



## Financial Literacy and Investment Behaviour of Youth

<sup>\*1</sup> Praveen Kumar

<sup>\*1</sup> Assistant Professor, Department of MBA, Shridevi Institute of Engineering and Technology, Tumkur, Karnataka, India.

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### Abstract

Financial literacy plays a crucial role in shaping the economic decisions of individuals, especially among young people who are at the beginning of their financial life cycle. In the modern economy, youth are increasingly exposed to complex financial products, digital banking systems, and investment opportunities. However, gaps in financial knowledge often lead to poor financial decisions, low savings, and risky investment behaviour. This paper examines the relationship between financial literacy and investment behaviour of youth, explores key factors influencing their financial decisions, and analyzes the challenges and implications for financial education and policy-making. The study highlights the importance of improving financial literacy to promote responsible financial behaviour and long-term economic security among young individuals.

### \*Corresponding Author

Praveen Kumar

Assistant Professor, Department of  
MBA, Shridevi Institute of Engineering  
and Technology, Tumkur, Karnataka,  
India.

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### 1. Introduction

Financial literacy refers to the ability of individuals to understand and effectively use various financial skills, including personal financial management, budgeting, saving, and investing. In the contemporary world, financial systems have become increasingly complex, offering a wide range of investment products such as mutual funds, stocks, cryptocurrencies, insurance plans, and retirement schemes. For young people, who are often entering the workforce, pursuing higher education, or starting entrepreneurial ventures, sound financial knowledge has become essential for achieving long-term financial stability.

Youth represent a critical segment of any economy because their financial habits determine future patterns of savings, investment, and economic growth. Despite the growing importance of financial literacy, several studies have shown that a large proportion of young people lack basic financial understanding. Many young individuals struggle with budgeting, managing debt, understanding interest rates, and evaluating the risks associated with different investment instruments. This lack of knowledge often results in impulsive spending, over-reliance on credit, and avoidable financial stress. The rise of digital financial platforms has further transformed the financial behaviour of youth. Mobile banking, online trading apps, and digital payment systems

have made financial transactions easier and faster than ever before. While these technological innovations have increased access to financial services, they have also increased the risk of uninformed financial decisions. Young investors are often attracted to high-risk, high-return options without fully understanding market volatility and long-term consequences. This paper aims to analyze the level of financial literacy among youth and its impact on their investment behaviour. It seeks to understand how financial knowledge influences saving patterns, risk preferences, and investment choices. By examining existing literature, trends, and behavioural patterns, the study provides insights into the need for structured financial education and better policy interventions targeting young individuals.

### 2. Concept of Financial Literacy

Financial literacy involves knowledge and understanding of key financial concepts such as budgeting, saving, credit management, interest rates, inflation, risk diversification, and long-term financial planning. It is not merely theoretical knowledge but also the ability to apply this knowledge in real-life situations. A financially literate individual can make informed decisions regarding spending, borrowing, investing, and retirement planning.

In the context of youth, financial literacy encompasses the understanding of student loans, credit cards, digital transactions, and emerging investment options such as cryptocurrencies and online trading platforms. Financial literacy also includes behavioural aspects such as self-control, planning for the future, and the ability to delay gratification. These attributes significantly influence how young people manage money and make investment choices.

### 3. Investment Behaviour of Youth

Investment behaviour refers to the attitudes, perceptions, and actions of individuals regarding the allocation of money into different financial instruments. Among youth, investment behaviour is shaped by income level, educational background, peer influence, risk appetite, financial goals, and family financial culture.

Young people tend to prefer investment avenues that are easily accessible and offer quick returns. Popular investment options among youth include fixed deposits, mutual funds, systematic investment plans (SIPs), stocks, real estate, gold, and increasingly, digital assets such as cryptocurrencies. However, many young investors make decisions based on social media trends, peer recommendations, and short-term market movements rather than sound financial analysis.

Behavioural biases such as overconfidence, herd mentality, and fear of missing out (FOMO) play a major role in shaping youth investment behaviour. These psychological factors often lead to speculative investments and poor portfolio

diversification. At the same time, some financially educated youth demonstrate disciplined investment behaviour by following systematic investment strategies and long-term financial planning.

