

# **THE INFLUENCE OF EMOTION ON FINANCIAL RISK TOLERANCE**

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS)

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## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**THE INFLUENCE OF EMOTION ON FINANCIAL RISK TOLERANCE**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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 has cited in the reference section of the dissertation.

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## REPORT OF RESEARCH COMMITTEE

Mr. Kapur Kumar Thapa has defended research proposal entitled “THE INFLUENCE OF EMOTION ON FINANCIAL RISK TOLERANCE” 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 Arun Neupane and submit the thesis for evaluation and viva voce examination.

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## APPROVAL SHEET

We have examined the dissertation entitled “THE INFLUENCE OF EMOTION ON FINANCIAL RISK TOLERANCE” presented by Mr. Kapur Kumar Thapa for the degree of **Master of Business Studies (MBS)**. We hereby certify that the dissertation is acceptable for the award of degree.

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## ABBREVIATIONS

ANOVA	Analysis of Variance
DT	Deliberate Thinking
FFS	Family Financial Socialization
FRT	Financial Risk Tolerance
FT	Financial Threat
MBS	Master of Business Studies
MPhil	Master of Philosophy
MS	Microsoft
OP	Optimism
PHD	Doctor of Philosophy
PLS	Partial Least Square
SEM	Structural Equation Modeling
SPSS	Statistic Package for Social Science
TR	Trust
TU	Tribhuvan University
UK	United Kingdom

## ABSTRACTS

The main objective of this study was to analyze the influence of emotion on financial risk tolerance. The factors of emotions which were taken as independent variables to analyze the influence on financial risk tolerance were financial threat, optimism, trust, deliberate thinking and family financial socialization. The study was based on the survey among 150 respondents conducted by distributing questionnaire. The questionnaire was based on 5 Likert scale. Once the responses were collected, it was organized and analyzed by using MS Excel and SPSS. The statistical tools used for analysis were descriptive analysis, correlation analysis and multiple regression analysis.

Most of the respondents were male and aged between 20 and 30. Majority of the respondent had completed Bachelor's degree. Most of them were private employee closely followed by the students. Majority of them had the annual income between 2 to 5 lakhs. Descriptive analysis revealed that all the variables were of great significance. Among them the statement regarding the variables under study, deliberate thinking had stronger agreement which was closely followed by family financial socialization and financial risk tolerance. The correlation analysis showed that all the variables had positive relation with financial risk tolerance. However financial threat, optimism, deliberate thinking and family financial socialization were significant and trust was insignificant. To analyze the impact of multiple variable multiple regression analysis was used. It was found that four independent variables namely financial threat, optimism, trust and family financial socialization had significant impact on financial risk tolerance while deliberate thinking was found to be insignificant.

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

In recent there has been significant development in research regarding linkage between psychological factor and financial decision (Brooks et al., 2021). The fact that emotions can influence financial decision has been widely acknowledged. Emotions has been found to play role in shaping framing effect and to some extent can explain why people respond differently depending on choice which might result in potential losses or gains (Miu & Crisan, 2011). Emotion factor can significantly impact the decision making in contrast to situations where decision is made based on logic. Andersson et al. (2016) stated that people tend to take more financial risks while they make decisions for other in comparison to situation where they make decision for themselves. The investment decision is constituted of two distinct factors which arises from different parts of brain. The first part is the cognitive part where decision is made based on logic and the second part is consists of effect of emotions. In traditional view, psychology is viewed as two separate aspects where brain is compared to computer and feelings is considered isolated from cognition (Fenton-O’Creevy, et al., 2011). But in recent days, many psychologists have discarded this perception and dual-process model has been developed which merges both aspects (Rustichini, 2008). Both the aspects are believed to influence each other. The cognitive aspect impacts the emotion and emotion also influences the cognitive analysis.

People take risk in order to increase the possibility of positive outcome which would help to improve their mood. Thus, when individual experience sadness they tend to spend excessively which may increase the debt in attempt to light up their mood (Cryder et al., 2008). The empirical finding of Conte et al. (2018) revealed that emotional factors result in risk-taking behavior. Kubilay and Bayrakdaroglu (2016) found that people who tend to feel sad, fearful and angry have high level of risk tolerance. In contradiction Leith and Baumeister (1996) found that when people are in worst situation they get emotionally

encouraged to irrational thoughts and they take decision which may not be in their favour. The mood regulation theory states that the degree of risk associated with a task determines the emotional impact on dangerous decisions, which helps to reconcile these contradictory finding. A optimistic attitude motivates someone to take a chance on relatively low-risk decisions. Conversely, those who are feeling well are more likely to turn down a higher likelihood of loss out of concern that it may undermine their optimistic outlook (Hockey et al., 2000). When faced with possible losses, people in good moods may become less risk-tolerant as they enter "protection mode" to increase the likelihood that they can stay in that state (Isen & Patrick, 1983). When making judgments, those in bad moods are more prone to use analytical thinking and careful information processing, whereas those in good moods are more likely to use heuristics or shortcuts (Sinclair & Mark, 1995).

Forgas (1995) found that emotions have a bigger influence when there is a lack of concrete knowledge, which makes it harder to make a logical choice. He added that when people experience positive emotion, they tend to look at positive side in life. They become optimistic even toward the outcome of risky decision. People who experience positive emotion may utilize them to increase their efficiency in decision making and make better choices (Seo & Barrett, 2007). According to Johnson and Tversky (1983) individual who experience positive emotions are more likely to overvalue potential rewards and they tend to underestimate the risk associate with it. Thus, they are more likely to take financial risk.

Making investment decision has become more difficult as there is always some risk involved in it (Filbeck et al., 2005). Risk has many different components, and one important one is risk tolerance (RT) (Ferreira, 2019). The majority of the choices we make in our daily lives involve the potential for gain or loss rather than the status quo. People typically choose riskier options when the situation is a loss case because they are inclined to act in a risk-seeking manner; in contrast, when the situation is a win case, people do not prefer to choose riskier options and adopt a risk-averse mindset. People tended to be more sensitive to loss cases, meaning they placed more value on the prospect

of losing money or items than the possibility of making money, according to research employing gambles that included both gain and loss scenarios. The greatest model for explaining how people make decisions when faced with risk and uncertainty is Prospect Theory, which can address this (Kahneman & Tversky, 1979).

The determinants of financial risk tolerance have been the subject of existing research over the years. Specifically, many researchers such as (Banner & Neubert, 2016) and (Fisher & Yao, 2017) have discovered that demographic characteristics like age, gender, income, and education level are linked to financial risk tolerance. As per the risk-return theory, higher risk attracts the higher return. Individuals who choose to take higher levels of risk are more likely to get greater rewards. However, risk-return theory may not be always applicable. There are other factors which may impact the financial risk tolerance of individual such as demographic, social, economic, and psychological (Rahman, 2020).

## **1.2 Statement of the Problem**

Yang (2024) stated that several theories and models, such as the emotion-driven theory, the emotion-inspired theory, and the emotion-regulation theory has been utilized to study the relationship between emotion and risk. These models present various hypotheses and predictions along with unique interpretations of the connection between emotions and risk attitudes. Several empirical studies have confirmed the link between risk attitudes and emotions as well. Research has indicated that emotions play a significant role in risky decision-making, with the effects being moderated by differences in type, intensity, source, and stability. Additionally, studies conducted in a number of disciplines have found similarities and differences between emotions and emotional states regarding risk, which calls for more research on the subject. It is evident that the perception of gain and loss is relatively dependent on reference points, and that the distance between the value and the reference point is congruent with the diminishing sensitivity of perception. Generally, people tend to be risk averse for high probability of returns and low probability of losses, while being risk seeking for low probability of returns and high probability of losses (Tversky & Kahneman, 1992).

Many investment plans created by managers fall short of meeting the needs of their clients due to inadequate evaluation of their risk tolerance. Clients are therefore frequently hesitant to make further investments. However, since investment is a key factor in economic growth, it is imperative to promote increased participation. Investment managers can assist in creating customized portfolios that achieve the best possible balance between risk and return by classifying clients into various risk tolerance groups according to financial, behavioral, and demographic elements. Clients can gradually acquire the confidence to take on greater risk and make larger investments with a well-built portfolio that fits their risk tolerance (Neupane, Factors Determining Risk Tolerance of Individual Investors in Kathmandu Valley, 2021).

Human cognitive limitations are highlighted by limited reasoning, which views irrational decision-making as the most effective option when weighing the subjective utility of the options against the neural metabolic costs of evaluating them (Simon, 2000). The effect of additional economic and cognitive elements, such as financial literacy and financial knowledge, on an individual's financial risk tolerance has also been examined in some recent research such as by Heo et al., 2018 and Reddy & Mahapatra, 2017. These factors alone are insufficient to explain differences in individual risk tolerance levels, despite the fact that the evidence in these studies significantly advances our understanding of the pertinent determinants of individual levels of financial risk tolerance. Thus, this study examines the emotional factors that influence the financial risk tolerance in more detail.

