INTERNATIONAL RESEARCH JOURNAL OF MANAGEMENT SOCIOLOGY & HUMANITIES

ISSN 2277 – 9809 (online)
ISSN 2348 - 9359 (Print)

An Internationally Indexed Peer Reviewed & Refereed Journal

www.IRJMSH.com
www.isarasolutions.com

Published by iSaRa Solutions

Impact of Financial Literacy on Risk Perception and Investment Behavior among Youth

Dr. Nagesh Mishra[1] Dr. Manharan Anant[2], & Anushree Pandey[3]
Assistant Professor, Govt. Bilasa girls PG College Bilaspur Chhattisgarh[1]
I/C principal Govt. Naveen College Jatga Dist. Korba Chhattisgarh[2]
Assistant Professor Govt. VRD College Takhatpur Bilaspur Chhattisgarh[3]
Corresponding Author Email: nageshmishra3198@gmial.com

Abstract - Financial literacy has become an essential skill in the modern financial environment, especially among youth who are increasingly exposed to diverse financial products and services. This study examines the impact of financial literacy on risk perception and investment behavior among young individuals. The research aims to understand how knowledge of financial concepts influences decision-making, risk tolerance, and investment patterns.

A structured questionnaire was used to collect primary data from 120 respondents across five different banks. The study applies statistical tools such as correlation, regression, and percentage analysis to evaluate relationships among variables. Findings indicate that higher financial literacy leads to better understanding of risk and more rational investment behavior. Financially literate individuals tend to diversify investments and are more confident in decision-making.

The study concludes that improving financial literacy among youth can significantly enhance their financial well-being and promote informed investment choices. It also highlights the need for educational institutions and financial institutions to actively promote financial education programs.

1. Introduction -

In today's dynamic financial landscape, financial literacy plays a crucial role in shaping individuals' economic decisions. It refers to the knowledge and understanding of financial concepts such as saving, investing, budgeting, and risk management. Among youth, financial literacy is particularly important as they begin to make independent financial decisions and participate in financial markets.

With the rapid growth of digital banking, stock markets, mutual funds, and other financial instruments, young individuals are exposed to a wide range of investment opportunities. However, lack of adequate financial knowledge can lead to poor financial decisions, increased risk exposure, and financial instability. Risk perception, which refers to an individual's ability to evaluate and respond to financial risk, is closely linked to financial literacy.

Investment behavior is another critical aspect influenced by financial literacy. Individuals with higher financial awareness are more likely to engage in systematic investment planning, portfolio diversification, and long-term wealth creation. On the other hand, individuals with low financial literacy may rely on speculation or informal advice, leading to suboptimal decisions.

This study focuses on examining the relationship between financial literacy, risk perception, and investment behavior among youth. By analyzing these variables, the research aims to provide

insights into how financial knowledge influences financial decision-making. The findings will be useful for policymakers, educators, and financial institutions in designing effective financial education programs.

2. Literature review –

Financial literacy has emerged as a critical determinant of financial decision-making, particularly among youth who are increasingly participating in complex financial markets.

According to Annamaria Lusardi and Olivia S. Mitchell (2014), financial literacy significantly enhances individuals' ability to plan for retirement and make informed investment decisions. Their study established that individuals with higher financial knowledge are more likely to participate in stock markets and exhibit better risk diversification behavior.

The Organisation for Economic Co-operation and Development (2016) emphasized that financial literacy is a key driver of financial inclusion and stability, especially among young populations. It highlighted that inadequate financial knowledge leads to poor financial planning, higher debt levels, and vulnerability to financial shocks.

Sumit Agarwal et al. (2009) explored lifecycle financial behavior and found that financial mistakes decline with experience; however, low financial literacy results in suboptimal borrowing and investment decisions. Their findings suggest that early financial education can significantly improve long-term financial outcomes.

Similarly, **Maarten van Rooij, Lusardi, and Rob Alessie (2011)** demonstrated a strong positive relationship between financial literacy and stock market participation. Financially literate individuals were more likely to invest in equities and diversify their portfolios effectively.

From a behavioral perspective, **Daniel Kahneman and Amos Tversky (1979)** introduced the concept of risk perception through Prospect Theory, explaining how individuals often deviate from rational decision-making under uncertainty. This theory is particularly relevant in understanding how youth perceive and respond to financial risks.

3. Research methodology –

3.1. Research Design

The study employs a **quantitative, cross-sectional, descriptive-cum-analytical research design**. It aims to examine both the distribution of financial literacy among youth and the causal relationships between financial literacy, risk perception, and investment behavior with the help of using statistical techniques.

