

**Effect of Financial Literacy on Stock Market Participation in
Kathmandu Valley**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of the requirements for the Master's Degree

By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Effect of Financial Literacy on Stock Market Participation in Kathmandu Valley”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Report of Research Committee

Mr. Kiran Kumar Rai has defended research proposal entitled “Effect of Financial Literacy on Stock Market Participation in Kathmandu Valley” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Binita Manandhar and submit the dissertation for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the dissertation entitled “Effect of Financial Literacy on Stock Market Participation in Kathmandu Valley” presented by Mr. Kiran Kumar Rai, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Abbreviations

ANOVA	Analysis of variance
FA	Financial attitude
FAW	Financial awareness
FB	Financial behaviour
FK	Financial knowledge
FS	Financial skill
NRB	Nepal Rastra Bank
OECD	Organization for Economic Cooperation and Development
S.D.	Standard deviation
Sig.	Significance
SMP	Stock market participation
SPSS	Statistical package for social science
Std.	Standardized
TPB	Theory of planned behaviour
T.U.	Tribhuvan University
VIF	Variance inflation factor

Abstract

This study aimed to examine the effect of financial literacy on stock market participation in the Kathmandu Valley. The study used a survey research technique to accumulate data from selected respondents by asking participants about their beliefs, attitudes, and behaviors about financial literacy traits and stock market participation. Additionally, the research used a descriptive and causal comparative approach. The target population of the study consists of all individual investors who are actively trading on the Nepalese stock market. One questionnaire was given to each of the 418 chosen respondents, who are individual investors from the Kathmandu Valley. A minimum bachelor's degree in education is the basis for the sample. The sampling method used in this study is called non-probability sampling. The study collects data using convenience sampling. Primary data is accumulated using questionnaires. Under the data analysis methodology, the study included regression, correlation analysis, and demographic profile analysis. Descriptive statistics, correlation statistics, regression statistics, reliability tests, ANOVA tests, and multi-collinearity tests have been used in the examination. SPSS is used to calculate the necessary statistics. The study found the dependent variable, stock market participation, is positively and significantly influenced by four of the five independent variables: financial knowledge, financial attitude, financial behavior, and financial awareness. In contrast, financial skill exhibits a negative but statistically insignificant relationship with stock market participation.

Key words: Financial literacy, Stock market participation, Financial knowledge, Financial behavior and Financial awareness.

Chapter I

Introduction

1.1 Background of the study

In recent years, financial literacy has gained more attention from governments, banks, businesses, community organizations that represent the financial markets, and other organizations, especially in established and emerging countries. It is more important than ever to increase financial literacy because of the emergence of new financial services, the complex operations of the financial system, and changes in the political, demographic, and economic domains (Shrestha et al., 2023).

Hogart (2002) defined financial knowledge as the ability to manage finances in relation to budgeting, insurance, savings, and expenses. Financial literacy is the ability to comprehend and apply financial concepts (Servon & Kaestner, 2008). Financial literacy is the ability to read, understand, manage, and talk about one's personal financial circumstances that affect one's material well-being. It entails making sound financial decisions, discussing money and financial issues, setting goals for the future, and reacting to life events that affect everyday financial decisions, such significant economic events.

According to the OECD (2011), financial literacy is the set of abilities, awareness, information, attitudes, and behaviors required for a person to make financial decisions and reach their financial objectives. Purchasing stocks entails putting money into securities such as common and preferred stocks with the hopes of earning more money in the future. The judgments that investors make while making investments are based on important information. Making the correct investing decisions is essential to maximizing returns and minimizing losses. The investments that will provide the highest anticipated utility or benefit are chosen (Shahzad et al., 2013). According to Lutfi (2010), traders should take demographic parameters (income, age, and education) into account when making important investment decisions. Christanti and Mahastanti (2011) found that choices to buy stocks were influenced by both educational attainment and investment experience.

Individuals typically participate in stock market on personal traits, such as education. Training was one consideration when choosing investments (Lubis et al., 2013). It seems sense that diverse educational backgrounds would influence different approaches to investment decisions, given that investors themselves have a range of educational experiences (Obamuyi, 2013). An investor's comprehension of how to select stocks that reduce risks and provide the best return is enhanced by higher education. With a certain degree of knowledge, a person's risk tolerance for financial decisions rises, claim Schooley and Worden (1999). Before making a choice, investors with degrees may consider a variety of investment-related factors (Christanti & Mahastanti, 2011).

Al-Tamimi and Kalli (2018) examined investment knowledge in the United Arab Emirates (UAE) and found that there is a significant correlation between investment literacy and decisions, shareholders in the UAE have less financial literacy than is required, and individuals with higher levels of education have a greater influence on their stock market participation. Lusardi and Mitchell (2007) defined financial literacy as the capacity to understand fundamental economic concepts in order to make informed judgments about investing and saving in stock market. Lusardi and Tufano (2008) have examined debt literacy as a subcategory of financial awareness. According to their definition, debt reading is the ability to make informed decisions about debt contracts, particularly when it comes to using the basic knowledge of interest compounding, which is assessed in the context of everyday financial decisions. Financial literacy, according to Coussens (2005), is the result of an individual's interest, mindset, and behaviors that enhance both their own financial efficacy and efficiency as well as the immediate and long-term benefit to society as a whole. It also represents the pinnacle of understanding, knowledge, and financial availability. Numeracy was notably mentioned by Lusardi and Mitchell (2007) as a need for understanding of money tests.

Peters et al. (2006) asserted that mathematics is a novel concept that is related to and improves financial literacy. Additionally, it is regarded as a crucial numerical skill. Being financially literate is knowing enough about monetary concepts and how financial instruments work, according to Bruce and Huhmann (2009). In other words, financial literacy knowledge is based on recollection. According to Lusardi and Mitchell (2007), those with less education, parents, and women were less

knowledgeable about money. Financial literacy influences education, which results in a more frugal lifestyle, according to study by Bernheim and Garrett (2003). There is no difference in financial awareness between groups based on gender, age, income, education, or expertise, according to Volpe et al. (2002). According to Kimball and Shumway (2006), a lack of financial knowledge may influence the decision to buy shares. Van Rooij et al. (2011) claimed that people with limited financial knowledge detest stock investing and never do it.

The study is carried out to examine the connection between financial literacy factors and stock market participation in the Kathmandu Valley, drawing on the results of several empirical investigations.

1.2 Problem statement

To make informed investment decisions in stock market, people must be able to manage their money and possessions (Shrestha et al., 2023). When choosing stocks, it's important to consider people's risk tolerance and the risk-return trade-off. To understand the importance of the trait, one must be financially literate in order to evaluate different possible investments. Therefore, it is important to know where financial education came from. The significance and origin of financial education are the main topics of financial consciousness (Jariwala, 2013). Financial literacy is becoming more and more important for everyone. This is necessary for every family that wants to maintain a consistent income, buy a home, fund their children's education, and ensure that there will be money when both parents retire (Gina et al., 2017).

The bulk of research on the connection between stock market participation and financial literacy has been carried out in economies around the globe, concentrating primarily on financial behavior, experience, and knowledge. There hasn't been much research done on how financial literacy affects stock market participation in Nepal. To the best of the researcher's knowledge, only one study—that of Shrestha et al. (2023)—has examined the framing gap in relation to the impact of financial knowledge using the same features on stock investment decisions in Nepalese context. Therefore, by posing the following research questions, this study aims to determine the influence of financial behavior, knowledge, awareness, and competence on stock market participation in the Kathmandu Valley.

- i) How does financial literacy effect on stock market participation?
- ii) What is the relationship of stock market participation with financial literacy?
- iii) What is the status of the financial literacy of the share market investors in Kathmandu Valley?

1.3 Objectives of the study

The objectives of the study are presented below:

- i) To assess the effect of financial literacy on stock market participation.
- ii) To examine the relationship of stock market participation with financial literacy.
- iii) To analyze the status of the financial literacy of the share market investors in Kathmandu Valley.

1.4 Hypothesis of the study

According to Shrestha et al. (2023), there is a significant correlation between a person's stock market participation and financial literacy variables. Therefore, this study makes the following alternative hypothesis:

H₁: Financial knowledge has significant influence stock market participation.

H₂: Financial attitude has significant influence on stock market participation.

H₃: Financial behaviour has significant influence on stock market participation.

H₄: Financial awareness has significant influence on stock market participation.

H₅: Financial skills has significant influence on stock market participation.

1.5 Rationale of the study

The significance of the study lies in its potential contributions to multiple stakeholders, including policymakers, financial institutions, investors, and researchers.

The findings can help the government and regulatory bodies like SEBON (Securities Board of Nepal) understand the role of financial literacy in influencing stock market participation. Targeted financial education programs: It enables the design and implementation of effective investor education programs, particularly aimed at underrepresented or less financially literate populations.

Increasing participation through financial literacy can lead to a broader and more diverse investor base, which is essential for deepening Nepal's capital markets. More informed investors can lead to better investment decisions and more efficient market functioning.

The study can highlight disparities in financial literacy and participation between urban and rural areas, prompting efforts to improve access to financial information in remote areas. Insights from the study can help empower women, youth, and lower-income groups to participate in the financial system.

There is limited academic research specifically focused on the link between financial literacy and stock market participation in Nepal, making this study a valuable contribution. It provides a basis for comparative studies or further exploration into related areas like behavioral finance, savings behavior, or retirement planning.

Financial literacy equips individuals with the tools to evaluate risks and returns, reducing the likelihood of uninformed or speculative investments. It can encourage more stable, long-term participation in the market rather than short-term speculation.

This study is significant because it not only seeks to understand the financial literacy behind stock market participation but also aims to provide actionable insights that can support inclusive economic development, capital market growth, and financial empowerment in Nepal.

1.6 Limitations of the study

Limitations of the study are as follows:

- i) This study is concentrated on the effect of financial literacy on stock market participation in Kathmandu valley.
- ii) This study is based on the primary data.
- iii) Kathmandu valley is taken for the study.

Chapter II

Literature Review

2.1 Theoretical review

2.1.1 Meaning of financial literacy

Nye et al. (2013) argued that "the degree to which an individual feels confident in their ability to make sound short- and long-term investment choices while taking the state of economy into account is known as financial literacy." This also relates to comprehending important financial concepts. The notion of financial literacy encompasses behavior, attitudes, viewpoints, knowledge and understanding, and awareness of the financial environment (Jariwala, 2013). It includes basic reading, numeracy, and comprehension skills as well as an understanding of the origins, applications, and dangers of money items. Along with understanding what capital is, how it is distributed, and where it ends up, it also entails having the ability to make wise financial decisions for both oneself and other people (Alipour & Rahimi, 2022).

The concept of financial literacy was created by the OECD in 2005. Financial literacy is defined as "the ability and confidence of investors and consumers to comprehend financial services and concepts, to identify potential and potential hazards in the financial world, to make informed decisions, to know where to find assistance, and to take additional practical steps to improve their financial well-being," according to Madi and Yusof (2018). Furthermore, Palm (2014) pointed out that financial literacy entails not just knowing how things work but also making educated decisions. Additionally, Edirisinghe and Ama (2017) defined financial literacy as a process by which individuals use a range of skills, resources, and contextual knowledge to examine details and make decisions while understanding the financial implications of their choices.

The ability to make proactive, well-informed, and realistic financial decisions based on one's comprehension of financial concepts is referred to as financial awareness. The ability to use financial knowledge, make informed decisions, and understand key financial concepts is required for managing financial resources and making prudent decisions, whether through short- or long-term expenditures, while taking into account the constantly shifting global economy and its circumstances, according to all

researchers (Roy & Jane, 2018). The idea of financial understanding, on the other hand, depends on the altered forms or technique related to the entire consumer understanding and protection procedure.

2.1.2 Financial literacy components

According to the OECD (2011), financial literacy is the set of abilities, awareness, information, attitudes, and behaviors required for someone to make financial decisions and reach their financial objectives.

Financial knowledge

Being financially educated is often perceived as requiring specialized financial knowledge. However, in the current context, it primarily refers to the ability to make logical and informed decisions. Firstly, financial literacy surpasses the basic knowledge needed for everyday social interactions. Secondly, while general knowledge may support decisions related to current consumption, financial literacy equips individuals with insights necessary for future savings. Thirdly, financial understanding encourages individuals to take calculated risks more often than general knowledge does. Fourthly, a solid grasp of financial concepts enables people to select appropriate financial tools based on their specific needs. Lastly, it allows individuals to make predictions while considering uncertainties (Shrestha et al., 2023).

