

# Financial Literacy and its Impact on Individual Financial Behavior

**Dr.T.Arockia Sagayaraj**


Associate Professor, **Ms.S.Priya dharshini**

Research Scholar, GRD College of Science, Coimbatore



<https://doi.org/10.55041/ijstmt.v2i3.173>

**Cite this Article:** Sagayaraj, T. (2026). Financial Literacy and its Impact on Individual Financial Behavior. International Journal of Science, Strategic Management and Technology, 02(03). <https://doi.org/10.55041/ijstmt.v2i3.173>

**License:**  This article is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting use, distribution, and reproduction in any medium, provided the original author(s) and source are properly credited.

## Abstracts

This study examines the impact of financial literacy on individual financial behavior among 51 participants. The objectives are to assess financial literacy levels, evaluate financial behavior, analyze the influence of literacy on financial outcomes, and identify financial stress. Primary data were collected through a structured questionnaire and analyzed using descriptive statistics and ANOVA. The results indicate that higher financial literacy leads to better financial behavior, including effective saving, budgeting, and investment decisions, while lower literacy is associated with financial stress. The study emphasizes the importance of financial education in improving financial well-being.

## Keywords

Financial Literacy, Financial Behavior, ANOVA, Financial Stress, Financial Decision-Making

## Introduction

People with more knowledge about finances are ultimately able to make better financial decisions, which enhance the state of their finances. **M. Senaya et al. (2024)** People who have knowledge in financial principles, such as budgeting, saving, investing, and debt management, are better equipped to handle financial challenges, keep clear of hazards like excessive debt or hazardous investments, and work toward reaching their financial objectives **Pooja Parsai et al. (2025)** . Likewise, greater financial literacy may support economic growth and sustainability through the development of more financially literate populations that can engage in the economy, make wise investment decisions, and support long-term economic progress. Insufficient financial literacy, on the other hand, can have negative effects including high debt levels, poor savings rates, and susceptibility to financial fraud and abuse. Thus, encouraging general financial literacy and making expenditures in financial literacy is essential for boosting individual prosperity. As well as general economic adaptability while **B. R et al. (2025)** Financial awareness is the capacity to make sound economic choices on one's own by having the knowledge, skills, and confidence needed.

Knowing how to effectively manage your personal finances effectively enables you for success with our ever-changing financial world. It gives you the ability to choose the alternatives that best suit your demands and the accessible financial

choices. To Improving the financial literacy will make it easier for you to plan forward to allocate your hard-earned money with as much effectiveness as possible to reach your goals [Anna Lusardi et al. \(2014\)](#).

This study investigate According to current discourse, the main objective is to raise the level of financial literacy and other related factors that are controlled by various regulations, investment strategies, and business practices that conditionally contribute to interacting with people to help them improve their financial literacy in the state's financial sector Ever subsequently, the market for securities has made improvements significantly to people's monetary choices by consistently raising the standard of fiscal control.

### **Purpose of the study**

1. Assess the current level of financial literacy among participants
2. Evaluate the financial behavior of participants, including budgeting saving , investing and debt management.
3. Analyze the impact on financial literacy on financial behavior and outcomes.
4. Identify the areas where participants experience the most financial stress and insecurity.

### **Scope of the study**

This study is focus on sample of participants from a specific demographic group, examining their financial literacy ,behavior, and outcomes through surveys and statistical analysis .It will also consider the influence of demographic factors such as (age ,income, and education level) and psychological factors(such as confidence and stress) on financial behaviors and outcomes.

### **Objective of the study**

1. To assess the level of financial literacy among participants
2. To evaluate the financial behavior of participants
3. To analyze the impact of financial literacy on financial behavior and outcomes.
4. To identify areas of financial stress and insecurity among participants

### **Statement of the problem**

Financial literacy is increasingly recognized as a crucial skill .it is necessary for managing personal financial effectiveness is essential in today's complex economic environment. Despite the abundance of information and resources are available, many individual are struggling with basic financial concepts, which can be lead to poor financial behavior, increased financial stress, and optimal financial behavior, and financial outcomes among a specific population groups.

This study Explores that there is a growing concern that inadequate financial literacy contributes to negative financial behaviors and outcomes, including insufficient savings, high levels of debts, lack of financial preparedness for financial emergencies, and significant financial stress. The deficiency in financial knowledge and skills for individual's ability to make informed financial decision and also impact on overall well being and long term financial security.