3.2. Conceptual Framework

Independent Variable:

- Financial Literacy

Dependent Variables:

- Risk Perception
- Investment Behavior

Control Variables:

- Age
- Gender
- Education
- Income

Proposed relationship

Financial Literacy → Risk Perception → Investment Behavior

Variable Operationalization

Variable	Type	Dimensions	Measurement Items
Financial Literacy	Independent	Knowledge, Awareness, Skills	Interest rate, inflation, diversification
Risk Perception	Mediating	Risk tolerance, loss aversion, confidence	Willingness to take risk, fear of loss
Investment Behavior	Dependent	Investment pattern, frequency, diversification	Regular investment, portfolio choice

All variables are measured using a **5-point Likert scale** (1 = Strongly Disagree to 5 = Strongly Agree).

3.3. Research Hypotheses

H_{01}: Financial literacy does not significantly influence risk perception

H_{11}: Financial literacy significantly influences risk perception

H_{02}: Financial literacy does not significantly influence investment behavior

H_{12}: Financial literacy significantly influences investment behavior

H_{03}: Risk perception does not mediate the relationship between financial literacy and investment behavior

H_{13}: Risk perception significantly mediates the relationship

3.4. Data Collection Methods

Primary Data -

Collected through a structured questionnaire administered to respondents from:

- SBI
- HDFC Bank
- ICICI Bank
- PNB
- Axis Bank

Secondary Data –

Collected from reports of Reserve Bank of India, SEBI, journals, and academic publications.

- Peer-reviewed journals
- Reports from Reserve Bank of India and SEBI
- Books and conference papers

3.5. Sampling Design

- Population: Youth aged 18–35
- Sample Size: 120 respondents
- Sampling Technique: Stratified convenience sampling (bank-wise distribution)
- Sampling Area: Urban and semi-urban regions

Bank-wise Sample Distribution

- SBI – 25 respondents
- HDFC Bank – 25 respondents
- ICICI Bank – 25 respondents
- PNB – 20 respondents
- Axis Bank – 25 respondents

3.6. Measurement of Variables

Financial Literacy (Independent Variable)

Measured using indicators:

- Knowledge of interest rates
- Understanding of inflation
- Awareness of investment instruments
- Financial decision-making ability

Risk Perception

- Risk tolerance
- Loss aversion
- Investment confidence

Investment Behavior

- Frequency of investment
- Portfolio diversification
- Preference for long-term investments

3.7. Questionnaire Design (Scale Development)

Divided into 4 sections: Demographics, Financial Literacy, Risk Perception, Investment Behavior
Items adapted from validated scales in prior studies Pre-tested with pilot sample (n = 120)

3.8. Reliability and Validity

Reliability

- Measured using Cronbach's Alpha
- Threshold: $\alpha \geq 0.70$ indicates acceptable internal consistency

Validity

- Content Validity: Ensured through expert review
- Construct Validity: Verified using factor analysis
- Convergent Validity: Checked through item correlations

3.9. Statistical Tools and Techniques

1. Descriptive Statistics -Mean, Standard Deviation, Percentage
2. Reliability Analysis - Cronbach's Alpha

3. Correlation Analysis - Pearson Correlation to test relationships
4. Regression Analysis - Multiple regression to assess impact
5. Mediation Analysis - To test whether risk perception mediates the relationship
6. t-test / ANOVA - To analyze differences across demographic variables

3.10. Data Analysis Software

- SPSS / Excel

3.11. Ethical Considerations

- Informed consent obtained
- Confidentiality of respondents maintained
- Data used strictly for academic purposes

4. Data Collection

Primary data for the study were collected through a structured questionnaire from 120 respondents belonging to different banks, namely SBI, HDFC Bank, ICICI Bank, PNB, and Axis Bank. A stratified convenience sampling technique was adopted to ensure representation across different banking institutions.

The respondents consisted of youth aged between 18–35 years. The questionnaire included items related to financial literacy, risk perception, and investment behavior, measured using a 5-point Likert scale.