In practice, there should be a clear connection between a person's behavior, skills, and knowledge of financial management. Every financial decision reflects their level of financial awareness. For instance, choosing to invest in a company's shares implies a certain familiarity with how the stock market functions. Alternatively, the same individual might prefer to invest in banks due to perceiving the stock market as riskier. In some cases, a person may even engage in gambling. These choices illustrate how mental state can fluctuate and how financial literacy significantly influences decision-making, leading to either sound or poor financial behavior (Rai et al., 2019).

A person's financial knowledge level is fundamentally tied to their understanding of financial concepts (Robb & Woodyard, 2011). Financially literate individuals are typically more confident in handling financial matters, resulting in better financial outcomes. Therefore, to improve their standard of living, people need a sufficient level

of financial awareness. In today's business environment, financial literacy is essential. Those with a stronger conceptual understanding of finance tend to be better informed and more competent in managing various financial responsibilities.

Financial behaviour

The study of financial behavior integrates principles from traditional finance and psychological theories to better understand why individuals often make irrational financial decisions. In contrast, those with higher financial literacy tend to place more importance on overall life satisfaction. It is believed that as individuals gain more financial knowledge, their financial behavior improves. Moreover, having a positive attitude toward money-related matters may enhance one's financial awareness (Bhusan & Medury, 2014).

Between the 1970s and 1990s, research into financial behavior laid the groundwork for developing financial behavior metrics. Building on this foundation, Xiao (2008) proposed the economic behavior theory, which draws from two key behavioral frameworks: the trans-theoretical model of behavioral change (TTM), designed to help individuals overcome detrimental habits, and the theory of planned behavior (TPB), which seeks to predict and explain human actions (Ajzen, 1991). Furthermore, Hilgert et al. (2003) explored the link between financial behavior and knowledge, focusing on four core areas of money management: investing, saving, debt management, and cash-flow control.

Financial attitude

An individual's inclination toward financial concerns is often described as their financial attitude. Key aspects include the ability to plan ahead and save effectively. Bhushan and Medury (2014) emphasized that "promoting positive financial attitudes among the public should be a primary objective to enhance financial literacy across generations. Without this foundation, financial education initiatives are unlikely to yield meaningful results." Ajzen (1991) suggested that financial attitudes are shaped by both economic and non-economic beliefs, becoming embedded in the decision-maker's mindset and reflected in their financial behavior.

Understanding financial attitudes allows for a deeper appreciation of the long-term importance of finance. Essentially, financial attitude encompasses one's mental state, opinions, and evaluations related to money. As Priyadharshini (2017) noted, "an individual's self-assured approach toward financial behavior is not influenced by their views on career, health, or wealth, but stems from their confidence and rationality in managing finances." This highlights how logical thinking and confidence play a key role in shaping effective financial behavior.

Research by Nadeem et al. (2020) found that an improved financial attitude positively influences investment behavior. Similarly, Rai et al. (2019) concluded that decision-making ability significantly boosts personal investment motivation. According to Shrestha et al. (2023), "investors' financial management abilities, willingness to share financial knowledge, and related attributes reflect their financial attitudes." They further define financial attitude as a combination of one's mindset, perspective, and evaluation concerning money matters.

Financial awareness

In today's increasingly globalized economy, financial expertise is a crucial factor in achieving monetary stability. Financial literacy encompasses financial awareness, which plays a vital role in shaping how individuals interpret financial knowledge and make decisions accordingly (Priyadharshini, 2017). Nga et al. (2010) highlighted that socioeconomic variables influence financial knowledge, covering both general understanding and specific knowledge of financial products. Similarly, Khan (2015) emphasizes that awareness of financial services directly impacts financial decision-making. These findings are consistent with Priyadharshini (2017) conclusion that both financial knowledge and competency influence decision-making through the intermediary role of financial awareness.

Shrestha et al. (2023) further asserted that a lack of financial awareness significantly hampers individuals' understanding of financial products and services. This deficiency in awareness affects their ability to make informed decisions and limits their participation in financial markets.

Financial skill

Financial skill refers to the ability to apply financial knowledge acquired through financial literacy in practical contexts. Studies indicate that an individual's financial well-being is closely tied to their understanding of financial matters. According to Atkinson and Messy (2011), individuals who are financially knowledgeable tend to build wealth through accumulation. Similarly, Mahdzan and Tabiani (2013) argued that people with strong financial understanding are better equipped to make sound investment decisions. Chen and Volpe (1998) emphasized that individuals should be capable of evaluating the benefits of both traditional and innovative financial tools in order to maximize the advantages of their financial decisions.

Saha (2016) further noted that a person is considered financially literate when they not only feel confident in their financial knowledge but also demonstrate the ability to apply that knowledge in making investment decisions. In contrast, Roy and Jane (2018) argued that someone who cannot assess available financial options cannot truly be regarded as financially educated. Therefore, strong financial expertise enables individuals to manage their finances responsibly and reduces the chances of being misled or falling victim to fraud. As Singh and Kumar (2017) emphasized, individuals must possess both knowledge and skills to make informed financial choices throughout their lives. Hence, enhancing financial literacy is essential for making wise economic and investment decisions.

Additionally, Roy and Jane (2018) observed that “individuals become more financially capable and intelligent as they gain experience with financial matters.” However, Singh and Kumar (2017) highlighted a concerning trend in the current environment: although many young people have access to financial information, they often lack the practical skills necessary to budget effectively, understand credit, interpret financial instruments, and engage with the broader financial system.

2.1.3 Meaning of stock market participation

Stock market participation refers to the act of individuals or entities engaging in buying and selling shares or other financial instruments on a stock exchange. It means taking part in the stock market either by purchasing stocks, holding them, or trading them. In a broader sense, stock market participation can indicate the number or proportion of

people or investors who are involved in the stock market. The level of involvement or activity in stock trading by individuals, institutions, or other market players. For example, when more people invest in the stock market, it can be said that stock market participation is increasing. This is important because higher participation usually leads to better liquidity and a more dynamic market (Khan, 2015).

Taking part in the stock market and making investment decisions, which include developing a variety of investment strategies, are essential elements of an individual's personal financial plan. These strategies should include developing a systematic investment plan and an asset allocation strategy (Ogunleye et al., 2022). An investor's decision to invest is influenced by a number of variables, including financing costs, profit margins, and their assessment of possible future earnings. Any prudent investor would pursue a project that generates returns more than the funding costs (Virlics, 2021).

Investing is the practice of putting money into capital assets, goods, and services by those who have savings and are seeking an acceptable rate of return. Investors must choose how, when, where, and how much money to invest in prospects, regardless of whether they are thinking about investing as an individual or as the head of a firm that is engaged (Parvin & Panakaje, 2022). Literacy is one of the most crucial decision-making tools for enhancing decision-making and obtaining a satisfactory return. Both technical and fundamental analysis are employed in investment analysis. Several opportunities are found after doing several studies to determine costs and earnings before choosing an investment (Obamuyi, 2013).

In addition to the availability of many financial services for investment and the worry about adaptability in handling financial matters, people are also curious in money and how it functions. This is due to the fact that investing decisions are important and dynamic when compared to other decisions that individuals plan to make for their futures throughout their lives (Nadeem et al., 2020). Before making judgments, investors should accurately and completely evaluate the prospects; they shouldn't be made in a hurry. Making the incorrect investment decision might put a company at risk of going bankrupt. Understanding the underlying principles of the investment choice is essential to maximizing the evaluation process's worth (Putri & Digdowiseiso, 2023).

According to Mugo (2016), investment planning includes developing investment strategies, such as an asset allocation strategy and a systematic investment strategy. Additionally, Mutswenje (2014) states that "investors frequently use both fundamental and technical analysis in addition to their judgment when conducting research on investments." According to a different perspective, information structure and market factors constantly influence shareholders' decisions.

2.1.4 Association between financial literacy and stock market participation

Madi and Yusof (2018) found that even individuals with a relatively high level of financial literacy can misinterpret data and misunderstand the implications of financial figures. They further noted that many retail investors often rely on personal biases when addressing financial issues, leading to poor money management and misguided spending decisions. Similarly, Amisi (2012) found that among pension fund managers in Kenya, financial literacy had a significant positive effect on investment decision-making. Mugo (2016) also explored various risk factors that influence investment choices, including market risk, liquidity risk, strategic risk, and regulatory challenges, all of which play a critical role in shaping investment decisions. Mugo (2016) findings indicated that "while financial behavior and awareness had a positive but statistically insignificant relationship with investment habits, financial knowledge and financial attitude were significantly and positively correlated with investment decisions."

A rational investor typically bases their decisions on their financial understanding. It can be inferred that financial literacy may boost investment enthusiasm, as individuals with stronger financial knowledge are likely to feel more confident and willing to take calculated investment risks. This aligns with research by Eliza et al. (2024), which found a positive relationship between financial literacy and investment interest—meaning that greater financial knowledge increases the likelihood of active investment engagement. Studies by Sulistyawati et al. (2023) and Eliza et al. (2024) also provided empirical evidence supporting the significant influence of financial literacy on an individual's intention to invest.

2.1.5 Related theories

Goal setting theory of motivation

The goal-setting theory of motivation suggests that individuals are more likely to enhance their financial literacy when they are motivated to make investment decisions. Motivation drives people to pursue goals, and when the goal involves investing, it can lead individuals to seek greater understanding of financial products and better manage their confidence (Ghasarma et al., 2017). This aligns with Fitriah (2021) viewed that financial literacy plays a crucial role in improving individuals' well-being through effective personal financial management. Additionally, research indicates that increased financial knowledge can contribute to improved investment outcomes (DM, 2021).

Behavioural finance theory and financial literacy

An individual's financial attitude reflects their mindset, perception, and evaluation of their personal finances. This concept plays a key role in financial behavior theory, which incorporates psychological aspects into financial decision-making. According to this theory, improvements in a person's financial perspective can lead to better investment choices, as it considers psychological influences such as attitudes toward financial management and the importance of long-term financial goals (Ogunleye et al., 2022).

Behavioral accounting also applies to the analysis of corporate financial decisions. In introductory investment texts, behavioral finance is often introduced in the context of technical analysis. However, integrating behavioral finance with technical analysis can undermine the educational value of investment training, given the controversy and academic debate surrounding technical analysis and its inconsistency with fundamental stock evaluation (Shahzad et al., 2013).

Differences in financial outcomes are often linked to financial knowledge, which is commonly used to determine the need for financial education. Prior research has highlighted key challenges in developing a standardized approach to measuring financial literacy: vague definitions, poorly constructed assessment tools, and misinterpretation of test results. A recent study assessed financial knowledge by asking participants five questions related to everyday financial and economic principles. These

included calculations involving interest and inflation, understanding risk diversification, the inverse relationship between bond prices and interest rates, and the impact of shorter loan terms on total interest paid over the life of a mortgage (Shahzad et al., 2013).

Theory of planned behaviour

The Theory of Planned Behavior (TPB), introduced by Ajzen in 1985 and further developed in 1991, builds on the concept of rational decision-making. Ajzen (1991) described TPB as a reliable model for understanding human behavior, emphasizing the influence of motivational factors such as attitudes and perceived behavioral control. Attitudes, in this context, refer to the positive or negative evaluation an individual associates with performing a particular behavior. TPB also recognizes that behavior is not always fully under an individual's control, highlighting the role of perceived behavioral control in shaping actions.

This theory forms the foundation of the current study, as it asserts that attitudes toward behavior, individual expectations (or subjective norms), and perceived behavioral control significantly influence behavioral intentions and actions. Within the realm of financial behavior, attitude is a key factor, especially in relation to participation in the stock market.

TPB has been widely applied to studies on stock market engagement, where it helps explain investors' financial attitudes and their behavior in financial markets. The central premise of TPB is that the intention to engage in a behavior is shaped by three main elements: attitude toward the behavior (i.e., whether the individual views it positively or negatively), subjective norms (i.e., perceived social pressure to engage or not engage in the behavior), and perceived behavioral control (i.e., how easy or difficult the individual believes it is to perform the behavior). Generally, when individuals hold favorable attitudes, perceive social support, and believe they have control over their actions, they are more likely to form strong intentions to carry out the behavior (Ajzen, 1991).

