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Financial Literacy Levels Among Youth and Its Impact on Investment Decisions

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Abstract

In India's rapidly evolving financial landscape, financial literacy has emerged as a critical determinant of sound investment behaviour among youth. This study investigates the financial literacy levels among 200 young individuals aged 18–30 and examines how these levels impact their investment decisions. Using stratified random sampling and a structured questionnaire, the study employs descriptive statistics, Pearson correlation, Chi-Square tests, ANOVA, and t-tests to analyse the data. Results reveal a strong positive correlation between financial literacy and investment participation ($r=0.742$, $p<0.01$), portfolio diversification ($r=0.686$, $p<0.01$), and investment confidence ($r=0.758$, $p<0.01$). High-literacy youth demonstrate 90.6% investment participation compared to only 41.7% among low-literacy youth. The study further identifies that social media is the primary financial information source for 36% of respondents, while only 4% rely on formal education—highlighting systemic gaps. The findings underscore the urgent need for structured financial literacy programs within the Indian education system.

Keywords: Financial Literacy, Investment Decisions, Youth Finance, Portfolio Diversification, Risk Perception, Behavioural Finance, India

INTRODUCTION

In today's fast-changing economic world, managing personal finance has become more important than ever. People are required to make financial decisions related to saving, spending, borrowing, and investing from a very young age. The availability of digital banking, online trading platforms, mobile payment systems, and easy access to financial products has made financial decision-making quicker but also more complicated. Having basic financial knowledge is no longer optional; it is a necessary life skill.

Youth represent a significant and growing segment of the population that actively participates in financial activities. Many young individuals start earning early, manage their own expenses, take education loans, use credit cards, and begin investing for future goals. However, not all youth are adequately prepared to handle these responsibilities. Financial literacy plays a crucial role in helping young people understand how money works and how financial decisions made today can affect their future financial security.

Financial literacy refers to the ability to understand and use various financial skills effectively—including knowledge about income management, saving habits, budgeting, interest rates, inflation, investment options, and risk management. A financially literate young individual is more likely to plan expenses wisely, save regularly, and invest with a long-term perspective. On the other hand, lack of financial literacy can result in poor money management, unnecessary debt, impulsive spending, and incorrect investment choices.

The modern financial environment offers both opportunities and challenges for young investors. The rise of online trading apps, financial influencers, and social media content related to investments has increased awareness and participation in financial markets. While easy access to information has encouraged youth to invest, it has also increased the risk of misinformation and emotional decision-making. Financially literate youth contribute positively not only to their personal financial well-being but also to the overall economy through higher savings, responsible borrowing, and productive investments.

Objectives of the Study

- To examine the level of financial literacy among youth aged 18–30
- To study the savings and budgeting behaviour of young individuals
- To examine the level of risk perception and risk tolerance among young investors
- To identify major barriers faced by youth in making investment decisions

LITERATURE REVIEW

Sharma and Gupta (2024) found that youth with higher financial literacy tend to make diversified and well-planned investment decisions, concluding that financial knowledge improves risk assessment and encourages long-term investment behaviour. Lusardi and Mitchell (2024) revealed that many college students face financial responsibilities without adequate financial knowledge, highlighting gaps in understanding financial scams, budgeting, and savings.

Kim and Lee (2025) demonstrated a positive relationship between financial literacy and sound investment decisions among individuals aged 18–35, showing that financially literate youth demonstrated better confidence and clarity in selecting investment options. Patel and Rao (2025) found that financial literacy significantly influences disciplined investment behaviour among millennials in developing economies, emphasizing the role of education in reducing financial uncertainty.

Singh and Kumar (2024) concluded that awareness of basic financial concepts such as interest rates and risk diversification directly affects investment decisions, with financially aware youth being less prone to impulsive investments. Wang and Zhang (2025) highlighted that financial literacy is strongly associated with prudent and cautious investment behaviour, with literate investors showing better planning and risk control.

The seminal work of Lusardi and Mitchell (2009) identified financial literacy as a key determinant of youth financial behaviour, emphasizing that low literacy leads to poor savings and investment choices. Johnson and Smith (2024) found that financial literacy combined with motivation significantly improves investment decision-making. Desai and Mehta (2025) integrated behavioural finance concepts, finding that financially literate youth make more rational investment decisions with lower emotional bias.