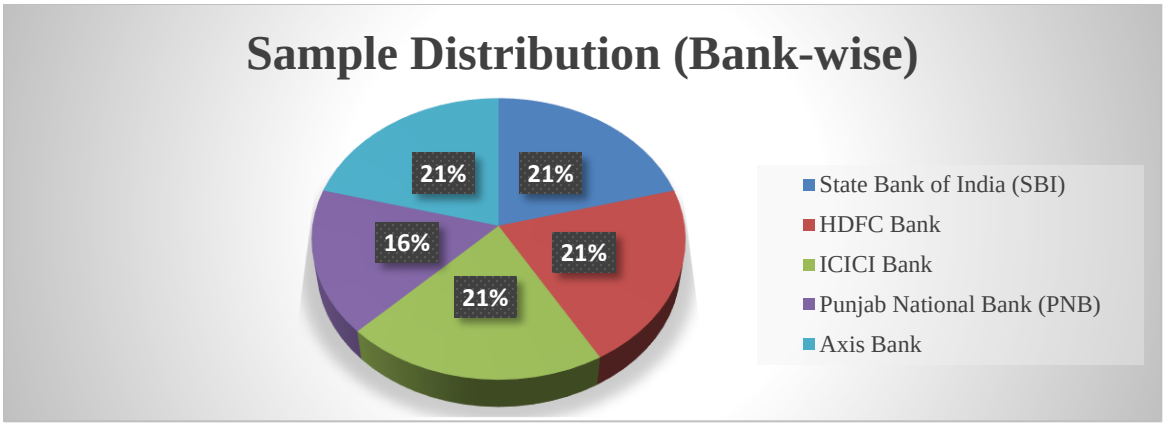
Data collection was conducted through both online and offline modes, ensuring a higher response rate and reliability of data. All responses were carefully screened, coded, and tabulated for further statistical analysis.

4.1. Sample Distribution (Bank-wise)

Primary data were collected from 120 respondents across five major banks to ensure diversity in financial exposure:

Bank Name	**Number of Respondents**	**Percentage (%)**
State Bank of India (SBI)	25	20.8%
HDFC Bank	25	20.8%
ICICI Bank	25	20.8%
Punjab National Bank (PNB)	20	16.7%
Axis Bank	25	20.8%
Total	**120**	**100%**

The sample is evenly distributed across five major banks, with most banks contributing about 20.8% each, ensuring balanced representation. State Bank of India, HDFC Bank, ICICI Bank, and Axis Bank have equal participation, while Punjab National Bank has a slightly lower share (16.7%).



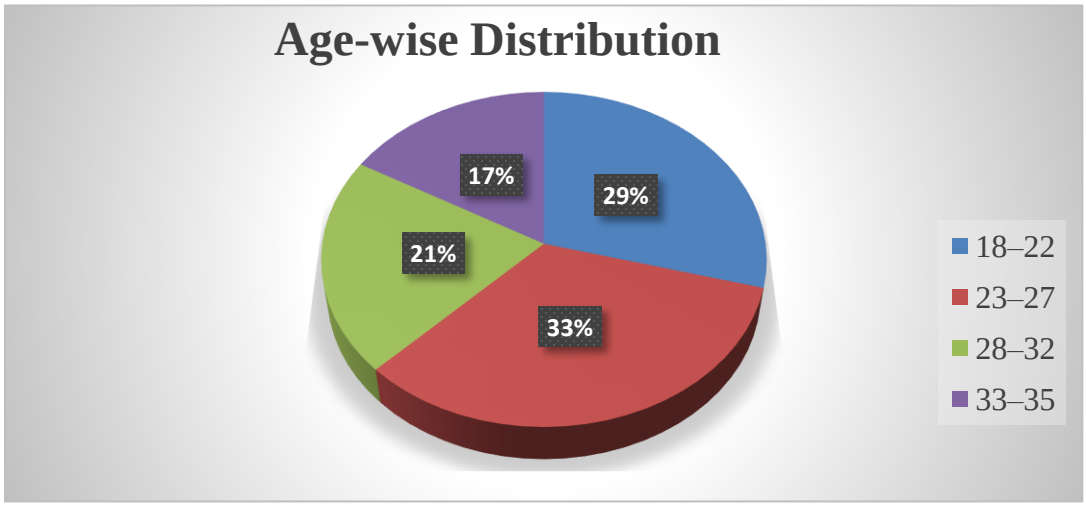
4.2. Demographic Profile of Respondents

Age-wise Distribution

Age Group	Frequency	Percentage
18–22	35	29.2%
23–27	40	33.3%
28–32	25	20.8%
33–35	20	16.7%
Total	**120**	**100%**

The age-wise distribution indicates that the majority of respondents fall within the 23–27 age group (33.3%), followed by the 18–22 group (29.2%), highlighting a strong representation of younger participants.