2.2 Empirical review

Fachrudin and Fachrudin (2016) researched on the influence of education and experience toward investment decision with moderated by financial literacy. The aim of the study was to examine how educational background and prior experience influence investors' moderated financial literacy when making investment decisions. The study used SEM and descriptive statistics. The study found no significant direct relationship between education and investment skills in determining investment decisions. Instead, the findings showed that that financial literacy plays a key moderating role, enhancing the effect of education and experience on investment decisions. The study concluded that sound investment decisions require a solid understanding of financial concepts.

Al-Tamimi and Kalli (2018) researched on financial literacy and investment decisions of UAE investors. The aim of the study was to assess the financial literacy levels of individual investors in the UAE who actively participate in the local financial markets. The study used correlational statistics to analyze the data. The results showed that the overall financial awareness among UAE investors is significantly below the desired level. Key determinants of financial literacy included profession, education level, and income. Investors with higher education levels, substantial assets, and employment in finance-related sectors such as banking or investment displayed higher financial literacy compared to unemployed individuals. The study concluded a meaningful relationship between financial literacy and investment decisions.

Hamza and Arif (2019) conducted a study on impact of financial literacy on investment decisions: the mediating effect of big-five personality traits model. The aim of the study was to explore the mediating role of personality traits—based on the Big Five personality model—in the relationship between financial literacy and investment decisions. The study used descriptive, correlation and regression statistical tools to analyze the data. The findings showed that financial literacy had a positive impact on investment decisions through neuroticism, and a negative impact through openness to experience. This study concluded that investment behavior and stock market participation is positively driven by financial literacy.

Rai et al. (2019) conducted a study on association of financial attitude, financial behaviour and financial knowledge towards financial literacy: a structural equation modeling approach. The aim of the study was to examine the relationship between financial literacy, financial behavior, and attitudes toward money management among working women in Delhi, India. The study used SEM and also used path analysis to analyze the data. The study found that financial attitude, financial behavior and financial knowledge significantly and positively correlated with financial literacy and money management. The study concluded that working women's financial behavior and attitudes toward money management are more strongly linked to their overall understanding of financial matters than to their financial knowledge alone.

Alaaraj and Bakri (2020) carried out a study on the effect of financial literacy on investment decision making in Southern Lebanon. The aim of the study was to investigate the influence of financial literacy on investment decision-making among investors in South Lebanon. The study used Pearson correlation and multiple regression to analyze the data. The study found a strong positive correlation between financial literacy i.e. financial knowledge and financial awareness and the ability to make sound investment decisions and found the positive and significant effect of financial literacy on investment decision as well. The study concluded that financial literacy is the key driver of investment decision.

Soekarno and Pranoto (2020) performed a study on influence of financial literacy on the stock market participation and financial behavior among Indonesian millennials. The aim of the study was to examine the levels of financial literacy, investment behavior, and stock market participation among Indonesian millennials. The study used logistic regression and a percentage-weighted analysis method. The study found that millennials with greater financial resources were more likely to demonstrate advanced financial knowledge. Those with strong financial literacy—especially younger individuals and economics students—were significantly more likely to actively participate in the stock market.

Loranita et al. (2021) researched on the effect of financial attitude, financial behavior, financial knowledge, and sociodemographic factors on individual investment decision behavior. The aim of the study was to determine the effect of financial attitude, financial

behavior, financial knowledge and sociodemographic factors on the behavior of individual investment decisions. The research used multiple linear regression analysis for data analysis process. The findings showed that individual investment choice behavior was positively impacted by financial attitude, financial behavior, financial knowledge, and sociodemographic characteristics. The study concluded that investment behavior of the people is significantly shaped by the financial attitude, financial behavior, financial knowledge, and sociodemographic characteristics.

Kurniadi et al. (2022) researched on the influence of financial literacy and financial behavior on investment decision for young investor in Badung District, Bali. The aim of the study was to investigate how financial behavior and financial literacy influence investment decisions, treating financial behavior as a potential mediating variable. The study used PLS via SmartPLS. The findings showed that both financial literacy and financial behavior significantly influence investment decisions. However, financial behavior did not mediate the relationship between financial literacy and investment decisions. The study concluded as financial knowledge and behavior are important for investment decision in stock market.

Shrestha et al. (2023) conducted a study on impact of financial literacy on personal investment decisions in Kathmandu Valley. The aim of the study was to analyze how financial literacy influences individual investment decisions. The study used descriptive statistics, correlation coefficient, multiple regression, and reliability to analyze the data. The findings revealed that investment decisions were significantly influenced by financial behavior, financial attitudes, financial awareness, and financial skill. This study concluded that investment decisions are significantly shaped by individuals' financial behavior, financial attitudes, financial awareness, and financial skills. These findings highlighted the crucial role of financial literacy and psychological factors in guiding sound investment practices.

Putri and Digdowiseiso (2023) researched on intention in stock investments influenced by financial literacy, financial behavior, and risk perception. The aim of the study was to investigate how financial literacy, investment behavior, and perceived risk affect the interest in stock investment among management students at the Philippine National University. The study used multiple linear regression analysis to analyze the data. The

study found that financial literacy and investment behavior significantly and positively affect investment interest, while risk perception does not have a statistically significant influence. The study concluded that financial literacy and investment behavior have a significant and positive influence on individuals' investment interest.

Nahdhiroh and Ningtyas (2025) conducted a study on trust, financial literacy and investment intention: a case in securities crowdfunding platform using trust transfer theory. The aim of the study was to reveal trust's role in mediating financial literacy's effect on investment intentions of securities crowdfunding platforms. The study used PLS-SEM to examine the data. The findings showed that trust in the securities crowdfunding platform and investment intention are highly influenced by financial literacy. The study concluded investors' intentions are highly impacted by financial literacy and platform trust.

Table 1

Major findings of empirical studies

Writers (Publication Date)	Objectives	Methodology	Major Findings
Nahdhiroh and Ningtyas (2025)	To reveal trust's role in mediating financial literacy's effect on investment intentions of securities crowdfunding platforms.	PLS-SEM	Trust in the securities crowdfunding platform and investment intention are highly influenced by financial literacy.
Putri and Digdowiseiso (2023)	To investigate how financial literacy, investment behavior, and perceived risk affect the interest in stock investment among management students at the	Multiple linear regression analysis.	Financial literacy and investment behavior significantly and positively affect investment interest, while risk perception does not have a statistically significant influence.

	Philippine National University.		
Shrestha et al. (2023)	To analyze how financial literacy influences individual investment decisions.	Descriptive statistics, correlation analysis, and regression analysis.	Findings revealed that investment decisions were significantly influenced by financial behavior, financial attitudes, financial awareness, and financial skill.
Kurniadi et al. (2022)	To investigate how financial behavior and financial literacy influence investment decisions, treating financial behavior as a potential mediating variable.	PLS via SmartPLS.	The findings showed that both financial literacy and financial behavior significantly influence investment decisions.
Loranita et al. (2021)	To determine the effect of financial attitude, financial behavior, financial knowledge and sociodemographic factors on the behavior of individual investment decisions.	Multiple linear regression analysis approaches .	The findings showed that individual investment choice behavior was positively impacted by financial attitude, financial behavior, financial knowledge, and sociodemographic characteristics.
Soekarno and Pranoto (2020)	To examine the levels of financial literacy, investment behavior, and stock market participation among Indonesian millennials.	Logistic regression and a percentage-weighted analysis method.	Those with strong financial literacy—especially younger individuals and economics students—were significantly more likely to actively

			participate in the stock market.
Alaaraj and Bakri (2020)	To investigate the influence of financial literacy on investment decision-making among investors in South Lebanon	Pearson correlation and multiple regression analysis.	The results revealed a strong positive correlation between financial literacy and the ability to make sound investment decisions.
Rai et al. (2019)	To examine the relationship between financial literacy, financial behavior, and attitudes toward money among working women in Delhi, India.	Structural Equation Modeling (SEM) through the AMOS software and path analysis.	The results indicated that working women's financial behavior and attitudes toward money are more strongly linked to their overall understanding of financial matters than to their financial knowledge alone.
Hamza and Arif (2019)	To explore the mediating role of personality traits based on the Big Five personality model in the relationship between financial literacy and investment decisions.	Correlation and regression.	Investment behavior and stock market participation is positively driven by financial literacy.
Al-Tamimi and Kalli (2018)	To assess the financial literacy levels of individual investors in the UAE who actively participate in the local financial markets.	Correlational statistics	Financial literacy and investment decisions have significant relation.
Fachrudin and Fachrudin (2016)	To examine how educational background and prior experience	SEM and Descriptive statistics.	Financial literacy plays a key moderating role, enhancing the effect of

influence investors' moderated financial literacy when making investment decisions.	education and experience on investment decisions.
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Empirical studies have presented that there are various variables regarding financial literacy that motivate to participate in stock market for the investment. The most common variables are found to be financial knowledge, financial awareness, financial attitude, financial behaviour, and financial skill as shown by the studies of Putri and Digdowiseiso (2023), Shrestha et al. (2023), Loranita et al. (2021), Alaaraj and Bakri (2020), which have significant effect on stock market participation and investment decision.

2.3 Research gap

A comprehensive review of the existing literature reveals that while numerous studies have examined financial literacy, there remains a notable scarcity of research specifically linking financial literacy to individual investment decisions within the Nepalese context. This gap raises a critical question: How does financial literacy influence the investment choices of individual investors in Nepal? Addressing this question forms the primary objective of the current study.

Over the past few decades, the importance of financial literacy has grown significantly, impacting individuals across all sectors of society. Financial institutions, community organizations, government agencies, and policymakers have increasingly emphasized financial literacy as a key component of economic well-being. However, limited attention has been given to exploring the relationship between financial literacy levels and the sources of financial information—an area rarely examined in prior research.

Furthermore, this study seeks to fill a significant gap by incorporating financial skills and financial awareness as additional variables in a structural equation modeling framework, with stock market participation serving as a mediating variable. Such an integrated approach has seldom been applied in previous studies, thereby providing new

insights into how these factors collectively shape stock market participation. This study contribution underscores the importance of a holistic understanding of the drivers behind individual investment behavior in Nepal.

Chapter III

Research Methodology

3.1 Research design

The study used a survey research technique to accumulate data from selected respondents by asking participants about their beliefs, attitudes, and behaviors about financial literacy traits and stock market participation. Additionally, the research used a descriptive and causal comparative approach. Through the use of descriptive and causal comparative study methodologies, the impact of the independent variables—financial knowledge, financial attitude, financial skill, financial conduct, and financial awareness—on the dependent variable—stock market participation—has been calculated. Because when describing a condition, issue, phenomena, or group of individuals, a descriptive research design is employed. When comparing two or more groups, a causal-comparative research design seeks to ascertain the cause-and-effect correlations between variables (Sharma & Chaudhary, 2018).

3.2 Population and sampling procedure

The target population of the study consists of all individual investors who are actively trading on the Nepalese stock market. One questionnaire was given to each of the 418 chosen respondents, who are individual investors from the Kathmandu Valley. A minimum bachelor's degree in education is the basis for the sample. The sampling method used in this study is called non-probability sampling. The study collects data using convenience sampling. The respondents are found in various stock brokerage firms in Kathmandu valley.

3.3 Nature and sources of data collection

Primary data is accumulated using questionnaires. The surveys are directly delivered to the actual investors. This strategy works well because it motivates responders to provide an answer as quickly as feasible. As a result, the respondents are the primary source of the data that they provide. The information is analytical in nature and pertains to demographic variables, financial literacy levels, and stock market participation decisions.

3.4 Data collection procedures

Data has been accumulated by a physical survey with 418 people of different ages, vocations, demographics, and educational backgrounds. In order to gather data for the study, a printed form is produced. Respondents are given a survey that asks about their demographics and level of agreement with remarks on financial literacy dimension and stock market participation. In the first step, family members, close friends, and peer groups with experience in stock investment are contacted in order to gather information for the study. Following recommendations from friends and family, more experienced investors were located, and the survey form was distributed to these possible respondents.

The questionnaire included a 5-point rating scale and two closed-ended questions for data collection. The 5-point rating scale is a widely used tool for gauging agreement since it lets respondents express whether or not they agree with each set of claims. Each scale item's ranking falls between "Strongly Disagree" and "Strongly Agree." The degree of behavioral feature was rated using sentences on an ordinal scale with a 1-Strongly Disagree to 5-Strongly Agree escalation.

