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Role of Financial literacy in influencing investment decisions among young people: An insight into financial decisions by young adults.

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Abstract: *It has become increasingly important to educate young adults on Financial Literacy. This is important so that the habit of saving and investment is understood and inculcated at a young age. Besides the importance of various financial concepts it is equally important to understand the functioning of the stock market, and the necessity of portfolio divergence and management. Various schools in countries like Belgium have added financial literacy as part of their curriculum. But it is not a standardised one nor is it the same all over. OECD has brought out a standard definition of Financial literacy which could be used a s a starting point. This paper looks at the importance of imparting Financial literacy among the young, the reasons as to why it is important and the factors that lead to differing levels of literacy among them.*

Key words: Financial Literacy, Young adults, Human Capital Theory, Financial Choices, Financial Background, Educational Qualification, Human Capital Theory

Introduction

Financial literacy is an important life skill that helps individuals understand how to manage their money and make informed financial decisions. It includes knowledge of basic financial concepts such as saving, budgeting, spending, borrowing, investing, and managing debt. For young adults, developing financial literacy is particularly important because this stage of life often involves greater financial independence and new responsibilities. Whether they are pursuing higher education, starting their first job, or planning for the future, young adults need financial knowledge to make sensible decisions and build a secure financial foundation.

In today's world, managing money has become more challenging. The growing use of digital banking, online shopping, mobile payment applications, credit cards, and online investment platforms has made financial services more accessible. However, easy access to these services can also encourage impulsive spending, excessive borrowing, and poorly informed investment decisions. Young adults are frequently exposed to advertisements, social media influencers, and online discussions about spending and investing, which may influence their financial choices. Without adequate financial knowledge, they may struggle to distinguish between reliable financial advice and misleading information. Therefore, financial literacy is essential for helping young people understand financial opportunities and recognise the risks associated with them.

Research highlights the importance of financial literacy in improving financial decision-making and overall well-being. Lusardi and Mitchell (2014) explain that understanding basic concepts such as interest rates, inflation, and risk diversification is essential for making informed financial decisions. These concepts help individuals understand how money grows over time, how rising prices affect purchasing power, and why spreading investments across different assets can reduce

risk. Similarly, Lusardi and Streeter (2023) highlight the importance of financial literacy in supporting financial well-being. This suggests that financial knowledge can help young adults manage their expenses, develop regular saving habits, prepare for unexpected financial difficulties, and plan for their long-term goals.

However, not all young adults have the same level of financial knowledge or access to financial education. Their financial understanding may be influenced by family background, income, educational opportunities, and exposure to financial services. Some young adults learn about money management from their parents or through practical experience, while others may have limited opportunities to develop these skills. Although schools and universities provide education in various subjects, financial education may not always receive sufficient attention. As a result, young adults may enter working life without fully understanding how to prepare a budget, manage credit, compare financial products, or make appropriate investment decisions.

Financial education can help address these challenges by connecting theoretical knowledge with everyday financial situations. Universities, educational institutions, and families can play an important role in encouraging young adults to develop responsible financial habits. Practical activities involving budgeting, saving, understanding loans, and evaluating investment options can help them apply financial knowledge in real-life situations. Developing these skills at an early age may also encourage greater independence, confidence, and responsibility when making financial decisions.

In this context, examining financial literacy among young adults is important for understanding their financial knowledge, attitudes, and behaviour. It can help identify gaps in their understanding of essential financial concepts and reveal areas where additional education may be needed. Improving financial literacy can empower young adults to manage their money more effectively, avoid unnecessary financial difficulties, and work towards their personal and professional goals. Ultimately, financial literacy is not simply about knowing how money works; it is about using that knowledge to make better choices and build a more secure financial future.The importance of the know;edge of 'financial literacy', also results in increasing knowledge , and achieving important aspects like sustainability and working towards saving the environment.