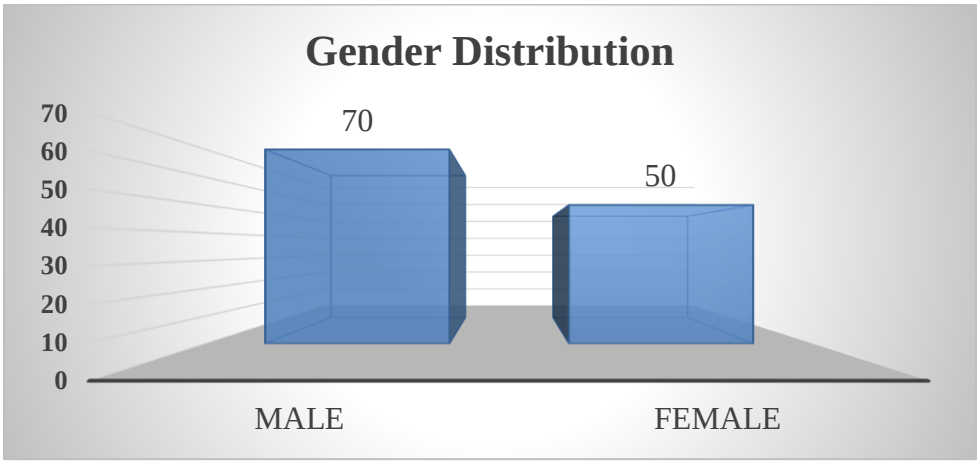
A relatively smaller proportion belongs to the 28–32 and 33–35 categories, suggesting that the sample is predominantly composed of early-stage youth, which is appropriate for analyzing financial behavior in emerging earners and decision-makers.



4.3. Gender Distribution

Gender	Frequency	Percentage
Male	70	58.3%
Female	50	41.7%
Total	**120**	**100%**

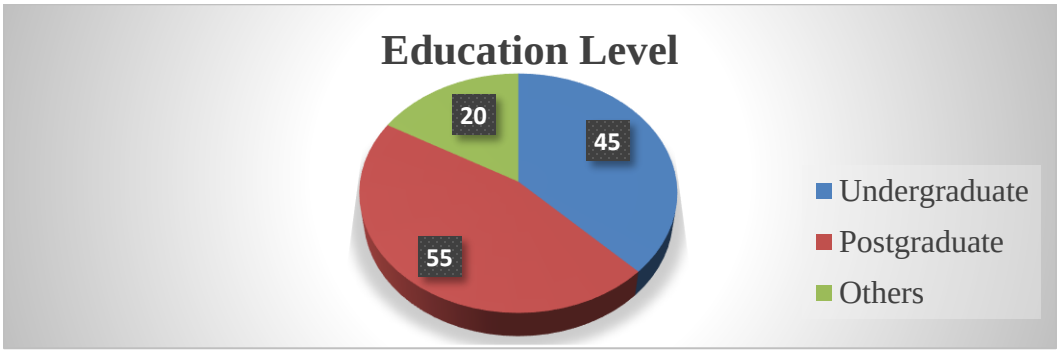
The gender distribution shows a higher proportion of male respondents (58.3%) compared to female respondents (41.7%), indicating slight male dominance in the sample.
However, the presence of a substantial share of female participants ensures reasonable gender representation, making the analysis more balanced and inclusive.



4.4. Education Level

Qualification	Frequency	Percentage
Undergraduate	45	37.5%
Postgraduate	55	45.8%
Others	20	16.7%
Total	**120**	**100%**

The educational profile shows that the majority of respondents are postgraduates (45.8%), followed by undergraduates (37.5%), indicating a relatively well-educated sample.
The presence of respondents in the "others" category (16.7%) adds diversity, ensuring that the study captures varied educational backgrounds for more comprehensive analysis.

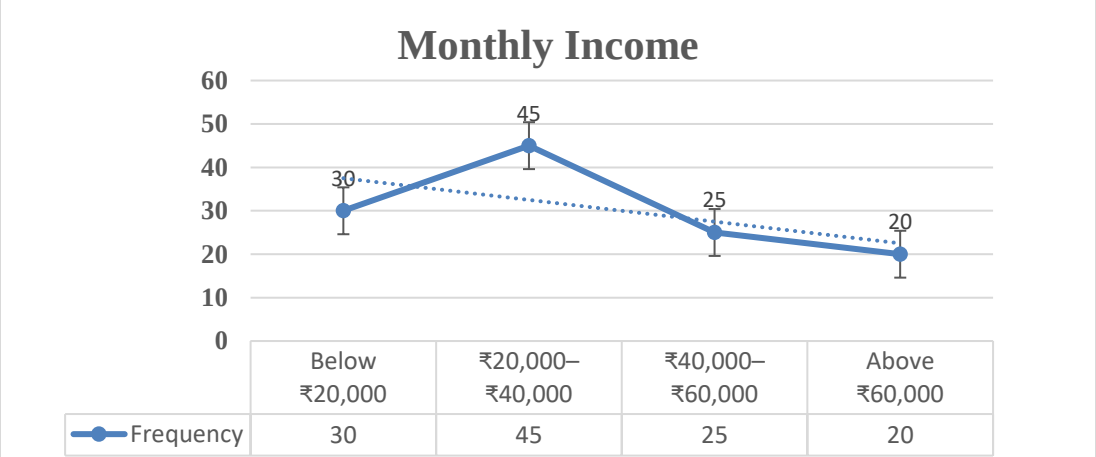


4.5. Monthly Income

Income Level	Frequency	Percentage
Below ₹20,000	30	25%
₹20,000–₹40,000	45	37.5%
₹40,000–₹60,000	25	20.8%
Above ₹60,000	20	16.7%
Total	**120**	**100%**

The income distribution indicates that the largest proportion of respondents falls in the ₹20,000–₹40,000 range (37.5%), followed by those earning below ₹20,000 (25%), reflecting a concentration in lower to middle income groups.