3.5 Method of data analysis

Under the data analysis methodology, the study included regression, correlation analysis, and demographic profile analysis. Descriptive statistics, correlation statistics, regression statistics, reliability tests, ANOVA tests, and multi-collinearity tests have been used in the examination. SPSS is used to calculate the necessary statistics.

Demographic profile analysis

The study at first analyzed the profile of the respondents. The profile of the respondents include gender, age, education, monthly income, occupation, investment experience in Nepalese stock market and their investment goal. The analysis has been performed using frequencies and percentages.

Reliability test

Following the analysis of demographic profile of the respondents, the study has tested internal consistency of the data provided by the respondents towards the every statements contained in each variables financial knowledge, financial attitude, financial

skill, financial behavior, financial awareness and stock market participation. This reliability test is performed using Cronbach alpha coefficients.

Descriptive analysis

Descriptive analysis is performed to measure the level of perception of the respondents towards the every statements contained in each variables financial knowledge, financial attitude, financial skill, financial behavior, financial awareness and stock market participation and to measure the variability of the perceptions as well. This analysis is performed using mean and standard deviation.

Correlation analysis

The study aimed to examine the relationship of stock market participation with the financial literacy dimension financial knowledge, financial attitude, financial skill, financial behavior and financial awareness. To fulfill this aim, the study performed the correlation analysis using Karl Pearson's correlation coefficients. Furthermore, the significance of the correlation coefficient has also been analyzed at 1% significance level.

Regression analysis

With regression analysis, one can figure out how any one of the factors that are independent affects the typical value of the dependent variable when holding the other variables that are independent constant (Sharma & Chaudhary, 2018). In this study, regression analysis has been performed to analyze the effect of financial literacy dimension financial knowledge, financial attitude, financial skill, financial behavior, and financial awareness on the stock market participation. The study further also analyzed the significance of the effect of financial knowledge, financial attitude, financial skill, financial behavior, and financial awareness at 1% significance level.

The regression model in the study is as follows:

$$SMP = \alpha + \beta_1FK + \beta_2FA + \beta_3FB + \beta_4FAW + \beta_5FS + e$$

Where,

SMP = Stock market participation

FK = Financial knowledge
 FA = Financial attitude
 FB = Financial behaviour
 FAW = Financial awareness
 FS = Financial skills
 α = Intercept
 β_i = Regression coefficients
 e = Error terms

3.6 Conceptual framework

Stock market participation is the dependent variable while financial literacy aspects are the independent variables in the conceptual framework. The variables were taken from the studies that Loranita et al. (2021) and Shrestha et al. (2023) conducted.

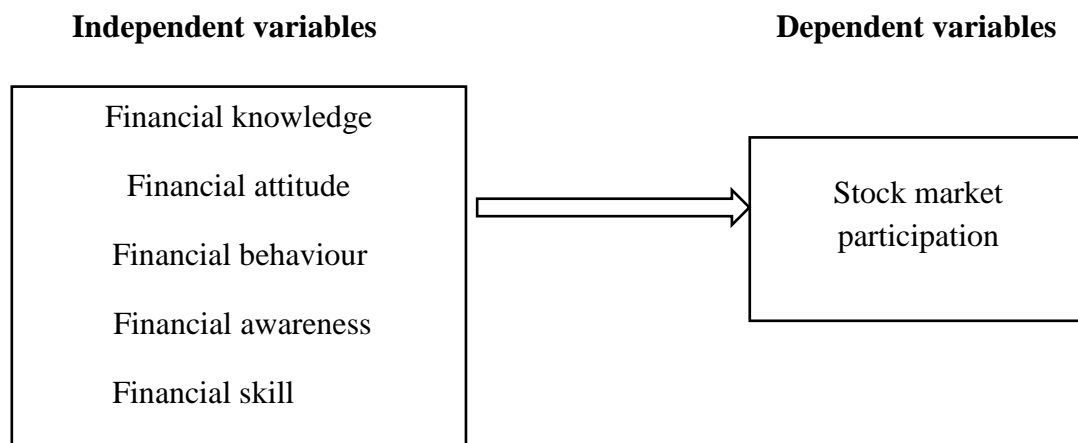


Figure 1: *Conceptual framework*

Sources: Loranita et al. (2021) and Shrestha et al. (2023).

3.7 Definition of variables

Financial knowledge

To make wise financial decisions and attain financial security, people need to be financially literate. According to Gina et al. (2017), it includes a variety of ideas, such as comprehending the fundamentals of investing in stocks, bonds, and mutual funds as well as the management of personal resources and budgeting procedures. A person with financial knowledge is also aware of the many financial services and products that are on the market, including retirement plans, insurance, and banking services. According

to Jariwala (2013), this information enables people to confidently traverse the intricate realm of finance, assess and contrast various possibilities, and make wise financial decisions.

Financial knowledge refers to an individual's understanding of financial concepts, tools, and information necessary to make informed and effective decisions regarding personal finances. This includes knowledge of budgeting, saving, investing, interest rates, inflation, risk diversification, and the functioning of financial markets (Lusardi & Mitchell, 2014). Financial knowledge enables individuals to evaluate investment opportunities, understand market risks, and make rational financial decisions, which are critical for participating in the stock market.

The impact of financial knowledge on stock market participation has been widely studied, with consistent evidence showing a positive and significant relationship. Individuals with higher financial knowledge are more likely to invest in the stock market as they feel more confident in managing risks and understanding returns (Van Rooij, Lusardi, & Alessie, 2011). Financially knowledgeable individuals are better equipped to interpret market information, diversify their portfolios, and avoid common investment mistakes. As a result, financial education plays a crucial role in encouraging broader stock market participation, which in turn can enhance individual wealth and contribute to the overall development of financial markets.

Financial attitude

A person's financial attitude encompasses their views, values, and feelings about money and financial choices (Shrestha et al., 2023). It includes their entire financial management strategy, including their resource allocation and prioritization skills, willingness to take chances, and degree of trust in their financial judgment. Additionally, it encompasses their mindset toward debt management, budgeting, investing, and saving (Ogunleye et al., 2022). A person's financial mindset affects their financial objectives, tactics, and actions. It can be influenced by a number of things, including social conventions, personal experiences, cultural influences, and upbringing. In the end, an individual's financial performance and well-being are greatly influenced by their financial mindset.

Financial attitude refers to an individual's mindset, beliefs, and values toward money and financial decision-making. It reflects how people perceive financial matters such as saving, spending, investing, and managing risk. A positive financial attitude often includes a long-term orientation, responsible money management, and a willingness to plan for the future, all of which influence how individuals handle their finances (Potrich, Vieira, & Kirch, 2015).

Financial attitude has a notable impact on stock market participation. Individuals with a positive and proactive financial attitude are more likely to perceive investment in the stock market as an opportunity rather than a risk. They are more inclined to seek information, take calculated risks, and make informed investment decisions. Conversely, individuals with a negative or risk-averse financial attitude may avoid stock market participation due to fear of loss or lack of trust in financial systems (Loranita et al., 2021). Therefore, shaping a constructive financial attitude is essential to enhancing individuals' engagement with the stock market and fostering financial growth.

Financial behaviour

Budgeting, spending patterns, investment choices, and debt management are just a few of the many actions that fall under the broad category of financial behavior. It includes deciding how to spend and distribute funds, as well as establishing and pursuing financial objectives (Loranita et al., 2021). In order to demonstrate responsible money management and prevent needless late fees or penalties, timely bill payment is a crucial component of sound financial conduct. In order to monitor and analyze one's financial condition, financial record-keeping activities include keeping track of income, spending, and financial transactions. The capacity to resist impulsive or excessive spending and make well-informed financial decisions is known as financial control. Savings practices include putting money aside for emergencies, retirement, education, and other future needs and objectives. Last but not least, having emergency funds on hand guarantees financial stability and the capacity to deal with unforeseen costs or crises without turning to high-interest loans. According to Lusardi and Mitchell (2014), these metrics taken together show a person's financial behavior and degree of financial aptitude.

Financial behaviour refers to the actions and practices individuals adopt in managing their finances, including budgeting, saving, investing, borrowing, and spending. It reflects how individuals apply their financial knowledge and attitude in real-life situations to achieve financial goals. Positive financial behaviour involves disciplined saving, timely bill payments, regular investing, and careful financial planning (Xiao, 2008).

The impact of financial behaviour on stock market participation is significant. Individuals who exhibit responsible financial behaviour are more likely to invest in the stock market, as they are better prepared to manage financial risks and plan for long-term financial security. Such behaviours often include setting aside funds for investment, researching stock options, and consistently monitoring their portfolios (Loranita et al., 2021). On the other hand, poor financial behaviour, such as impulsive spending or lack of savings, reduces the capacity and willingness to participate in the stock market. Thus, fostering sound financial behaviour is crucial for encouraging greater engagement in stock market activities and enhancing overall financial well-being.

Financial awareness

As Jariwala (2013) discusses, financial awareness emphasizes the vital significance of acquiring financial education and comprehending the several sources from which this knowledge may be obtained. This idea includes a comprehensive understanding of several financial concepts that are necessary for efficient personal money management. Having information is only one aspect of financial awareness; another is the capacity to use that knowledge to make wise financial decisions in practical situations.

Understanding the basics of financial awareness is essential. These include budgeting, which is the process of planning how to divide income among expenses, saving, which is putting money aside for unforeseen expenses or emergencies, and investing, which is the process of investing in assets in the hope of earning a return over time (Alaaraj & Bakri, 2020). Furthermore, knowing credit is essential as it includes information on loan conditions, credit ratings, and prudent borrowing. Another crucial aspect is tax knowledge, since people should be aware of their tax responsibilities and ways to reduce their tax burdens. Lastly, debt management is an essential component of

financial awareness as it entails understanding how debt affects one's overall financial well-being and using appropriate debt reduction or elimination techniques (Rai et al., 2019).

Financial awareness refers to an individual's understanding of their current financial situation and their awareness of financial concepts, services, rights, and responsibilities. It involves being conscious of income, expenses, savings, budgeting, and investment options, as well as staying informed about economic trends and financial opportunities. Financial awareness also includes the effort to learn financial terminology and recognize the importance of financial planning in daily life (Jariwala, 2013).

Financial skill

Financial ability, as defined by the Organisation for Economic Co-operation and Development (OECD) in 2011, is the ability to apply one's understanding of basic economic and financial principles to the efficient management of one's own financial resources over the course of one's lifetime. In order to achieve long-term financial stability and well-being, this concept emphasizes the significance of both knowledge and actual implementation.

Apart from comprehending financial ideas, financial proficiency includes the ability to accurately complete basic financial computations and the capacity to identify and explain the advantages of different financial choices. This covers budgeting, investing, saving, and interest rate comprehension. Additionally, it involves the capacity to efficiently and concisely convey complicated financial concepts to others, which is essential for interacting with financial advisers, negotiating contracts, and having financial conversations with family members or coworkers (Remund, 2010).

Financial skills also refers to the ability to manage one's finances with self-control, which includes the self-control to keep to spending plans, stay out of debt, and make wise decisions about saving and spending. Because it affects a person's capacity to handle unforeseen costs and changes in the economy, this self-management component is essential for creating a stable financial future (Loranita et al., 2021).

Financial skill refers to the practical ability to apply financial knowledge and make effective financial decisions in real-life situations. It involves competencies such as budgeting, comparing financial products, calculating interest rates, evaluating investment options, and managing financial risks. Financial skill goes beyond theoretical knowledge—it reflects a person’s capability to use tools and information to make informed and confident financial choices (OECD, 2016).

The impact of financial skill on stock market participation is substantial. Individuals with strong financial skills are more likely to understand complex financial instruments and make strategic investment decisions. They can analyze market trends, assess risk-return tradeoffs, and manage their investment portfolios more effectively. These skills help reduce uncertainty and increase investor confidence, encouraging more people to participate in the stock market. Conversely, a lack of financial skill can lead to hesitation, fear of loss, and poor financial decisions, ultimately discouraging stock market involvement (Rai et al., 2019). Therefore, enhancing financial skills is crucial for promoting informed stock market participation and ensuring financial well-being.

Stock market participation

Stock market participation refers to the engagement of individuals or institutions in the trading, ownership, and sale of stocks and other securities listed on a stock exchange. It indicates how actively people invest their funds in the market to gain returns through dividends or capital appreciation (Mutswenje, 2014). This involvement can occur in different ways, such as buying shares directly or investing via mutual funds, pension plans, or brokerage platforms. A high rate of participation is often considered a marker of economic progress and financial inclusion, suggesting that more individuals are utilizing investment opportunities to grow their wealth. Key factors affecting stock market involvement include financial knowledge, income, risk appetite, and access to financial infrastructure (Obamuyi, 2013).