Literature Review/Background

Financial literacy has become an important area of research because individuals increasingly need to make financial decisions that affect their present and future well-being. For young adults, financial literacy is particularly important as they begin to take greater responsibility for managing their money, and they are young enough to take 'calculated risk in the development of their portfolio. The problem arises is that they may not have enough funds with them as they might have when they are in their 30's and older.Their financial decisions may influence their spending habits, ability to save, use of credit, and preparedness for future financial needs.

Lusardi and Mitchell (2014) examined the economic importance of financial literacy and highlighted the value of understanding basic concepts such as interest rates, inflation, and risk diversification. Their work suggests that financial knowledge helps individuals make more informed decisions about saving, borrowing, and planning for the future. These concepts are

particularly relevant to students, who may be making independent financial decisions for the first time. For example, understanding compound interest can help students recognise the long-term benefits of saving early, while knowledge of inflation can help them understand how rising prices affect their purchasing power. Similarly, concepts such as risk diversification can help students appreciate the importance of spreading investments rather than placing all their money in a single asset. Financial literacy, therefore, involves not simply knowing financial terms but also understanding how they apply to everyday financial choices.

Traditional economic perspectives generally assume that individuals make rational decisions based on the information available to them. Becker (1976) explored human behaviour through an economic approach that emphasised decision-making and individual choice. However, later developments in behavioural research have drawn attention to the limitations of human judgement. Kahneman and Tversky (1996) examined how cognitive illusions can influence decisions, suggesting that individuals do not always evaluate information objectively. In the context of financial literacy, this means that students may make poor financial choices even when they have some financial knowledge. Emotions, personal beliefs, social pressure, and overconfidence can influence how they spend, save, or invest their money. These perspectives indicate that financial decision-making *should be studied not only in terms of what individuals know but also in terms of how they interpret information and respond to financial situations.*

An important distinction in this context is the difference between objective and subjective financial literacy. Objective financial literacy refers to an individual's actual knowledge of financial concepts, while subjective financial literacy refers to how knowledgeable that individual believes they are. These two forms of knowledge may not always correspond. For instance, a student may feel confident about investing but may not fully understand investment risks or the effects of inflation. *Such a difference between actual knowledge and perceived knowledge may influence financial choices and expose individuals to unnecessary risks.* This distinction is increasingly relevant in digital financial environments, where mobile payment applications, online banking, and investment platforms make financial transactions easier and faster. Although these technologies offer convenience, they may also encourage impulsive spending or poorly informed decisions when users lack sufficient financial knowledge. Research on objective and subjective financial literacy can therefore help explain why some students make responsible financial decisions while others struggle despite feeling financially confident.

Human Capital Theory provides another useful perspective for understanding the importance of financial education. Becker (1993) explained that education and training help individuals develop knowledge and skills that can improve their future opportunities. Applied to financial literacy, this theory views financial education as an investment in the individual's ability to manage money effectively. Young people who receive appropriate financial education may become better equipped to prepare budgets, compare financial products, understand borrowing costs, and evaluate investment opportunities. From this perspective, financial education can contribute to personal financial well-being by strengthening the skills needed to make informed decisions.

However, the benefits of financial education also depend on whether students can apply what they learn to their everyday financial lives.

The Theory of Planned Behavior, developed by Ajzen (1991), provides further insight into the relationship between financial knowledge and financial behaviour. According to this theory, an individual's behaviour is influenced by attitudes, subjective norms, and perceived behavioural control. Attitudes refer to whether a person views a behaviour positively or negatively; subjective norms reflect the influence of family, friends, and society; and perceived behavioural control concerns how capable a person feels of performing a particular action. These factors may shape the financial decisions of students. For example, a student may understand the importance of saving but may not save regularly because friends encourage frequent spending or because the student believes that their available income is too limited. The theory therefore suggests that financial knowledge alone may not be enough to encourage responsible financial behaviour. Personal attitudes, social influences, and confidence in managing money must also be considered.