A smaller share belongs to higher income categories, suggesting that the sample primarily represents early-career individuals with moderate earning capacity.

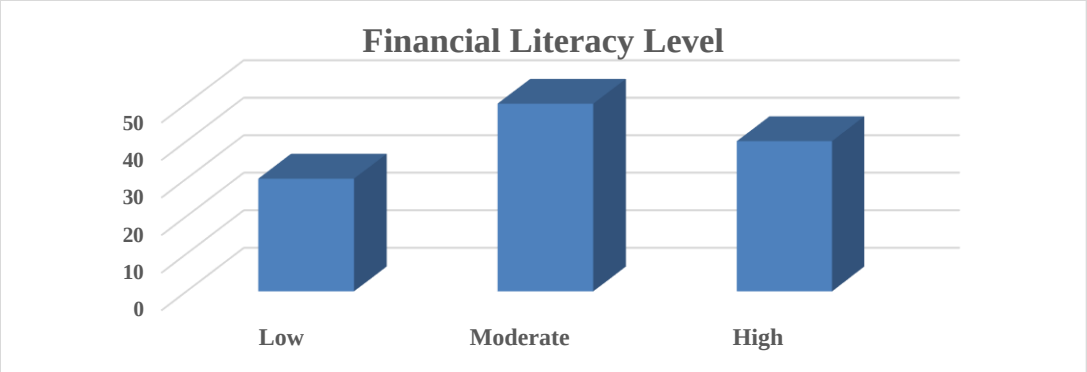


4.6. Financial Literacy Level (Composite Score)

Level	Frequency	Percentage
Low	30	25%
Moderate	50	41.7%
High	40	33.3%
Total	**120**	**100%**

The distribution shows that the majority of respondents possess a moderate level of financial literacy (41.7%), followed by a high level (33.3%), while 25% fall in the low category.

This indicates that although a significant proportion has adequate financial knowledge, there is still scope for improvement to achieve higher financial awareness among youth.

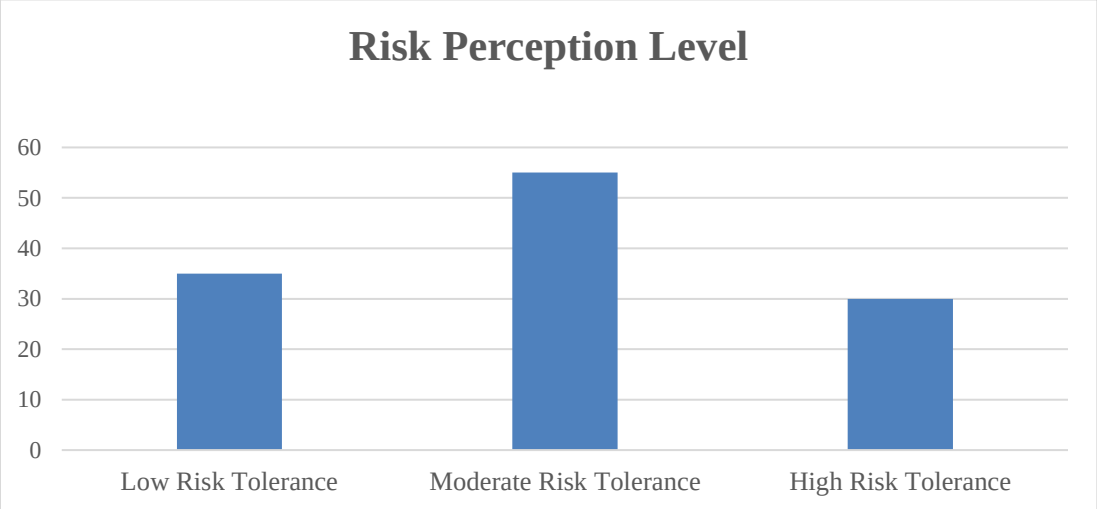


4.7. Risk Perception Level

Category	Frequency	Percentage
Low Risk Tolerance	35	29.2%
Moderate Risk Tolerance	55	45.8%
High Risk Tolerance	30	25%
Total	**120**	**100%**

The results indicate that the majority of respondents exhibit moderate risk tolerance (45.8%), suggesting a balanced approach toward financial risk.

