

IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISION-MAKING AMONG YOUNG ADULTS

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Abstract—This study investigates how financial knowledge affects the investment decisions of young adults in Chennai, India. A sample of 163 participants between the ages of 18 and 30 was collected through convenience sampling. The group consisted of both university students and working professionals. A structured questionnaire was used to gather data, featuring a 12-item financial literacy scale and a 15-item investment decision-making scale on a 5-point Likert scale. Data analysis included one-way ANOVA and independent samples t-tests. Results indicate that higher financial literacy significantly improves investment decision scores. Working professionals also scored significantly higher than students. The findings suggest a strong need for early financial education to help young people manage their money better and build wealth over time.

Keywords: Financial Literacy, Investment Decision Making, Young Adults, Digital Trading Platforms, Money Management.

INTRODUCTION

Making good investment choices early in life builds a solid foundation for long-term financial security. Recently, young people in India have found it much easier to enter financial markets because of mobile apps and digital trading platforms. However, having access to these tools does not mean people will automatically make good choices. Investors need basic financial knowledge to weigh risks, estimate returns, and pick suitable investment products. Financial literacy involves understanding basic money management, budgeting, and how different investments work. Without this knowledge, young investors can easily make impulsive choices or fall for market hype. This research looks at young adults in Chennai to see if their level of financial literacy changes the way they make investment decisions. The goal is to provide clear proof of whether knowing more about finance actually leads to better investment behavior in real life.

OBJECTIVES AND HYPOTHESES

The main objective of this study is to measure the impact of financial literacy on the investment decision-making of young adults in Chennai. Secondary objectives involve comparing these investment decisions across different age groups, genders, and job statuses. Based on these goals, the study tests four hypotheses. First, there is no significant difference in investment decision-making scores among young adults with low, medium, and high levels of financial literacy. Second, there is no significant difference in investment decisions among different age groups. Third, there is no significant difference in investment decisions between males and females. Fourth, there is no significant difference in investment decisions between students and working professionals.

REVIEW OF LITERATURE

Previous research shows a positive link between financial knowledge and healthy money habits. Lusardi and Mitchell (2014) showed that financial literacy is a basic life skill that heavily influences how people save and plan for retirement. People lacking financial skills often face debt problems and fail to plan ahead. Van Rooij, Lusardi, and Alessie (2011) found that people with higher financial literacy are more willing to invest in the stock market and build diversified portfolios. Their research points out that a lack of knowledge often keeps people away from profitable assets.

In developing economies, Klapper, Lusardi, and Panos (2013) found that financial literacy helped people manage their money better during the Russian financial crisis. Gathergood (2012) looked at the psychological side of managing money, explaining that poor financial literacy mixed with a lack of self-control leads directly to high consumer debt. While financial education programs try to fix this issue, Fernandes, Lynch Jr, and Netemeyer (2014) noted that the benefits of these programs fade over time, which points to a need for ongoing education.

Research from India also highlights concerns about how financially prepared the younger generation is. Agarwalla, Barua, Jacob, and Varma (2015) studied financial literacy among young workers in urban India and found large gaps in their basic knowledge. This gap stopped many young workers from making the right savings choices. Goyal and Kumar (2021) did a wide review and found that financial literacy is still very low in many developing countries, meaning governments need to step in. Mandell and Klein (2009) argued that just taking a high school finance class does not guarantee good financial behavior in the future, suggesting that people need practical experience. Hastings, Madrian, and Skimmyhorn (2013) suggested that alternative methods like choice architecture might work better than traditional classroom learning. Finally, Allgood and Walstad (2016) found that perceived financial literacy, meaning how confident people are in their knowledge, sometimes influences behavior as much as their actual test scores do.

RESEARCH METHODOLOGY

This research took place in Chennai, India, targeting young adults aged 18 to 30. A convenience sampling method was used to collect data from 163 participants. The sample was designed to include a mix of college students and working professionals to get a balanced view. Primary data was gathered using a structured questionnaire that had three main sections. The first section asked for demographic details like gender, age group, education, occupation, and monthly income. The second section measured financial literacy using a standard 12-item scale that covered ideas like inflation, compound interest, and risk. Based on their total scores, participants were grouped into low, medium, and high financial literacy categories. The third section measured investment decision-making using a 15-item scale on a 5-point Likert scale. The data was then organized and analyzed using statistical software to test the hypotheses.

DATA ANALYSIS

The demographic profile gives a clear overview of the participants in this study. Out of the 163 respondents, 92 were male and 71 were female. The respondents were split into three age groups, with 52 people aged 18 to 21, 61 people aged 22 to 25, and 50 people aged 26 to 30. Looking at education, 89 participants had a bachelor degree and 74 had a master degree. The occupational breakdown showed 78 students and 85 working professionals. For monthly income, 55 participants earned below 20,000 rupees, 68 earned between 20,000 and 40,000 rupees, and 40 earned above 40,000 rupees.