Fernandes (2023) identified overconfidence as a major bias among youth with low financial literacy. Sekar and Parameswaran (2024) showed gender differences, with female youth tending to be more risk-averse despite similar literacy levels. Kumar (2021) highlighted the dual role of social media in spreading financial awareness and misinformation in the Indian context. Kaiser and Menkhoff (2017) found that financial education interventions increase equity market participation.

Research Gap

While existing literature examines financial literacy and investment behaviour, most studies focus on Western or developed market contexts. There is limited comprehensive research specifically examining the Indian urban youth demographic that simultaneously analyses financial knowledge, savings behaviour, investment practices, risk perception, and information sources within a single study. This research fills that gap by providing holistic, evidence-based insights into the Indian youth financial landscape.

RESEARCH PROBLEM STATEMENT

In India, the penetration of digital financial tools, trading apps, and social media-based financial content has dramatically increased young people's exposure to financial markets. However, exposure does not equate to understanding. A large proportion of Indian youth lack the foundational financial knowledge required to make sound investment decisions, leaving them vulnerable to misinformation, emotional decision-making, and poor portfolio construction.

This study addresses these gaps by analysing primary data from 200 respondents across demographic segments, measuring financial literacy levels, and establishing statistically significant relationships with investment outcomes. The purpose is to provide a comprehensive understanding of how financial literacy—or the lack thereof—shapes investment participation, portfolio quality, and decision-making behaviour among Indian youth aged 18–30.

RESEARCH METHODOLOGY

Research Design

The study employs a mixed-methods approach using descriptive and analytical research methodologies. The descriptive component documents current financial literacy levels, investment patterns, and behaviour. The analytical component examines correlations and causal linkages between financial literacy scores, demographic variables, and investment outcomes. This is a cross-sectional study collecting data at a single point in time.

Sampling Design

The study uses stratified random sampling to ensure representative coverage of the youth population in Bangalore and surrounding areas. Stratification criteria included educational qualification, employment status, monthly income level, and age groups (18–22, 23–26, 27–30 years).

Sample Size

A sample of 200 respondents was determined using the finite population sampling formula: $n = (Z^2 \times p \times q \times N) / (e^2 \times (N-1) + Z^2 \times p \times q)$, where $Z = 1.96$ (95% confidence), $p = q = 0.5$, $N = 5000$, and $e = 0.05$. The survey was conducted during December 2025–January 2026, achieving 100% valid responses.

Data Collection

Primary data was collected through a structured 35-question questionnaire covering demographic information, financial knowledge, savings and budgeting behaviour, investment awareness, risk perception, and information sources. Responses were collected via Google Forms (65%) and physical distribution (35%). Secondary data included academic journals, SEBI and RBI reports, NCFE publications, and AMFI investor awareness studies.

Statistical Tools

The study employed: Pearson Correlation Coefficient to measure linear relationships between financial literacy and investment variables; Chi-Square Test to examine associations between categorical variables; One-Way ANOVA to compare financial literacy means across education levels; and Independent Samples t-Test to compare literacy between male and female respondents.

RESEARCH HYPOTHESES

1. **H1:** Financial literacy significantly impacts investment participation among youth.
2. **H2:** Higher financial literacy leads to better portfolio diversification.
3. **H3:** Financial education significantly influences investment confidence among youth.
4. **H4:** Demographic factors (gender, age, education) affect financial literacy levels.

ANALYSIS AND INTERPRETATIONS

1. Demographic Profile of Respondents

The study surveyed 200 youth with a balanced age distribution: 37.5% aged 18–22 years, 37.5% aged 23–26 years, and 25% aged 27–30 years. The gender composition was 55% male, 42.5% female, and 2.5% preferring not to specify. Among the 120 employed respondents, the majority (66.7%) earned between ₹25,000–₹75,000 per month, representing the middle-income youth segment that forms the primary target for investment products.