Self-Determination Theory, developed by Deci and Ryan (1985), adds another dimension by highlighting the importance of personal motivation and individual choice. Students may be more likely to maintain responsible financial habits when they understand why those habits matter and connect them to their own goals. A student who values financial independence, for example, may be more motivated to save regularly, avoid unnecessary debt, and control spending. Similarly, students who understand the long-term consequences of their choices may be more willing to plan their expenses rather than make impulsive purchases. This perspective highlights the importance of financial education that encourages students to take ownership of their financial decisions instead of simply memorising financial concepts.

Taken together, these theories suggest that financial literacy is a multidimensional concept. Human Capital Theory explains the importance of developing financial knowledge and skills (Becker, 1993), the Theory of Planned Behavior highlights the role of attitudes, social influences, and perceived control (Ajzen, 1991), and Self-Determination Theory explains how personal motivation may support responsible financial habits (Deci & Ryan, 1985). Behavioural research further suggests that confidence and cognitive biases may affect how financial knowledge is used in practice (Kahneman & Tversky, 1996). These perspectives provide a useful foundation for understanding the financial decisions of undergraduate students.

Investment practices may help identify areas where financial understanding is limited. Comparing students' actual knowledge with their perceived financial knowledge may also reveal whether overconfidence or a lack of confidence influences their decisions. Such an approach can provide useful insights for developing financial education programme that respond to students' practical needs and encourage more informed financial choices. *The present study therefore focuses on financial literacy and financial decision-making among undergraduate students, with the aim of understanding how financial knowledge could relate to their everyday financial behaviour.*

Research Gap and Methodology

The paper attempts to understand the importance and role of financial knowledge in understanding the concept of ‘risky investment’, ‘portfolio management; and ;long term investment and saving

goals'. In what way could this information be imparted to young adults so that they are better equipped to manage their investments in the future?What role could be played by parents, broking houses and digital platforms in achieving this goal.

The methodology adopted would be of the mixed method type that would be both quantitative and qualitative. The quantitative analysis would be analysed from authentic secondary sources, while the explanation would be qualitative in nature.

Analysis

Financial literacy is an important life skill that helps young adults make informed decisions about spending, saving, budgeting, borrowing, and managing their money. As they become more independent, they are increasingly expected to manage their own finances and make decisions that can affect their future financial well-being. Developing financial literacy at an early age is therefore important because the habits and attitudes formed during adolescence and young adulthood may influence financial behaviour later in life. Pahlevan Sharif and Naghavi (2020) highlight the importance of financial literacy among young people, particularly as they face increasing financial responsibilities and decision-making demands.

There are several reasons why financial literacy deserves particular attention among young adults. First, this is a stage of life when individuals begin to develop greater financial independence and establish habits relating to spending, saving, and budgeting. Second, the financial environment is becoming increasingly complex, with young people expected to understand digital payments, banking services, credit facilities, and different financial products. Without adequate financial knowledge, they may find it difficult to make informed decisions or manage financial risks. Third, introducing financial education through schools, colleges, universities, and youth organisations provides an opportunity to reach large numbers of young people and equip them with practical financial skills before they face more complex financial responsibilities.

The development of financial literacy, however, does not depend on formal education alone. The family also plays an important role in shaping young people's attitudes towards money. Parents and caregivers often influence how young people understand saving, spending, budgeting, and financial responsibility. Bandura's (1977) Social Learning Theory helps explain this influence by suggesting that individuals learn by observing and imitating the behaviour of others. For example, young adults who have observed their parents planning household expenses, saving regularly, and avoiding unnecessary borrowing may be more likely to recognise the importance of responsible financial management. Similarly, Vygotsky's (1978) Sociocultural Theory emphasises the role of social interaction and guidance in learning. Discussions with parents and other adults can help young people understand financial concepts and apply them to everyday decisions.

