Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 6 Issue 1 (2026)

Financial Literacy and Investment Decisions: A Systematic Review of Empirical Evidence

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ABSTRACT
Financial literacy is widely recognised as a prerequisite for the development of a strong financial system in nations around the world. Policymakers, regulators, governments, and numerous other stakeholders have recently been interested in financial literacy. Financial education providers have made significant investments and efforts to promote financial literacy through a variety of financial education programs. This review article provides an overview of the various facets of financial literacy and investing decisions by analysing previous research studies conducted by different researchers**.**

KEYWORDS: *Financial Literacy, Investment Decisions, Financial Awareness, Capital market*

INTRODUCTION
The importance of financial literacy is rising quickly in the modern world due to the development and dominance of the free market economy. The usage of new financial products is being encouraged daily by fluctuations and crises in the economy and financial markets. The significance of financial literacy is increased by the new products created to address emerging needs in the financial markets. The fact that finance is at almost every step of life of individuals makes it a necessity to manage their own financial situations. Even individuals with information about the financial system when they face with the complex nature of the financial market, they are experiencing difficulties on decision making. Thus, the fact that finance is at every point in the social life of individuals makes it a necessity to manage their own financial situations.
Financial decisions must be made by people in both their day-to-day lives and long-term plans. Financial decision-making is necessary for retirement plans, family budget preparation, and many other considerations, including investment of children's education planning and savings. For access to and understanding of financial decisions, a high level of personal financial information is expected. The decision-making process in this intricate financial structure is influenced by the financial markets. Individual financial education programs are necessary because financial literacy is necessary to make accurate and efficient financial decisions. Basic understanding of financial concepts, instruments, and challenges among people is crucial for the efficient.

OBJECTIVES OF THE STUDY
1. To synthesize existing research on financial literacy and investment decisions.
2. To highlight mechanisms linking financial literacy to investment outcomes.
3. To identify research gaps and propose future directions.

FINANCIAL LITERACY
1. Defining Financial Literacy
The ability to comprehend and use different financial concepts and information efficiently is a common definition of financial literacy, which is a multifaceted notion. It includes information on investments, retirement planning, budgeting, saving, and personal finance. Scholars have devised an array of assessment instruments to evaluate a person's financial literacy, including the Financial Literacy Scale (FLS) and the Financial Literacy Assessment Test (FLAT).

2. The Impact of Financial Literacy on Investment Decision Making

Numerous scholarly investigations have emphasised the explicit correlation between investment decisions and financial literacy. Higher financial literacy was linked to a greater propensity to invest in assets with potential for higher returns and lower risk, according to research by Lusardi and Mitchell (2011). According to a study by Van Rooij, Lusardi, and Alessie (2011), those who are financially savvy choose more diverse investments, which reduces risk.

3. Factors Influencing Financial Literacy

In order to close the gaps in financial education programs, it is essential to comprehend the variables that affect financial literacy. Age, education, income, and social background are among the variables that researchers have shown to be highly important determinants of financial literacy. Lusardi and Tufano (2009), for example, discovered that financial literacy tends to rise with income and education.

4. Behavioral Economics and Cognitive Biases

Research in behavioral economics has demonstrated that people frequently have cognitive biases that influence their choice of investments. The usual cognitive biases of overconfidence, loss aversion, and herd mentality can result in less-than-ideal financial decisions. By helping people recognize the possible hazards in their decision-making, financial literacy may operate as a counterbalance to these biases.

5. The Role of Financial Education

Programs for financial education have become more popular to raise financial literacy. Research has indicated that engaging in financial education initiatives can result in enhanced financial literacy and better investment choices (Fernandes, Lynch, & Netemeyer, 2014). The best ways to provide these programs are still up for discussion, and their efficacy can vary.

6. Gender Differences in Financial Literacy and Investment Decisions

Interest has been shown in the disparities between genders' financial literacy. Women typically have lower levels of financial literacy than men, according to a number of studies. These variations may influence investing choices and result in differences in wealth growth between genders (Lusardi & Mitchell, 2014).

7. **Policy Implications and Future Directions**

Policy implications of comprehending the role of financial literacy in investing decisions are substantial. These results can help educators and policymakers create financial education initiatives that are successful and encourage people to make well-informed investing decisions. Further investigation is necessary to examine the enduring impacts of financial education and tackle the obstacles linked to advancing financial literacy across a range of demographic groups.

