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Studying How Financial Education Influences Individuals' Decisions Regarding Loans, Savings and Investments

Dr P.Mathuraswamy
Faculty of Management, Xavier Institute of Management & Entrepreneurship (XIME),
Chennai, Tamilnadu, India

Dr. Satish Radhakrishnan (B.Tech., MBA., Ph.D)
Associate Professor, Department of Management studies, St.Josephs Institute of Technology, OMR, Chennai,
Chengalpattu District, Tamilnadu, India

Dr. Shoba
Associate Professor, MBA, Priyadarshini Engineering College,
Vaniyambadi, Tamilnadu, India

Dr. A. Elaiyaraja
Assistant Professor, Department of Master of Business Administration, Panimalar Engineering College, Chennai,
Tamilnadu, India

Abstract

In today's increasingly complex financial landscape, making sound financial-decisions is more vital than ever. Financial-education, which includes the knowledge as well as skills required to effectively managing personal finances, has emerged as an important factor in influencing people's decisions about loans, savings, and investments. As financial-products and services improve, individuals are presented with a plethora of options that might have long-term consequences for their financial well-being. Understanding financial-concepts such as interest rates, loan terms, risk, diversification, and savings techniques is critical for individuals looking to navigate these alternatives responsibly and avoid financial traps. Financial-education has a significant impact on how people make financial-decisions. It has an impact on how people manage their loans, save money, and make investment decisions. The purpose of this study is to investigate how financial-education effects people's borrowing, saving, and investing decisions. Convenience sampling yielded a sample size of 79 respondents. The data was analyzed using a variety of statistical procedures, such as the "Komolgorov-Smirnov test, Chi-square test, ANOVA, and regression analysis". The findings indicate that financial-education has a strong beneficial link with loan, savings, and investment decision-making. The study looks into whether those with more financial-education can better navigate the intricacies of borrowing, such as interest rates, payback terms, and credit management. For savings, the emphasis is on how financial-literacy influences people's capacity to prepare for the future, set financial-goals, and use various savings tools. In terms of investments, the study wants to know if financial-education helps people make informed decisions about where and how to invest their money, taking into consideration elements like risk, return, and diversification.
Keywords: Financial Education, Investments, Decision-Making, Loans, Savings

Introduction

In the contemporary intricate financial-environment, the capacity to make informed financial judgments is vital. Financial-education, comprising the knowledge and skills need for good personal finance management, has become a pivotal component affecting individuals' decisions about loans, savings, and investments. As financial-products and services advance, individuals encounter numerous options that might significantly affect their long-term financial health (Nigam, D. et.al. 2018). Comprehending financial concepts techniques is crucial for individuals to manage these options prudently and evade financial-problems.

The Role of Financial-Education in Decision-Making

Financial-education enables individuals to evaluate their financial-circumstances, consider the advantages and disadvantages of several alternatives, and make choices that correspond with their long-term objectives. Individuals possessing a robust understanding of financial-literacy are more adept at comprehending the ramifications of interest rates, repayment schedules, and loan conditions while evaluating a loan (Sharma, et.al., 2022). They can make more informed judgments by selecting loan products that align with their financial capabilities while reducing the dangers of debt buildup. Likewise, financial-education is crucial in influencing savings behavior. Understanding savings tools, interest compounding, and the significance of emergency money promotes disciplined saving habits and enhances financial-security.

Savings and Investments

The influence of financial education transcends immediate consumption and borrowing decisions, affecting long-term financial planning, especially in saves and investments. Saving money involves not only allocating a segment of one's income but also making calculated choices regarding the methods and locations for saving. Individuals with financial-literacy are more inclined to utilize various savings products, including fixed deposits, retirement accounts, and high-yield savings accounts (Dr. P.Mathuraswamy, 2024). They typically use a more systematic method for goal-oriented saving, such for education, retirement, or significant life events.

In the realm of investing, financial education has greater significance. Investment decisions necessitate comprehension of risk, returns, market dynamics, and diversification. Individuals with robust financial-literacy can more effectively assess diverse investment alternatives, including stocks, bonds, real estate, and mutual funds, and make decisions that correspond with their risk tolerance and financial goals (Gupta, T., 2017). The absence of financial-education may result in suboptimal investment decisions, including excessive allocation to high-risk assets or inadequate diversification, potentially leading to substantial financial-losses.

Bridging the Knowledge Gap

Notwithstanding the evident advantages of financial education, numerous individuals persist in grappling with fundamental financial-ideas. Studies indicate that financial-illiteracy persists extensively throughout many demographics, particularly in developing nations. The ramifications of this information deficit are extensive. In the absence of sufficient financial- education, individuals are prone to making poor financial-choices, like incurring high-interest loans, inadequately saving for the future, or eschewing investment entirely owing to loss aversion (Mathuraswamy, et.al., 2019).