The relationship between stock market participation and financial literacy dimensions—such as financial knowledge, financial attitude, financial behaviour, financial awareness, and financial skill—is strongly interlinked and widely recognized in financial research. Financial literacy encompasses the ability to understand and apply financial concepts, maintain a positive mindset toward money management, practice

sound financial behaviour, remain aware of financial opportunities, and utilize financial skills in decision-making. Each of these dimensions plays a critical role in shaping an individual's willingness and ability to engage in the stock market. Studies have shown that individuals with higher levels of financial literacy are more likely to participate in stock markets because they are better equipped to understand investment risks, recognize potential returns, and make informed financial decisions (Lusardi & Mitchell, 2014; Van Rooij, Lusardi, & Alessie, 2011). For instance, financial knowledge enables evaluation of investment products, while financial behaviour supports disciplined investment practices. Similarly, a positive financial attitude fosters risk-taking for long-term gains, and financial awareness and skills bridge the gap between understanding and action. Therefore, improving all dimensions of financial literacy is essential to encourage broader and more effective participation in the stock market.

Chapter IV

Results and Discussion

4.1 Respondents' demographic profile

The demographic state of the participants is described in detail, including their age, gender, occupation, level of education, and monthly income. A brief description is given of the types of data that is obtained and processed. The demographic profile of the participant is depicted using frequencies and percentages in Table 2.

Table 2

Demographic profile

Demographic variables	Categories	Frequency	Percentage
Gender	Male	251	60.0
	Female	167	40.0
Age (in years)	Less than 25	175	41.9
	25-35	155	37.1
	36-50	79	18.9
	Above 50	9	2.2
Education	Bachelor	246	58.9
	Master	169	40.4
	Above Master	3	0.7
Occupation	Employee	198	47.4
	Self-Employed	161	38.5
	Student	54	12.9
	Retired	5	1.2
Monthly income	Below Rs. 25000	125	29.9
	Rs. 25000-50000	137	32.8
	Rs. 50000-100000	124	29.7
	Above Rs. 100000	32	7.7

Source: Field survey, 2025

Table 2 presents a comprehensive overview of the demographic profile of the participants involved in the study. A total of 418 individuals participated in the survey. Among them, 60% were male and 40% were female. This indicates that males constituted the majority of the respondents, suggesting a higher level of male participation and engagement in the stock market for investment purposes compared to females. This gender distribution may reflect broader societal trends or cultural factors influencing financial decision-making and investment behavior in Nepal.

In terms of age distribution, the majority of respondents were relatively young. Specifically, 41.9% were under the age of 25, and 37.1% were aged between 25 and 35 years. Meanwhile, 18.9% of participants fell within the 36 to 50 age range, and only a small portion, 2.2%, were above 50 years of age. These findings highlight that individuals below 35 years of age are the most active demographic group in stock market investments, potentially due to their greater exposure to technology, higher risk tolerance, and interest in alternative income-generating activities.

Regarding educational qualifications, all participants had attained a degree-level education. Among them, 58.9% held a bachelor's degree, 40.4% had completed a master's degree, and a small proportion, 0.7%, had earned a qualification higher than a master's. This indicates that the stock market in Nepal primarily attracts individuals with a strong academic background, particularly at the undergraduate and postgraduate levels, which could correlate with higher levels of financial literacy and analytical capability.

In terms of employment status, 47.4% of respondents identified themselves as employees, 38.5% were self-employed, 12.9% were students, and a small fraction, 1.2%, were retired. This distribution suggests that the majority of investors are economically active individuals, either working for others or running their own businesses, while students and retirees represent a smaller share of stock market participants.

When analyzing monthly income levels, 29.9% of the respondents reported earning less than Rs. 25,000, 32.8% earned between Rs. 25,000 and Rs. 50,000, and 29.7% had an income ranging from Rs. 50,000 to Rs. 100,000. Only 7.7% reported earning more than

Rs. 100,000 per month. These figures suggest that most stock market investors fall into the lower- to middle-income brackets, indicating that stock investment is not limited to high-income earners and is accessible to a broad section of the population.

In summary, the demographic analysis reveals that the study sample is predominantly composed of young, educated males who are either employed or self-employed. Most respondents fall within the income range of Rs. 25,000 to Rs. 50,000, indicating a growing interest in stock market investment among the middle-income group. The findings also suggest that higher education and professional engagement play a significant role in shaping investment behavior in Nepal's stock market context.

4.2 Investment experience and investment motives

Inquiries concerning the individuals' prior investing experience and present investment motivations are also made. The various investment types, frequency, and participation rate are listed in Table 3.

Table 3

Investment experience and investment goal

Investment experience	Frequency	Percentage
Less than 3 years	165	39.5
3 to 5 years	134	32.1
5 to 10 years	62	14.8
Above 10 years	57	13.6
Investment goal		
Regular income	98	23.40
Capital gain	208	49.80
Tax saving	10	2.4
Children education	34	8.1
Retirement	0	0
Others	68	16.3

Source: Field survey, 2025

Table 3 provides insights into the investment experience and primary investment motives of the study participants. Regarding investment experience, a significant portion of the respondents were relatively new to the stock market. Specifically, 39.5% of participants reported having less than 3 years of investment experience, while 32.1% had been investing for a period ranging from 3 to 5 years. Together, these two categories represent approximately 71.6% of the total respondents, indicating that nearly three-fourths of the investors are in the early stages of their investment journey. In contrast, 14.8% of participants had accumulated 5 to 10 years of experience, and only 13.6% had been involved in the stock market for more than a decade, suggesting a smaller proportion of long-term, seasoned investors.

In terms of investment motives, the participants were asked to identify their primary reasons for investing in the stock market. The responses were grouped into six categories: capital gain, regular income, tax saving, children's education, retirement planning, and other purposes. Among these, the most dominant motive was capital gain, cited by 208 participants, which accounts for 49.8% of the total. This indicates that nearly half of the investors enter the stock market with the objective of earning profits through appreciation in stock prices over time. The second most common motive was generating regular income, mentioned by 98 participants (23.4%), reflecting a significant interest in dividend returns or consistent cash flows from investments.

Other motives were cited less frequently. A small number of respondents (10 participants, or 2.4%) indicated tax saving as their investment objective, suggesting that tax efficiency is not a major driver for most retail investors in this context. Additionally, 16.3% of participants mentioned "other purposes" such as financial independence, portfolio diversification, or personal goals not specified in the predefined categories, highlighting the diverse range of individual investment priorities.

In conclusion, the findings on investment experience and motives reveal that the majority of respondents are relatively new investors, with less than five years of experience in the stock market. Most of them are primarily motivated by the potential for capital gain and regular income rather than long-term goals like retirement or education planning. This trend suggests a short- to medium-term investment mindset

among the current generation of investors, with a strong focus on maximizing returns through market performance rather than strategic wealth preservation or tax benefits.

4.3 Reliability test

A statistical test of internal consistency called Cronbach alpha is used to evaluate the dependability of the assertions that relate to each of the variables that are being studied. Cronbach alpha defines how well a scale or questionnaire's items measure the same construct over time. A Cronbach alpha of 0.70 or above is deemed adequate to verify credibility, according to Gujarati (2004). At least 70% of the variance in the replies may be ascribed to the genuine score rather than measurement error, according to this standard. The items on the scale may not be consistently assessing the same construct if the Cronbach alpha is below this cutoff, in which case additional research or revision may be necessary.

Table 4

Cronbach alpha coefficients

Variables under the study	Cronbach alpha
Financial knowledge	0.861
Financial attitude	0.743
Financial behaviour	0.785
Financial awareness	0.804
Financial skill	0.924
Stock market participation	0.863

Source: Field survey, 2025

Table 4 presents the results of the reliability test, which evaluates the internal consistency of the measurement items used for each variable in the study. The Cronbach's alpha coefficient was employed to assess the reliability of the scales, with a generally accepted minimum threshold of 0.70, as suggested by Gujarati (2004). A higher alpha value indicates a greater degree of internal consistency among the items measuring a given construct.

The analysis shows that the Cronbach's alpha for financial knowledge is 0.861, reflecting a high level of internal reliability and suggesting that the items measuring this variable are closely related and consistently represent the underlying construct. Similarly, financial attitude has a Cronbach's alpha of 0.743, indicating an acceptable level of internal consistency. The variable financial behavior yielded a value of 0.785, also suggesting reliable measurement across its items.

In the case of financial awareness, the alpha value was 0.804, while financial skill recorded the highest reliability with a Cronbach's alpha of 0.924. This exceptionally high value indicates excellent consistency among the items and shows that the scale is highly reliable. Finally, the variable stock market participation, which captures the degree and manner of involvement in the stock market, has a Cronbach's alpha of 0.863, reinforcing the credibility of the scale used.

All variables exhibit Cronbach's alpha values well above the 0.70 benchmark, confirming that the responses gathered from participants are internally consistent and that the instruments used in the study are reliable. These results enhance the validity of subsequent statistical analyses, as they provide strong evidence that the constructs—financial knowledge, attitude, behavior, awareness, skill, and stock market participation—are measured with dependable scales.

In summary, the reliability analysis supports the robustness of the survey instrument and affirms that the indicators used to measure the study variables are reliable, consistent, and suitable for further inferential statistical procedures.

4.4 Descriptive analysis

The study analyzes financial literacy and behavior among participants using descriptive statistics. The mean represents the average value of a variable, while the standard deviation measures the variability in data. The variables cover financial knowledge, attitude, behavior, skill, awareness, and stock market participation. Analyzing these statistics helps understand participants' financial literacy levels, attitudes, behaviors, skills, awareness, and stock market participation. This information helps identify patterns, trends, and relationships among variables, enabling researchers to draw informed conclusions and recommendations.

4.4.1 Financial knowledge

The comprehension and awareness of financial concepts and principles is referred to as financial knowledge. The statements that fall under the category of financial knowledge include understanding common stocks, the relationship between interest rates and security prices, the relationship between risk and return, the significance of money, and technical and fundamental analysis.

Table 5

Financial knowledge

Statements	Mean	SD
I understand the concept of risk and return in investment decisions.	3.96	.326
I know to read and interpret basic financial statements (e.g., balance sheet, income statement).	4.11	.846
I understand the effect of interest rates on investment returns.	3.93	.434
I am familiar with the concept of portfolio diversification.	4.28	.576
I understand the meaning of commonly used financial terms (e.g., P/E ratio, NAV, market capitalization).	4.01	.655
Overall average value	4.06	.477

Source: Field survey, 2025

The results presented in Table 5 indicate that among the various statements assessing financial knowledge, the highest mean score is 4.28, which corresponds to the statement, “I am familiar with the concept of portfolio diversification.” This suggests that the majority of participants strongly agree with having a solid understanding of how portfolio diversification works, highlighting a relatively high level of familiarity with this key investment principle. In contrast, the lowest mean score, recorded at 3.93, is associated with the statement, “I understand the effect of interest rates on investment returns.” This lower score implies that participants are comparatively less confident or less knowledgeable about the impact of interest rate fluctuations on their investment outcomes, though they still tend to agree with the statement to some extent.

In terms of variability in responses, the statement “I know how to read and interpret basic financial statements (e.g., balance sheet, income statement)” exhibited the highest standard deviation ($SD = 0.846$), indicating a greater degree of disagreement or variability in the participants’ responses. This suggests that while some individuals are confident in their ability to interpret financial documents, others may lack this skill, resulting in more dispersed responses. On the other hand, the statement “I understand the concept of risk and return in investment decisions” showed the least variability, with a standard deviation of 0.326. This low SD implies a strong consensus among participants, suggesting that most individuals consistently agree with this concept of financial knowledge.

Overall, the average mean and standard deviation for all statements related to financial knowledge were calculated to be 4.06 and approximately 0.60 respectively. The mean value being above 4.00 indicates that, on average, participants generally agreed with the financial knowledge statements. This reflects a positive level of financial literacy among the surveyed individuals, suggesting that they possess a sound understanding of fundamental financial concepts.

4.4.2 Financial attitude

A person's views, thoughts, and feelings regarding financial concerns are all part of their financial attitude. The statements that fall under the category of financial attitude include attitudes regarding the full faith in one's ability to select investment options, accountability for financial outcomes, handling of investments, and the importance of stock market participation in comprehending finance.