Table 1: Age Distribution of Respondents

Age Group	Frequency	Percentage (%)
18–22 years	75	37.5
23–26 years	75	37.5
27–30 years	50	25.0
Total	200	100.0

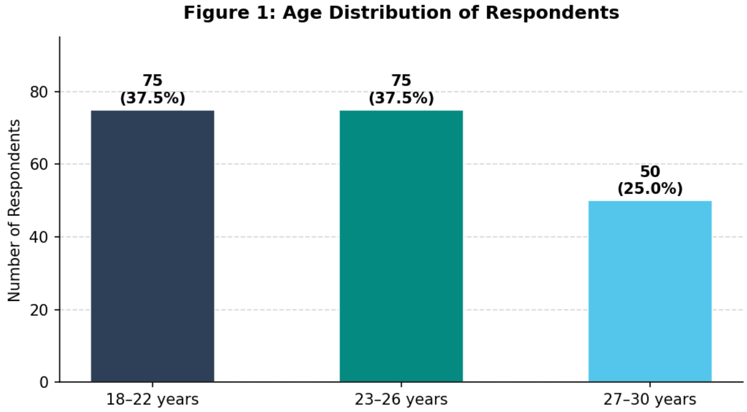

Figure 1: Age Distribution of Respondents

Table 2: Gender Distribution

Gender	Frequency	Percentage (%)
Male	110	55.0
Female	85	42.5
Prefer not to say	5	2.5
Total	200	100.0

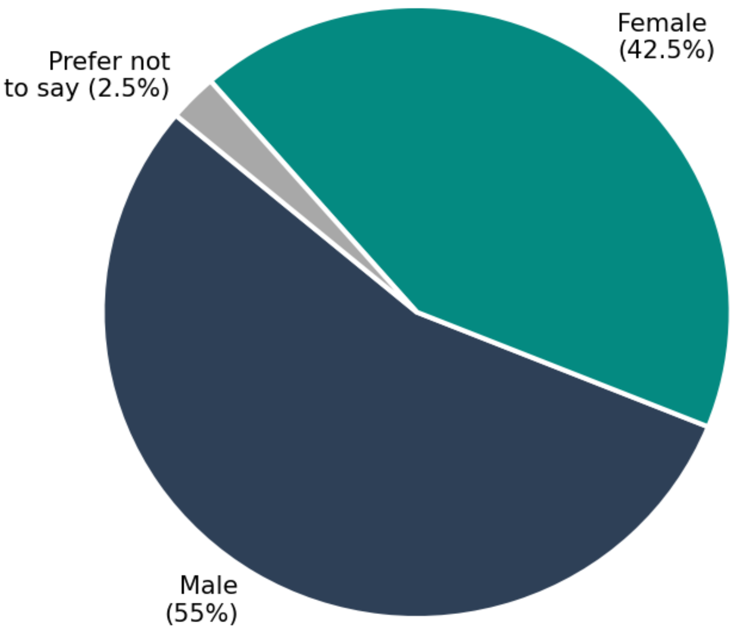

Figure 2: Gender Distribution

2. Financial Knowledge Assessment

68% of respondents correctly understood compound interest calculations, though 32% lacked this foundational knowledge. On stock market awareness, 46% reported good to excellent knowledge while 18% had poor or no knowledge. Mutual fund awareness was recorded at 70% (some level), but only 28% were very well informed about fund categories and selection criteria. Overall financial literacy was assessed as: High (32%), Moderate (56%), and Low (12%).

Table 3: Financial Literacy Level vs. Investment Participation

Literacy Level	n	Active Investors (%)	Non-Investors (%)
High	64	90.6%	9.4%
Moderate	112	67.9%	32.1%
Low	24	41.7%	58.3%

