Almost half of the respondents (48.08%) rated their knowledge of financial products and services as average, while 37.50% rated it as good and 9.62% as excellent. A smaller group (4.81%) rated their knowledge as low. Although 65.38% reported understanding the risk–return concept, 24.04% were uncertain and 10.58% reported that they did not understand it. This suggests that risk–return education remains a useful area for financial literacy initiatives.

A combined 72.11% agreed or strongly agreed that financial knowledge influences investment decisions. Separately, 82.70% agreed or strongly agreed that financial literacy helps them make better investment decisions. These results show a strong positive perception of the value of financial literacy among respondents. They should not, however, be interpreted as a statistically tested relationship between a measured literacy score and actual investment outcomes.

4.3 Investment Preferences, Period and Risk Tolerance

Measure	Category	Frequency	Percentage
Investment period	Less than 1 year	12	11.54%
	1–3 years	25	24.04%
	3–5 years	26	25.00%
	More than 5 years	41	39.42%
Risk tolerance	Low risk	28	26.92%
	Moderate risk	61	58.65%
	High risk	15	14.42%
Investment instruments	Fixed deposit; mutual funds; stock market	10	9.62%
	Fixed deposit	8	7.69%
	Mutual funds; stock market	8	7.69%
	Other combinations	78	75.00%
Investment decision factors	Return; risk; safety	14	13.46%
	Risk level	13	12.50%
	Return on investment; risk level	12	11.54%
	Return on investment	10	9.62%
	Safety	8	7.69%
	Others	47	45.19%

The most common reported investment horizon was more than five years (39.42%), followed by three to five years (25.00%). Together, these categories account for 64.42% of respondents, indicating a preference for medium- to long-term investment periods within this sample. Most respondents reported moderate risk tolerance (58.65%), while 26.92% preferred low risk and 14.42% high risk. This distribution suggests that moderate risk is the most common stated preference, although the survey does not measure whether respondents' actual portfolios match their stated risk tolerance.

Investment instrument responses were varied: 75.00% fell into 'other combinations', meaning that the available summary does not identify one dominant choice for this group. Similarly, 45.19% selected 'other' factors affecting their investment decisions. Return, risk and safety appeared among the specific factors selected. Because these grouped categories combine different answers, they should not be used to infer a precise ranking of every investment product or decision factor.

4.4 Awareness of Investment Options

The questionnaire also asked respondents which investment options they knew. In the

analysis answers were grouped into combinations not listed for each product separately. According to Table 4. 33 respondents (31.73%) said they knew all four options—bank deposits, mutual funds, stocks and insurance. Another 21 respondents (20.19%) said they knew bank deposits, mutual funds and insurance. Eleven respondents (10.58%) said they knew bank deposits and insurance. The remaining 39 respondents (37.50%) chose combinations.

These grouped responses show variation in awareness. They do not allow a product-by-product estimate of awareness. For example the " combinations" category includes many different mixes and cannot be read as one level of knowledge. The findings give an overview of respondents' reported awareness of investment options based on the combinations recorded in the survey. In analysis each investment product could be checked with a separate yes/no or knowledge-based question to give a clearer picture.

The findings show that respondents have levels of awareness of the available investment options. A product-wise assessment can give insight into their financial knowledge and help point out where more financial education is needed.

Investment options reported	Frequency	Percentage
All four listed options	33	31.73%
Bank deposits, mutual funds and insurance	21	20.19%
Bank deposits and insurance	11	10.58%
Other combinations	39	37.50%
Total	104	100.00%

5. DISCUSSION

The findings show that respondents generally recognise financial literacy as relevant to investment decisions. The high proportion agreeing that financial literacy helps with better decisions (82.70%) is consistent with the emphasis in earlier research on the role of financial knowledge in investment behaviour (Savaliya, 2024; Shroff & Paliwal, 2024). The result is a statement of respondents' perceptions, rather than evidence that financial literacy caused better outcomes in this sample.

The reported risk–return understanding is positive but not universal. Nearly one-third of respondents either expressed uncertainty or reported not understanding the concept. This is important because investment choices require a balanced assessment of possible returns, potential losses, liquidity needs and time horizon. Financial education may therefore be more useful when it explains concepts through practical examples rather than focusing only on product awareness.