REVIEW OF LITERATURE

To identify the research gap, both Indian and foreign researchers have conducted a variety of studies. The purpose of the study is to review the past studies done by various researchers to establish the relation between financial literacy and investment decisions and to give a overview of all the studies in the past in this area. An extensive assessment of the financial literacy literature from both the international and Indian perspectives is covered in this paper.

The following studies were examined to complete the current study.

According to **Kim (2001**), having a basic understanding of finances is essential for people to succeed in life. Financial success requires understanding the occasionally complex principles of budgeting, saving, and investing. It also describes the capability to successfully apply knowledge and skills the ability to manage money throughout one's life.

Financial literacy was defined by **Piprek et al. (2004**) as the knowledge, abilities, attitudes, and practises necessary to effectively manage one's or one's family's finances, including earning, spending, saving, lending, and trading. Fundamentally, it assists in developing proper responses to risk and opportunity situations. It supports making educated decisions that result in financial security.

Lusardi and Mitchell (2007) found that household income, age, marital status, educational attainment, sex, race/ethnicity, and marital status are all important determinants of financial literacy. The factors that influence financial literacy were examined by **Tomas and Henry in 2010**. It is undeniable that those with greater education are more educated and aware about financial, according to the authors, who claimed that education is the most important determinant. According to a comparison of college students and high school students, college students had a 50% higher degree of financial literacy than high school students. The authors also noted that a person's level of financial literacy is significantly influenced by their family's income.

Bartley (2011) examined the level of financial industry awareness. According to the author, the best way to increase young people's financial literacy is to emphasise the connection between financial experience and knowledge. Those who have applied for a school loan or a credit card as a young person will have a better understanding of financial products than those who have not. Compared to students with no prior experience, students who are actively involved in the financial sector have a better comprehension of financial products.

The level of financial literacy among students at three institutions in Australia's "Greater Western Sydney" was examined by (**Cull & Whitton, 2011).** The authors paid for a poll that was conducted on five Sydney-area colleges and included both students in both undergrad and graduate programmes. 502 surveys were distributed. to the five campuses' students studying business, the arts, and health sciences. The response rate was 94%, hence 472 was chosen as the final sample size. in their research. The questionnaire featured 21 questions, some of which were about demographic elements and fundamental financial concepts. The study's findings showed that a variety of factors interact to affect financial understanding of the pupils. According to the study's findings, there is a strong association. financial world's understanding of compound interest, simple interest, and financial literacy of students.

Folk et al. (2012) looked into how financial education affected post-retirement financial planning. Using a standardised questionnaire, information was collected from 434 participants in Malaysia. Statistical analysis was then performed on the data that had been obtained. According to the study, credit card debt has a negative effect whereas personal income and age have positive effects on one's financial well-being. It also emphasised how closely financial literacy and better money management techniques are related to economic prosperity. Financial literacy also acts as a moderator in the relationship between financial education and financial well-being. They arrived to the conclusion that respondents' age, education, and investment habits are all related to how financially prepared they are.

Atakora (2013) investigated how financial literacy and related programmes assisted Ghanaians in becoming financially literate. The project was evaluated solely for its ability to effectively teach the Ghanaian people the fundamentals of finance. The study's sample included 235 traders who were chosen at random. The study found a significant difference in financial literacy between traders with and without education. The age of the traders, the educational backgrounds of their mothers, and their work experience all had a favourable impact on their financial literacy.

In order to enhance Indians' daily lives, **Attarwala (2014)** sought to address the role of SEBI in teaching the population about financial matters. The author noted that a key factor in eliminating poverty is financial inclusion. Indian level, but with a lower degree of education in financial movements difficulties in teaching them. The author emphasised the value of financial planning. Indian institutions and regulatory authorities must develop innovative techniques for spreading financial literacy in India via a variety of means.

In their study, **Biswas and Gupta (2015)** looked at the level of financial literacy among residents in a few Bengali districts. The goal was to assess West Bengalis' understanding of money matters and their capacity for financial-related activity planning. The researchers also made an effort to link people in the study area's financial planning and financial literacy. The association between demographic traits of the population and financial literacy level was also tested. Financial literacy was found to be low among the populace, and financial planning skills were also extremely lacking. However, it was shown that the occupation and education of the West Bengali population had an impact on the degree of literacy.

Nawaz, 2015 investigated the link between women's financial literacy and their empowerment. The research involved women who had undergone gotten microcredit in Bangladesh. The study's findings had highlighted even if giving women access to microcredit is an important women's issue.