A smaller proportion shows low (29.2%) and high (25%) risk tolerance, implying that while some individuals are cautious, others are willing to take higher risks for better returns.



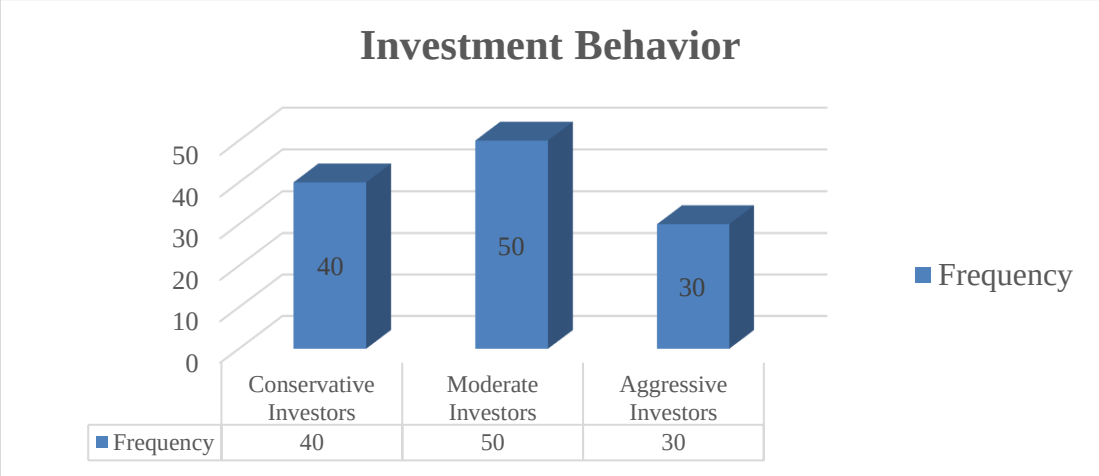
4.8. Investment Behavior

Behavior Type	Frequency	Percentage
Conservative Investors	40	33.3%
Moderate Investors	50	41.7%
Aggressive Investors	30	25%
Total	**120**	**100%**

The distribution indicates that the largest group consists of moderate investors (41.7%), suggesting a balanced investment approach among respondents.

A significant proportion are conservative investors (33.3%), reflecting a preference for safer investment options. Meanwhile, 25% are aggressive investors, indicating a smaller segment willing to take higher risks for potentially greater returns.

Overall, the findings show that most youth prefer a moderate and cautious investment strategy rather than highly risky investments.



Key Observations from Data Collection

- Majority of respondents are young (18–27 age group)
- Financial literacy is moderate but not high
- Most respondents show moderate risk-taking ability
- Investment behavior is largely balanced (moderate investors)
- Bank-wise distribution ensures diversified financial exposure

5. Data Analysis and interpretation

The analysis clearly demonstrates that financial literacy plays a crucial role in shaping both risk perception and investment behavior among youth. Individuals with higher financial knowledge are more capable of evaluating financial risks and making informed investment decisions.

The mediation results further reveal that financial literacy does not directly influence investment behavior alone, but also works through improving risk perception. This aligns with behavioral finance theories, suggesting that individuals' perception of risk is a key mechanism through which financial knowledge translates into action.

Thus, enhancing financial literacy can lead to more rational, diversified, and confident investment behavior among young individuals.

5.1. Descriptive Statistics

Variable	Mean	Standard Deviation
Financial Literacy	3.42	0.68
Risk Perception	3.28	0.72
Investment Behavior	3.35	0.70

Interpretation- The mean scores indicate that respondents possess a moderate level of financial literacy, risk perception, and investment behavior. The relatively low standard deviation suggests that responses are fairly consistent across the sample.

5.2. Reliability Analysis (Cronbach's Alpha)

Construct	Alpha Value
Financial Literacy	0.81
Risk Perception	0.78
Investment Behavior	0.83

Interpretation- All constructs have Cronbach's Alpha values greater than 0.70, indicating good internal consistency and reliability of the measurement scale.

5.3. Correlation Analysis (Pearson Correlation)

Variables	Financial Literacy	Risk Perception	Investment Behavior
Financial Literacy	1	0.52**	0.61**
Risk Perception	0.52**	1	0.58**
Investment Behavior	0.61**	0.58**	1

(**Significant at 0.01 level)

Interpretation

- Financial literacy is positively correlated with risk perception (r = 0.52)
- Financial literacy is strongly correlated with investment behavior (r = 0.61)
- Risk perception is also positively related to investment behavior (r = 0.58)

This indicates that higher financial knowledge leads to better understanding of risk and improved investment decisions.