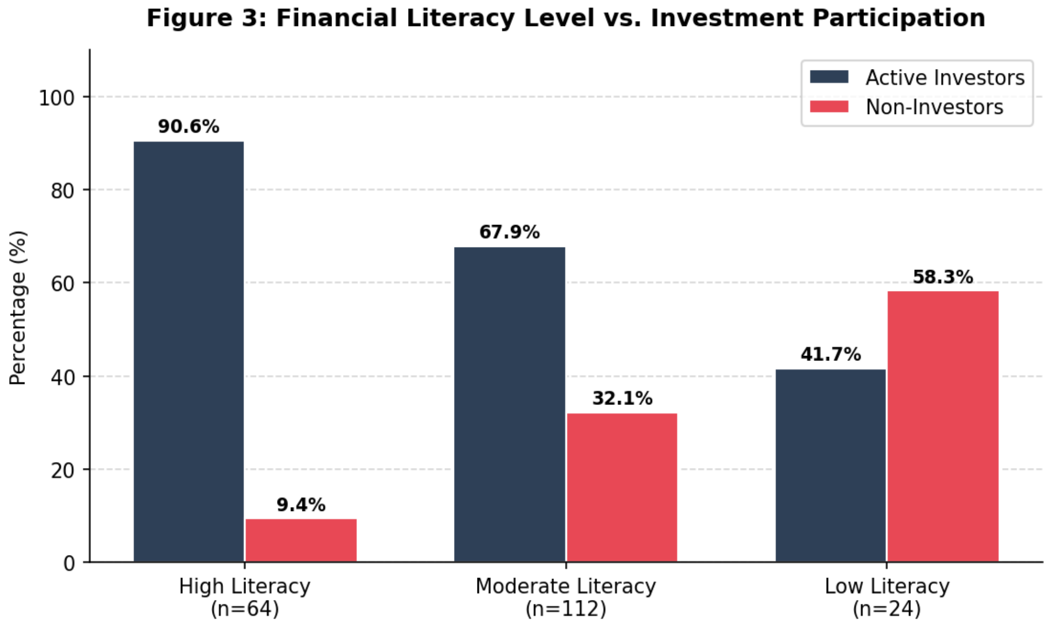

Figure 3: Financial Literacy Level vs. Investment Participation

Chi-square analysis confirms a statistically significant association ($p<0.01$) between literacy levels and investment participation, validating H1. The 49 percentage-point difference between high and low literacy groups is striking evidence of literacy's practical impact on investment behaviour.

3. Savings and Budgeting Behaviour

54% of respondents demonstrated disciplined monthly savings, 34% saved occasionally, and 12% rarely or never saved. Emergency fund preparedness revealed a concern: only 50% had funds covering 3+ months of expenses, and only 22% met the recommended 6–12 month threshold. Among employed youth, 58.3% saved more than 20% of their income—presenting excellent opportunities for productive investment channelling.

Table 4: Regular Savings Practice

Savings Frequency	Frequency	Percentage (%)
Save regularly every month	108	54.0
Save occasionally	68	34.0
Rarely save	18	9.0
Do not save	6	3.0
Total	200	100.0