Table 6

Financial attitude

Statements	Mean	SD
I am ready to take financial risks if the potential return is high.	4.39	.598
I trust my ability to make sound investment decisions.	4.25	.612
I believe financial decisions should be based on careful analysis and planning.	3.96	.804
I am open to learning more about the stock market to improve my financial situation.	4.35	.615
I feel anxious about losing money in stock market investments.	4.26	.661
Overall average value	4.24	.465

Source: Field survey, 2025

The results presented in Table 6 reveal that among the various statements used to measure financial attitude, the highest mean value is 4.39, corresponding to the statement, “I am ready to take financial risks if the potential return is high.” This suggests that respondents strongly agree with the idea of accepting financial risks when there is an opportunity for higher returns, indicating a proactive and risk-tolerant financial mindset. On the other hand, the lowest mean value, 3.96, is associated with the statement, “I believe financial decisions should be based on careful analysis and planning.” Although still close to agreement, this comparatively lower mean suggests that respondents are relatively less inclined to prioritize detailed analysis and planning in their financial decision-making processes.

With regard to variability in responses, the statement “I believe financial decisions should be based on careful analysis and planning” demonstrated the highest standard deviation (SD = 0.804), indicating greater divergence in how respondents perceive the importance of analytical and strategic approaches in financial decision-making. This wide range in responses may reflect differing levels of financial discipline or experience among participants. In contrast, the statement “I am ready to take financial risks if the potential return is high” exhibited the lowest variability, with a standard deviation of 0.598. This suggests a stronger consensus among participants in their willingness to embrace financial risk when justified by potential gains.

Overall, the average mean value for all the statements related to financial attitude was calculated to be 4.24, which is well above the neutral midpoint of 4.00. This overall result indicates that respondents generally have a positive financial attitude, showing strong agreement with behaviors and beliefs that reflect confidence, willingness to take calculated risks, and a forward-looking approach to financial decision-making.

4.4.3 Financial behaviour

The choices and activities people take in relation to their financial habits and decision-making are collectively referred to as financial behavior. The statements under the heading of financial behavior deal with the careful evaluation of asset purchases, spending patterns, knowledge of stock investments, willingness to take on financial risk, and preparedness to deal with the difficulties that come with making an investment.

Table 7

Financial behaviour

Statements	Mean	SD
I seek information before making investment decisions.	4.31	.739
I avoid unnecessary debt and try to pay my bills on time.	4.14	.698
I regularly track my income and expenses.	4.40	.756
I set aside a portion of my income for savings or investment.	3.47	.703
I compare different investment options before making a financial decision.	4.36	.592
Overall average value	4.14	.513

Source: Field survey, 2025

The results presented in Table 7 indicate that, among the statements measuring financial behavior, the highest mean score is 4.40 for the statement, “I regularly track my income and expenses.” This suggests that the majority of respondents strongly agree with the practice of monitoring their financial inflows and outflows, reflecting a high level of financial discipline and awareness in day-to-day money management. On the other hand, the lowest mean score is 3.47 for the statement, “I set aside a portion of my income for savings or investment.” Although this score is above the neutral midpoint,

it indicates a relatively lower level of agreement, suggesting that fewer participants consistently allocate part of their income toward future savings or investment goals.

In terms of variability, the statement “I regularly track my income and expenses” also recorded the highest standard deviation ($SD = 0.756$), signifying greater variation in responses. This implies that while many participants strongly agree with tracking their finances, there are notable differences in the extent to which this practice is followed. Conversely, the statement “I compare different investment options before making a financial decision” showed the least variability, with the lowest standard deviation of 0.592. This indicates a relatively uniform agreement among participants about the importance of evaluating multiple investment choices before committing to a financial decision, highlighting a cautious and informed investment approach.

Furthermore, the overall mean value for all financial behavior items was calculated at 4.14, which is above the benchmark of 4.00. This indicates a strong overall agreement with positive financial behaviors among the participants. In other words, respondents generally demonstrated favorable attitudes and practices related to managing their finances, including habits such as making careful investment decisions, preferring investment in financial markets over merely saving, seeking information about the stock market, and actively addressing challenges encountered during the investment process. These findings collectively reflect a proactive and responsible financial behavior pattern among the participants.

4.4.4 Financial awareness

The term "financial awareness" describes people's awareness and comprehension of their financial resources and circumstances. The financial awareness statements cover topics such as discussing financial activities, maintaining records of securities transactions, evaluating portfolio performance, and regularly assessing portfolio performance.

Table 8

Financial awareness

Statements	Mean	SD
I am aware of the different types of financial products available (e.g., stocks, bonds, mutual funds).	4.02	.547
I know that the stock market offers opportunities for both gains and losses.	4.15	.720
I know that stock market investment involves risks that should be carefully considered.	4.38	.706
I stay updated on financial news and market trends.	4.26	.740
I know the sources to find reliable information about listed companies and their performance.	3.93	.359
Overall average value	4.15	.473

Source: Field survey, 2025

The results presented in Table 8 highlight key insights into participants' levels of financial awareness. Among the various statements analyzed, the highest mean value recorded was 4.38 for the statement, "I know that stock market investment involves risks that should be carefully considered." This indicates that respondents strongly agree with the importance of recognizing and evaluating the risks before investing in the stock market, suggesting a sound understanding of the inherent uncertainties and potential volatility associated with equity investments. On the other hand, the lowest mean value observed was 3.93 for the statement, "I know the sources to find reliable information about listed companies and their performance." Although this value still reflects a moderately high level of agreement, it suggests that compared to their understanding of investment risks, participants are relatively less confident or informed about where to access trustworthy and accurate information regarding listed companies and their financial performance.

Furthermore, the data show a noticeable variation in responses to certain statements. For instance, the highest standard deviation (SD = 0.740) was found in the statement, "I stay updated on financial news and market trends," indicating a wider range of opinions among participants on this aspect of financial awareness. This could imply

that while some participants regularly follow financial updates, others may not do so as consistently. The next highest standard deviation ($SD = 0.720$) was associated with the statement, “I know that the stock market offers opportunities for both gains and losses,” reflecting some degree of variation in how participants perceive or internalize the dual nature of stock market outcomes.

In addition, the overall mean value for all items under the financial awareness construct was calculated to be 4.15, which is significantly above the neutral midpoint of 3.00 and even higher than the threshold of 4.00, which typically represents agreement. This finding clearly suggests that participants, on average, demonstrate a strong level of agreement with the statements related to financial awareness. In other words, the respondents exhibit a high degree of awareness regarding various financial matters. This includes the regular assessment of portfolio performance, maintaining records of securities transactions, evaluating investment portfolios periodically, and engaging in discussions about financial news. Altogether, these results indicate that participants hold a positive and proactive attitude toward financial awareness, which is essential for making informed and effective investment decisions in the stock market.

4.4.5 Financial skill

The degree of expertise and capacity to successfully handle one's own finances is reflected in one's financial skill. Fundamental and technical analysis, portfolio revision, cost-benefit analysis, and the ability to document securities transactions are all included in the financial skills standards.

Table 9

Financial skill

Statements	Mean	SD
I am able to compare financial products (e.g., investment plans, savings accounts) to choose the most suitable one.	4.31	.739
I can calculate the return on an investment.	4.44	.666
I am confident in my ability to make informed financial decisions.	3.97	.394
I can interpret basic financial statements or documents (e.g., bank statements, investment reports).	3.94	.461
I can effectively use an online brokerage platform to place buy and sell orders.	4.45	.701
Overall average value	4.22	.533

Source: Field survey, 2025

Table 9 provides an insightful overview of the participants' responses regarding their financial skills. All of the statements assessed in this section have mean values greater than 3.00 and standard deviations less than 1.00, indicating a general tendency toward agreement with relatively consistent responses among participants. The mean values range from 3.94 for the statement, "I can interpret basic financial statements or documents (e.g., bank statements, investment reports)," to 4.45 for the statement, "I can effectively use an online brokerage platform to place buy and sell orders." This suggests that, while participants are moderately confident in their ability to understand basic financial documents, they express a particularly high level of confidence and agreement with their ability to use digital tools, such as online brokerage platforms, to carry out financial transactions. The highest mean value reflects a strong digital literacy and comfort with technology-enabled investing, which is a significant indicator of practical financial skill in the modern financial environment.

Moreover, the data show that the perception regarding the ability to compare financial products—such as investment plans and savings accounts—to determine the most suitable option has the greatest variability, as demonstrated by the highest standard deviation of 0.739. This implies that while many participants feel confident in their ability to make financial comparisons, there is a broader spread in responses, suggesting

that others may lack the same level of confidence or experience. The second highest variation in responses is observed in the statement, “I can effectively use an online brokerage platform to place buy and sell orders,” which has a standard deviation of 0.701. Despite its high mean value, the relatively greater standard deviation suggests that although the majority agree with the statement, a subset of participants may still struggle with certain aspects of digital trading platforms.

4.4.6 Stock market participation

The choices and actions people make about investing their money in different financial instruments or stock market assets are referred to as stock market participation. Five statements have been used to gauge participants' opinions toward stock market involvement. The statements on stock market involvement included evaluating the projected return, participating regularly, suggesting investing to others, believing that the stock market contributes to wealth accumulation, and being willing to engage in the stock market in the near future.

Table 10

Stock market participation

Statements	Mean	SD
I currently invest in the stock market.	4.49	.704
I have previously bought or sold stocks or other securities.	4.46	.723
I regularly monitor stock market trends and news.	4.22	.703
I feel confident participating in the stock market.	3.93	.359
I consider stock market investments as part of my long-term financial planning.	4.88	.574
Overall average value	4.40	.504

Source: Field survey, 2025

Table 10 presents the descriptive statistics related to participants' investment behavior, specifically focusing on their engagement with the stock market. The analysis shows that all of the statements under this category have mean values exceeding 3.00 and standard deviations below 1.00, indicating overall agreement with a moderate to high level of consistency in responses. The mean values range from 3.93 for the statement,

“I feel confident participating in the stock market,” to 4.88 for the statement, “I consider stock market investments as part of my long-term financial planning.” This range demonstrates a generally strong positive sentiment toward stock market involvement among the participants. The highest mean score suggests that a significant majority of respondents view stock market investment as an integral component of their long-term financial strategies. Meanwhile, the relatively lower—but still above-average—mean value for stock market confidence indicates that while most participants feel capable of engaging in the market, a few may still lack full confidence.

The variability of responses is further examined through standard deviation values. The statement, “I have previously bought or sold stocks or other securities,” displays the highest standard deviation of 0.723, suggesting that participants’ experiences with actual trading activities vary widely. This could imply that while many have engaged in stock transactions, others might have limited or no direct experience. The next highest standard deviation, 0.704, is associated with the statement, “I currently invest in the stock market,” indicating some level of disparity in participants’ current investment status—some are active investors, while others may not be investing at the moment.

Overall, the mean value across all statements in this section is 4.40, which is well above the neutral threshold and indicates strong agreement. This confirms that the participants of the study largely agree that they are actively involved in stock market investments. In essence, the results reflect a high level of behavioral engagement with the stock market, encompassing both past experience and current participation, as well as strategic long-term financial planning. These findings suggest that the respondents not only possess an interest in the stock market but are also incorporating it meaningfully into their financial lives, demonstrating a mature and informed investment behavior.

4.5 Correlation analysis

The relationship between the variables being studied is examined using the Pearson's correlation coefficient. To present the strength and direction of relationships between the variables, a correlation analysis has been conducted between the dependent variable, stock market participation, and the independent variables, which include financial

knowledge, financial behaviors, financial attitude, financial awareness, and financial skill. High explanatory power independent variables are shown by strong correlations.

