

Exploring the Impact of Financial Literacy on Investment Behavior among College Students

OPEN ACCESS

Volume: 11

Special Issue: 1

Month: March

Year: 2024

E-ISSN: 2581-9402

Received: 19.01.2024

Accepted: 11.03.2024

Published: 22.03.2024

Citation:

Manshi Dhiran, D.,
and Jayamalathi
Jayabalan. "Exploring
the Impact of Financial
Literacy on Investment
Behavior among College
Students." *Shanlax
International Journal of
Management*, vol. 11,
no. S1, 2024, pp. 44–50.

DOI:

[https://doi.org/10.34293/
management.v11iS1-
Mar.8057](https://doi.org/10.34293/management.v11iS1-Mar.8057)

Manshi Dhiran. D

*II MBA, School of Management
Dwaraka Doss Govardhan Doss Vaishnav College
Chennai, Tamil Nadu, India*

Jayamalathi Jayabalan

*Faculty of Accountancy and Management,
Universiti Tunku Abdul Rahman, Malaysia*

Abstract

In today's rapidly evolving financial landscape, characterized by an abundance of complex products and intricate market dynamics, the need for financial literacy has become more crucial than ever. This is particularly true for university students, who are on the cusp of entering the workforce and assuming greater responsibility for their financial well-being. This research delves into the critical relationship between financial literacy and investment behavior among university students, aiming to shed light on the extent to which financial knowledge and understanding influence investment decisions. By exploring the intricate relationship between these two concepts, the study aims to contribute to the development of effective strategies that promote financial literacy, understand the extent to which financial knowledge, attitudes, and skills influence investment decisions, and explore the factors that contribute to informed and responsible investment choices. and empower students to make well-informed investment decisions, paving the way for a more financially secure future.

Keywords: Financial Literacy, Investment Behavior, Investment Decision

Introduction

In recent years, the landscape of personal finance has evolved significantly. The proliferation of investment options, the rise of digital platforms, and the increasing complexity of financial products have made financial literacy a critical skill in shaping individuals' financial decisions and behaviors.



Figure 1 Financial Literacy

Financial literacy refers to the knowledge, skills, and attitudes that individuals possess to make informed financial decisions.

It encompasses understanding and applying fundamental financial concepts like budgeting, saving, investing, managing debt, and understanding financial products and services. Additionally, it involves the ability to apply this knowledge to make informed financial decisions that contribute to achieving long-term financial goals and achieving personal financial well-being.

Investment behavior, on the other hand, reflects the choices individuals make regarding allocating their financial resources towards various investment options, aiming to achieve specific financial goals. These goals can range from short-term needs like accumulating funds for a semester abroad to long-term aspirations like saving for retirement or a house down payment.

Financial literacy plays a pivotal role in shaping the investment behavior of university students. Financial knowledge equips students with the necessary tools to assess and compare different investment options. They can analyze risk-return profiles, understand investment timeframes, and select investments that align with their financial goals and risk tolerance. A strong understanding of financial concepts like diversification and risk management empowers students to make informed investment decisions that minimize their exposure to unnecessary risks. Financial literacy fosters a sense of financial responsibility and encourages students to plan for their future financial needs. They are more likely to prioritize saving and consider long-term investments for goals like retirement. Financial literacy can cultivate positive financial behaviors like budgeting, responsible credit card use, and debt management, which are crucial for building a strong financial foundation.

As university students transition into adulthood, their understanding of financial concepts and their ability to make informed investment choices become increasingly important. This research aims to explore the relationship between financial literacy and investment behavior among university students.

Need for the Study

- Understanding the financial literacy and investment behavior of college students is vital for various stakeholders, including educators, policymakers, financial institutions, and most importantly, the students themselves.
- By exploring this critical topic, we can gain valuable insights into the financial knowledge, attitudes, and choices of young adults as they navigate this crucial stage of life.
- This knowledge can then be utilized to develop effective financial education programs, empower students to make well-informed financial decisions, and ultimately contribute to a generation of financially responsible individuals who can effectively build a secure and prosperous future.
- It can inform the development of targeted financial education programs, empower young adults to make informed financial choices, and promote a culture of financial responsibility.

Objectives for the Study

- Assess the level of financial literacy among university students
- Investigate the relationship between financial literacy and investment behavior
- Measuring the awareness level of financial products among university students.
- Examine the investment behavior of university students.

