



## An Empirical study on: An Impact of Financial Literacy on Factors affecting Investment Decision

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**Abstract:** *The need for financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit; the ready issue of credit cards; the rapid growth in marketing financial products and the Government's encouragement for its citizens to take more self-responsibility for their retirement incomes. Financially unsophisticated consumers who consistently make sub-optimal financial decisions may suffer lasting consequences for long-term wealth accumulation and welfare. This paper reviews, an actual Impact of Financial Literacy on various investment factors like Personal Financial Decision, Investment Decision, Preference of Consumer Credit Portfolios, Investment Behavior of Household, Saving Decisions Of Households, Psychological Factors which makes an impact on Investment decision, Wealth Accumulation Decision, Retirement Planning Decision. As a result of this analysis, the paper presents there is a positive relation between Financial Literacy and Factors affecting Investment decision of Households.*

**Key words:** *Investment, Financial Literacy, Investment Factors, Behavior, financial literacy, financial education, personal finance, and financial skills*

### I. FINANCIAL LITERACY

Financial Literacy can be explained as the possession of knowledge and understanding of financial matters. It is mainly used in connection with personal finance matters. Financial literacy often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving (especially for college), tax planning and retirement. It also involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, etc.

Many individuals do not hold a checking account (Hilgert, Hogarth, and Beverly, 2003); have large outstanding credit card balances when cheaper forms of credit are available (Gartner and Todd, 2005); accept payday loans with astronomical APRs even in the presence of other, cheaper, credit sources (Agarwal, Skiba, and Tobacman, 2009); sub-optimally choose credit contracts (Agarwal, Chomsisengphet, Liu and Souleles 2006); fail to refinance mortgages when it would be optimal to do so (Agarwal, Driscoll, and Laibson, 2006); and fail to plan for retirement, reaching it with little or no savings (Lusardi and Mitchell, 2006). A leading explanation for this behavior is that consumers are not financially literate—they lack sufficient information about financial concepts and instruments to make informed financial decisions. A growing literature has evaluated both the state of financial literacy and the effectiveness of financial education programs aimed at improving financial decision-making.<sup>1</sup>

### II. MEASURING FINANCIAL LITERACY

Huston, Sandra; 1; 1 Texas Tech University (Oct. 2011) defines Financial literacy (or financial knowledge) is typically an input to model the need for financial education and explain variation in financial outcomes. Defining and appropriately measuring financial literacy is essential to understand educational impact as well as barriers to effective financial choice.<sup>2</sup>

### III. IMPACT OF FINANCIAL LITERACY ON VARIOUS FACTORS AFFECTING INVESTMENTS

**Relation of Financial literacy and gender** Hassan Al-Tamimi, Hussein A; Al Anood Bin Kalli (2009) conclude in their research, that a significant difference in the level of financial literacy was found as well between the respondents according to their gender. Specifically, women have a lower level of financial literacy than men. **Impact of Financial literacy on investment decisions** Hassan Al-Tamimi, Hussein A; Al Anood Bin Kalli (2009) found that there is a significant relationship between financial literacy and investment decisions. The most influencing factor that affects the investment decision is religious reasons and the least affecting factor is rumors. **Impact of Financial literacy on preference of consumer credit portfolios** Disney, Richard; Gathergood, John (2013) says that individuals who borrow on consumer credit exhibit worse financial literacy than those who do not. Borrowers with poor financial literacy hold higher shares of high cost credit than those with higher literacy. They also

<sup>1</sup> Agarwal, Driscoll, Gabaix, and Laibson, (2008 and 2009), Agarwal, Amromin, Ben-David, Chomsisengphet and Evanoff (2011, 2010, 2009), Lusardi (2004), Lusardi and Mitchell (2007a, 2007b), Lusardi, Mitchell and Curto (2009), and Mitchell (1988).