- There is a significant research gap in Nepal on influence of emotional factors in financial risk tolerance, underscoring the need for studies to enhance decision-making.
- Previous studies on financial risk tolerance in Nepal, such as Neupane (2021), Gautam (2023), and Parajuli & Shrestha (2020), primarily focused on demographic and cultural factors, making this study one of the first to explore the influence of emotion.

- This study focuses on emotional aspects of financial risk tolerance, offering new insights into investment behavior and valuable guidance for Nepali investors, professionals, and policymakers.

### **1.3 Objectives of the Study**

The main objective of this study is to find the influence of emotion on financial risk tolerance. To meet this objective, following specific objective have been deduced:

- To examine the influence of emotional factors: financial threat, optimism, trust, deliberate thinking and family financial socialization in financial risk tolerance.
- To investigate the most and least significant emotional factor influencing financial risk tolerance.
- To provide possible theoretical and practical implications regarding the influence of emotion on financial risk tolerance.

### **1.4 Research Questions**

- How does financial threat influence individuals' willingness to take financial risks?
- What is the influence of optimism and financial risk tolerance of individual?
- How does trust impacts the financial risk tolerance?
- What is effect of deliberate thinking on financial risk tolerance?
- How does family financial socialization shape individuals' financial risk tolerance?

### **1.5 Hypothesis of the Study**

- There is significant influence of financial threat on financial risk tolerance.
- There is significant influence of optimism on financial risk tolerance.
- There is significant influence of trust on financial risk tolerance.
- There is significant influence of deliberate thinking on financial risk tolerance.
- There is significant influence of family financial socialization on financial risk tolerance.

## **1.6 Limitations of the Study**

- The convenience sampling method used in this study may not represent different strata of the population.
- The geographical limitation confined with in Kathmandu valley can limit the generalization of the finding to other region of Nepal or foreign countries.
- The small sample size of 150 respondents may not be enough to capture all the diversification of the respondents.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Emotions**

Emotions originate from mental evaluations of the situation and are feelings regarding a certain event or condition which may be related to someone or something (Bagozzi et al., 1999). Emotions are mental states brought on by neurophysiological changes that involve ideas, sensation, behavioral response and degree of satisfaction or dissatisfaction (Panksepp, 2005). Emotion is characterized as an acute experience of fear, surprise, excitement, etc. that causes sudden problems and temporary disturbance. Compared to cognitive evaluations, emotional responses or evaluations are more basic and happen at an early age (LeDoux, 1996). Emotion helps in making better decisions. Many psychological studies have demonstrated how emotion can have big impact on decision (Elster, 1998). Arnold (1960) defined emotion as tendency of feeling toward anything that is instinctively considered as beneficial or away from anything that is considered harmful. There is no exact definition of emotion as it is cognitive, physiological, social, and behavioral aspects (Solomon, 2000).

Emotion is not just the feelings. It is also the evaluation rather than just sensation or cognitive ability (Frijda, 2000). Emotions are the result of evolution where people have learned to solve the problem that arise repeatedly. The capacity to learn and vital is very important for the survival. Many emotions are adaptive reactions brought out by evolutionary programming (LeDoux, 1996). Emotion is physiological state of excitement raised by opinion towards something (Elster, 1998). The opinion of each individual is different towards the object or state and degree of good or bad associated with it. Emotion can induce positive or negative valences which can be analyzed using bipolar scales that define a continuous spectrum from unpleasantness to pleasantness (Bradley & Peter, 2000). As there is no standard definition of emotion, there is general agreement on the set of emotions that exists (Elster, 1998). Emotion includes state like anger, guilt, hatred, fear, regret, pride, joy and love. He further states that these states help to separate emotions from other mental states.

Emotional quotient is just as important as intelligence quotient in determining success of an individual in their life (Goleman, 1995). The experiment conducted by (Damasio, 1994) verified that if there is no emotion then the decision making is affected considerably. In his experiment, he studied the patient who were brain-damaged and lost the ability to respond emotionally. However, they still had their knowledge, memory and ability to solve abstract problem. It was found that due to lack of emotion, these individuals faced difficulty in making decisions and plan future course of actions. Damasio came to the conclusion that emotions greatly impact logic. Neurobiological studies by (Damasio, 1994: LeDoux, 1996) shows that emotion influence the decision-making process in two ways. At first, individuals are influenced by their emotions while making decisions that are crucial. In certain situations of life, there are several possibilities available which makes individual to spend too much time in choosing decision. Secondly, emotion can help to make better decisions. Numerous psychology studies have shown that emotional state can have significant impact in decision making. Stronger emotions are associated with poor financial decisions while lack of emotion also can result in irrational decisions.

Emotions and feelings influence how people view their surroundings and assess their behavior. Emotions are deeply rooted in biology because they influence, among other things, the willingness to act to improve the probability of survival (Lerner, Ye Li, & Kassam, 2015). As a result, emotions are strongly associated with decisions that involve risk and trade-offs between now and later. The ideas of risk preferences and emotions may represent comparable physiological processes and be identified simultaneously when aroused.

The affect heuristic is a widely recognized model of human behavior in psychology, offering a framework to understand the connection between emotions and perceptions of risk, as well as subsequent behaviors. This model was developed by Paul Slovic and his colleagues Slovic et al., (2007), which has been acclaimed as one of the most significant

contributions to risk analysis research over the past three decades (Greenberg, et al., 2012).

Yang (2024) stated that several theories and models, such as the emotion-driven theory, the emotion-inspired theory, and the emotion-regulation theory has been utilized to study the relationship between emotion and risk. These models present various hypotheses and predictions along with unique interpretations of the connection between emotions and risk attitudes. Several empirical studies have confirmed the link between risk attitudes and emotions as well. Research has indicated that emotions play a significant role in risky decision-making, with the effects being moderated by differences in type, intensity, source, and stability. Additionally, studies conducted in a number of disciplines have found similarities and differences between emotions and emotional states regarding risk, which calls for more research on the subject. It is evident that the perception of gain and loss is relatively dependent on reference points, and that the distance between the value and the reference point is congruent with the diminishing sensitivity of perception. Decision-making is greatly impacted by emotions, especially in the financial industry where people must analyse bulky data (Brooks & Williams, 2021).

## **2.2 Financial Risk Tolerance**

Risk tolerance is the willingness of an individual to participate in a scenario where there is a significant degree of uncertainty regarding the achievement of a goal and the potential for a loss (Kogan & Wallach, 1967). The consumer finance literature has widely showed how financial risk tolerance influences household financial decision-making. Researchers began using the idea of risk tolerance to look into consumer financial difficulties as early as the 1960s. The greatest amount of uncertainty or potential loss that a person is willing to tolerate when making financial decisions is a commonly recognized definition of financial risk tolerance. This idea is a major factor in determining how someone approaches financial planning and decision-making since it shows how comfortable they are with results that are unpredictable, such changes in investment returns or the possibility of financial loss (Grable, 2000).

Carr (2014) stated that risk tolerance is important for making a variety of personal financial decisions, including deciding between debt and savings, selecting a mortgage type, using and managing credit cards. One of the key components of consumer choice frameworks, investment suitability analyses, and financial planning models is frequently financial risk tolerance (Carr, 2014). Financial risk tolerance is fundamental factor in wide range of financial decision-making situations. When following financial objectives, it shows how willing and able a person or household is to withstand financial uncertainty, fluctuations in returns, and possible losses. Major decisions including debt management, retirement planning, saving practices, and investment portfolio allocation are influenced by this idea (Rai et al., 2021). Before giving investment, advice or putting financial strategies into action, financial advisors are required by financial regulatory bodies worldwide to evaluate their customers' financial risk inclination. This criterion guarantees that the suggested investment choices complement the clients' financial objectives, risk tolerance, and unique situation. Advisors can offer customized advice that reduces possible financial stress and encourages sustainable decision-making by assessing risk propensity, protecting clients' interests while abiding by legal requirements (Hari et al., 2018).

Countries like the United States, the United Kingdom, Australia, and Canada have enacted specific regulations requiring financial advisors to assess their clients' risk tolerance. These laws ensure that investment recommendations and financial strategies align with the individual preferences, risk appetite, and financial objectives of clients. This practice is a critical step in fostering transparency, protecting investors, and promoting responsible financial decision-making within regulated markets (Wahl & Kirchler, 2020).

People are generally perceived as risk averse or risk seeking forecasts of dangerous choices and behavior in a particular field must be based on risk tolerance in that field rather than a person's overall risk tolerance (Dohmen, et al., 2011). When discussing their customers' financial needs in-depth, financial advisors should start with the client's risk tolerance, which can be assessed using a validated scale and compared to demographic

norms. By offering a uniform and impartial evaluation, this method helps advisers better investigate their clients' financial objectives, inclinations, and worries. Advisors can create strategies that are specific to the long-term goals and circumstances of their clients by integrating this first assessment with one-on-one discussions (Grable, Financial risk tolerance: A psychometric review, 2017).