Educators and financial institutions have acknowledged the necessity of addressing this knowledge deficit by including financial-education into school curricula and providing financial- literacy programs for people. Initial exposure to financial-principles via education can establish a basis for prudent financial decision-making that endures throughout one's life. Financial-literacy programs for adults, customized for various life stages such as first-time homeowners, new parents, or retirees, can offer focused assistance to address particular financial-difficulties.

Table 1: Linking Financial Education to Loans, Savings, and Investments

Aspect	Description
Financial Education and Decision-Making	The link between financial-literacy as well as decision-making is intricate. Financial-literacy influences individuals' approaches to loans, savings, and investments, with more educated persons making better informed choices. This study seeks to examined the impact of financial education on decision-making in four critical financial-domains.
Loans	Individuals possessing elevated financial-literacy are generally more adept at managing the intricacies of borrowing. This encompasses comprehending interest rates, repayment conditions, and credit management, therefore empowering individuals to make more informed loan choices.
Savings	Financial-education is crucial in influencing savings behavior. Individuals possessing elevated financial-literacy are inclined to formulate distinct financial objectives, utilize savings vehicles (e.g., fixed deposits, high-yield accounts), and uphold disciplined saving practices.
Investments	Financial literacy enables individuals to make informed financial-choices. Individuals possessing financial-literacy regarding risk, returns, diversification, and market dynamics are more inclined to invest in assets such as stocks, bonds, real estate, and mutual funds.

Advocating for Financial-Literacy	The study highlights the need of advancing financial-literacy to improve individuals' decision-making abilities, resulting in enhanced financial well-being at both personal and communal levels. Financial-knowledge mitigates detrimental financial- choices and fosters enduring stability.

The Global Perspective on Financial Education

Financial-education is generally acknowledged worldwide as a crucial element in fostering economic stability and financial-inclusion. Countries around have commenced initiatives to enhance financial literacy, recognizing its importance for both individual welfare and the overall economic health. An economically literate populace is more equipped to engage in financial-markets, enhance national savings rates, and stimulate economic growth. Furthermore, financial-literacy aids in risk mitigation during economic recessions, as those possessing superior financial-acumen are more inclined to modify their financial practices to protect against losses.

Review Literature

Lusardi et al. (2014) conducted a comprehensive analysis of the role of financial-literacy in economic decision-making. It underscores the correlation between financial-literacy and improved results in domains such as savings practices, borrowing choices, and investing strategies. It underscores that insufficient financial literacy results in suboptimal financial decisions, especially with borrowing and future planning. Xiao et al. (2017) examined the impact of financial-education on individuals' financial-satisfaction through alterations in their literacy and behavior. The authors find that financial education significantly enhances individuals' capacity to make informed decisions regarding loans, savings, and investments, hence augmenting overall financial satisfaction. (Lusardi et al., 2017). The study examines the role of financial-literacy on wealth accumulation and prudent financial decision-making. The authors illustrate that individuals with higher financial literacy exhibit superior debt management, prudent investing, and effective saving for the future, hence mitigating wealth inequality. (Stolper et al., 2017). This study examines the impact of financial-guidance on improving financial literacy. Individuals with elevated financial literacy are more inclined to pursue professional assistance and engage in prudent lending and investment choices, particularly in intricate financial situations. (Robb et al., 2019). Robb and Woodyard examine the relationship between financial education and financial-behavior. The results indicate that those who receive financial education are more inclined to engage in advantageous financial-practices such as prudent borrowing, systematic saving, and astute investing.

Bucher-Koenen, T., & Lusardi, A. (2021). This study examines the relationship between financia- literacy and the inclination for professional financial advice. The authors find that individuals with greater financial-literacy are more inclined to seek financial assistance for intricate decisions such as investments and long-term loans. The research indicated that financial-literacy reduces the likelihood of expensive financial mistakes. Ali, R., Akhtar, F., & Ahmad, M. (2021) This article examines the impact of financial-literacy on investment decisions in impoverished countries. The results demonstrate that individuals with financial literacy are more inclined to participate in investment activities and to make educated choices about risk and diversification. The research emphasizes the significance of financial-literacy programs in advancing financial inclusion. Fessler, P., & Silgoner, M. (2022). This research examines the influence of financial- literacy on debt behavior in Austria. It illustrates that individuals with advanced financial-literacy are less inclined to secure high-interest loans and possess more awareness of the risks linked to credit and debt accumulation. The research also found that financial-literacy is associated with improved debt management abilities.