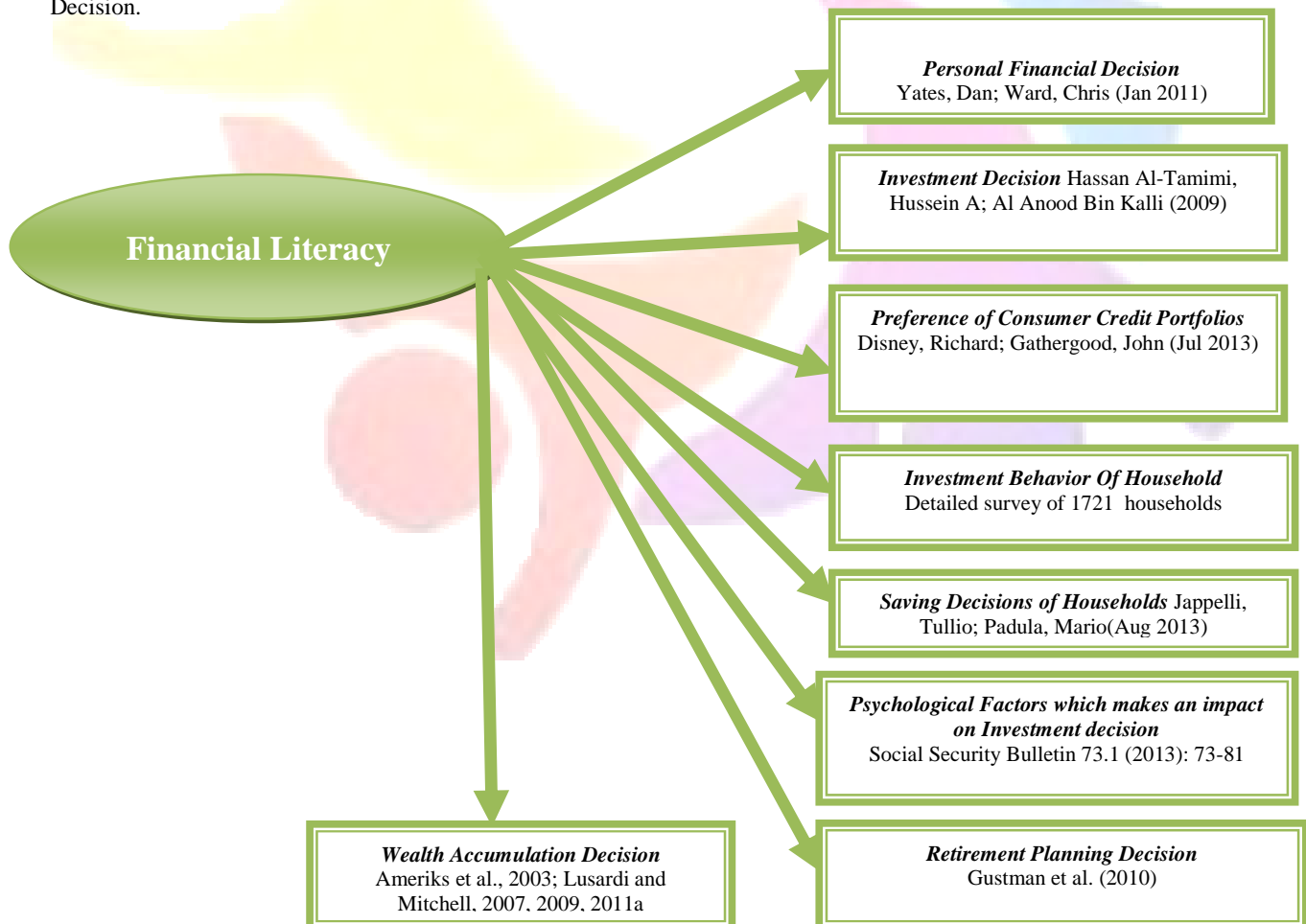
<sup>2</sup> Huston, Sandra; 1; 1 Texas Tech University (Oct. 2011)

show that individuals with poor financial literacy are more likely to lack confidence when interpreting credit terms, and to exhibit confusion over financial concepts. They are also less likely to engage in behavior which might help them to improve their awareness of the credit market. **Relations of Financial Literacy, awareness, and conservation behavior of residential households** Detailed survey of 1721 households examine awareness, literacy and behavior of households with respect to their residential energy expenditures consumers are aware of their energy consumption. Results show that "energy literacy" and awareness among respondents is low: just 56% of the respondents are aware of their monthly charges for energy consumption, and 40% do not appropriately evaluate investment decisions in energy efficient equipment. They describe that demographics and consumer attitudes towards energy conservation. **Relation of financial literacy and saving decisions of population** Jappelli, Tullio; Padula, Mario (2013) presented an inter temporal consumption model of investment in financial literacy. Consumers benefit from such investment because financial literacy allows them to increase the returns on wealth. Since literacy depreciates over time and has a cost in terms of current consumption, the model delivers an optimal investment in literacy. Furthermore, literacy and wealth are determined jointly, and are positively correlated over the lifecycle. Research analysis of the effect of financial literacy on wealth and saving and indicates that the stock of financial literacy early in life is a valid instrument in the regression of wealth on financial literacy. **How Financial Literacy affects Psychosocial Factors** Social Security Bulletin (2013) explores the relationship between financial literacy and several economic and psychosocial variables. After controlling for earnings, level of education, and other socioeconomic variables in this exploratory study, this research conclude that financial satisfaction and religiosity are correlated with financial literacy so ultimately Financial literacy pooling psychologically to investor regarding Investments. **Relation of Financial Literacy with Wealth Accumulation** An article (Haliassos and Bertaut, 1995; Vissing- Jorgensen, 2004) identifies and highlights two channels through which financial literacy might facilitate wealth accumulation. First, a high level of financial knowledge lowers the costs of gathering and processing information and reduces barriers to investing in the stock market. There is a positive correlation between literacy and wealth accumulation and ultimately financial literacy is found to be positively associated with retirement planning behavior (Ameriks et al., 2003; Lusardi and Mitchell, 2007, 2009, 2011a). There is a positive relationship between pension wealth and knowledge by Gustman (2010) argues that the causality is more likely to run from pension wealth to pension knowledge than the other way around.

IV. MODEL SHOWS

**Financial Literacy**

*There is Positive impact of Financial Literacy on below mentioned factors like* Personal Financial Decision, Investment Decision, Preference of Consumer Credit Portfolios, Investment Behavior of Household, Saving Decisions of Households, and Psychological Factors which makes an impact on Investment decision, Wealth Accumulation Decision, Retirement Planning Decision.





## V. CONCLUSION

Research conclude that Financial literacy is the ability to understand how money works: how someone makes, manages and invests it, and also expends it (especially when one donates to charity) to help others. In-depth knowledge of financial literacy is required to understand how money works and how it can work for you – even when you're sleeping – by investing in profitable areas like the stock or money market. To understand money and how it works, it's important to understand common financial literacy principles such as; financial goals, budgeting, investments.

The paper examined the effects of Financial Literacy on Investment decisions. Insight from the literatures, we have found that Financial Knowledge and Awareness regarding various Investment tools makes positive impact on Investment decisions and preference as well Factors of Investments. Financial Literacy makes a positive impact on Personal Financial decision, Investment Decision, Preference of Consumer Credit Portfolios, Investment behavior of household, saving decision of households, Psychological Factors which makes an impact on Investment decision and Wealth Accumulation Decision. So ultimately from the secondary data, we conclude that Financial Literacy carries towards Good Investments.

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