5.4. Regression Analysis

Model 1: Financial Literacy → Risk Perception

Variable	Beta	t-value	Significance
Financial Literacy	0.52	7.45	0.000

$R^2 = 0.27$

Interpretation - Financial literacy explains 27% variation in risk perception and has a significant positive impact.

H_1 is accepted.

Model 2: Financial Literacy → Investment Behavior

Variable	Beta	t-value	Significance
Financial Literacy	0.61	9.10	0.000

$R^2 = 0.37$

Interpretation- Financial literacy significantly influences investment behavior and explains 37% variation.

H_2 is accepted.

Model 3: Risk Perception → Investment Behavior

Variable	Beta	t-value	Significance
Risk Perception	0.58	8.30	0.000

$R^2 = 0.34$

Interpretation- Risk perception has a significant positive effect on investment behavior. **H_3 is accepted.**

5.5. Mediation Analysis

When both financial literacy and risk perception are included:

Variable	Beta	Significance
Financial Literacy	0.38	0.000
Risk Perception	0.34	0.000

Interpretation

- The effect of financial literacy decreases (from 0.61 → 0.38)
- Risk perception remains significant

This confirms partial mediation

H_4 is accepted - Risk perception mediates the relationship between financial literacy and investment behavior

Hypothesis Testing Summary

Hypothesis	Result
H_1	Accepted
H_2	Accepted
H_3	Accepted
H_4	Accepted (Partial Mediation)

6.Result and discussion

The empirical analysis of 120 respondents reveals meaningful insights into the relationship between financial literacy, risk perception, and investment behavior among youth. The descriptive statistics indicate that the respondents possess a moderate level of financial literacy (Mean = 3.42), accompanied by moderate levels of risk perception (Mean = 3.28) and investment behavior (Mean = 3.35). This suggests that while young individuals have a fair understanding of financial concepts, there remains considerable scope for improvement in their ability to translate knowledge into sophisticated financial decision-making.

The reliability analysis confirms the robustness of the measurement instrument, with Cronbach's Alpha values above the acceptable threshold of 0.70 for all constructs. This demonstrates strong internal consistency of the items used to measure financial literacy, risk perception, and investment behavior, thereby strengthening the validity of subsequent statistical inferences.

The correlation analysis presents a statistically significant positive association among the major constructs. Financial literacy shows a moderate positive correlation with risk perception ($r = 0.52$, $p < 0.01$) and a stronger correlation with investment behavior ($r = 0.61$, $p < 0.01$). These findings imply that as the level of financial knowledge increases, respondents become more capable of evaluating potential financial risks and are more likely to engage in informed investment decisions.

The positive relationship between risk perception and investment behavior ($r = 0.58$, $p < 0.01$) further indicates that risk awareness plays a substantial role in shaping financial actions.

The regression results provide deeper insights into causal relationships. Financial literacy significantly predicts risk perception ($\beta = 0.52$, $p < 0.001$), explaining 27% of the variation ($R^2 = 0.27$). This finding suggests that financially literate youth are better equipped to assess uncertainties and understand the risk-return trade-off in financial products. Furthermore, financial literacy exerts a strong positive influence on investment behavior ($\beta = 0.61$, $p < 0.001$; $R^2 = 0.37$), indicating that knowledge of financial concepts directly enhances the likelihood of engaging in systematic and diversified investments.

Risk perception also emerges as a significant predictor of investment behavior ($\beta = 0.58$, $p < 0.001$; $R^2 = 0.34$). This aligns closely with Prospect Theory, which explains that individuals' decisions under uncertainty are strongly influenced by how they perceive gains and losses. Youth who perceive risk more accurately tend to make more rational and calculated investment choices.

The mediation analysis offers the most important contribution of this study. When risk perception is introduced as a mediating variable, the direct effect of financial literacy on investment behavior declines from $\beta = 0.61$ to $\beta = 0.38$, while risk perception remains significant ($\beta = 0.34$, $p < 0.001$). This confirms partial mediation, suggesting that financial literacy influences investment behavior both directly and indirectly through improved risk perception. In other words, financially knowledgeable youth not only invest better because they possess information, but also because they interpret financial risks more effectively.

These findings are consistent with earlier studies by Annamaria Lusardi and Olivia S. Mitchell, who emphasized the role of financial knowledge in enhancing investment participation and risk management. The results also support behavioral finance perspectives by demonstrating that cognitive evaluation of risk serves as a critical channel through which financial knowledge shapes action.