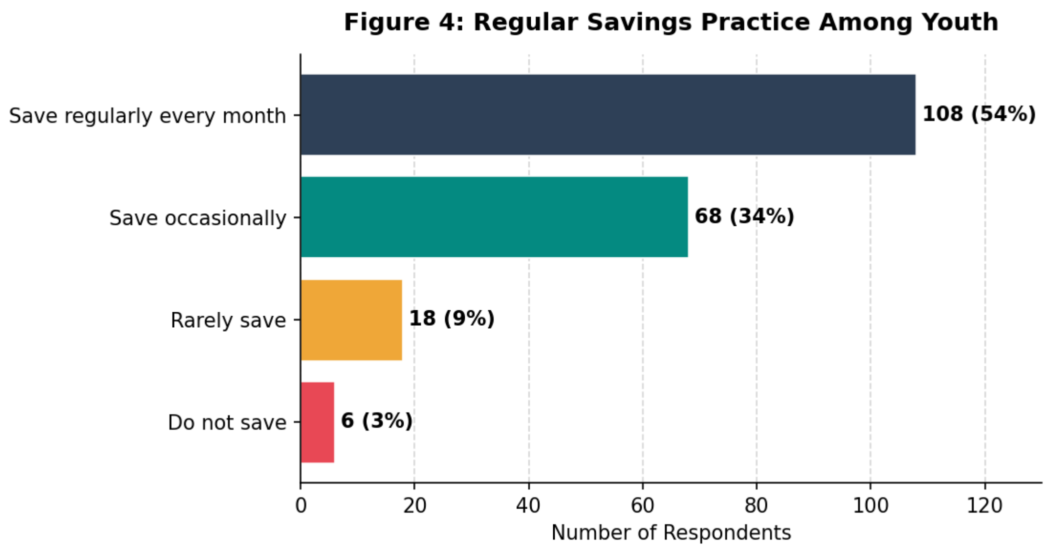

Figure 4: Regular Savings Practice Among Youth

4. Investment Awareness and Preferences

Fixed deposits (46%) remained the most popular investment instrument, reflecting a preference for safety and guaranteed returns. Mutual funds (38%) and direct equity (27%) showed growing market appetite among youth. Concerning findings include 29% of respondents limiting themselves to savings accounts only, low adoption of PPF/NPS (19%) despite tax benefits, and 12% emerging interest in cryptocurrency. Portfolio diversification was limited: only 53% achieved moderate to high diversification (3+ products).

Table 5: Investment Products Currently Held

Investment Product	Frequency	Percentage (%)
Fixed Deposits	92	46.0
Mutual Funds	76	38.0
Savings Account only	58	29.0
Direct Equity/Stocks	54	27.0
Gold/Digital Gold	48	24.0
PPF/NPS	38	19.0
Cryptocurrency	24	12.0

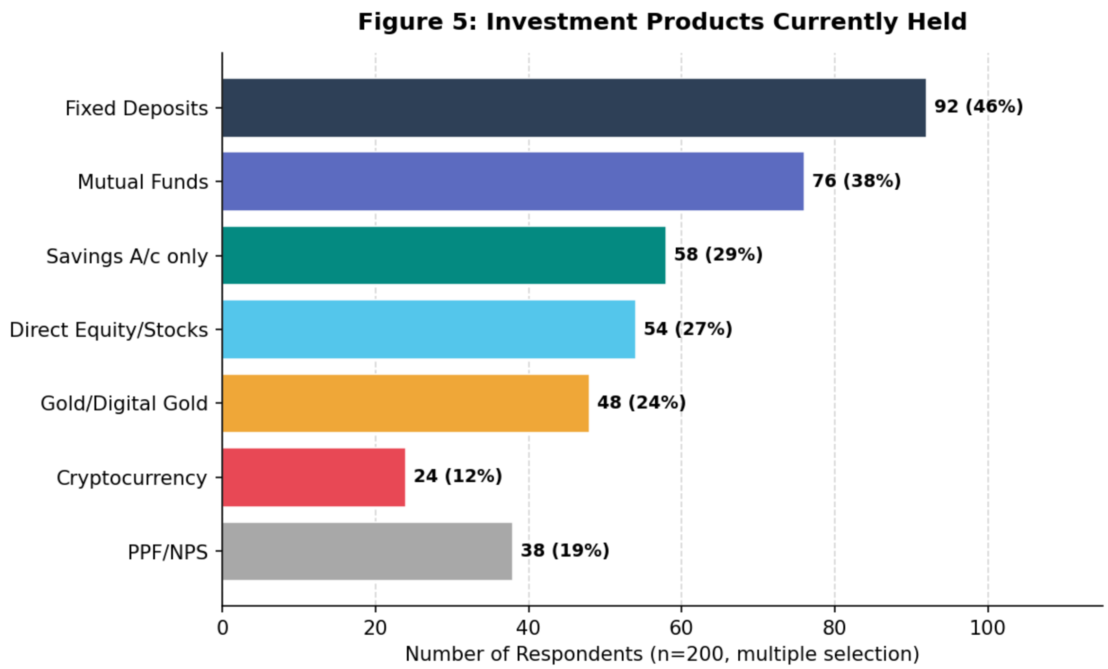

Figure 5: Investment Products Currently Held (n=200, multiple selection)

Regarding investment objectives, wealth creation was the dominant goal (39%), followed by tax saving (22%), specific life goals (18%), and regular income (16%). 34% made investment decisions through self-research, 28% relied on family/friends, and 21% consulted financial advisors.

5. Risk Perception and Attitude

51% of respondents described themselves as moderate risk-takers, 22% had high risk tolerance, and 27%

were low to very low risk tolerant. During market downturns, 70% demonstrated rational behaviour—either viewing downturns as buying opportunities (28%) or holding patiently (42%). However, 8% reported panic-selling behaviour, indicating emotional decision-making that correlates strongly with low financial literacy.