### **Review of Literature**

#### **Financial Literacy**

Financially literate individual investors can make smart investment decisions over complex financial scenarios to boost their financial wealth. The aim of the study is to investigate the influence of financial literacy on investment decisions of individual investors in Jaffna district. Further this study explores the impact of financial knowledge, financial behavior and financial attitude on investment decisions of individual investors. Two hundred individual investors in Jaffna district were selected as sample by using random sampling technique and primary data was collected through a structured questionnaire. Financial literacy consists of three dimensions namely financial knowledge, financial behavior and financial attitude whereas investment decisions are measured by accounting information, self/firm-image coincidence, and advocaterecommendations and personal financial needs (*S. Balagobei, V. Prashanthan 2021*)The purpose of this research was to examine the influences of financial literacy and financial attitudes on individual investment decisions(*N. Hasanuh, R. Putra 2020*).

Investors' financial literacy entails making sound investment decisions and the behavioral biases or irrational behavior in decision-making that are collectively formed by heuristic bias, framing effect, cognitive illusions and herd mentality factors. The present study examines the combined impact of financial literacy and behavioral biases on investment decisions (**Suresh G. 2021**). The increase in the economic marketplace and the aging population in Indonesia have resulted in a new understanding of investment. Basically, someone's financial literacy will be in line with investment decisions, because

someone already understands the level of risk and the level of return obtained in the future (**Mochammad Rizaldy Insan Baihaqqy et al 2020**). This study aims to explore phenomenal role of financial literacy on investment decisions. Financial literacy enables the individuals to manage their financial resources through pursuing alternative investment opportunities and portfolio diversification. Individual investors tried to balance their income-expenditures by availing latest investment opportunities in stocks, bonds, shares and financial instruments

of the companies through stock exchanges, conventional and non-conventional investment channels. In current economic situations low stock prices, capital gains, financial interest, stock market rumors induce individual investors to trade in stock markets. As these indices, provide fair opportunities of investment as compared to bank deposits and other modes of investments. However, financial literacy (FL) offers a bridge to investors for making sound investment decisions through the best utilization of resources. (**Faheem Shaheen et al 2022**). With manifold increase in complexities in the financial environment globally coupled with the enhanced

availability of products and services have brought alongside significant risks too. It has therefore become imperative for every nation be developed or developing to

make its population aware about not only the financial products/services available but also the concepts on which they are based and the intricacies involved thus making them financially literate. Financial literacy has

become the entire essential for females for they have been regarded as quite vulnerable when it comes to financial matters. (**Ravneet Kaur, 2020**)

### **Individual Decision Making**

The purpose of this study was to determine the effect of financial literacy and personal income on investment decisions. Data collection was carried out by survey using a questionnaire given to 75 respondents. The results of this study indicate that Financial Literacy partially has no significant effect on Financial Behavior, Financial Literacy partially has a significant effect on Investing Decisions, Personal Income partially has no significant effect on Financial Behavior, Personal Income partially has a significant effect on Investing Decisions, and Financial Behavior partially has no significant effect on Investing Decisions (**Sugiarto Sugiarto, Dedy Surahman, Ma'ruf Sya'ban 2024**). The behavioral decision-making process of individuals highlights the importance of investors' sentiment and their correlation with the real economy. This paper aims to contribute to the literature of behavioral finance by examining the influence of contextual factors on investment decision-making (**Muskan Sachdeva 2022**). This study has reviewed various concepts, theories of behavioral finance regarding the irrationality of individual investors' behavior. Investment is one of the important driving pillars of the economic growth of the country. During the past few decades, investment pattern is more driven by irrational factors. So the behavioral finance theories, such as prospect theory, heuristic, herding, and theory of planned behavior, etc., came into the limelight. That captured the researchers'

Attention towards behavioral factors that affects the investors' decision making. The main intents of the study are to give insight into various behavioral biases and other psychological variables that drives the investment decision making of investors. This study would be helpful for emerging researches that are focusing on the improvement of the efficiency of the capital market for good economic growth. Financial advisors and fund houses could get clear insight for increasing the efficiency of investors, market, and so the economic growth (**A. Kumari, Ruchi Goyal, S. Sushanth Kumar 2022**). Traditional finance suggests that investments made by rational behaviors investors examine risk and return before decision making to gain maximum profit later behavioral finance challenge traditional finance and introduce psychological

factors affect decision making. The aim of this research paper is to explore how behavioral biases affect investment decision making under uncertainty (Muhammad Atif Sattar et al 2020). Individual investor's behavior is extensively influenced by various biases that highlighted in the growing discipline of behavior finance. Therefore, this study is also one of another effort to assess the impact of behavioral biases in investment decision-making in National Stock Exchange. (G. Madaan, Sanjeet Singh et al 2019).