The sample's preference for moderate risk and longer investment horizons suggests that respondents consider both return potential and the length of time money can remain invested. However, risk tolerance is self-reported and may differ from actual behaviour, particularly when market conditions change. Prior research also indicates that behavioural influences, including herding, overconfidence and anchoring, may affect investment choices alongside financial literacy (Palanichamy et al., 2024).

The demographic profile should also be considered when interpreting the results. The sample contains a relatively high proportion of younger respondents, students and people reporting monthly income below ₹20,000. The results may therefore reflect the views and financial circumstances of these groups more strongly than those of older or higher-income investors. A broader and more representative sample would be needed before drawing population-level conclusions.

6. Practical Implications and Suggestions

Improving Awareness of Investment Alternatives: Learning materials should compare investment products by looking at risk expected return, how easy it is to get your money back (liquidity) costs, how taxes affect them and how long you plan to invest (investment horizon). It's important to avoid saying any one product is best for everyone. This helps people understand what each option offers and pick the ones that fit their goals and how much risk they're comfortable, with.

Encourage planning based on goals. People should figure out their goals. They should also think about emergency needs. They need to know how long they can invest. They must understand how loss they can handle. After considering all these things should they pick an investment. This way they can pick the investment options. This method can help them make financial choices.

Promote reliable information use. Investors should compare information from credible sources and avoid making decisions solely on rumours, social-media claims or unverified recommendations.

Develop digital financial literacy. Education should include safe use of digital financial services, protection of credentials, fraud awareness and verification of investment platforms.

Encourage further empirical testing. Future studies should use financial literacy scales that have been proven to work and statistical tests to look at how financial literacy, investment choices and age or background factors are connected. This would provide an understanding of how financial knowledge influences investment decisions across different groups of

individuals.

6.1 Implications for Financial Education Providers

The findings can inform the design of financial education initiatives, although they should not be treated as an evaluation of any particular programme. Since many respondents rated their knowledge as average and around one-quarter were unsure about the risk–return concept, learning activities could prioritise practical examples, such as comparing a fixed deposit with a market-linked investment, explaining the possibility of loss, and matching investment periods to financial goals.

Financial education providers may also distinguish between awareness and decision skills. Knowing that a product exists is not the same as understanding its fees, liquidity, market exposure or suitability. A useful programme would combine product awareness with simple exercises in comparing alternatives, checking information quality, identifying risk tolerance and recognising misleading claims. The aim should be to help people ask better questions before investing, rather than to promote one specific investment instrument.

7. Limitations and Future Research

The study has several limitations. First, the sample consists of 104 respondents selected through convenience sampling, which limits generalisability. Second, the questionnaire relies on self-reported knowledge and perceptions, which may not correspond to objectively measured financial literacy or actual investment behaviour. Third, the available results are descriptive; they do not report a correlation coefficient, regression model or hypothesis test. Accordingly, the manuscript does not claim a statistically significant relationship or a causal impact. Fourth, several investment-option and decision-factor responses are grouped under ‘other combinations’ or ‘others’, limiting detailed interpretation.

Future research could use a larger and more diverse sample, a validated set of financial literacy questions, and a clearly defined investment decision-making scale. Cross-tabulation and inferential methods—selected according to the measurement level and research design—could test whether literacy scores are associated with investment horizon, risk tolerance or investment preferences. Researchers should report test statistics, p-values, effect sizes and assumptions, and should avoid causal language unless the design supports causal inference.

8. CONCLUSION

This study looked at self-reported literacy and investment decision-making among 104 people. The results show that the biggest group said their knowledge of products and services

was average. Two-thirds said they understood the risk and return idea. Most people thought that financial knowledge affects investment decisions.. 82.70 Percent said they agreed or strongly agreed that financial literacy helps them make better investment decisions. Moderate risk tolerance and an investment time frame of than five years were the most common answers in those areas.

Overall people understand how important financial literacy is.. There is still confusion about risk and return.. There are different levels of awareness about investment options. This shows there is still a need for education. The study supports efforts to improve knowledge about financial products, awareness of risk planning based on goals and using trustworthy financial information. Financial education initiatives can help people feel more confident when looking at investment alternatives and making decisions that match their goals. Its findings should be looked at carefully because the sample was convenient and the analysis was descriptive. More research is needed with a sample and proper statistical tests to see how strong and what kind of relationship there is between financial literacy and investment decision-making. Such research could also help understand more, about how personal details and financial behavior affect investment choices.

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