Table 6: Reaction to Market Downturns

Reaction	Frequency	Percentage (%)
Hold and wait for recovery	84	42.0
See as buying opportunity	56	28.0
Get anxious but hold	38	19.0
Panic and sell	16	8.0
Not invested in volatile products	6	3.0
Total	200	100.0

Figure 6: Reaction to Market Downturns

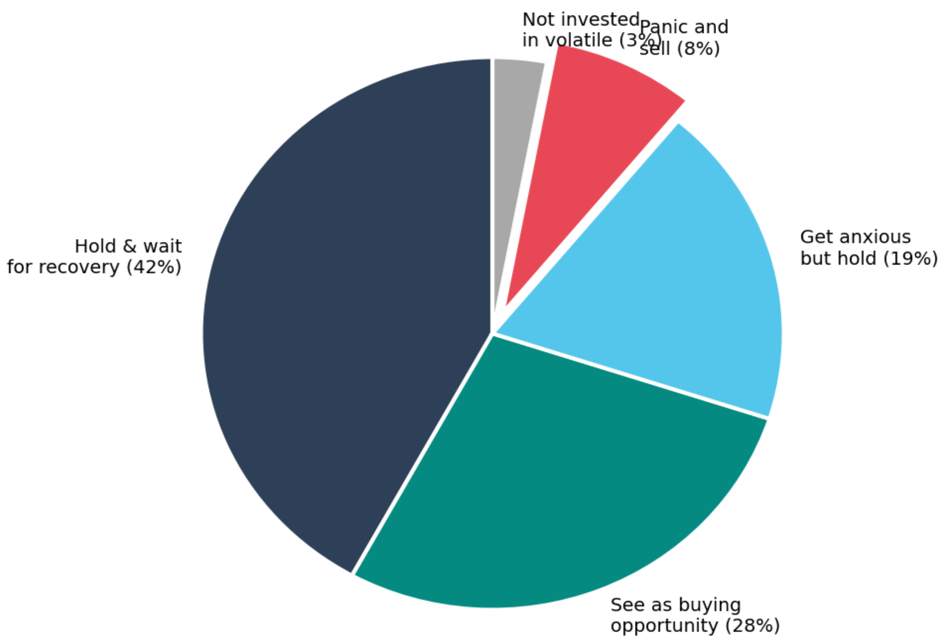

Figure 6: Reaction to Market Downturns

6. Sources of Financial Information

Social media (YouTube, Instagram, etc.) was identified as the primary financial information source for 36% of respondents—the highest of all sources. Financial news websites/apps accounted for 24%, family members 16%, and professional financial advisors only 14%. Alarmingly, only 4% cited formal education as their primary source, highlighting a systemic failure of the formal education system to impart financial literacy.

Table 7: Primary Source of Financial Information

Information Source	Frequency	Percentage (%)
Social media (YouTube, Instagram, etc.)	72	36.0
Financial news websites/apps	48	24.0
Family members	32	16.0
Financial advisors/planners	28	14.0
Friends/colleagues	12	6.0
Formal education/courses	8	4.0
Total	200	100.0