### Conceptual frame work of the study

Creating a conceptual framework involves outlining the key concepts and variables in this study illustrating the relationships between them. Given the focus on financial literacy, behavior and related outcomes, the conceptual framework should contain that these elements and their interconnections.

### Key concepts and Variables:

#### 1. Financial Literacy

- ✓ Knowledge of financial products (e.g., Savings accounts, credit cards, investment, option)
- ✓ Understanding of basic financial principles (e.g, budgeting, interest rates, debt Management)
- ✓ Confidence in financial decision –making.

#### 2. Financial Behavior

- ✓ Budgeting and expense tracking.
- ✓ Savings and investment practices.
- ✓ Debt management and repayment strategies.

#### 3. Financial Outcomes

- ✓ Financial security and preparedness for emergencies.
- ✓ Achievement of financial goal (short-term and long-term).
- ✓ Overall financial well being and stress level.

#### 4. Moderating and Mediating Variables

- ✓ Demographic factors (age, income, education level)
- ✓ Psychological factors (Financial confidence, stress)
- ✓ External influences (economic conditions, financial advice received)

### Hypothesized Relationships.

**H1:** Higher levels of financial literacy are associated with better financial behavior

**H2:** Better financial behaviors are associated with improved financial outcomes

**H3:** Financial literacy directly impacts financial outcomes through its influence on financial behaviour

**H4:** Demographic and psychological factors moderated the relationship between financial literacy and financial behavior/outcomes.

### Explanation.

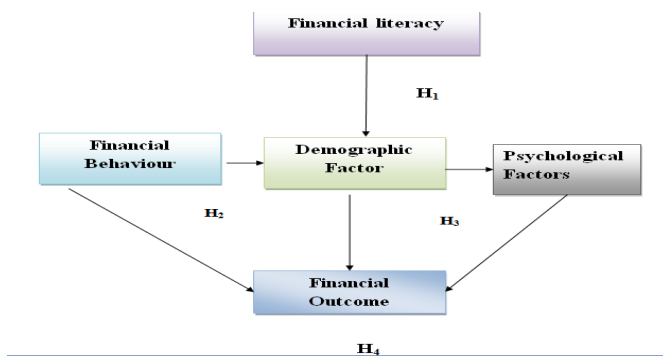
1. **Financial Literacy to Financial Behavior:** This is examining that how knowledge and understanding of financial concepts influence practical financial behaviors. For instance, individual who are more knowledgeable about budgeting are more likely to create and follow a personal budget.

2. **Financial behavior to financial outcomes:** this study explores that how these behaviors translate into actual financial outcomes. Regular savings and prudent debt management can lead to better financial security and reduced financial stress.

3. **Direct effect of financial literacy on financial outcomes:** financial literacy can also have a direct impact on out comes, independent of specific behaviors. For example interest rates are directly influence the cost of borrowing and overall financial health.

4. **Moderating factors:** Demographic and psychological factors can influence the strength and direction of the relationship. For example, higher income level may enhance the positive impact of financial literacy on savings behavior.

### Conceptual Framework



### Research Methodology

Financial literacy knowledge and understanding of financial concept and risks and the motivation and confidence to apply such knowledge.

Investors Behavior Decisions related to the allocation of resources, including the selection for financial instrument, risk, tolerance, and portfolio diversification.

### Research Design

**Sample Size:** the study included 51 participants through questionnaire. Demographic provided details about factors demographic of the participants such as Age, Gender, income, educational qualification.

**Sample method:** Random Sampling and convenient sampling.

### Data Analysis:

✓ Descriptive statistics indicate various levels of financial literacy, behavior and confidence and confidence among the participants. Data were analyzed a one way ANOVA to compare the effect of the three different conditions on the dependent variable.

### Data Interpretation:

Descriptive Statistics						
	N	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Monthly income	51	141	2.76	.209	1.491	2.224
Irregularly Create and Follow a personal budget	51	171	3.35	.128	.913	.833