### 4. Relationship between Financial Literacy and Investment Behaviour

There is a strong and positive relationship between financial literacy and responsible investment behaviour. Youth with higher levels of financial knowledge are more likely to engage in planned saving, diversified investment portfolios, and long-term wealth creation strategies. They tend to understand the importance of risk management, asset allocation, and the time value of money.

In contrast, youth with low financial literacy often exhibit impulsive financial behaviour, such as excessive spending, reliance on high-interest credit, and speculative trading. They are more vulnerable to financial fraud, misleading advertisements, and risky investment schemes. The lack of basic understanding of financial principles leads to poor decision-making and long-term financial insecurity.

Studies have shown that financial literacy improves confidence in financial decision-making. When young individuals understand how financial markets work, they are more likely to participate in formal investment channels rather than informal or unregulated schemes. This not only benefits individuals but also contributes to the overall stability and growth of the financial system.

**Table 1:** Relationship between Financial Literacy Level and Investment Behaviour of Youth

Level of Financial Literacy	Typical Financial Characteristics	Common Investment Behaviour	Risk Preference	Financial Outcome
Low	Poor budgeting skills, limited knowledge of interest and inflation	Prefers savings accounts, avoids formal investments or follows peer advice	Low to Moderate (often uninformed)	Low savings, high chances of financial errors
Basic	Understands saving and simple interest, limited knowledge of risk diversification	Invests in fixed deposits, recurring deposits, and traditional schemes	Moderate	Stable but low returns
Moderate	Understands mutual funds, insurance, and inflation impact	Invests in SIPs, mutual funds, and basic stock market products	Moderate to High	Balanced growth and risk management
High	Strong understanding of financial planning and market dynamics	Invests in stocks, diversified mutual funds, bonds, and retirement plans	High (calculated risk)	Higher long-term wealth creation

### 5. Factors Influencing Financial Literacy and Investment Behaviour

Several factors influence the level of financial literacy and investment behaviour among youth. Educational background plays a significant role, as students from commerce, management, and economics disciplines tend to have better financial knowledge than those from other fields. Family environment also matters, as young people often learn financial habits from their parents and guardians.

Socio-economic status influences access to financial resources and educational opportunities. Youth from higher-income families are more likely to have exposure to formal financial products and investment options. Media and technology also have a strong influence, as financial content on social media platforms shapes perceptions and decisions about investing. Peer groups and social networks further impact attitudes toward spending, saving, and investing.

### 6. Challenges in Promoting Financial Literacy Among Youth

Despite growing awareness, several challenges hinder the improvement of financial literacy among youth. One of the

major challenges is the lack of structured financial education in school and college curricula. Financial education is often treated as an optional or marginal subject, leaving many students without basic financial skills.

Another challenge is the rapid evolution of financial products and technologies. The emergence of cryptocurrencies, complex derivatives, and digital trading platforms has made it difficult for young people to keep up with changing financial landscapes. Misinformation and unrealistic expectations of quick wealth through online platforms further complicate financial decision-making.

Cultural attitudes towards money, lack of role models, and limited access to trustworthy financial advice also contribute to low financial literacy levels. In rural and underdeveloped areas, limited access to banks and financial institutions further restricts opportunities for practical financial learning.

### 7. Role of Financial Education and Policy Initiatives

Financial education plays a vital role in improving the financial behaviour of youth. Governments, educational institutions, financial institutions, and non-governmental organizations have introduced various programs to promote

financial awareness. Workshops, online courses, mobile applications, and national financial literacy campaigns are being used to educate young people about personal finance and investment planning.

Policy initiatives such as inclusion of financial education in school curricula, promotion of digital financial literacy, and encouragement of youth participation in formal financial systems can significantly improve financial outcomes. Financial institutions can also contribute by offering simplified products, transparent information, and youth-friendly investment platforms.

### **Conclusion**

Financial literacy is a foundational skill that significantly influences the investment behaviour of youth. In a rapidly evolving financial environment, young people are exposed to both opportunities and risks. Higher levels of financial literacy lead to better financial planning, disciplined saving, and informed investment decisions, while low financial literacy increases vulnerability to financial stress and risky financial behaviour.

Strengthening financial education at an early age is essential for creating a financially responsible generation. By integrating financial literacy into educational systems, promoting awareness through technology, and ensuring access to reliable financial services, policymakers can empower youth to make sound financial decisions. Ultimately, improving financial literacy among youth will contribute to personal financial well-being, economic stability, and sustainable national development.

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