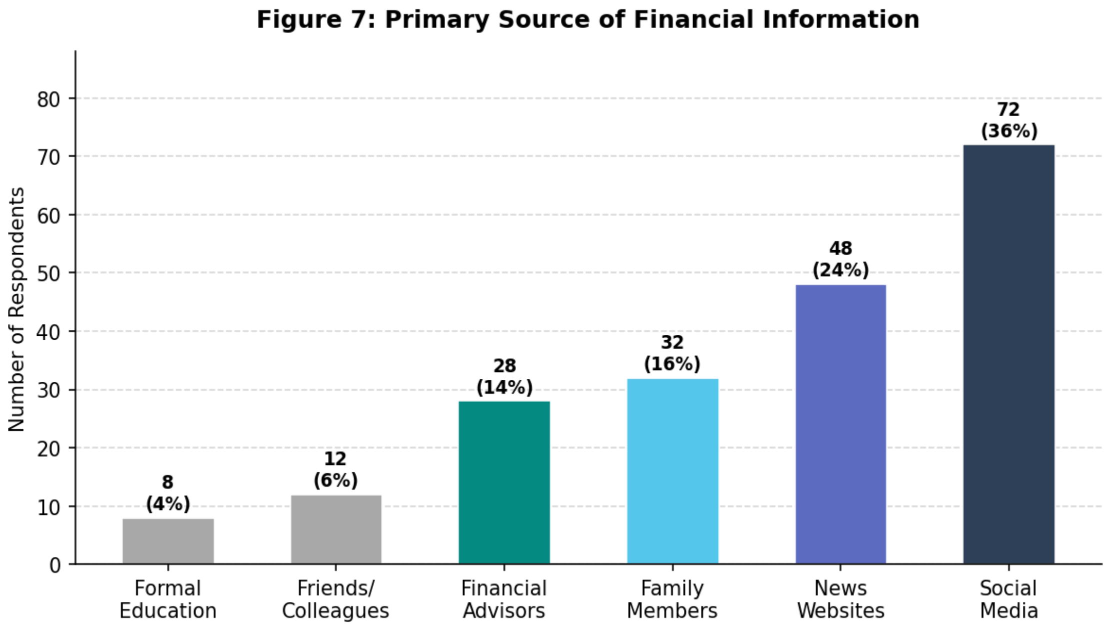

Figure 7: Primary Source of Financial Information

Of the 200 respondents, only 14% had received comprehensive financial education, 23% had a basic module in their curriculum, 26% pursued self-learning online, and 37% had received no formal financial education whatsoever.

7. Correlation Analysis

Statistical analysis confirms strong positive relationships between financial literacy and multiple investment dimensions. All correlations are statistically significant at $p<0.01$, validating the research hypotheses.

Table 8: Pearson Correlation Analysis – Key Findings

Variables	Correlation (r)	Strength	Significance
Financial Literacy & Investment Participation	0.742	Strong Positive	p<0.01
Financial Literacy & Investment Confidence	0.758	Strong Positive	p<0.01
Financial Literacy & Portfolio Diversification	0.686	Strong Positive	p<0.01
Financial Literacy & Risk-Adjusted Returns	0.614	Moderate Positive	p<0.01
Education Level & Financial Literacy	0.542	Moderate Positive	p<0.01
Income Level & Investment Amount	0.671	Strong Positive	p<0.01