### **2.3 Relationship Between Emotion and Financial Risk Tolerance**

Brooks et al. (2021) conducted study to examine the impact of emotions towards the financial investments and emotions towards life in general on attitudes to financial risk. The survey was conducted among 970 retails in UK using questionnaire. According to their research, risk tolerance was more significantly impacted by positive emotions than by negative ones. They also observed that, compared to gender, age, income, investing experience, and investment expertise, feelings about investments have a significantly higher explanatory power for the cross-section of risk aversion.

Owusu et al. (2023) researched on financial risk tolerance of personnel in the various security services in Ghana. Respondents served in various public security divisions, including the military, immigration, police, customs, firefighting, and prisons. Data gathered from a cross-section of security service employees was analyzed using partial least square structural equation modeling. Their research showed that deliberative thinking, trust, and financial threat all have a big impact on financial risk tolerance. Additionally, they came to the conclusion that financial conduct can be accurately predicted by one's financial risk tolerance.

Sutejo et al. (2023) investigated the influence of positive and negative emotions on investment decisions during the Covid-19 pandemic, as well as to test risk tolerance as a intervening variable between basic emotions and investment decisions. This study makes use of exogenous variables, such as positive and negative emotions including, namely investment decisions and exogenous variables, namely positive and negative emotions including anger, sadness, hope, happiness, and fear and financial risk tolerance as intervening variable. In order to gather data, 180 young investors in Surabaya, Indonesia,

were given questionnaires. A 5-point Likert scale is used in the questionnaire. To test hypotheses, a structural equation model is used. This study found that positive emotions have a major influence on financial decision-making.

## **2.4 Financial Threat**

Fiksenbaum et al. (2017) stated that financial threat is the sense of concern and anxiety regarding one's present and future financial situation. This sense of financial resource uncertainty and ambiguity can cause a great deal of psychological stress and influence coping mechanisms and decision-making. Whereas Adamus and Grezo, (2021) defined financial threat as a person's psychological condition that is marked by a feeling of ambiguity or uncertainty over their present or future financial situation. This state of mind frequently causes worry and fear, which affects emotional health and decision-making. People's perceptions of the security and stability of their financial resources frequently worsen as financial conditions deteriorate because of variables like high levels of debt and low income. Any possible disruption to this equilibrium is viewed as a financial threat since the ability to provide for oneself and one's family depends on keeping a healthy balance between income and expenses. People's emotional and financial decision-making may be further impacted by these disturbances, which can also cause emotions of vulnerability and uncertainty (Owusu et al., 2023).

Due to increased financial and psychological strain, a person's ability to cope with uncertainty frequently declines during economic downturns. An atmosphere of instability gets worse by fears about job security, corporate viability, and the slow rebound of economic activity. These elements have a direct effect on a person's financial circumstances since they may result in lower income, job loss, or decreased company revenues. Furthermore, the economic landscape's unpredictability can make financial planning and decision-making more difficult, increasing stress and decreasing resilience to financial difficulties (Ishtiaq et al., 2019). Perceptions of stability and financial security are undermined by worsening financial circumstances, such as excessive debt and insufficient income. Disruptions to this balance are viewed as financial dangers since self-sufficiency depends on maintaining a balance between income and spending.

The great recession shed important light on the significant and broad impacts that job insecurity and financial instability have on people's well-being. The economic downturn brought to light the adverse impacts that financial difficulties, including high debt levels, job loss, and decreased income, can have on one's physical and emotional well-being. People who experienced these difficulties reported higher rates of worry, despair, and low self-esteem as well as declines in their general health. Higher mortality rates, a higher prevalence of suicide ideation, and an increase in substance addiction as a coping mechanism were all influenced by the stress brought on by financial instability. In order to reduce these negative consequences during financial crises, supportive economic and social measures are necessary, as these findings highlight the connection between personal health and economic stability (Fiksenbaum et al., 2017).

Threats regarding one's finances have a big influence on how individuals live their lives, frequently causing extreme anxiety that leads to unhealthy eating and coping mechanisms. These could include gambling, self-blame, a sense of resignation, and an addiction to drugs or alcohol as an escape. Such reactions threaten long-term wellbeing by increasing financial troubles and starting a vicious cycle of mental and emotional distress (Owusu et al., 2023). A component of the larger problem is the potential for financial downfall. The transactional model of stress states that people go on to a secondary inspection once they have assessed the possibility and seriousness of a financial threat. They evaluate their resources and capacities to handle or deal with the threat during this phase. The evaluation affects how individuals react, including the coping mechanisms they use which can vary from financial aid and problem-solving to maladaptive behaviors like denial or avoidance. This approach illustrates how coping strategies and perceived threats interact interactively to influence people's psychological and financial outcomes (Lazarus & Folkman, 1984).

Ishtiaq et al. (2019) conducted research to examine the determinants of the financial threat. The study was conducted among the business graduates of Pakistan. The collected data was examined using a variety of descriptive and inferential statistical approaches.

The study concluded that financial threat is associated with individual's willingness to change financial behavior. Furthermore, the relationship between anxiety and willingness to change was mediated by financial threat.

Owusu et al. (2023) conducted research to evaluate the influence of financial threat on financial risk tolerance among service personnel in the various security service personnel in the various security services in Ghana. The study was conducted among 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons Service. A 7 Likert scale questionnaire was distributed to collect the responses. The data were analyzed using structural partial least square (PLS) and structural equation modeling (SEM) technique. In their study, financial threat was found to have significantly influence the financial risk tolerance.

## **2.5 Optimism**

In general optimism refers to two connected ideas. The first is the tendency to wish for good things to happen, and the second is the more general conviction that we live in “the best of all possible worlds,” as German philosopher Gottfried Wilhelm Leibniz put it in his famous theodicy. (Conversano, et al., 2010). A sense of hope in one's perspective on life is reflected in optimism, however the term is naturally wide and vague, including a range of emotions, experiences, and dispositions influenced by various historical and social situations. Despite being a fundamental human emotion, optimism takes on distinct forms based on societal context and personal circumstances. In order to create a complex spectrum of thinking, it is frequently combined with other attitudes like realism, pragmatism, fatalism, or even pessimism. Both personal characteristics and the social contexts in which we live have an impact on how optimistic we perceive ourselves to be and how much we embrace an optimistic outlook, indicating a dynamic interaction between social norms and individual psychology (Parveen et al., 2016). However, the fundamental similarity throughout conversations concerning optimism is the recognition that "optimism is not without risk." Optimism can spur confidence and activity, but it can also cause one to underestimate risks or ignore possible obstacles. This overconfidence

highlights the fine line between optimistic thinking and sincere realism since it can lead to bad decisions, irrational expectations, or a failure to prepare for setbacks (Angelini & Cavapozzi, 2017).

Optimistic people are those who tend to overestimate the likelihood of favorable events and underestimate the possibility of bad ones, according to financial economics. Because they may be more likely to seek high-risk investments or strategies because they believe that favorable outcomes are more likely than they actually are, people with this cognitive bias frequently engage in riskier financial decision-making (Heaton, 2002). Many people consider optimism to be a positive human quality. It is seen by many as "an essential ingredient" for successful leadership, innovation, and achievement. People with this optimistic mindset are able to face difficulties head-on, motivate others, and keep up the motivation needed to get beyond setbacks and pursue long-term objectives (Elgebeily et al., 2021).

An investor is said to be risk-averse if they strongly favor guaranteed rewards and want to reduce risk as much as feasible. These investors place a high value on security and stability, frequently choosing lower-risk assets like bonds or savings accounts over speculative or highly volatile ones (Tsaour, 2013). An investor's degree of optimism has a big impact on the type of decisions they make. Because they believe that good outcomes are more likely, optimistic investors often overestimate the likelihood of positive outcomes and may take on higher amounts of risk in their investments. On the other hand, investors who are more pessimistic or less optimistic may take a more cautious stance, choosing safer, lower-risk investments and concentrating on reducing possible losses. Thus, optimism can influence risk tolerance, investing tactics, and general financial decision-making (Jouini & Napp, 2007).

Dohmen et al. (2023) examined the relationship between optimism and risk taking. This research was conducted among 348 students who were invited from BonnEconLab subject pool. They found that people's tendency to focus on the positive or negative outcomes of risky decisions is predicted by their level of optimism. Pessimists

concentrate on the negative effects of risk, whilst optimists typically highlight the positive consequences. Both self-reported risk-taking behavior and actual risk-taking behavior are impacted by the tendency to concentrate on the positive or negative consequences of taking a risk.

Owusu et al. (2023) conducted research evaluate the influence of optimism on financial risk tolerance among service personnel in the various security services in Ghana. The study was conducted among 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons Service. A 7 Likert scale questionnaire was distributed to collect the responses. The data were analyzed using structural partial least square (PLS) and equation modeling (SEM) technique. In their study, optimism was found to have insignificant influence the financial risk tolerance. Jouini and Napp (2007) also found that when it comes to making financial decisions, investors with low risk aversion are more optimistic, those with intermediate risk aversion are neutral, and those with high risk aversion are pessimistic.