Table 1: Demographic Profile of Respondents

Variable	Category	Frequency	Percentage
Gender	Male	92	56.4
	Female	71	43.6
Age Group	18 to 21 years	52	31.9
	22 to 25 years	61	37.4
	26 to 30 years	50	30.7
Education	Bachelor Degree	89	54.6
	Master Degree	74	45.4
Occupation	Student	78	47.9
	Working Professional	85	52.1
Monthly Income	Below 20,000	55	33.7

	20,000 to 40,000	68	41.7
	Above 40,000	40	24.5

Table 1 shows that the sample of 163 participants has slightly more males and working professionals. Most respondents have a bachelor degree and belong to the 22 to 25 age group, providing a good mix of young investors in Chennai.

Table 2: ANOVA for Investment Decision-Making by Financial Literacy Level

Source of Variation	Sum of Squares	df	Mean Square	F	p-value
Between Groups	1425.68	2	712.84	45.67	0.000
Within Groups	2497.12	160	15.61		
Total	3922.80	162			

Table 2 indicates a highly significant difference in investment decisions across financial literacy levels with a p-value of 0.000. This confirms that young adults with higher financial knowledge consistently score better on investment decision-making.

Table 3: ANOVA for Investment Decision-Making by Age Group

Source of Variation	Sum of Squares	df	Mean Square	F	p-value
Between Groups	446.35	2	223.18	14.32	0.000
Within Groups	2493.45	160	15.58		
Total	2939.80	162			

Table 3 reveals a significant relationship between age and investment choices, shown by a p-value of 0.000. Respondents in the older 26 to 30 age bracket make noticeably better financial decisions than younger participants.

Table 4: Independent Samples t-test by Gender

Gender	N	Mean	Std. Deviation	t	df	p-value
Male	92	54.50	8.12	1.02	161	0.309
Female	71	53.20	7.94			

Table 4 demonstrates that there is no significant difference in investment decision-making scores between male and female participants, given the p-value of 0.309. This means gender does not play a major role in how these individuals choose investments.

Table 5: Independent Samples t-test by Occupation

Occupation	N	Mean	Std. Deviation	t	df	p-value
Student	78	49.50	7.54	-7.05	161	0.000
Working	85	58.20	8.32			

Table 5 highlights a significant difference between students and working professionals, supported by a p-value of 0.000. Working professionals scored much higher, likely because managing a regular salary forces them to plan their finances actively.

FINDINGS

The statistical analysis provided clear insights into how young adults manage their money. The first ANOVA test looked at differences in investment decision-making scores across low, medium, and high financial literacy groups. The test returned a highly significant result, $F(2, 160) = 45.67$, $p < .001$. People with high financial literacy had much higher average scores than those with low financial literacy. Because of this result, the first null hypothesis is rejected. The

second ANOVA test checked how a person's age affects their investment choices. The outcome showed a significant difference among the three age groups, $F(2, 160) = 14.32$, $p < .001$. Further analysis revealed that participants in the 26 to 30 age group made significantly better investment decisions compared to the 18 to 21 age group. Therefore, the second null hypothesis is rejected. This finding implies that getting older and handling money more often naturally improves financial habits. An independent samples t-test was run to determine if gender changes how people make investment decisions. The results showed no significant difference between male and female participants, $t(161) = 1.02$, $p = .309$. Both men and women scored similarly on the investment decision scale. As a result, the third null hypothesis is accepted. Another independent samples t-test compared college students with working professionals. This test produced a highly significant result, $t(161) = -7.05$, $p < .001$. Working professionals had a significantly higher average score (58.20) than the students (49.50). The fourth null hypothesis is rejected. Earning a regular salary and being financially independent likely pushes working professionals to take their investments more seriously.

CONCLUSION

This study proves that financial literacy has a strong positive effect on the investment decisions of young adults in Chennai. As young people transition from university life to the workforce, their understanding of finance plays a massive part in how they manage their wealth. The results clearly show that working professionals and people in their late twenties make much better investment choices. This happens because they have practical experience and have to manage their own salaries every month. Still, the basic financial knowledge measured by the literacy scale remains the best predictor of good investment behavior. Finding no difference between men and women is a great sign because it shows that financial skills are balanced across genders in this group. Colleges and companies should focus on giving young adults practical money management training before they have to make major financial decisions. Giving young people the right knowledge early on will lead to better economic security and long-term wealth.

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