Early financial education can also provide a strong foundation for responsible financial behaviour. Gardynia and Syaodih (2021) discuss the importance of introducing financial concepts during early childhood through learning approaches suited to children's level of understanding. Although their discussion focuses on younger children, the underlying principle is relevant to young adults: financial education should develop gradually, allowing individuals to build on their existing

knowledge and experiences. While younger children may need to learn basic concepts such as saving pocket money and distinguishing between needs and wants, young adults require a deeper understanding of budgeting, credit, interest, financial planning, and the long-term consequences of their decisions.

Practical experience is particularly important in helping young adults apply financial knowledge to real-life situations. For instance, they can learn to prepare a budget, monitor their spending, compare prices before purchasing products, and distinguish between essential expenses and discretionary spending. These activities can encourage them to think more carefully about their financial choices rather than acting on impulse or following the spending habits of their peers. From a behavioural perspective, financial literacy involves more than simply understanding financial concepts; it also requires the ability to apply that knowledge when making decisions.

Technology has created additional opportunities to support financial learning among young adults. Budgeting applications, online banking platforms, digital payment systems, and online comparison tools can help them monitor their spending and understand how their financial choices affect their available resources. For example, comparing the prices and features of different products before making a purchase can encourage more informed decisions. However, access to digital financial services does not automatically mean that young people possess the knowledge needed to use them responsibly. They must also understand the potential risks associated with impulsive spending, online transactions, borrowing, and the misuse of credit. Pahlevan Sharif and Naghavi (2020) emphasise the need to equip young people with the knowledge and skills required to make informed financial decisions, making practical and technology-supported learning an important area for financial education.

Several theoretical perspectives help explain how financial literacy develops and influences financial behaviour. In addition to Social Learning Theory (Bandura, 1977) and Sociocultural Theory (Vygotsky, 1978), the Theory of Financial Socialisation provides a useful explanation of how young adults develop financial attitudes and habits through interactions with family members, peers, and wider society. LeBaron and Kelley (2021) discuss the role of social influences in financial socialisation. This perspective suggests that financial behaviour is shaped not only by what individuals learn in educational settings but also by their everyday experiences and the financial practices they observe around them.

The Behavioural Economics Perspective provides another important explanation for financial decision-making. Individuals do not always make financial choices based on careful reasoning. Their decisions may be influenced by emotions, peer pressure, the desire for immediate rewards, and other psychological biases. Zaleskiewicz and Traczyk (2020) and Zhu and Chou (2020) are relevant to the discussion of psychological influences on financial decision-making in the literature provided. For young adults, these influences may be particularly important when making spending decisions, using credit, or responding to social expectations. Financial education should therefore help them understand financial concepts while also encouraging them to recognise impulsive behaviour, consider future consequences, and evaluate their choices more carefully.

Bronfenbrenner's Ecological Systems Theory offers a broader understanding of the factors that shape financial literacy. It highlights how individuals are influenced by the different environments in which they live, learn, and interact. For young adults, these environments include family, educational institutions, friends, workplaces, digital platforms, and wider social and economic conditions. LeBaron-Black et al. (2022) and Ullah and Yusheng (2020) are cited in the reviewed literature in connection with environmental influences on development and financial learning. This perspective suggests that financial literacy cannot be understood by examining individual knowledge alone. Family support, educational opportunities, access to financial services, and socio-economic background may also influence how young adults acquire and apply financial skills.

Despite growing recognition of the importance of financial literacy, further research is required to understand how financial education influences the financial behaviour of young people. The literature cited by Mallia et al. (2020), Diotaiuti et al. (2022a, 2022b), and Mancone et al. (2024a, 2024b) highlights the importance of examining financial literacy among younger populations. An important issue is whether financial education improves not only financial knowledge but also the ability to make responsible decisions in everyday life. For example, knowing that saving is important does not necessarily mean that a young adult will save regularly or manage a budget effectively. Research must therefore examine whether financial education translates into lasting changes in financial attitudes and behaviour.