Mouna & Anis, (2015) constructed an average cognitive map to investigate the causes of Tunisia's small investors' stock market failure. 128 small investors were used in the study by the authors. The results of the Research had shown that investors' financial literacy was very low. crucial for stock market involvement to succeed.

Gupta and Madan (2016) examined the relationship between literacy level and aspects of financial behaviour, attitude, and knowledge. Two hundred thirteen working Delhi residents were involved in the study. The use of statistical methods to analyse the data collected showed that financial literacy levels among Delhi residents was average. Additionally, it was discovered that these three factors significantly increase Delhi residents' financial literacy.

T. V. Raman and Kanan Budhiraja (2017) found that peer investors, the internet, and financial planners have a significant impact on the importance of financial education for the nation's investors. prior to making any investing decisions. Investors still favour to put money into savings accounts, precious metals, fixed deposits, and government securities. The research found that investors are starting to research new investment opportunities and are risk-tolerant enough to invest in novel products like stocks, mutual funds, stocks, etc.

According to Arif (2019), developing financial education programmes benefits consumers, regulators, and individuals. Many companies are developing money management programmes to help staff members become more financially literate. After assessing an investor's risk profile and risk tolerance, a few of companies additionally provide financial counselling. The study's conclusions recommend that management and legislators concentrate on classifying investors according to their personality traits. This will help the industry draw in more money overall and attract new investors.

Elfahmi et al.'s (2020) goal was to forecast students' intentions towards the Indonesian stock exchange. Four hundred students from various Indonesian universities were carefully chosen for the study. The only goal was to investigate the link between students' financial knowledge and investment intentions. The relationship between self-efficacy and risk and investing aspirations on the Indonesian stock exchange. By employing a questionnaire method, the data pertinent to these goals was chosen, and it was then analysed. The investigation discovered a favourable relationship between students' financial understanding and their inclination to invest. Indonesian stock market. The relationship between risk and self-efficacy is also favourable to invest on the Indonesian stock exchange.

- **GAPS AND DIRECTIONS FOR FUTURE RESEARCH**
- **Longitudinal Studies**
- Existing studies are often cross-sectional; longitudinal designs can better establish causality over time.
- **Cultural and Geographic Diversity**
- More research in non-Western contexts, particularly developing economies, is needed.
- **Standardized Metrics**
- Lack of standardized financial literacy measures limits comparability across studies.
- **Digital Finance Literacy**
- With the rise of fintech, understanding digital investment tools (crypto, robo-advisors) requires attention.

FINDINGS & DISCUSSIONS:

1. The major finding of the study reveals that people do not have adequate knowledge about investments and other financial issues. Their knowledge is least in the areas of financial planning basics, investment, and retirement planning.
2. From various past research studies, it was discovered that key factors influencing financial literacy include household income, age, marital status, level of schooling attained, sex, race/ethnicity, and marital status.
3. It was found that in comparison to male investors female investors are less financially aware.
4. The study demonstrates that the four key factors taken into consideration when making investment decisions are the investment time horizon, investment strategies (risk & return), investment objectives, and source of investment advice.

RECOMMENDATIONS

1. One of the main recommendations made is that the only way to improve the poor level of financial literacy is to use multifaceted, multitargeted financial education programs. It is imperative that financial education programs in India be strengthened, and thorough research on financial literacy in India has to be conducted.
2. It is necessary to introduce digital learning resources so that people can improve their financial literacy.
3. It is recommended that in order to improve women's understanding of different financial products, financial institutions and government organizations running financial literacy initiatives should host seminars and workshops specifically for working and non-working women. The lessons must center on teaching participants where to invest, how to invest, what to think about before making an investment, and other related information.
4. The government has been advised that financial education begin in schools and college so that student may comprehend the significance of making financial decisions from an early age.

CONCLUSION:

Financial literacy has gained importance in recent years and has become a major area all around the world. The financial industry now offers a diverse variety of goods in a complex way, with increased product accessibility. As a result, it is important for people to have the right financial knowledge and awareness to make the most use of their money. Financial literacy plays a crucial role in shaping investment decisions, and the literature demonstrates a clear link between financial knowledge and improved investment choices. Factors influencing financial literacy, as well as the cognitive biases that can hinder investment decisions, need to be considered. Further research is needed to address gaps in understanding, especially in the context of financial education and the implications of gender differences in financial literacy. This review study provides a foundation for future research on the topic and highlights the importance of financial literacy in promoting better investment decision-making.

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