## **2.6 Trust**

Giddens (1994) Defined trust as a feeling of confidence in a person's or system's dependability with regard to particular results or occurrences. This confidence shows faith in the honesty, kindness, or love of another person, or in the precision and dependability of impersonal concepts like technical know-how or conventional wisdom. In interpersonal connections and system interactions, trust is a fundamental component that promotes cooperation, lowers uncertainty, and allows for more efficient operation in a variety of situations. Trust refers to strong belief in the dependability, integrity, or capacity of an individual, system, or organization to carry out planned actions or meet particular expectations. It represents a guarantee that, even in the absence of direct supervision or control, the trusted party will act in accordance with accepted standards, common values, or mutual understandings. Because it enables people and entities to rely on others without ongoing verification, trust is fundamental for establishing connections,

encouraging collaboration, and lowering uncertainty in a variety of interactions (Mayer et al., 1995).

It is commonly acknowledged that building and sustaining connections between companies and their clients depends heavily on mutual trust. Building long-term loyalty and promoting pleasant interactions require trust, which cultivates faith in the company's dependability, honesty, and dedication to addressing consumer needs (Ben-Ner & Halldorsson, 2010). When someone has faith in the dependability, honesty, or competence of another, that person is said to be trusting. This trust creates a sense of comfort and predictability in their connection by demonstrating a conviction that the other person will behave in an honest and trustworthy manner. People who are trustworthy are frequently prepared to put their trust in others without needing continual evidence of their reliability (Rahman, 2020).

Rahman (2020) looked at six key variables, including trust in a comprehensive empirical study of the behavioral elements affecting financial risk tolerance. Based on information gathered from 1,204 participants, the study offered solid proof that trust has a big influence on a person's willingness to take financial risks. This implies that those who are more trustworthy are more prone to make riskier financial choices, including investing in speculative assets or turbulent markets. The study emphasized trust as a key factor, illustrating how trust in systems, advisors, or financial organizations can reduce perceived uncertainty and promote risk-taking. This is consistent with more general behavioral finance research, which holds that trust helps people make decisions in complicated financial situations by lowering the emotional and cognitive obstacles brought on by uncertainty. Thus, the study included trust as the significant factor affecting financial risk tolerance. Owusu et al. (2023) conducted research to evaluate the influence of trust on financial risk tolerance among service personnel in the various security services in Ghana. The study was conducted among 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons Service. A 7 Likert scale questionnaire was distributed to collect the

responses. The data were analyzed using structural partial least square (PLS) and equation modeling (SEM) technique. In their study, trust was found to have significant influence the financial risk tolerance.

## **2.7 Deliberate Thinking**

Kahneman (2011) Defined deliberate thinking as a thoughtful, intentional cognitive activity that calls for concentrated effort and attention. It entails deliberately examining data, dealing with issues, or making thoughtful judgments. This sort of thinking is often based on logical reasoning and employs a methodical, step-by-step approach to fully comprehend and evaluate difficult events. A more methodical approach to decision-making would result from decision-makers using more deliberative thinking instead of intuitive thinking. Before making a final decision, this would entail carefully weighing the advantages and disadvantages of each option, assessing the chance of different outcomes, and comparing alternative possibilities. Instead of making rash conclusions based on emotion, such a systematic procedure would result in more informed, logical decisions (Mata, Proportion dominance in valuing lives: The role of deliberate thinking, 2016).

Derfler-Rozin et al. (2016) Better decisions are made when one thinks freely. Based on prospect theory, which contends that psychological elements, including deliberative thinking, support departure from the typical logical proportionate decision-making process. Deliberate thinking facilitates the implementation of a growth mindset by breaking the cycle of negative, instinctive thought processes. By redefining errors or difficult circumstances as valuable opportunities for personal growth, this way of thinking promotes self-compassion and a focus on potential rather than constraints. Deliberate thinking enables us to view failures as teaching opportunities that advance our self-awareness and growth potential rather than focusing on guilt or self-criticism. By making the deliberate decision to think this way, we develop resilience and a more positive attitude on life (Groves, 2024).

The concept of deliberate thinking is explored by Kahneman (2011) in his book “Thinking, Fast and Slow” which examines the idea of deliberate thought, which is essential to the cognitive process he refers to as "System 2." It takes work, concentration, and logical reasoning to think in this way. It arises under scenarios that call for in-depth analysis, like resolving complex issues, reaching well-informed conclusions, or assessing new and challenging data. System 2 is slow, deliberative, and systematic in contrast to its counterpart, "System 1," which functions swiftly and automatically using intuition and heuristics. People can improve their self-control and stay away from issues like confirmation bias and emotional decision-making by practicing thoughtful thinking. It facilitates thorough assessment and problem-solving by giving one the mental room to think over options, reflect on past acts, and reach well-considered judgments. Deliberate thought is essential for successfully navigating difficult or unfamiliar situations, despite the fact that it takes more mental effort and can be exhausting.

Mata (2012) Deliberate thinkers can use both intentional and intuitive ways of thinking. Their method differs from that of simply intuitive thinkers, even if they use intuition in their problem-solving. Without fully examining the issue, intuitive thinkers frequently react impulsively, depending only on their instincts or instinctive mental shortcuts. Though it could result in speedy fixes, this rapid reaction lacks the depth and precision that careful study offers. Deliberate thinkers gain a more thorough grasp of problems by combining intuitive ideas with a methodical, reflective procedure. Their advantage in decision-making situations, especially when complexity or ambiguity are present, is highlighted by their capacity to integrate many cognitive methods. This kind of interaction between intuition and reasoning not only improves accuracy but also shows how flexible and deliberate thinkers can be.

Owusu et al. (2023) conducted research to evaluate the influence of deliberate thinking on financial risk tolerance among service personnel in the various security services in Ghana. The study was conducted among 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons

Service. A 7 Likert scale questionnaire was distributed to collect the responses. The data were analyzed using structural partial least square (PLS) and equation modeling (SEM) technique. In their study, deliberate thinking was found to have significant influence the financial risk tolerance.

## **2.8 Family Financial Socialization**

Danes (1994) There is much more to financial socialization than just learning how to function in the marketplace. It involves the thorough process of acquiring and cultivating the values, attitudes, customs, standards, information, and behaviors that support financial stability and improve individual wellbeing. This process shapes a person's capacity to make wise and long-lasting financial decisions by integrating the practical, ethical, and emotional aspects of financial literacy.

According to Bandura (1977) just acknowledging the value of saving money is insufficient for motivating action). People are less willing to save money if they lack self-efficacy, or the belief that they can save. This idea is also reflected in his social cognitive theory which highlights how self-efficacy affects both the intention and the actual performance of financial activities. Self-efficacy has become an important aspect of financial literacy, highlighting the necessity for people to have confidence in their abilities to handle money wisely. Financial education programs can better prepare people to adopt and maintain sound financial practices by promoting self-efficacy.

According to the Family Financial Socialization (FFS) theory, a person's family has a significant impact on their financial attitudes, knowledge, and behaviors. According to this idea, the primary socialization agent is the family, where values and financial habits are passed down through both direct instruction and observation. By offering direction, setting an example, and establishing financial norms, parents and other family members play a vital role in the formation of financial habits, claim (Vosylis & Erentaite, 2020). This process starts early in childhood and affects a person's financial decisions and overall well-being for the rest of their lives. The Family Financial Socialization (FFS) theory provides a comprehensive framework for understanding how individuals develop financial values, attitudes, standards, norms, knowledge, and behaviors. It emphasizes

that these elements are cultivated primarily within the family environment through intentional teaching, role modeling, and shared experiences (Payne, Yorgason, & Dew, 2014). The development of financial values, attitudes, standards, norms, knowledge, and behaviors that support an individual's financial viability and well-being is explained by the FFS theory.

According to Davidov (2007), parents are regarded as the primary socializers of their children for following five primary reasons:

i. **Biological Preparedness:**

Parents are inherently capable of raising children due to their biological and psychological makeup. Beyond reproduction, this readiness includes the intricate requirements of raising and directing their progeny through several developmental phases.

ii. **Interrelatedness:**

A child's sense of connection and dependency with others is greatly aided by parents, who are motivated by an innate need to protect and nurture. This position fits with the general human urge for relationships and social ties.

iii. **Cultural Expectations:**

Parents are expected to be the main people in charge of socializing their children, and this expectation is significant in all societies. Many people believe that this position is essential to upholding social norms and values.

iv. **Influence and Proximity:** Since parents usually reside close to their kids, there are possibilities to organically mold their behavior, including promoting prosocial traits like responsibility, empathy, and collaboration.

v. **Control Over Resources:** Parents have authority over the financial and material resources necessary for a child's growth and development, such as basic necessities, healthcare, and education. The chances for youngsters to flourish during their formative years are greatly impacted by this control.