Young adults from different backgrounds may have different levels of access to financial education, digital resources, and opportunities to manage money independently. Similarly, classroom-based learning, family guidance, practical exercises, and digital learning platforms may produce different outcomes. Comparing these approaches can help identify the most effective ways to develop financial knowledge and responsible financial habits among young adults. The development of financial knowledge, attitudes, and behaviour is important as it seeks to understand the main components of effective financial education, the role of family and social influences, and the contribution of digital tools to financial learning. It also considers the theoretical perspectives that explain financial decision-making and identifies gaps in existing research that require further investigation. The eventual aim is to use this knowledge to make sensible decisions, manage financial responsibilities, and prepare for future needs. A clearer understanding of these influences can help educators, families, and policymakers This knowledge is important for young adults to manage their money independently and make informed financial decisions throughout their lives.

Existing Ways in which young adults are being prepared in Financial Literacy

Schools play an important role in developing financial literacy among young people.Recognising its importance, several governments have introduced financial literacy into their school curricula. For example, it has been formally included in secondary school education in the United States and the Flemish Community of Belgium.

However, financial education is not taught in the same way everywhere. In many schools, there is no standardised curriculum, and teachers have considerable freedom to decide what to teach and how to teach it. As a result, students may receive different levels of financial education depending

on their school, state or teacher. This makes it difficult to ensure that all students develop the same basic financial skills. A clear and consistent framework is therefore important to guide the teaching of financial literacy.

The Organisation for Economic Co-operation and Development (OECD, 2019) provides a widely recognised definition of financial literacy. It explains that financial literacy involves understanding financial concepts and risks, as well as having the skills and attitudes needed to make sound financial decisions. The aim is to help individuals improve their financial well-being and participate effectively in economic life. This definition shows that financial literacy is not just about knowing financial facts; it also involves how people think about and manage money. It includes three main dimensions: *financial knowledge, financial attitudes and financial behaviour*. Financial knowledge refers to understanding concepts such as saving, budgeting, interest rates and inflation. Financial attitudes reflect how individuals think and feel about money, while financial behaviour relates to how they manage their finances in everyday life. Together, these three dimensions help explain how financial literacy can prepare young people to make responsible financial decisions.

Besides the above there is an immense attraction towards the functioning of the stock market. It becomes necessary that young people are taught the intricacies of its functioning before they reach the age where they start dabbling in the market. Listening to adults,and peers often leads to false images that the stock market is a place where " quick and easy money can be earned". To explode this myth it is essential to teach them the basics of the stock market at an early age. They should be taught the functioning of the"bull stage" and the "bear stage", knowledge on " futures and Options". These will not only help in understanding the working of the stock market but would also help in bringing into focus the idea of "portfolio management", risky and safe assets, and the importance of the age of the investor which will help in the understanding of portfolio preferences and management. On Line Financial Brokering Companies in India like Groww and Zerodha have explored capsules for young children to explore and function in a real stock market, at time's with real money, and sometimes with fictitious currency , but all under parent supervision. The last is extremely important as in their absence it is possible for children to get carried away with the charisma of the workings of the "stock market".

Conclusion and the way ahead.

It is extremely important that school going children and young adults have complete knowledge and information of various investment decisions. The earlier they learn these concepts the better is the understanding on concepts such as saving and investment. Importance of portfolio management and the manner in which to switch between various financial assets that would help them in the future. Realising the importance of this concept some schools have introduced this subject in their curriculum. But this format not a structured one . Agencies like OECD have tried to introduce a definite wholesome definition of the concept, so that in times to come a syllabus could be adopted. It is also important for these young adults to understand the functioning of the stock market. Various stimulated models could be developed and adopted both at the school level

as also with various on line fintech companies so that children are allowed to learn the nuances. Care has to be taken that either they are given fictitious currency or limited amount under parental supervision to participate in a real stock market of an economy. The Government has to introduce regulations and laws for the functioning of these courses on various platforms, otherwise the lure of money without control could be a disaster in the making for the young.

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