I am knowledgeable about different types of financial products	50	113	2.26	.142	1.006	1.013
I understand the basics of investing such as stock bonds	51	109	2.14	.156	1.114	1.241
I understand the basics of investing such as stock bonds	51	136	2.67	.176	1.260	1.587
I set and regularly review my financial goal	51	137	2.69	.212	1.516	2.300
I am aware of my current credit score and understand its impact	51	118	2.31	.225	1.606	2.580
I am actively planning and saving for retirement	51	137	2.69	.180	1.288	1.660
I feel confident in my overall financial literacy and ability	51	102	2.00	.115	.825	.680
I am able to save a portion of my income regularly.	51	163	3.20	.170	1.217	1.481
I have a clear understanding of my monthly expenses	51	177	3.47	.135	.966	.934
I feel stressed when I think about my financial future	51	172	3.37	.211	1.509	2.278
I believe I am on track to achieve my long term financial goal	51	128	2.51	.071	.505	.255
I feel secure in my ability to handle unexpected financial meet	51	137	2.69	.195	1.393	1.940
I am satisfied with the balance between my spending and saving	51	161	3.16	.173	1.239	1.535
I find it easy to stick to a budget	51	118	2.31	.155	1.104	1.220
I am comfortable with the amount of debt I have	51	110	2.16	.099	.703	.495
I feel that I am financially prepared for my retirement.	51	120	2.35	.198	1.412	1.993

**Monthly Income:**

The mean monthly income of the participants is 2.76 (SD =1.49), which suggest a relatively low average income in the sample.

**Financial Behavior and Knowledge:**

- **I regularly Create and Follow a personal budget:** With a mean score 3.35 (SD=0.91), participants generally agree that they create a follow a budget regularly.
- **I am Knowledgeable about different types of financial products:**The mean score of 2.26 (SD =1.01) it indicates that respondents rate themselves as a lower level of knowledge about different financial products.
- **I understand the basics of investing such as stock bonds:** the first measure shows that the mean score of are 2.14 (SD=1.11), while the second measure shows that mean score of 2.67 (SD=1.26) it suggest that some variability in self – reporting of investing basics.
- **I set and regularly review my financial goal:** Scores are 2.69 (SD =1.52) and 2.76 (SD=1.11), It indicates that moderate engagement in setting and reviewing financial goal.

**Financial Awareness and Planning:**

- **I am aware of my current credit score and understand its impact:** A mean score of 2.31(SD = 1.61) shows moderate awareness and understanding of credit scores.
- **I am actively planning and saving for retirement:** The mean score of 2.69 (SD=1.29) suggests moderate activity in retirement planning.
- **I feel confident in my overall financial literacy and ability:** with a mean score of 2.00 (SD =.83), participants feel that less confidence in their financial literacy.
- **I am able to save a portion of my income regularly:** The mean score of 3.20 (SD=1.22) indicates that respondents generally agreed they can save regularly.

**Financial stress and Preparedness:**

- **I feel stressed when I think about my financial future :** With a mean score of 3.37 (SD = 1.51), the participants generally feels a higher level of financial stress.
- **I believe I am on track to achieve my long term financial goal:**The mean score of 2.51 (0.51), It indicates moderate confidence in achieving long –term financial goals.
- **I feel secure in my ability to handle unexpected financial meet:** the mean score of 2.69 (SD=1.39) moderate financial security.

**Budgeting and Debt:**

- **I am satisfied with the balance between my spending and saving:** With a mean score of 3.16 (SD=1.24), participants generally feel satisfied with their spending and savings balance.
- **I find it easy to stick to a budget:** The mean score of 2.31 (SD- 1.10) indicates moderate and sticking to budget.
- **I am comfortable with the amount of debt I have:** The mean Score 2.16(SD =0.70) suggests that participants feels less comfortable with their debt levels.
- **I feel that I am financially prepared for my retirement:** A mean score of 2.35 (SD =1.41) indicates moderate preparedness for retirement.

**Table: 1**

**OBJECTIVE 1:To assess the level of financial awareness among different demographic groups under its impact on financial decision making.**

**Anova table**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16.657	4	4.164	.350	.842
Within Groups	546.876	46	11.889		
Total	563.532	50			

**Interpretation:**

The above table inferred that The F-statistic for the between-groups analysis is 0.350, with a corresponding p-value of 0.842.This suggests that there is no significant difference between the group means, as the p-value is much greater than the typical significance level of 0.05.Therefore, we fail to reject the null hypothesis that all group means are equal. This significance level of 0.05. The large p-value indicates that the differences observed between group means are likely due to random chance rather than a systematic effect of the factor being studied.

**Table: 2**

**Objective: 2 To explore how individuals manage their finances through budgeting and the effectiveness of their budgeting practices.**

ANOVA
-------

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.414	4	2.353	.339	.850
Within Groups	319.567	46	6.947		
Total	328.980	50			

**Interpretation:**

The above table inferred that a one-way ANOVA was conducted to compare the effect of different groups on the dependent variable. There was no significant effect of the groups on the dependent variable at the  $p < .05$  level for the five conditions  $[F(4, 46) = 0.339, p = .850]$ . The analysis revealed that the effect of the conditions was not statistically significant,  $F(4,46)=0.339, p = .850$ . This indicates that there were no significant differences between the group means."