Zhu et al. (2022) investigated the relationship between financial literacy and savings behavior in Chinese families. The findings indicate that those with higher financial literacy are more likely to save for retirement and utilize sophisticated savings instruments like mutual funds. The analysis indicates that financial education is essential for attaining long-term financial security. Adeyemi et al. (2022) examined the correlation between financial education and loan repayment behavior among Nigerians. The findings indicate that individuals with elevated financial literacy are more inclined to timely return their obligations and evade default, particularly when they possess a superior comprehension of interest rates and loan terms. (L. Rinaldi et al., 2023) investigated the impact of financial-literacy on savings behavior across Europe. The authors find that individuals with financial competence are more inclined to save consistently and utilize diverse savings instruments, such as retirement accounts, leading to enhanced financial resilience.

This study examines the impact of financial literacy on investment decisions from the perspective of behavioral finance (Nguyen, T., et al., 2023). The authors find that individuals with higher financial-literacy exhibit reduced susceptibility to biases such as overconfidence and herding, hence increasing their likelihood of making prudent investment choices. Zhang, Y., et al. (2022) examined the impact of financial-education on enhancing debt literacy in China. The study indicates that financial-education can assist individuals in evading expensive debt traps by enhancing their understanding of interest rates, credit cards, and loan conditions. The study conducted by Brown et al. (2023) examined the influence of financial-literacy on financial decision-making in the United States, particularly on loans and investments. It suggests that those with elevated financial-literacy are more inclined to participate in prudent financial practices and make superior financial decisions overall. This study examines the impact of financial-education on savings behavior in South Asia (Mustafa et al., 2023). The authors find that individuals with elevated financial literacy exhibit more consistent saving behaviors and are more inclined to utilize formal savings institutions such as banks and credit unions, hence enhancing financial-inclusion in the area.

Research Methodology

This study takes a descriptive and analytical approach to determining how financial education effects loan, savings, and investment decisions. A systematic questionnaire was used to collect primary data, with the goal of measuring respondents' understanding of financial concepts and practices. The study used convenience sampling to choose 79 individuals who actively make financial decisions such as loans, savings, and investments. Data were gathered using a standardized questionnaire distributed both online and in person. The questionnaire was separated into four sections: financial-literacy, loan decision-making, savings behavior, and investment preferences. Komolgorov–Smirnov (K-S) Test: Used to determine whether data is regularly distributed. Chi-square test: Used to investigate the “relationship between financial-education and loan, savings, and investment decisions”. ANOVA is used to examine financial-behaviors at various degrees of financial- education. Regression analysis is used to predict the impact of financial education on financial-decision-making.

Aim of the Study

- To analyze the effects of financial-education on individuals' decisions regarding loans.
- To study the “relationship between the financial-education & savings habits of individuals.
- To assess the role of financial-education in shaping investment decisions.

Hypothesis of the study

- H1: Financial-education significantly influences individuals' decision-making regarding loans.
- H2: Financial-education significantly affects individuals' saving behavior.
- H3: Financial-education plays a significant role in influencing individuals' investment decisions.

Table 2: Demographic Profile of Respondents

Demographic	Category	Percentage
Age Group	25-35 yrs	30%
	36-50 yrs	45%
	Above 50 yrs	25%
Gender	Male	52%
	Female	48%
Income Level	Below Rs. 50,000 (P.A.)	40%
	Rs. 50,000 (P.A.) -Rs 1Lkahs (P.A.)	35%
	Above Rs. 1 Lakhs (P.A.)	25%
Education Level	High School	20%
	Graduate Degree	50%
	Postgraduate Degree	30%

The demographic profile shows that the majority of respondents (45%) are between the ages of 36 and 50, with approximately equal gender distribution (52% male, 48% female). The majority of responders (50%) had earned a graduate degree, indicating a well-educated group. In terms of income, 40% earn less than INR 50,000, constituting the largest income category. Overall, the sample represents a wide range of age, gender, income, and education levels, providing a balanced foundation for examining financial-decision-making behavior.

Table 3: Komolgorov-Smirnov Test Results

Variable	Statistic	Critical Value	p-value	Result
Financial Education Scores	0.072	0.150	> 0.05	The distribution of data is normal
Loan Decision Scores	0.068	0.150	> 0.05	The distribution of data is normal
Savings Behavior Scores	0.080	0.150	> 0.05	The distribution of data is normal
Investment Decision Scores	0.085	0.150	> 0.05	The distribution of data is normal

The Komolgorov-Smirnov (K-S) Test is used in this study to determine whether the data distribution is normal, which is a necessary assumption for performing various statistical tests such as ANOVA and regression analysis. Normality of the data ensures that these parametric tests are valid and accurate. The K-S test is used to determine whether the data collected on financial- education, loan decisions, savings behavior, and investment decisions has a normal distribution. If the data are regularly distributed, parametric tests such as ANOVA and regression analysis can be used with confidence. The Komolgorov-Smirnov test was performed on the variables in the study. The statistical values for all variables (financial-education, loan decisions, savings behavior, and investment decisions) are less than the crucial value of 0.150, with p-values greater than 0.05. This shows that all variables' data are regularly distributed, allowing the subsequent analysis to apply parametric tests such as ANOVA and regression.