Literature Review

Subhra Sengupta, Ronika, Dr. Vinoth S, and Dr. Gopalakrishnan (2023) in the research paper investigate the factors influencing investment decisions among postgraduate management students. It explores the connection between financial literacy and investment behavior, highlighting that individuals with higher financial literacy tend to make more informed investment choices. The study also identifies common reasons for not investing, such as fear of loss, limited funds, and

lack of knowledge. The study found that stocks and mutual funds were the most popular investment options among the surveyed students. Online research emerged as the primary source of investment information, followed by financial advisors, and family/friends. It also highlights the significance of financial literacy education for young adults, empowering them to make informed investment decisions.

Adil, M., Singh, Y. and Ansari, M.S. (2022) This study investigates how behavioral biases (overconfidence, risk-aversion, herding, and disposition) affect investment decisions differently for men and women. It also examines whether financial literacy weakens the impact of these biases. The Findings suggest, that in Men, Risk-aversion and herding bias negatively impact investment decisions, while overconfidence has a positive impact. Financial literacy weakens the negative impact of overconfidence. In Women Risk-aversion and herding bias negatively impact decisions, but other biases have no significant effect. Financial literacy weakens the negative impact of all four biases. The study also implies that portfolio managers can consider behavioral biases when designing investment plans for different genders. Financial literacy programs can help investors overcome biases and make informed decisions.

Seraj, A. H. A., Alzain, E., & Alshebami, A. S. (2022) in their research paper find that Financial literacy has received a lot of attention from academics, policymakers, and other stakeholders because of its importance in supporting investment decisions, improving personal financial management, and increasing financial well-being. This study looks at how financial literacy affects investing choices while controlling for the overconfidence behavioral bias. 180 Saudi Arabian respondents provided data via a questionnaire, and convenience sampling was used to get the data. The partial least squares structural equation modeling (PLS-SEM) method was used to analyze the study's results. It was discovered that investing decisions were positively and significantly influenced by financial literacy. Furthermore, the findings demonstrate that overconfidence had a positive impact on investment decisions and that overconfidence both positively and significantly moderated the relationship between financial literacy and investment decisions.

Deepika Mehra and Dr. Kavita Indapurkar (2020) emphasize the significance of financial literacy and explore the challenges faced by individuals with low financial literacy in India's working-age population. It examines the relationship between financial literacy and investment behavior, demonstrating a positive correlation between the two. The study suggests that individuals with higher financial literacy scores exhibit better investment decision-making. The study highlights that individuals with higher financial literacy are more likely to make informed investment decisions and engage in financial planning activities.

Baihaqqy, Mochammad Rizaldy Insan; Disman; Nugraha; Sari, and Maya (2020), In the study examined the impact of financial literacy on investment decisions among young adults in Malaysia. It reveals a positive association between financial literacy and investment knowledge, risk tolerance, and informed decision-making. The research suggests that financially literate individuals engage in less risky investment behaviors and exhibit a greater understanding of investment diversification. The findings highlight the importance of financial literacy programs to empower young adults to make sound investment choices and achieve their financial goals.

Olga A. Hassan (2017) in his study investigates the relationship between financial literacy and financial behavior among university students in Egypt. It explores various financial behavior aspects such as budgeting, saving, and debt management. The research finds that students with higher financial literacy are more likely to exhibit responsible financial behaviors, such as creating budgets, tracking expenses, and saving for future goals. The study emphasizes the need for financial education initiatives that equip university students with the knowledge and skills necessary for effective financial management.

Neelam Rani and Rajbir Singh (2016) in their research examine the financial behavior and literacy among university students in India, demonstrating a positive correlation between financial knowledge and responsible financial practices.

Research Methodology

A descriptive research design was employed to gather and analyze data on financial literacy and investment behavior among college students. The target population for this study comprises college students in Chennai. The findings are generalized to this specific demographic.

A sample size of 30 college students are selected for the study. The chosen sample size is considered appropriate for the exploratory nature of the research and the available resources. Convenience sampling is employed due to its practicality and ease of access to potential participants. College students who were readily available and were willing to participate were included in the study.

The survey method was adopted to collect data from the selected sample. The structured questionnaire serves as the primary instrument for gathering information on financial literacy levels and investment behaviors among college students. This approach ensures the collection of specific and relevant information tailored to the research objectives. Data collected through the structured questionnaire was entered into statistical software (e.g., SPSS) for analysis.

Hypothesis for the Study

- H0: There is no significant correlation between the academic stream of the participants and their level of financial literacy.
- H1: There is a significant correlation between the academic stream of the participants and their level of financial literacy.
- H0: There is no significant association between gender and factors considered in choosing investments among university students.
- H1: There is a significant association between gender and factors considered in choosing investments among university students.