A person's financial actions is greatly influenced by their family, especially through the process of "parent-child socialization." This process has a big impact on how financially independent kids grow up. Financial behaviors, beliefs, and decision-making are significantly influenced by parental teachings, particularly during the early years of life. While Houser et al. (2016) stress that parents are crucial to their children's moral and financial socialization, especially during formative years, research by Serido and Deenanath (2016) emphasizes the significance of parental impact in the formation of financial habits. They further empasize that parents' financial education and modeling

have a significant impact on children's path to financial independence. Parents impart important financial principles, attitudes, and practices to their children, making these lessons an unofficial but effective source of financial education. Giving kids pocket money is a great way to help them become more independent and learn important money management skills as they grow up. Children can gain financial literacy and a sense of responsibility by learning how to manage a tiny budget and make decisions about spending, saving, and budgeting (Feather, 1991).

According to Beutler and Dickson (2008), a person's attitude toward money is greatly influenced by their family, especially their parents, and this has a direct effect on their financial behavior and overall well-being. Children depend heavily on their parents as the main source of income during their early years. As children watch and absorb their parents' attitudes and behaviors about budgeting, saving, and spending, this dependence impacts their concept of money and financial management. As teenagers grow into adults, their own financial attitudes and behaviors are often influenced by these early experiences. Tang and Peter (2015) emphasize that hands-on financial experience is crucial for children to truly understand the concept of money. This practical experience allows children to directly engage with financial decision-making, thereby enhancing their financial knowledge. By handling money themselves, whether through allowances, budgeting, or small transactions, children learn important financial principles such as saving, spending, and managing resources. Gudmunson and Danes (2011) argue that the level of interpersonal interactions has a significant impact on how well financial socialization proceeds within a family. Strong, healthy relationships act as a stimulant, allowing parents and other family members to successfully instruct younger family members on financial principles. A strong, trustworthy relationship promotes an atmosphere that is favorable to genuine financial discussion and makes it easier for people to learn financial lessons.

Çatak and Arslan (2023) researched to identify the impact of socioeconomic and demographic variables on risk-taking behavior of investors. The study was conducted among 129 people from Turkey and Germany. An online survey was conducted by providing the questionnaire. Correlation and regression analysis was done for statistical analysis. This study concluded both the variables, demographic factors and socioeconomic conditions, played significant role in determining the levels of risk tolerance. Gender and education were found to determine risk tolerance.

Manzoor et al. (2023) studied the impact of big-five personality trait towards the financial risk perception of retail investor women of North India. The study was based on survey approach in which 360 active women investors were included. For the purpose of data analysis PLS-SEM and ANN (Artificial Neural Network) approach was adopted. This study found positive and significant impact of neuroticism and conscientiousness on risk perception from PLS-SEM analysis. While extraversion, openness and agreeableness were found to have negative and significant impact on risk perception. This finding was also confirmed by ANN results.

Murhadi et al. (2023) examined the effect of financial literacy, financial interest, age and income on financial risk tolerance. This research applied quantitative research approach. Questionnaire was distributed to investors who invested in the Indonesian capital market. This study was based on 184 valid responses. The statistical tools used were Correlation, Cronbach's Alpha, Goodness Of Fit Measurement Model. This study found that only financial interest affected the financial risk tolerance while financial literacy, age and income were found to have insignificant effect on financial risk tolerance.

Owusu et al. (2023) conducted research to evaluate the financial risk tolerance among service personnel in the various security services in Ghana. The study was conducted among 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons Service. A 7 Likert scale questionnaire was distributed to collect the responses. The data were analyzed using structural partial least

square (PLS) and equation modeling (SEM) technique. This study concluded that financial threat, trust, and deliberative thinking has significant impact on financial risk tolerance. While optimism and family financial socialization were found to be insignificant with financial risk tolerance.

Shakira et al. (2023) examined the impact of dynamic personality traits on the financial risk tolerance of an investor. The personality traits included emotions, financial self-efficacy, trait anger, resilience, and intolerance of uncertainty. Structured questionnaire was used to collect the data from 486 stock market investors in India. Confirmatory factor analysis (CFA) and Spearman's correlation matrix were used for statistical analysis. This study concluded that financial self-efficacy, positive emotion and resilience played significant positive impact on financial risk tolerance while uncertainty, anger and negative emotions were found to have negative impact on financial risk tolerance.

Suherman et al. (2023) conducted study regarding Indonesian millennials' financial risk tolerance which focused on the effects of financial literacy, gender, geographic location, and family occupation history. The research was based on primary data gathered from 410 university students from both the eastern area which covered Bali, Nusa Tenggara, Sulawesi, Maluku, Papua as well as western area which covered Java, Sumatra and Kalimantan areas of Indonesia. The study used a quantitative research approach as research methodology. Multiple regression and one-way ANOVA techniques were used as statistical tools. According to the research, Indonesian millennials generally have a moderate tolerance for financial risk. Significant differences were noted between demographic groupings, nevertheless. In particular, it was discovered that financial risk tolerance was significantly impacted by gender, geography, and financial knowledge. However, there was little correlation between risk tolerance and family career background. These findings highlight the necessity of tailored financial education and investment planning methods for Indonesian millennials, as well as specialized financial tactics.

Song et al. (2023) studied the impact of financial literacy on individual investors' financial behaviour also simultaneously investigating role of financial risk tolerance as mediator with emotional intelligence. The survey was conducted among 389 individual investors from leading educational institutes in Pakistan. Non-probability, purposive sampling technique was implemented for the selection of the respondents. The statistical analysis were made using partial least square structural equation modelling. This study found that financial literacy has significant impact on financial behaviour of individual. Financial risk tolerance was found to partially mediate the relation between financial literacy and financial behaviour. The study found to have direct relationship between emotional intelligence and financial risk tolerance.

Thanki et al. (2022) examined if there is role of gender in determining financial risk tolerance. It used personality types (Type-A and Type-B), financial literacy, and six demographic factors: marital status, age, education, income, occupation, and number of dependents as independent variables. The research was conducted among 671 respondents. A single cross-sectional research design was used in this investigation. Convenience sampling was used to gather data from respondents in the Gujarat region using a structured questionnaire that was accessible both online and offline. Both descriptive and regression analysis were used as statistical means. Six of the eight independent factors—personality type, financial literacy, marital status, income, occupation, and number of dependents—had an impact on male investors' financial risk tolerance. On the other hand, the financial risk tolerance of female investors was strongly influenced by only four factors: income, marital status, financial literacy, and personality type.

Brooks et al. (2021) conducted research to evaluate the impact of emotions toward financial investment as well as emotion towards life in general on attitude to financial risk. The research was conducted among 970 UK-based retail investors using questionnaire. To guarantee that the sample reflected a wide range of these characteristics and closely matched the overall investing population, quotas were established based on age, income, gender, and investment experience. For statistical analysis estimated

probability distribution, descriptive analysis, Spearman's Correlation and multiple linear regressions were used. This study found that when it comes to financial investments, women score higher on negative emotions and lower on positive ones, and they are less risk-tolerant than males. Positive feelings about investing and life cause risk tolerance to consistently rise, whereas negative emotions cause it to fall.

Bunyamin and Wahab (2021) examined the factors that influence financial risk tolerance from studies around the globe. The independent variables were demographic profile, psychology, financial capability, social and geographic while financial risk tolerance was dependent variable. This study included a thorough analysis of financial risk tolerance by focusing the factors affecting it. This study found that demographic profile, psychology, social, geographical differences, and financial capability factors impacts financial risk tolerance.

Hemrajani et al. (2021) investigated how psychological factors affect financial risk tolerance (FRT) and financial risk taking behaviour (FRB) of individual investors. The study was based on the survey obtained from 303 respondents. The statistical tools used for analysis was partial least squares structural equation modelling. This study found that emotional intelligence and impulsiveness has significant impact on FRT and FRB.

Neupane (2021) conducted study in context of Nepal with the objective to evaluate factors that influences the financial risk tolerance of individual investor in Kathmandu valley. The study was conducted among 200 respondents using structured questionnaire. The variables under study were time horizon, investment preference, financial knowledge, investment objective, personality traits, herd behaviour, and consultancy effect, and overconfidence. The study was based on descriptive research design. Descriptive statistics and regression was used as statistical tools. This study concluded that variables, time horizon, herd behaviour and consultancy effect, and overconfidence have a positive significant impact on financial risk tolerance of individual investors in Kathmandu valley.

Rahman (2020) investigated how six key behavioral factors influence financial risk tolerance. The study was based on the survey of 1204 responses received among 1679 questionnaire distributed to six public universities in the Klang valley. Structural equation modeling is used for this study to evaluate and validate the proposed research framework. Descriptive analysis, correlation analysis and regression analysis were used to find the statistical significance. This study concluded that propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck and propensity for overconfidence had significant impact on financial risk tolerance while propensity for social interaction was found to have no any significant impact on financial risk tolerance.