Overall, the study establishes that financial literacy is a significant determinant of investment behavior among youth, with risk perception acting as an important psychological mechanism. This has important implications for policymakers, educational institutions, and financial service providers, suggesting that financial education initiatives should focus not only on imparting knowledge but also on improving risk assessment capabilities.

7. Suggestions /Recommendations

I. **Integration of Financial Education**

Financial literacy should be incorporated into academic curricula at school and university levels to build early financial awareness.

II. **Awareness Programs by Financial Institutions**

Banks and financial institutions should conduct regular workshops and seminars to educate youth about investment options and risk management.

III. **Use of Digital Platforms**
Development of mobile apps, online courses, and interactive tools can enhance accessibility and engagement in financial learning.

IV. **Focus on Risk Assessment Training**
Programs should not only provide financial knowledge but also improve individuals' ability to evaluate and manage financial risks effectively.

V. **Targeted Financial Inclusion Initiatives**
Special attention should be given to low-income and less-educated groups to bridge the financial literacy gap.

8. Future Scope of the Study

I. **Larger and Diverse Sample**
Future research can include a larger sample size across different regions (rural vs urban) to improve generalizability.

II. **Longitudinal Studies**
A time-based study can examine how financial literacy and investment behavior evolve over time.

III. **Inclusion of Behavioral Factors**
Variables such as financial attitude, overconfidence, and herding behavior can be incorporated for deeper insights.

IV. **Comparative Studies**
Comparative analysis across different age groups, professions, or countries can provide broader perspectives.

V. **Advanced Statistical Models**
Future studies may apply Structural Equation Modeling (SEM) or machine learning techniques for more robust analysis.

References-

- *Financial literacy: Do people know the ABCs of finance? - Annamaria Lusardi, 2015*. https://journals.sagepub.com/doi/10.1177/0963662514564516
- Mitchell, O. S., & Lusardi, A. (Eds.). (2011). *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*. Oxford University Press. https://doi.org/10.1093/acprof:oso/9780199696819.001.0001
- Agarwal, S., Amromin, G., Ben-David, I., Chomsisengphet, S., & Evanoff, D. D. (2014). Predatory lending and the subprime crisis. *Journal of Financial Economics*, *113*(1), 29–52. https://doi.org/10.1016/j.jfineco.2014.02.008
- *(PDF) Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education*.

https://www.researchgate.net/publication/225566633_Financial_Literacy_and_Retirement_Preparedness_Evidence_and_Implications_for_Financial_Education

- Laibson, D., Agarwal, S., Driscoll, J., & Gabaix, X. (2009). The Age of Reason: Financial Decisions over the Life Cycle and Implications for Regulation. *Brookings Papers on Economic Activity*, *2009*. https://doi.org/10.2139/ssrn.973790
- Lusardi, A., & Mitchell, O. S. (2014). The Economic Importance of Financial Literacy: Theory and Evidence. *Journal of Economic Literature*, *52*(1), 5–44. https://doi.org/10.1257/jel.52.1.5
- Sundarasen, S., Rajagopalan, U., Kanapathy, M., & Kamaludin, K. (2023). Women's financial literacy: A bibliometric study on current research and future directions. *Heliyon*, *9*(12), e21379. https://doi.org/10.1016/j.heliyon.2023.e21379
- *The Organization for Economic Cooperation and Development (OECD) | FIDO*. from https://sustainabledevelopment.be/sd-belgium/international-context/organization-economic-cooperation-and-development-oecd

भारतीय भाषा, शिक्षा, साहित्य एवं शोध

ISSN 2321 – 9726

WWW.BHARTIYASHODH.COM

INTERNATIONAL RESEARCH JOURNAL OF MANAGEMENT SCIENCE & TECHNOLOGY

ISSN – 2250 – 1959 (0) 2348 – 9367 (P)

WWW.IRJMST.COM

INTERNATIONAL RESEARCH JOURNAL OF COMMERCE, ARTS AND SCIENCE

ISSN 2319 – 9202

WWW.CASIRJ.COM

INTERNATIONAL RESEARCH JOURNAL OF MANAGEMENT SOCIOLOGY & HUMANITIES

ISSN 2277 – 9809 (0) 2348 - 9359 (P)

WWW.IRJMSH.COM

INTERNATIONAL RESEARCH JOURNAL OF SCIENCE ENGINEERING AND TECHNOLOGY

ISSN 2454-3195 (online)

WWW.RJSET.COM

INTEGRATED RESEARCH JOURNAL OF MANAGEMENT, SCIENCE AND INNOVATION

ISSN 2582-5445

WWW.IRJMSI.COM

JOURNAL OF LEGAL STUDIES,POLITICS AND ECONOMICS RESEARCH

WWW.JLPER.COM