Analysis & Discussion

Table 1 Descriptive Statistics

Descriptive Statistics					
Age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-20	10	33.3	33.3	33.3
	21-24	11	36.7	36.7	70
	25-27	9	30	30	100
	Total	30	100	100	
Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	13	43.3	43.3	43.3
	Female	17	56.7	56.7	100
	Total	30	100	100	
Academic Stream		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Commerce	6	20	20	20
	Art	9	30	30	50
	Others	4	13.3	13.3	63.3
	Science	11	36.7	36.7	100
	Total	30	100	100	

Annual_Family_Income		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 4000000	6	20	20	20
	400001-600000	6	20	20	40
	600001-800000	5	16.7	16.7	56.7
	800001-1000000	4	13.3	13.3	70
	1000000-1200000	3	10	10	80
	More than 1200000	6	20	20	100
	Total	30	100	100	
Literacy_Level		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low	7	23.3	23.3	23.3
	Moderate	14	46.7	46.7	70
	High	9	30	30	100
	Total	30	100	100	

The descriptive statistics were obtained for various demographic variables among the sample of 30 college students in Chennai. The results are summarized in Table 1.

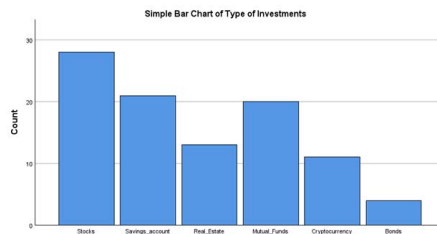


Figure 2 Type of Investments

Participants' responses regarding their types of investments as shown in Figure 2 show that 40.0% reported having savings accounts, 73.3% invested in stocks, 63.3% in bonds, 53.3% in mutual funds, 66.7% in real estate, and 70.0% in cryptocurrency. This distribution indicates that stocks, cryptocurrency, and real estate are the most common types of investments among the participants, with savings accounts being the least common. This information provides insights into the investment preferences and behavior of the sample population.

Understanding the above graph can help in designing financial education programs tailored to the needs and interests of college students in Chennai, aiming to enhance their financial literacy and investment decision-making skills.

Table 2 Correlation Test Between Academic Stream and Financial Literacy Level of Respondents

Correlation						
	Stream			Literacy_Level		
	Pearson Correlation	Sig. (2 - tailed)	N	Pearson Correlation	Sig. (2 - tailed)	N
Stream	1		30	-.131	.489	30
Literacy_Level	-.131	.489	30	1		30

The correlation analysis was conducted to examine the relationship between the academic stream and financial literacy level among the participants (Table 2). The results revealed a non-significant negative correlation between the academic stream and financial literacy level, $r = -.131$, $p = .489$. Therefore, the null hypothesis (H_0) is retained, suggesting that there is no significant correlation between the academic stream of the participants and their level of financial literacy.

Table 3 Chi-square Analysis

		Gender	
		Male Count	Female Count
Factors considered in Choosing Investments	Potential_return	13	17
	Level_of_risk	13	17
	Investment_fees	8	14
	Liquidity_ease_of_selling	12	16
	Alignment_with_personal_values	12	16
	Other_factors	1	1
Factors considered in Choosing Investments			
		Gender	
\$Factors considered in Choosing Investments		Chi-square	1.748
		df	6
		Sig.	.941a

The chi-square test (Table 3) was conducted to examine the relationship between gender and factors considered in choosing investments among university students. The analysis revealed no significant association between gender and factors considered in investment decisions, $\chi^2(6) = 1.748$, $p = .941$. Therefore, the null hypothesis, which posited no significant relationship between gender and factors considered in choosing investments, was not rejected.

Limitation

- The study focuses on university students in Chennai, India. The findings on financial literacy and investment behavior might not be generalizable to a wider population with different demographics or locations.
- The sample size (30) is relatively small. Larger studies would provide more statistically robust results.
- The study doesn't explore the specific factors influencing students' investment behavior beyond financial literacy.
- Future research could delve deeper into these factors, such as risk tolerance, financial goals, or social influences.

Conclusion

In conclusion, the study successfully assessed the financial literacy level among university students in Chennai, providing a snapshot of their demographic characteristics, investment preferences, and factors influencing investment decisions. The results have indicated a prevalent interest in stocks, saving accounts, cryptocurrency, and real estate among participants. However, the analysis found no significant correlation between academic stream and financial literacy, challenging the assumption that academic specialization directly impacts financial knowledge. However, no significant association was found between gender and factors considered in investment decisions. While the study contributes valuable findings, there are opportunities for further research

to comprehensively understand the dynamics of financial literacy and investment behavior among university students.

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