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# A Study of Relationship Between Financial Literacy and Investment Behaviour

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**Abstract**

Financial literacy is imperative for making importantfinancial decisions related to saving, borrowing and investment. One can acquire financial literacy by experiencing or studying theories and fundamentals of finance. With the various complex financial products floating in the world, financial literacy has become essential to make sound investment choices. The current study, with the help of literature review, tries to study the association. In the study it was found direct relation exist between financial literacy and investment behaviour.

## Introduction

Financial literacy has gained light in previous years. Many researches has focused on the importance of being financially literate. With change in lifestyles, tend of nuclear families, increase in spending, etc, it has become very important for one to wisely invest his/ her money so that maximum return can be reaped out of it. But it is dismal to observe that many people are unaware of even basic fundamentals of finance. For them, it is very difficult to understand the new unconventional financial products. As a result, they still tend to invest in conventional investment alternatives like banks, real estate etc. Here in this study, with the help of literature review, we intend to study whether financial literacy will help improve investment behaviour.

## Literature Review

Many people do not possess financial literacy and hence fail to take right financial decisions which is in their own interest (Perry, 2008)

It was found that importance of financial literacy in financial behaviour of investors is not yet recognized much (**Bernheim, 1995).**Hilgertet. al. (2003) found association between financial literacy and investor's money management skills. Also, generally financial literacy correlates with investment behaviour which is beneficial for self. Lyons et al. (2006) puts a question on efficacy of education to improvise financial literacy of people.

**Bernheim et al. (2001)** after conducting survey, found out that middle aged people after attending financial literacy programmes, started saving more percentage of their incomes.

**Lusardi and Mitchell (2007)** stated that retirement seminars resulted into more participation towards retirement planning and saving. But the results were more prominent for individuals with low educational qualification and less wealth.

B also stated that after credit counselling, individual's behaviour changes towards debt. It helps improve their creditworthiness.

**Sathiyamoorthy& Krishnamurthy (2015)** stated that factors like age, education, family members etc impact the choice of investment alternative. It was found that maximum people prefer saving in banks for safety of their money. The investment pattern of salaried investor was emphasized in this study.

**Mahdzan&Taibani (2013)** also studied the impact of financial literacy on saving behaviour of individual. Other variables influencing saving behaviour were also studied like risk appetite, regularity in saving, demographic variables etc which directly correlate with saving pattern of individuals.

**Bhushan (2014**) in his studies found that individuals with higher level of financial literacy are relatively more aware about financial products and investment alternatives available. Thus, it was observed that individuals with low financial literacy level invest in conventional financial products like banks, gold etc and do not try other investment alternatives, due to lack of awareness.

**Parimalakanthi& Ashok kumar (2015)** studied the behaviour of investors in Coimbatore by doing a survey. It was found that major factors influencing one's investment decision are safety of capital, regular return and liquidity. Education is imperative for an investor to study the risk return profile of any investment alternative before investing in it.

**Fu (2006)** did an empirical study to study the relation between transparency in financial information and behaviour of investor in Taiwan stock market. He found that transparency in

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financial information and ownership structure significantly impact investor's behaviour. Also, he stated that increased transparency would lead to increase in Taiwan stock market participation.

**Peng et al. (2007)** studied the influence of financial education, acquired at school and college level, on investment and saving behaviour. It was found that experience with financial products and services played a major role in determining investment behaviour.

**Joan et al (2008)** tried studying the relationship between investment behaviour and source of financial information. They also studied the relation between financial knowledge and investment behaviour.

**Rebecca et al (2008)** stated that there is positive impact of financial management programs on actual investment behaviour of investors.

**Mandell and Klein (2009)** have found in his results the inefficiency of school level financial literacy programs or courses. They found that people, who have attended financial literacy courses in their high school, were not found to have better investment behaviour in comparison to those who haven't attended financial literacy courses at school level.

**Wang (2009)** studied the association of financial knowledge of gents and ladies and their risk appetite. High correlation was found amongst the all above three. It was found that female investor had less financial knowledge in comparison to male investors.

**Xiao et al. (2010)** studied relationship between financial education, financial knowledge and risk-taking behaviour. Direct correlation was found between financial education and financial knowledge. Financial knowledge helped improving their credit behaviour.

**Banerjee (2011)** evaluated the role of government in propagating financial literacy. They also studied the association between financial literacy and its economic results like investment choice, accumulation of wealth, saving behaviour etc. It also focussed on inefficiency of this study to completely explain the impact of financial education.

**Lusardi and Mitchell (2014)** stated in their research that enhancing financial knowledge is a kind of investment in human capital. They also had emphasized on groups that have very low financial literacy. They also have concluded that many people around the globe are still financially illiterate.

**Singh and Sharma (2016)** also examined the association of financial literacy and investment behaviour.They did the survey from MCD school teachers and conducted chi-square test. Result was – financial literacy and investment behaviour of an individual are significantly associated. They concluded that effective financial literacy will help the one to develop an insight for analysing one's own investment behaviour.

**Assefa and Rao (2018)** emphasized on the fact that majority of investors invest in old traditional and safe investment alternatives and do not invest in new unconventional synthetic complex financial products despite them giving higher returns. This in return highlight the requirement of financial education programs emphasizing primarily on building up financial knowledge and building up skills to start making informed investment choices.

**Gangwar and Singh (2018)**also studied the relation between financial literacy and investment behaviour of adults in India. Data was collected from more than 300 respondents. In their study they also found significant association between financial literacy and investment behaviour.

## Conclusion

With the above extensive literature review, it can be concluded that strong positive association is found amongst financial literacy and investment behaviour of people. Literature also provided with evidence of investment knowledge being one of the major and significant factors in determining credit card decisions by college students. Also, we can not fail to address the contribution of financial education in improvising financial literacy and thus financial behaviour.

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