Shah, et al. (2020) conducted study to investigate if financial risk tolerance differs among business graduate on the basis of their demographic factors. The demographic factors under study were gender, age, education, experience, income, saving, location, and occupation. This study implemented quantitative approach to a multinomial logistic regression model. For the sampling questionnaire was distributed to 700 respondents of six universities of Khyber Pakhtunkwa province and 382 responses were used for this study. The statistical analysis was based on the calculation derived from descriptive analysis, correlation analysis and Chi-square test. This study concluded that there is considerable favorable influence of all demographics on financial risk tolerance. Specifically, the findings revealed that male business graduates with higher incomes and savings, as well as those with higher education qualifications and older graduates, have a favorable relationship with financial risk tolerance. While the association between financial risk tolerance and individuals' experience level was shown to be negative and insignificant.

## 2.10 Meta Table

**Table 2. 1**

*Meta Table*

Source	Main Objective	Methodology	Major Findings
Çatak and Arslan (2023)	To identify the impact of socioeconomic	Research Design: Quantitative	Gender and education played significant role in determining the

	and demographic variables on risk-taking behavior of investors	Population and Sample: 129 people from Turkey and Germany  Nature and Source of Data: Primary  Data Collection: Questionnaire  Data Analysis Tool: Correlation and Regression Analysis	levels of risk tolerance
Manzoor et al. (2023)	To find the impact of big-five personality trait towards the financial risk perception of retail investor women of North India	Research Design: Quantitative  Population and Sample: 360 active women investors of North India  Nature and Source of Data: Primary  Data Collection: Questionnaire  Data Analysis Tool: PLS-SEM analysis	Neuroticism and conscientiousness have positive while extraversion, openness and agreeableness have negative significance impact on risk perception.
Murhadi et al. (2023)	To examine the effect of financial literacy, financial interest, age and income on financial risk tolerance.	Research Design: Quantitative  Population and Sample: 184 investors of Indonesian capital market  Nature and Source of Data: Primary  Data Collection: Questionnaire  Data Analysis Tool:	Financial interest has significant impact where as financial literacy, age and income were found to have insignificant effect on financial risk tolerance.

		Correlation, Cronbach's Alpha, Goodness Of Fit Measurement Model	
Owusu et al. (2023)	To evaluate the financial risk tolerance among service personnel in the various security services in Ghana	<p>Research Design: Quantitative</p> <p>Population and Sample: 600 respondents from group of six public security departments which were Ghana Police Service, Ghana Armed Forces, Ghana Immigration Services, Ghana National Fire Service, Customs Service, and Ghana Prisons Service</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: PLS-SEM Analysis</p>	Financial threat, trust, and deliberative thinking has significant impact and optimism and family financial socialization had insignificant impact on financial risk tolerance.
Shakira et al. (2023)	To the impact of dynamic personality traits on the financial risk tolerance of an investor	<p>Research Design: Quantitative</p> <p>Population and Sample: 486 stock market investors</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: Confirmatory factor analysis (CFA) and</p>	financial self-efficacy, positive emotion and resilience played significant positive while uncertainty, anger and negative emotions were found to have negative impact on financial risk tolerance.

		Spearman's correlation matrix	
Suherman et al. (2023)	To evaluate financial risk tolerance of millennials of Indonesia	<p>Research Design: Quantitative</p> <p>Population and Sample: 410 university students from both the eastern area which covered Bali, Nusa Tenggara, Sulawesi, Maluku, Papua as well as western area which covered Java, Sumatra and Kalimantan areas of Indonesia</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: Multiple regression and one-way ANOVA</p>	Gender, geographical difference and financial literacy has significant and family occupation background have insignificant impact on financial risk tolerance.
Song et al. (2023)	To find the impact of financial literacy on individual investors' financial behaviour also simultaneously investigating role of financial risk tolerance as mediator with emotional intelligence	<p>Research Design: Quantitative</p> <p>Population and Sample: 389 individual investors from leading educational institutes in Pakistan</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool:</p>	Financial literacy has significant impact on financial risk tolerance. Financial risk tolerance and has significant and positive relation with financial behavior.

		PLS-SEM Analysis	
Thanki et al. (2022)	To role of gender in determining financial risk tolerance	<p>Research Design: Quantitative</p> <p>Population and Sample: 671 respondents from Gujarat</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: Cronbach's Alpha, and AVE</p>	Personality type, financial literacy, marital status, income, occupation, and number of dependents impacted and had an impact on male investors' financial risk tolerance. income, marital status, financial literacy, and personality type impacted female investor's financial risk tolerance.
Brooks et al. (2021)	To evaluate the impact of emotions toward financial investment as well as emotion towards life in general on attitude to financial risk	<p>Research Design: Quantitative</p> <p>Population and Sample: 970 UK-based retail investors</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: Estimated probability distribution, descriptive analysis, Spearman's Correlation and multiple linear regressions</p>	Women score higher on negative emotions and lower on positive ones, and they are less risk-tolerant than males
Bunyamin and Wahab (2021) (Bunyamin & Wahab, 2021)	To examine the factors that influence financial risk tolerance from studies	<p>Research Design: Systematic Review</p> <p>Nature and Source</p>	Demographic profile, psychology, social, geographical differences, and financial capability

	around the globe	of Data: Secondary	factors impacts financial risk tolerance.
Hemrajani et al. (2021) (Hemrajani, Rajni, & Dhiman, 2021)	To find impact of psychological factors affect financial risk tolerance(FRT) and financial risk taking behaviour (FRB) of individual investors	Research Design: Descriptive survey  Population and Sample:303 investors  Nature and Source of Data: Primary  Data Collection: Questionnaire  Data Analysis Tool: PLS-SEM Analysis	Emotional intelligence and impulsiveness has significant impact on FRT and FRB.
Neupane (2021)	To find the factors determining risk tolerance of individual investors in Kathmandu valley	Research Design: Descriptive  Population and Sample:200investors of Kathmandu valley  Nature and Source of Data: Primary  Data Collection: Questionnaire  Data Analysis Tool: Descriptive statistics and regression	Time horizon, herd behaviour and consultancy effect, and overconfidence have a positive significant impact on risk tolerance.
Rahman (2020)	To find how six key behavioral factors influence financial risk tolerance	Research Design: Survey Questionnaire  Population and Sample: 1204 respondents from to six public universities in the Klang valley	Propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck and propensity for overconfidence had significant impact while propensity for social interaction was found to have no any

		<p>Nature and Source of Data: Secondary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: Descriptive analysis, correlation analysis and regression analysis</p>	<p>significant impact on financial risk tolerance.</p>
Shah, et al. (2020)	<p>To investigate if financial risk tolerance differs among business graduate on the basis of their demographic factors</p>	<p>Research Design: Quantitative</p> <p>Population and Sample: Khyber and 382 Business graduate from Pakhtunkwa province</p> <p>Nature and Source of Data: Primary</p> <p>Data Collection: Questionnaire</p> <p>Data Analysis Tool: descriptive analysis, correlation analysis and Chi-square test</p>	<p>Demographics significantly influence financial risk tolerance. Male business graduates with higher income, savings, education, and age have a positive relationship with financial risk tolerance, while experience level showed a negative and insignificant association.</p>

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter concentrates on the study methodology, including the procedures and methods utilized to examine the gathered data and derive the findings. In order to achieve the study's goals, it describes the different techniques and procedures used. The methodology section outlines the methodical approach the researcher takes to investigate the issue at hand and provides a clear framework for answering the research questions. In essence, it describes the particular techniques and steps used in the course of the investigation.

#### **3.1 Research Design**

A research design is a methodical strategy used by researchers to provide legitimate and impartial answers to their queries. It is essential for guaranteeing the precision and efficacy of the study, directing the kind of analysis needed to produce the intended outcomes. How well a study design contributes to answering the research questions determines its quality; if it is badly designed, the results are likely to be weak or untrustworthy. In simple terms, a research design is a framework that integrates several approaches and strategies to rationally handle a research problem. It helps researchers decide how to collect and evaluate data by outlining the strategy and technique for the study. It serves as a guide for the entire research process, outlining goals, plans, and methods for gathering, measuring, and analyzing data. In this sense, the study design helps interpret the results in addition to guaranteeing that the inquiry proceeds in a methodical manner. All things considered, it is a thorough manual that helps researchers with every step of the study, from developing questions to coming to conclusions.

This study used both explanatory and descriptive research methodologies to give an in depth understanding of the subject topic. Understanding the causal links between variables is the goal of explanatory study. Financial risk tolerance is the dependent variable in this study, while financial threat, optimism, trust, deliberate thinking and family financial socialization are the independent variables. The goal of explanatory

study was to investigate the ways in which these cognitive and emotional elements affect financial risk tolerance. Whereas, descriptive research describes traits, actions, or viewpoints within a sample without necessarily proving cause-and-effect links. In order to determine the present level of financial risk tolerance descriptive research might be employed in this study to characterize the emotional profiles and financial behaviors of participants. Means, frequencies, and percentage were used to illustrate how people with varying degrees of financial threat, optimism, trust, deliberate thinking and family financial socialization reacted to financial risk tolerance. This helped to find patterns and trends in the data.