Table 11

Correlation coefficient matrix

Variables	FK	FA	FB	FAW	FS	SMP
FK	1					
FA	.627**	1				
	.000					
FB	.863**	.637**	1			
	.000	.000				
FAW	.806**	.742**	.909**	1		
	.000	.000	.000			
FS	.700**	.690**	.827**	.841**	1	
	.000	.000	.000	.000		
SMP	.886**	.778**	.932**	.938**	.820**	1
	.000	.000	.000	.000	.000	

** Correlation is significant at the 0.01 level (2-tailed).

Table 11 presents the correlation coefficients between the dependent variable—stock market participation—and various independent variables, namely financial knowledge, financial behavior, financial attitude, financial awareness, and financial skill. The results indicate a strong and statistically significant positive relationship between each of these dimensions of financial literacy and stock market participation. Specifically, financial knowledge is positively associated with stock market participation ($r = 0.886$, $p < 0.01$), suggesting that individuals with higher financial knowledge are more likely to engage in stock market investments. Similarly, financial attitude shows a significant positive correlation with stock market participation ($r = 0.778$, $p < 0.01$), indicating that a positive financial mindset supports greater involvement in the market. Even stronger correlations are observed with financial behavior ($r = 0.932$, $p < 0.01$) and financial awareness ($r = 0.938$, $p < 0.01$), demonstrating that active financial practices and

awareness are crucial drivers of market participation. Financial skill also shows a significant positive relationship ($r = 0.820$, $p < 0.01$), highlighting the importance of financial competence in facilitating stock market engagement. These findings collectively suggest that as financial literacy improves across its various dimensions, the likelihood of Nepalese individuals participating in the stock market for investment purposes significantly increases.

In addition to their association with stock market participation, the interrelationships among the dimensions of financial literacy themselves were also analyzed. Financial skill was found to be positively and significantly correlated with financial knowledge ($r = 0.700$, $p < 0.01$), financial attitude ($r = 0.690$, $p < 0.01$), financial behavior ($r = 0.827$, $p < 0.01$), and financial awareness ($r = 0.841$, $p < 0.05$). This suggests that improvements in financial knowledge, behavior, attitude, and awareness contribute meaningfully to the development of financial skills.

Similarly, financial awareness demonstrated significant positive correlations with financial knowledge ($r = 0.806$, $p < 0.01$), financial attitude ($r = 0.742$, $p < 0.01$), and financial behavior ($r = 0.909$, $p < 0.01$). These results indicate that individuals become more financially aware as their understanding of financial concepts, their attitude toward finances, and their behaviors improve. Furthermore, financial behavior itself is significantly associated with both financial knowledge ($r = 0.863$, $p < 0.01$) and financial attitude ($r = 0.637$, $p < 0.01$), emphasizing that individuals are more likely to demonstrate positive financial actions when they possess strong financial knowledge and a favorable financial attitude.

Financial attitude also shows a significant positive relationship with financial knowledge ($r = 0.627$, $p < 0.01$), indicating that individuals' financial outlooks improve alongside their understanding of financial matters.

The correlation analysis reveals that all dimensions of financial literacy—knowledge, behavior, attitude, awareness, and skill—are positively and significantly linked with stock market participation. The findings highlight that financially literate individuals are more likely to invest in the stock market. Thus, the study concludes that financial literacy plays a pivotal role in influencing investment decisions in Nepal. Each

component of financial literacy contributes to shaping confident and informed investors who are more willing and able to engage in stock market activities.

4.6 Regression analysis

Using regression analysis, the degree to which the independent factors of financial knowledge, financial behaviors, financial attitude, financial awareness, and financial skill influence the dependent variable of stock market participation is examined.

Table 12

Model summary and ANOVA

R	R-square	Adj. R-square	Standard Error of Estimate	F	F-sig.
.976	.952	.952	.111	1649.244	.000

The results of the multiple regression analysis indicate that the multiple correlation coefficient (R) between the group of independent variables and the dependent variable—stock market participation—is 0.976. This value, being well above the threshold of 0.70, signifies a strong and statistically significant relationship between the dependent variable and the collective set of independent variables, namely financial knowledge, financial behavior, financial attitude, financial awareness, and financial skill. The high correlation implies that the selected predictors possess substantial explanatory power in describing stock market participation among the respondents.

Further, the coefficient of determination (R^2) is calculated to be 0.952, indicating that 95.2% of the variation in stock market participation is explained by the variation in the five identified financial literacy variables. This demonstrates a high level of model accuracy and suggests that these financial factors play a crucial role in influencing individuals' decisions to participate in the stock market. The remaining 4.8% of the variation is attributed to other variables not included in the model, implying that there are additional factors—possibly psychological, demographic, or institutional—that also influence stock market engagement but were not captured in this analysis.

Additionally, the standard error of the estimate is reported as 0.111, which reflects the average distance that the observed values fall from the regression line. A relatively low standard error indicates that the model predictions are closely aligned with the actual data points, further supporting the model's reliability.

Moreover, the p-value associated with the F-statistic is 0.000, which is less than the 0.01 threshold, signifying that the overall regression model is statistically significant at the 1% level. This confirms that the combined effect of the independent variables on stock market participation is not due to chance, and the model provides a robust framework for explaining the behavior of Nepalese investors in the stock market.

Table 13

Regression results

Model	B	Std. Error	Std. Beta	t-stat	p-value
(Constant)	.190	.054		3.535	.000
Financial knowledge	.243	.023	.230	10.483	.000
Financial attitude	.217	.018	.200	11.818	.000
Financial behaviour	.332	.032	.338	10.262	.000
Financial awareness	.344	.033	.322	10.426	.000
Financial skill	-.028	.020	-.030	-1.393	.164

Table 13 presents the results of the regression analysis, highlighting the individual impact of each financial literacy variable on stock market participation. The findings reveal that the dependent variable, stock market participation, is positively and significantly influenced by four of the five independent variables: financial knowledge, financial attitude, financial behavior, and financial awareness. The unstandardized beta coefficients for these variables are 0.243, 0.217, 0.332, and 0.344 respectively. These values indicate that a one-unit increase in financial knowledge, financial attitude, financial behavior, or financial awareness is associated with a corresponding increase of 0.243, 0.217, 0.332, and 0.344 units, respectively, in stock market participation, assuming all other variables remain constant. The standard errors for these coefficients are relatively low—0.023 for financial knowledge, 0.018 for financial attitude, 0.032

for financial behavior, and 0.033 for financial awareness—suggesting reliable and consistent estimates.

In contrast, financial skill exhibits a negative but statistically insignificant relationship with stock market participation, with an unstandardized beta coefficient of -0.028 and a standard error of 0.020. This suggests that, unlike the other components of financial literacy, financial skill does not have a meaningful or significant impact on the investment behavior of participants in the context of this study.

When examining the standardized beta coefficients to assess the relative influence of each variable, financial behavior emerges as the strongest predictor of stock market participation, with the highest standardized beta value of 0.338. This is followed closely by financial awareness, which has a standardized beta of 0.322, indicating it also plays a major role in influencing investment decisions. Financial knowledge and financial attitude show moderate influence with standardized beta values of 0.256 and 0.221, respectively. Financial skill, with the lowest standardized beta of -0.030, has the least influence on stock market participation.

The estimated regression model may be constructed as follows based on the regression findings of stock market involvement on financial knowledge, financial behaviors, financial attitude, financial awareness, and financial skill:

$$\text{SMP} = \beta_0 + \beta_1\text{FK} + \beta_2\text{FA} + \beta_3\text{FB} + \beta_4\text{FAW} + \beta_5\text{FS} + e$$

$$\text{SMP} = 0.190 + 0.243\text{FK} + 0.217\text{FA} + 0.332\text{FB} + 0.344\text{FAW} - 0.028\text{FS} + e$$

Overall, the regression analysis suggests that among all dimensions of financial literacy, financial behavior and financial awareness are the most influential drivers of stock market participation among Nepalese investors. Meanwhile, although financial skill is an important component of overall financial literacy, its direct effect on market participation appears to be negligible in this model.

4.7 Multicollinearity test

The study applied the variance inflation factor and tolerance value to figure out whether or not the regression model had a multicollinearity issue. To avoid multicollinearity

issues, the variance inflation factor should be less than 10 and the tolerance value should be more than 0.10.

Table 14

Tolerance value and variance inflation factors

Independent variables	Collinearity statistics	
	Tolerance	VIF
Financial knowledge	.240	4.160
Financial attitude	.402	2.488
Financial behaviour	.107	9.389
Financial awareness	.121	8.273
Financial skill	.251	3.981

The study also examined the issue of multicollinearity among the independent variables by analyzing the Tolerance values and Variance Inflation Factor (VIF) statistics. The results show that the Tolerance values for financial knowledge, financial behavior, financial attitude, financial awareness, and financial skill are 0.240, 0.402, 0.107, 0.121, and 0.251 respectively. Correspondingly, the VIF values for these variables are 4.160, 2.488, 9.389, 8.273, and 3.981. According to the widely accepted rule of thumb, a Tolerance value less than 0.1 or a VIF value greater than 10 typically indicates a serious multicollinearity problem.

In this study, although some VIF values—particularly those for financial attitude (9.389) and financial awareness (8.273)—are relatively high and approach the threshold, they remain below the critical cut-off point of 10. Similarly, while some Tolerance values are low (e.g., 0.107 and 0.121), none fall below 0.1. Therefore, it can be concluded that multicollinearity is not a severe issue in the regression model.

These results suggest that the independent variables included in the model—financial knowledge, behavior, attitude, awareness, and skill—are sufficiently distinct from one another, and their individual effects on stock market participation can be interpreted

with confidence. Hence, the regression estimates are reliable, and the model is deemed appropriate for further analysis.

4.8 Hypothesis test results

The findings of the alternative hypothesis are shown in Table 15 and pertain to the causal association between stock market participation and financial knowledge, financial behaviors, financial attitude, financial awareness, and financial skills.

Table 15

Hypothesis test results

Hypothesis	Effect	Beta	p-value	Decision
H ₁	FK>SMP	.243	.000	Accepted
H ₂	FA>SMP	.217	.000	Accepted
H ₃	FB>SMP	.332	.000	Accepted
H ₄	FAW>SMP	.344	.000	Accepted
H ₅	FS>SMP	-.028	.164	Rejected

H₁: Financial knowledge has significant influence stock market participation.

The regression result presents that the beta coefficient of financial knowledge is 0.243 and it means financial knowledge has positive effect on stock market participation. Similarly, the positive effect is significant as well at 1% significance level as presented by p-value of 0.000. Therefore, the study accepts the hypothesis of “Financial knowledge has significant influence stock market participation”.

H₂: Financial attitude has significant influence on stock market participation.

The regression result presents that the beta coefficient of financial attitude is 0.217 and it means financial attitude has positive effect on stock market participation. Similarly, the positive effect is significant as well at 1% significance level as presented by p-value of 0.000. Therefore, the study accepts the hypothesis of “Financial attitude has significant influence on stock market participation”.

H₃: Financial behaviour has significant influence on stock market participation.

The regression result presents that the beta coefficient of financial behaviour is 0.332 and it means financial behaviour has positive effect on stock market participation. Similarly, the positive effect is significant as well at 1% significance level as presented by p-value of 0.000. Therefore, the study accepts the hypothesis of “Financial behaviour has significant influence on stock market participation”.

H₄: Financial awareness has significant influence on stock market participation.

The regression result presents that the beta coefficient of financial knowledge is 0.344 and it means financial awareness has positive effect on stock market participation. Similarly, the positive effect is significant as well at 1% significance level as presented by p-value of 0.000. Therefore, the study accepts the hypothesis of “Financial awareness has significant influence on stock market participation”.

H₅: Financial skills has significant influence on stock market participation.

The regression result presents that the beta coefficient of financial skills is -0.028 and it means financial skills has negative effect on stock market participation. But, the negative effect is insignificant at 1% significance level as presented by p-value of 0.164. Therefore, the study rejects the hypothesis of “Financial skills has significant influence on stock market participation”.

The study concludes that enhancing financial knowledge, attitude, behaviour, and awareness can significantly promote stock market participation, whereas financial skills alone may not be a decisive factor in this regard. These insights have practical implications for policymakers and educators aiming to increase investor participation through targeted financial literacy programs.

4.9 Discussion

Discussion in this study relates to the assessment of similarities and contradicts of the findings of the study with the findings of previous empirical researches and related theories. The study has followed the studies undertaken by Loranita et al. (2021) and Shrestha et al. (2023) that have been carried out in Nepalese context. So, the hypothesis development, conceptual framework and regression model of this study is same as of

study of Shrestha et al. (2023). The study aimed to examine effect of financial literacy on stock market participation in Kathmandu Valley.