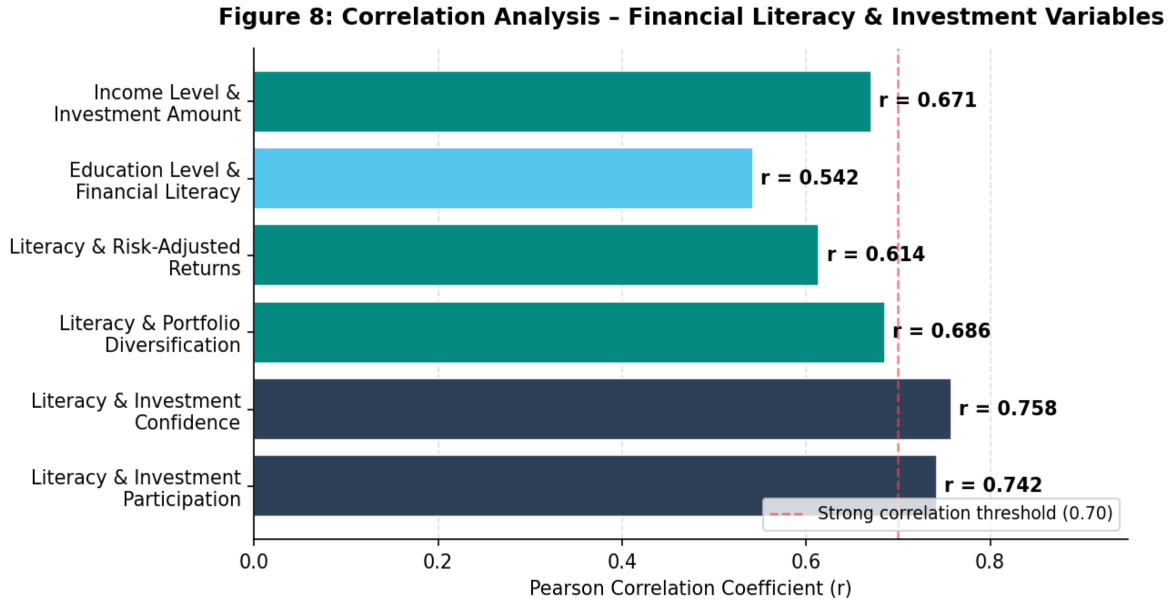

Figure 8: Correlation Analysis – Financial Literacy & Investment Variables (all p<0.01)

FINDINGS

Validation of Hypotheses

H1 – Supported: Financial literacy significantly impacts investment participation ($r=0.742$, $p<0.01$). High literacy investors participate at 90.6% vs. 41.7% for low literacy — a 49-point gap confirmed by Chi-square ($p<0.01$).

H2 – Supported: Higher literacy leads to better diversification. 48.3% of high-literacy investors achieve high diversification vs. 0% among low-literacy investors ($r=0.686$, $p<0.01$).

H3 – Supported: Investment confidence shows the strongest correlation with literacy ($r=0.758$, $p<0.01$), confirming that financial education builds the confidence to invest.

H4 – Partially Supported: Education level shows moderate correlation with literacy ($r=0.542$). Income influences investment amount ($r=0.671$). Gender differences in risk tolerance were observed but require further analysis.

Key Findings Summary

- 68% of youth have moderate financial literacy; only 32% show high literacy
- 54% save regularly, but only 22% maintain the recommended 6+ months emergency fund
- Fixed deposits (46%) remain the most popular product; only 53% achieve portfolio diversification
- Social media (36%) is the primary financial information source, while formal education accounts for just 4%
- 37% of youth have received zero formal financial education
- Knowledge-related barriers affect 84.1% of non-investors, suggesting education interventions could unlock significant market participation
- 70% exhibit rational behaviour during market downturns — yet 8% panic-sell, strongly linked to low literacy

IMPLICATIONS

For Educational Institutions

Financial literacy should be introduced as a mandatory subject at school and college levels. The finding that only 4% of youth cite formal education as their primary financial information source is a systemic failure that institutions must urgently address through comprehensive certification programs and financial skills workshops.

For Regulators (SEBI, RBI, NCFE)

SEBI and NCFE must expand investor awareness campaigns targeting the 18–30 demographic. Social media financial influencers require regulatory oversight to prevent misinformation. Mandatory disclosure standards for financial content creators would protect young investors from unsuitable product recommendations.

For Financial Institutions

Banks and asset management companies should invest in simplified financial literacy content and youth-friendly digital tools. The 29% of youth restricting themselves to savings accounts represent an untapped market opportunity that product education and simplification can unlock.

For Youth (Self-Improvement)

Youth should prioritise building a foundational financial knowledge base, start early with disciplined savings, diversify portfolios based on risk capacity, and seek professional guidance rather than relying on social media. Starting investments early allows the power of compounding to work over a longer horizon — a significant wealth-building advantage.

CONCLUSION

This research conclusively demonstrates that financial literacy has a strong, direct, and statistically significant impact on investment decisions among Indian youth. Youth with high financial knowledge are more than twice as likely to invest compared to those with low knowledge, and they invest significantly better — with greater diversification, higher confidence, and more rational behaviour during market volatility.

The study reveals a critical paradox: while information is more accessible than ever through digital platforms, the quality of financial decision-making remains hindered by over-reliance on unregulated social media sources and inadequate formal financial education. 37% of youth have received no formal financial education — this gap, more than income constraints, stands as the primary barrier to productive investment participation.

As India progresses toward its 2047 development vision, financially educated youth will play a pivotal role in channelling household savings into productive investments, deepening capital markets, and building individual wealth. Financial literacy must be treated not as an optional personal skill but as a foundational national priority, embedded systematically within India's educational institutions and regulatory frameworks.

Declaration of Conflicting Interests

The authors declare no potential conflicts of interest with respect to the research, authorship and publication of this article.

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