### **3.2 Population and the Sample of the Study**

The group of people from which a statistical sample is taken for a study is referred to as the population in research. A population is made up of any objects or occurrences of a particular kind that researchers are trying to learn more about. This study studies the influence of emotion on financial risk tolerance. The population of this study are people residing in Nepal. They may be consumer, retail investors, students, financial advisors, employees, business owners, housewife etc.

It is next to impossible to conduct survey among all the population. So, we select portion from the population who are called sample. A sample is a subset of data that researchers choose using a predetermined selection process from a broader population. By using this smaller group to represent the broader population, researchers can make inferences without having to examine each individual. For this study, the sample are the general people residing in Kathmandu. These sample are selected by using convenience sampling method which helps makes conducting survey easier, accessible and budget friendly.

### **3.3 Nature and Sources of Data**

This study has used both primary and secondary data. The primary data used in this study came from the survey conducted using questionnaire. But secondary data also yielded important information. The main sources that offered insightful information for the literature review were books, journals, dissertations, papers, and websites. The

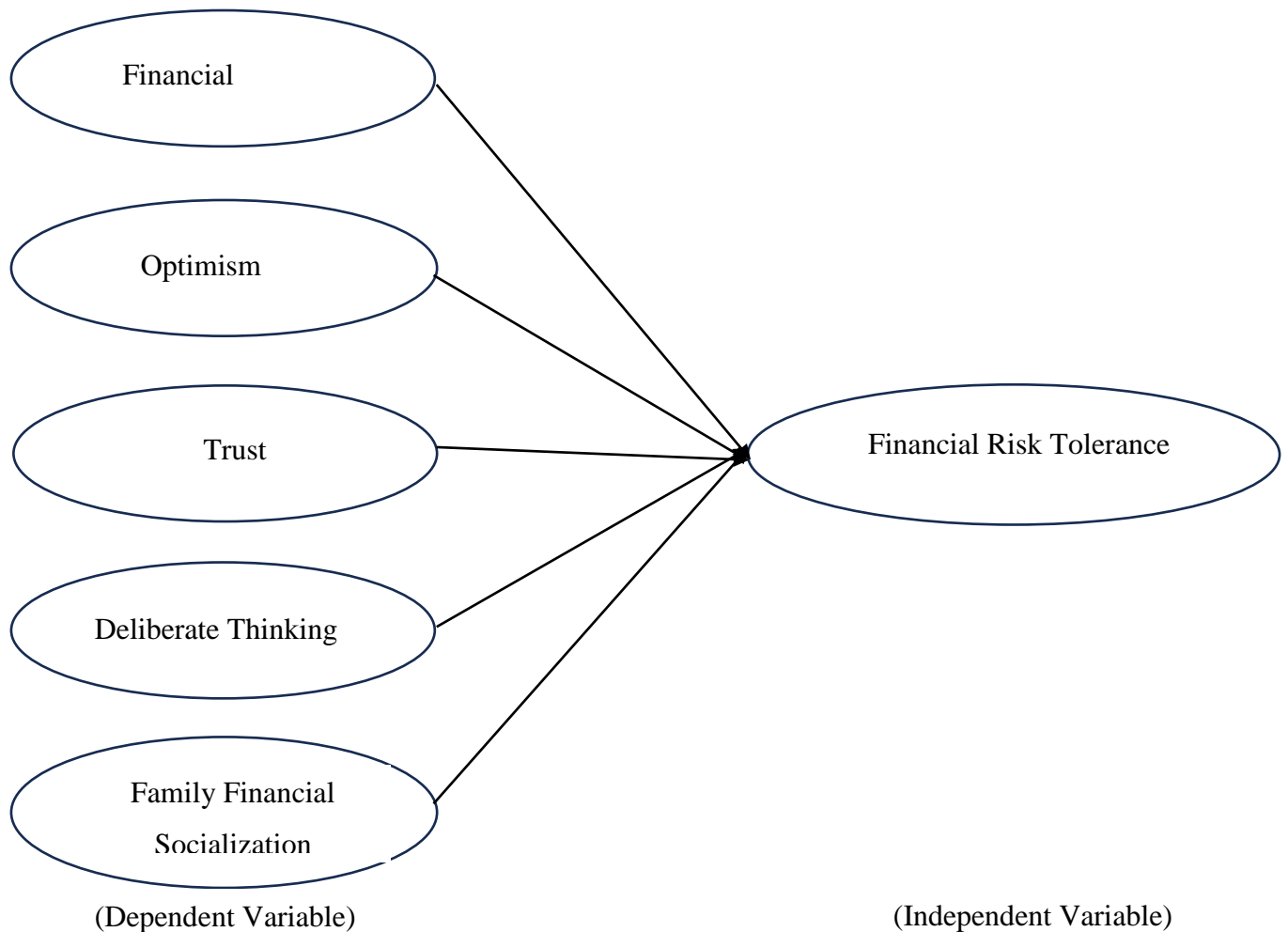
questionnaire for this study was adopted from the study of (Owusu et al., 2023). Five Likert scale questionnaire was distributed to the respondents. "Strongly Agree" (1), "Agree" (2), "Neutral" (3), "Disagree" (4), and "Strongly Disagree" (5) were the scores on a five-point Likert scale. A Google Form and printed form were then used to deliver the questionnaire to individual investors. The facts and factual insights provided by the survey participants served as the foundation for the research's results.

### 3.4 Research Framework

A research framework is a method for organizing and simplifying complicated concepts by dividing them into important components and demonstrating how they are related. It clarifies how these components interact in real-world scenarios, making complex systems or concepts easier to understand and analyze.

**Figure 1**

*Research Framework*



Source: Owusu et al. (2023)

### **3.5 Data Presentation and Analysis Method**

The data was analyzed and the associations between variables were investigated using a number of statistical tests, such as regression, correlation, mean, and standard deviation. Microsoft Excel and the Statistical Package for Social Science (SPSS) are two well-known software programs that were used to handle and interpret the quantitative data. As the main metric, Cronbach's alpha was utilized to guarantee the validity of the scales utilized in the survey. In the process of descriptive analysis, the data collected from both the respondents and their responses were organized and presented systematically using tables. This allowed for a clear understanding of the demographic information of the respondents and the distribution of their responses across different variables. Following the descriptive analysis, correlation analysis was conducted to explore the relationships between various factors of emotion influencing financial risk tolerance. This involved examining how changes in one variable corresponded with changes in another variable. Subsequently, stepwise regression analysis was carried out to identify the most significant factors impacting financial risk tolerance. Additionally, tests of significance were conducted to validate the results and ensure their reliability. Finally, all the observed relationships and findings were thoroughly interpreted to draw meaningful conclusions about the influence of emotion in financial risk tolerance. These statistical analyses are further explained below:

#### **3.5.1 Descriptive Analysis**

The descriptive analysis produced a comprehensive overview of all the data gathered. It was essential for organizing and presenting the variables under study's means, standard deviations, frequencies, and percentages. This comprehensive overview helped to clarify the research variables and made it simpler to perform further analysis and interpretation by revealing the distribution and central tendency of the data.

### 3.5.2 Correlation Analysis

A common statistical technique in research investigations to examine the relationship between two or more variables is correlation analysis. It makes it possible for researchers to assess the degree and direction of the correlation between the variables. Correlation coefficients, which may vary from -1 to 1, allow researchers to quantify the direction and intensity of a link. Pearson's correlation coefficient is an illustration of a correlation coefficient. When there is a positive correlation, a relationship is considered direct; when there is a negative correlation, it is considered inverse. The findings of a correlation analysis can be used in research to accept or reject the assumed hypotheses, guide further analysis or interpretation, and impact decisions in a variety of topic areas.

The correlation was calculated by using the formula below:

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

Where,

r = correlation coefficient

n = number of observations

x and y = variables

### 3.5.3 Multiple Regression Analysis

A statistical technique for analyzing the relationship between a dependent variable and multiple independent variables is multiple regression. Using multiple regression analysis, researchers try to ascertain how changes in the independent variables relate to changes in the dependent variable. The impact of financial threat, optimism, trust, deliberate thinking and family financial socialization on financial risk tolerance was examined using the following theoretical framework.

$$\text{FRT} = \alpha + \beta_1 (\text{FT}) + \beta_2 (\text{OP}) + \beta_3 (\text{TR}) + \beta_4 (\text{DT}) + \beta_5 (\text{FFS}) + \varepsilon_i$$

Where,

FRT = Financial Risk Tolerance

FT = Financial Threat

OP = Optimism

TR = Trust

DT = Deliberate Thinking

FFS = Family Financial Socialization

$\alpha$  = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  = Regression Coefficients

$\varepsilon_i$  = Error Term

## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

This chapter covers the results obtained, critical evaluations of the answers, and broad inferences made from the survey. MS Excel and SPSS were utilized in the data processing process for the results presentation. Demographic profiling, descriptive statistics, and other statistical procedures for the hypothesis were all included in the analysis. The findings are based upon on the research objective, research questions and hypothesis deduced in chapter I.