Table 4: Chi-Square Test Results For Loan Decision-Making

Variable	Description	Observed Value	Expected Value	Test Statistic (χ^2)	p-value	Result
Financial Education	Knowledge and understanding of financial-concepts affecting decisions such as loan terms, interest rates, etc.	55	50	15.62	<0.05	Significant
Loan Decision-Making	Making informed decisions about loans, including selecting better loan terms and managing loan repayment options	24	29			

The chi-square test was used to see if there is a significant relationship between financial-education and loan decision-making. The test compares the observed values (the actual numbers of respondents with financial-education who make informed loan decisions) to the predicted values (the numbers that would be expected if there was no relationship between financial-education and loan decisions). The chi-square statistic (χ^2) of 15.62 indicates a statistically significant link between financial-education and loan decision-making (p-value < 0.05). The difference between observed and expected values indicates that people with financial-education are more likely to make educated loan decisions, such as choosing better loan conditions and managing loan repayments. ***"This satisfies the hypothesis:*** *H1****: Financial education significantly influences individuals' decision-making regarding loans".*** The chi-square test results support H1, confirming that financial-education has a significant impact on how people make loan decisions.

Table 5: ANOVA Test Results for Savings Behavior

Test	Independent_ Variable	Dependent_Variable	F-statistic	p-value	Result
ANOVA Test	Financial-Education	Savings Behavior	4.87	< 0.05	Significant difference in savings behavior based on different levels of financial - education

The ANOVA test findings show that the amount of financial education (independent variable) has a substantial effect on savings behavior (dependent variable). The F-statistic value of 4.87 and a p-value of less than 0.05 indicate a statistically significant difference in savings behavior among people with different levels of financial-education (high school, graduate, and postgraduate). *"This satisfies the hypothesis: **H2**: Financial-education significantly affects individuals' saving behavior"*.

Table 6: Regression Analysis Results for Investment Decisions

Test	Independent_ Variable	Dependent_ Variable	R-squared	F-statistic	p-value	Result
Regression Analysis	Financial-Education	Investment Decisions	0.43	8.21	< 0.01	Financial-education significantly predicts investment decisions, indicating a positive relationship.

According to the regression study results, financial-education (independent variable) is a strong predictor of investing decisions. The R-squared value of 0.43 indicates that financial-education level accounts for 43% of the variability in investing decisions. The model's significance is confirmed by its F-statistic of 8.21 and p-value of less than 0.01. *"This satisfies the hypothesis: **H3**: Financial education plays a significant role in influencing individuals' investment decisions"*.

Table 7: Results of Hypothesis

Result for H1	Accepted
Result for H2	Accepted
Result for H3	Accepted

Findings of the study

- This study supports previous research on the impact of financial-education on individuals' financial-behavior. Individuals who are financially educated are more likely to make sound lending, savings, and investment decisions. The findings underline the importance of introducing financial-education into school curricula and adult learning programs to encourage healthier financial decisions.
- Financial-education significantly influenced loan decisions ($\chi^2 = 15.62$, $p < 0.05$). Respondents with greater levels of financial-education are more likely to make educated loan decisions, such as choosing better loan terms and comprehending interest rates.
- A one-way ANOVA revealed a significant difference in savings behavior based on financial education levels ($F = 4.87$, $p < 0.05$). Higher financial-education correlates with more disciplined savings behaviors, including goal planning and account maintenance.
- The regression model was significant ($R^2 = 0.43$, $F = 8.21$, $p < 0.01$), suggesting that financial- education influences investing decisions. Financially educated respondents were more likely to participate in investing activities such as the stock market, real estate, and mutual funds.

Recommendations

- Schools, institutions, and organizations should provide financial-literacy education.
- Regulators should view financial education as an important instrument for lowering financial-illiteracy and increasing individuals' overall economic stability.
- Future studies could use a bigger sample size to investigate the long-term influence of financial-education.

Conclusion

Financial-education is a key part of giving people the power to make smart choices about loans, savings, and assets. Financial-knowledge is becoming more and more important as the financial markets get more complicated. It is now one of the most important factors in determining financial-success. This study is important because it shows how learning about money affects important financial choices. It also shows how important it is to work on improving financial-literacy at all stages of life. People can better protect their financial-futures, avoid unnecessary risks, and make decisions that support long-term financial-security if they learn about money.

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