The study found that stock market participation has been positively and significantly driven by financial knowledge, financial attitude, financial behavior and financial awareness, whereas the financial skills has negative effect, but insignificant. The results are fully consistent with the findings of Rai et al. (2019), Alaaraj and Bakri (2020), Loranita et al. (2021) and Putri and Digdowiseiso (2023). Rai et al. (2019) found that financial attitude, financial behavior and financial knowledge significantly and positively correlated with financial literacy and money management for making investment. Alaaraj and Bakri (2020) concluded as a strong positive correlation between financial literacy i.e. financial knowledge and financial awareness and the ability to make sound investment decisions and found the positive and significant effect of financial literacy on investment decision as well. The study concluded that financial literacy is the key driver of investment decision. Loranita et al. (2021) showed that individual investment choice behavior was positively impacted by financial attitude, financial behavior, financial knowledge, and sociodemographic characteristics. The study concluded that investment behavior of the people is significantly shaped by the financial attitude, financial behavior, financial knowledge, and sociodemographic characteristics. Putri and Digdowiseiso (2023) concluded that financial literacy and investment behavior have a significant and positive influence on individuals' investment interest. On the other hand, the results of the study partially consistent with the findings of Shrestha et al. (2023). Shrestha et al. (2023) concluded that investment decisions are significantly shaped by individuals' financial behavior, financial attitudes, financial awareness, and financial skills. Negative but insignificant effect of the financial skills on stock market participation is not in line with the result of the findings of Shrestha et al. (2023).

Moreover, the findings of the current study reinforce the “Goal-Setting Theory of Motivation,” which posits that specific and well-defined goals—such as financial literacy—can significantly enhance individual motivation and performance. This theory implies that enhanced financial knowledge not only promotes personal financial well-being but also encourages proactive investment behaviors in stock market. The results are theoretically supported by Behavioral Finance Theory, which emphasizes

the role of psychological and emotional factors in financial decision-making. According to this theory, an individual's financial attitude—comprising beliefs, values, and emotions about money—greatly influences their financial choices and investment behaviors. A positive financial attitude promotes long-term planning, responsible money management, and risk awareness, thereby enhancing stock market participation. Similarly, the positive relationship between financial behavior and stock market participation is further grounded in the Theory of Planned Behavior. According to this theory, an individual's behavior is influenced by their attitudes, subjective norms, and perceived behavioral control. When individuals maintain disciplined financial behaviors—such as budgeting, saving, and prudent investing—they are more likely to engage in investment activities. This occurs because such behaviors are often driven by strong intentions shaped by favorable attitudes, social encouragement, and confidence in managing financial actions.

Chapter V

Summary and Conclusion

5.1 Summary

Financial literacy has become increasingly important due to the emergence of new financial services, complex financial systems, and changes in political, demographic, and economic domains. Financial knowledge involves managing finances, understanding financial concepts, making sound decisions, discussing money and financial issues, setting goals, and reacting to life events. The OECD (2011) defined financial literacy as the set of abilities, awareness, information, attitudes, and behaviors required for making financial decisions and reaching financial objectives. Investment decisions are based on important information, and diverse educational backgrounds influence different approaches. Higher education enhances an investor's understanding of selecting stocks that reduce risks and provide the best return. Financial literacy is the result of an individual's interest, mindset, and behaviors that enhance their financial efficacy and efficiency, as well as the immediate and long-term benefit to society. Financial knowledge is a crucial skill related to financial literacy. Financial literacy knowledge is based on recollection and is influenced by education, which results in a more frugal lifestyle. There is no difference in financial awareness between groups based on gender, age, income, education, or expertise. Financial literacy is crucial for informed investment decisions in the stock market, as it helps individuals manage their money and consider risk tolerance and risk-return trade-offs. Financial education is essential for maintaining a consistent income, buying a home, funding children's education, and ensuring money for retirement.

Financial literacy is crucial for informed investment decisions in the stock market, as it helps individuals manage their money and possessions, considering risk tolerance and risk-return trade-offs. Financial education is essential for families seeking consistent income, home ownership, education funding, and retirement security. Research on the connection between stock market participation and financial literacy has primarily focused on global economies, but there is limited research on the impact of financial literacy on stock market participation in Nepal. Only one study, by Shrestha et al.

(2023), examined the framing gap in relation to the impact of financial knowledge on stock investment decisions in the Nepalese context.

This study aims to determine the influence of financial behavior, knowledge, awareness, attitude and skill on stock market participation in the Kathmandu Valley. The study used a survey research technique to accumulate data from selected respondents by asking participants about their beliefs, attitudes, and behaviors about financial literacy traits and stock market participation. Additionally, the study used a descriptive and causal comparative approach. Through the use of descriptive and causal comparative study methodologies, the impact of the independent variables financial knowledge, financial attitude, financial skill, financial conduct, and financial awareness on the dependent variable stock market participation has been calculated. The target population of the study consists of all individual investors who are actively trading on the Nepalese stock market. One questionnaire was given to each of the 418 chosen respondents, who are individual investors from the Kathmandu Valley. A minimum bachelor's degree in education is the basis for the sample. The sampling method used in this study is called non-probability sampling. The study collects data using convenience sampling. The respondents are found in various stock brokerage firms in Kathmandu valley. Primary data is accumulated using questionnaires. The surveys are directly delivered to the actual investors. In the first step, family members, close friends, and peer groups with experience in stock investment are contacted in order to gather information for the study. Following recommendations from friends and family, more experienced investors were located, and the survey form was distributed to these possible respondents. Under the data analysis methodology, the study included regression, correlation analysis, and demographic profile analysis. Descriptive statistics, correlation statistics, regression statistics, reliability tests, ANOVA tests, and multi-collinearity tests have been used in the examination. SPSS is used to calculate the necessary statistics.

The study found the dependent variable, stock market participation, is positively and significantly influenced by four of the five independent variables: financial knowledge, financial attitude, financial behavior, and financial awareness. In contrast, financial skill exhibits a negative but statistically insignificant relationship with stock market participation.

5.2 Conclusion

Among all the financial literacy components, financial behavior and awareness stand out as the most significant predictors of stock market participation. Although financial skill is a vital part of overall financial literacy, its impact on actual market involvement appears minimal in this context. The study concludes that promoting financial knowledge, attitude, behavior, and awareness can meaningfully enhance participation in the stock market, while financial skill alone may not play a critical role. The model explains 95.2% of the variation in stock market participation through the five dimensions of financial literacy, indicating strong explanatory power. The remaining 4.8% of variation is likely due to other factors not considered in this model—potentially psychological, demographic, or institutional influences that also affect investment behavior.

All aspects of financial literacy—namely financial knowledge, behavior, attitude, awareness, and skill—are positively and significantly associated with stock market participation. The results underscore that individuals with higher financial literacy are more likely to invest in the stock market. Thus, the study highlights financial literacy as a key driver in shaping investment decisions in Nepal, with each component fostering more confident, knowledgeable, and active investors.

Most participants are relatively new to investing, having less than five years of experience in the stock market. Their primary motivation centers on earning capital gains and steady income, rather than achieving long-term financial objectives such as retirement or educational savings. This indicates that today's investors tend to adopt a short- to medium-term investment strategy, with an emphasis on immediate returns rather than on wealth preservation or tax planning. All of the participants of Nepalese stock market are financial literate and such literacy level has motivate them to participant in share market.

5.3 Implications

5.3.1 Practical implications

The findings offer important guidance for policymakers, financial institutions, and educators seeking to improve stock market participation among individuals. The significant positive influence of financial knowledge, attitude, behavior, and awareness

suggests that initiatives aimed at increasing public engagement in the stock market should prioritize these areas. For instance, targeted financial literacy programs, public awareness campaigns, and behavioral nudges (like reminders to invest or simplified access to trading platforms) can enhance participation. Since financial skill shows a negative but statistically insignificant effect, it indicates that having technical or analytical financial skills may not be a critical factor for individuals deciding to invest in the stock market. Therefore, programs should focus less on technical skills and more on building confidence, awareness, and positive attitudes toward investing, especially among beginner investors.

5.3.2 Theoretical implications

Theoretically, the findings contribute to behavioral finance and financial literacy literature by highlighting which dimensions of financial capability most strongly influence investment behavior. It reinforces the idea that psychological and behavioral factors—such as attitudes and awareness—are just as important as knowledge in driving financial decisions. The insignificant role of financial skill challenges traditional assumptions that technical proficiency is essential for market participation, suggesting that even individuals without strong analytical skills may invest if they are financially aware and have the right attitude. This supports models that emphasize behavioral and cognitive factors over purely rational decision-making, thereby enriching the understanding of what drives individuals to participate in financial markets.

From a theoretical standpoint, these findings provide a valuable framework for expanding existing behavioral finance and financial literacy models. Future researchers can build upon this study by integrating psychological constructs (such as confidence or risk perception) with financial capability variables to develop more holistic models of investor behavior. The unexpected negative but insignificant influence of financial skill suggests a potential gap in current theoretical models, highlighting the need to reassess how financial skill is conceptualized and measured. Researchers may also consider exploring moderating or mediating variables, such as digital access, age, or socio-economic status, to better understand the underlying mechanisms linking financial capability with stock market participation. This opens up new avenues for theory-building and empirical validation in diverse cultural and economic contexts.

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Appendix

Questionnaire

Dear Respondent,

I am Kiran Kumar Rai, pursuing MBS degree on “Effect of Financial Literacy on Stock Market Participation in Kathmandu Valley”. For my research purpose, please answer the following questions. The information given by you will be used for the study purpose and will be kept confidential.

Please tick one answer for each question below.

1. Gender

Male

Female

2. Age (in years)

Less than 25

25- 35

36 – 50

Above 50

3. Highest Education Qualification

Bachelor

Master

Above Master

4. Occupation

Employee

Self-employed

Student

Retired

5. Monthly Income

Below Rs. 30000

Rs. 30000 to Rs. 50000

Rs. 50000 to Rs. 100000

Above Rs. 100000

6. How long have you been engaged in the investment and trading of the stock in NEPSE?

Less than 3 years

3 to 5 years

5 to 10 years

Above 10 years

7. Why do you participate in stock market?

Regular Income

Capital gain

Tax Saving

Children Education

Retirement

Others

8. Please read each questions carefully and select your level of agreement for the following statements and make a circle mark (O) to the appropriate number from 1 to 5.

1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5= Strongly Agree

Variables	Answers				
Financial Knowledge					
I understand the concept of risk and return in investment decisions.	1	2	3	4	5
I know to read and interpret basic financial statements (e.g., balance sheet, income statement).	1	2	3	4	5
I understand the effect of interest rates on investment returns.	1	2	3	4	5
I am familiar with the concept of portfolio diversification.	1	2	3	4	5
I understand the meaning of commonly used financial terms (e.g., P/E ratio, NAV, market capitalization).	1	2	3	4	5
Financial Attitude					
I am ready to take financial risks if the potential return is high.	1	2	3	4	5
I trust my ability to make sound investment decisions.	1	2	3	4	5
I believe financial decisions should be based on careful analysis and planning.	1	2	3	4	5
I am open to learning more about the stock market to improve my financial situation.	1	2	3	4	5
I feel anxious about losing money in stock market investments.	1	2	3	4	5
Financial Behaviour					
I seek information before making investment decisions.	1	2	3	4	5
I avoid unnecessary debt and try to pay my bills on time.	1	2	3	4	5
I regularly track my income and expenses.	1	2	3	4	5
I set aside a portion of my income for savings or investment.	1	2	3	4	5
I compare different investment options before making a financial decision.	1	2	3	4	5
Financial Awareness					
I am aware of the different types of financial products available (e.g., stocks, bonds, mutual funds).	1	2	3	4	5
I know that the stock market offers opportunities for both gains and losses.	1	2	3	4	5

I know that stock market investment involves risks that should be carefully considered.	1	2	3	4	5
I stay updated on financial news and market trends.	1	2	3	4	5
I know the sources to find reliable information about listed companies and their performance.	1	2	3	4	5
Financial Skill					
I am able to compare financial products (e.g., investment plans, savings accounts) to choose the most suitable one.	1	2	3	4	5
I can calculate the return on an investment.	1	2	3	4	5
I am confident in my ability to make informed financial decisions.	1	2	3	4	5
I can interpret basic financial statements or documents (e.g., bank statements, investment reports).	1	2	3	4	5
I can effectively use an online brokerage platform to place buy and sell orders.					
Stock Market Participation					
I currently invest in the stock market.	1	2	3	4	5
I have previously bought or sold stocks or other securities.	1	2	3	4	5
I regularly monitor stock market trends and news.	1	2	3	4	5
I feel confident participating in the stock market.	1	2	3	4	5
I consider stock market investments as part of my long-term financial planning.	1	2	3	4	5

Thank you.

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