**Table-3**

**Objective:3 To evaluate the current financial health of individuals investment behavior**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	36.966	4	9.241	.208	.933
Within Groups	2041.482	46	44.380		
Total	2078.447	50			

**Interpretation:**

The above table inferred that compare the effect of different groups on the dependent variable. There was no significant effect of the groups on the dependent variable at the  $p < .05$  level for the five conditions  $[F(4, 46) = 0.208, p = .933]$ . The analysis revealed that the effect of the conditions was not statistically significant,  $F(4,46)=0.208, p = .933$ . This indicates that there were no significant differences between the group mean.

**Conclusion:** This study aims to explore the essential connection between financial literacy, financial behavior, and financial outcomes. By understanding this relationship, the study aims to contribute to the development of the more effective financial education can help to better financial management and security.

**REFERENCE**

Suresh, G. (2024). Impact of financial literacy and behavioural biases on investment decision-making. *FIIB Business Review*, 13(1), 72-86.

Mohta, A., & Shunmugasundaram, V. (2024). Moderating role of millennials' financial literacy on the relationship between risk tolerance and risky investment behavior: evidence from India. *International Journal of Social Economics*, 51(3), 422-440.

Shroff, S. J., Paliwal, U. L., & Dewasiri, N. J. (2024). Unraveling the impact of financial literacy on investment decisions in an emerging market. *Business Strategy & Development*, 7(1), e337.

Ashfaq, M., Shafique, A., & Selezneva, V. (2024). Exploring the missing link: Financial literacy and Cognitive biases in Investment Decisions. *Journal of Modelling in Management*, 19(3), 871-898.

Pambudi, T. R. S., & Sabandi, M. (2024). Financial Literacy, Risk Perception, Overconfidence Moderated by Financial Education on Investment Decisions. *Economic Education Analysis Journal*, 13(2), 151-162.

Julita, J. (2024, July). Implementation Of Financial Technology In Mediating The Effect Of Financial Literacy On Investment Decisions. In *Proceeding Medan International Conference on Economic and Business* (Vol. 2, pp. 1292-1300).

Suhendar, D., & Fahamsyah, M. H. (2024). The Effect of Financial Literacy, Income, and Financial Behaviour on Gen-Z Investment Decisions in Bekasi Regency. *Jurnal Manajemen Bisnis*, 11(2), 655-664.

Naibaho, R., Sinarasri, A., & Kristiana, I. (2024, July). The Effect of Financial Literacy, Financial Efficiency, and Income on Students' Investment Decisions in The Capital Market. In *Economics and Business International Conference Proceeding* (Vol. 1, No. 2, pp. 490-502).

Tanglao, J. M., Reyes, N. A. M., Aguilar, J. G., Aguilar, J. J. T., & Perez, J. M. G. A Study of Financial Behavior and Factors Affecting the Investment Decision Among Business Students in Mabalacat City College.

Munir, I. U., Yue, S., Ijaz, M. S., Hussain, S., & Zaidi, S. Y. (2024). Financial literacy and stock market participation: does gender matter?. *The Singapore Economic Review*, 69(03), 1211-1230.

Ilugbusi, B. S., & Adisa, O. (2024). Behavioral economics in US financial literacy programs: A comprehensive review-Evaluating the role of psychology-driven strategies in enhancing understanding and responsible financial behaviors among citizens. *International Journal of Science and Research Archive*, 11(1), 2384-2398.

Aman, H., Motonishi, T., Ogawa, K., & Omori, K. (2024). The effect of financial literacy on long-term recognition and short-term trade in mutual funds: Evidence from Japan. *International Review of Economics & Finance*, 89, 762-783.

Prayuda, R. Z., & Purwanto, A. (2024). The Role of Locus of Control, Financial Knowledge and Income on Financial Management Behavior: PLS-SEM Analysis. *PROFESOR: Professional Education Studies and Operations Research*, 1(02), 1-5.

CHAUGULE, D. S., & DANDEKAR, P. A. A STUDY EVALUATING THE ROLE OF DIGITAL FINANCIAL LITERACY AMONG THE INDIVIDUALS.

Kamil, I., Ariani, M., & Irawan, I. A. (2024). The influence of lifestyle and financial literacy on online paylater system and its impact on spending behavior. *Journal of Economics and Business Letters*, 4(2), 51-62.

Choudhary, S., Yadav, M., & Srivastava, A. P. (2024). Cognitive biases among millennial indian investors: Do personality and demographic factors matter?. *FIIIB Business Review*, 13(1), 106-117.