#### **4.1 Respondent's Demographic Profile**

The demographic profile of respondents provides a summary of sample characteristics in understanding this study on emotional influences on financial risk tolerance. Key demographic variables such as gender, age, education, profession, and income level that were investigated to assess their relationships and potential influence on financial decision-making. Such identification thereby becomes the foundation for interpreting the relationship existing between emotional factors and financial risk tolerance among the various groups of respondents.

##### **4.1.1 Respondent's Profile by Gender**

The gender distribution of respondents was analyzed to understand its influence on financial risk tolerance. This section examines the proportion of male and female participants in the study, providing insights into potential gender-based differences in emotional responses and their impact on financial decision-making. Three categories were used to classify respondents' genders: male, female, and other.

**Table 4. 1***Respondent's Profile by Gender*

Gender	Frequency	Percent
Male	107	71.3
Female	43	28.7
Other	0	0
Total	150	100

Table 4.1 shows gender classification of the total respondents. The respondents' gender was divided into three categories as male, female and other. 71.3% of them are male ,28.7% are female and none of them were from other gender. This shows that majority of the respondents were male.

**4.1.2 Respondent's Profile by Age Group**

Respondents' ages were segmented into five categories based on their chronological age: Below 20 years, 20-30 years, 30-40 years, 40-50 years and above 50. This segmentation facilitates the in-depth examination of the age demographics among participants, offering insights into potential age-related influence of emotions on financial risk tolerance within the study context. Table 4.2 below illustrates the frequency distribution and percentage representation of respondents across these age groups.

**Table 4. 2***Respondent's Profile by Age Group*

Age	Frequency	Percent
Below 20 years	11	7.3
20 – 30 years	112	74.7
30 – 40 years	20	13.3
40 – 50 years	2	1.3
Above 50 years	5	3.3
Total	150	100

Table 4.2 shows that the sample's age distribution is significantly oriented toward youth, with 74.7% of respondents falling into the 20–30 age range, 13.3% falling into the 30–40 age range, and 7.3% falling into the Below 20 age range. A negligible portion of the overall respondents are that is 1.3% are between the ages of 40 and 50, and 3.3% are beyond 50. The current findings about the relationship between emotions and financial risk tolerance may be significantly impacted by this distribution, which points to a distinct early to midlife orientation in the study.

#### 4.1.3 Respondent’s Profile by Education Background

The educational background of participants was grouped into multiple education categories as high school, bachelor, masters, Mphil/Phd. This way, the educational attainment's influence over emotional responses and decisions in financial contexts can be perceived. Distribution in different educational categories allows determining the trends that would be conducive to the understanding of variation in financial risk tolerance levels.

**Table 4. 3**

*Respondent’s Profile by Education Background*

Education Background	Frequency	Percent
High School	18	12
Bachelors	97	64.7
Masters	32	21.3
M Phil/PhD	3	2
Total	150	100

Table 4.3 shows that majority of respondents, or 64.7% of the sample, had a bachelor's degree, while Master's degree holders come in second at 21.3%, indicating a sizable proportion of highly educated people. Only 2% of the sample consists of respondents with the greatest levels of education, such as an MPhil or PhD, whilst 12% of respondents have only completed high school. With the majority of respondents holding

undergraduate or doctoral degrees, this distribution points to a well-educated participant group, which may have an impact on their risk tolerance and financial decision-making.

#### 4.1.4 Respondent’s Profile by Profession

The professional background of respondents provides insights into how employment status and occupation may relate to financial risk tolerance. This section categorizes participants based on their profession, which can offer a deeper understanding of the diversity in financial decision-making behavior across different employment sectors. The professional background of respondents includes Private Employees, Students, Government Employees, Business Owners, and Unemployed individuals.

**Table 4. 4**

*Respondent’s Profile by Profession*

Profession	Frequency	Percent
Student	54	36
Private Employee	58	38.7
Government Employee	12	8
Business	13	8.7
Unemployed	13	8.7
Total	150	100

Table 4.4 shows that students make up 36% of the sample, while private employees make up the largest group at 38.7%. 8.7% of the respondents are unemployed, while 8.7% are government employees and business owners. A range of professional positions are represented in this distribution, and each may have a distinct impact on financial risk tolerance.

#### 4.1.5 Respondent’s Profile by Annual Income

The respondent's profile by annual income shows a range of income groups that may influence financial decision-making and risk tolerance. The categories include Up to 2,00,000, representing lower-income respondents, 2,00,000 – 5,00,000, capturing

individuals with moderate income, 5,00,000 – 10,00,000, representing middle to upper-middle-income earners, and Above 10,00,000, reflecting high-income individuals. These income brackets offer insight into how varying financial capacities may impact risk tolerance and emotional responses to financial decisions.

**Table 4. 5**

*Respondent's Profile by Annual Income*

Annual Income	Frequency	Percent
Up to Rs 2,00,000	73	48.7
Rs 2,00,000 – 5,00,000	58	38.7
Rs 5,00,000 – 10,00,000	19	12.7
Above Rs 10,00,000	0	0
Total	150	100

Table 4.4 shows that according to the respondents' annual income distribution, 38.7% earn between Rs 2,00,000 and Rs 5,00,000, while 48.7% earn up to Rs 2,00,000. 12.7% of the total falls under the Rs 5,00,000–10,00,000 range. Interestingly, none of the respondents say they make more than Rs 10,000,000. The majority of participants appear to have lower to moderate income levels, based on this income distribution, which may have an impact on their decision-making and financial risk tolerance.

#### **4.2 Descriptive Study of Research Variable**

This section of study focuses on the descriptive analysis of the data collected from the questionnaires used in the study procedure. Descriptive analysis includes determining maximum and minimum values as well as statistical measurements like mean and standard deviation. With the use of these metrics, researchers can analyze the data in terms of frequencies and aggregations linked to factors and research objectives. This was accomplished by asking 150 respondents five-point Likert scale questions, with 1 denoting "strongly disagree" and 5 denoting "strongly agree."

#### 4.2.1 Descriptive Analysis of Financial Threat

**Table 4. 6**

*Descriptive Analysis of Financial Threat*

Financial Threat	Mean	Standard Deviation
I feel confident and certain about my financial situation.	4.01	.851
I feel secure and protected in my financial position.	3.85	.775
I feel reassured and stable regarding my financial situation.	3.99	.859
I feel at ease and have peace of mind about my financial security.	4.01	.680
I focus positively on maintaining and improving my financial well-being.	4.24	.702
Average	4.02	0.773

Table 4.6 represents the responses regarding to financial threat which show that respondents generally have a favorable opinion of their financial security. With the highest mean score of 4.24 the statement “I focus positively on maintaining and improving my financial well-being” has highest priority. This shows that the respondents are willing to improve their financial situation. While the statement “I feel secure and protected in my financial position” has the lowest mean of 3.85 which reflects the insecurity of respondents regarding their financial position. The statement “I feel at ease and have peace of mind about my financial security” has the lowest standard deviation of 0.680 showing highest agreement among the respondents. while the statement “I feel confident and certain about my financial situation” has the highest standard deviation of 0.851 representing variability in opinion among respondents. The overall average score of 4.02 indicates that respondents generally do not perceive a significant financial threat,

suggesting a relatively stable sense of financial security. However, the standard deviation of 0.773 highlights considerable variation in respondents' opinions, implying that there is a significant level of fluctuation in how individuals perceive their financial situation.

#### 4.2.2 Descriptive Analysis of Optimism

**Table 4. 7**

*Descriptive Analysis of Optimism*

Optimism	Mean	Standard Deviation
In uncertain times, I usually expect the best	3.95	.745
It's easy for me to relax	3.73	.816
If something can go wrong for me, it will.	4.07	.636
I enjoy my friends a lot.	4.10	.740
Average	3.963	0.734

Table 4.7 represents the responses regarding to optimism which show that respondents generally have a favorable opinion of their optimism. With the highest mean score of 4.10 the statement “I enjoy my friends a lot” has highest priority. This shows that the respondents give significant importance to their social life and have good time with their friends. While the statement “It's easy for me to relax” has the lowest mean of 3.73 which reflects the respondents somehow feel difficult to be relaxed. But this statement has highest standard deviation of 0.816 which shows that respondents have variation in opinion regarding the statement. Similarly, the statement “If something can go wrong for me, it will” has the lowest standard deviation of 0.636 showing highest consistency among the respondents. The overall average score of 3.963 indicates that respondents have optimistic attitude. However, the standard deviation of 0.734 highlights considerable variation in respondents' opinions, implying that there is a significant level of fluctuation in how individuals perceive their optimism.

#### 4.2.3 Descriptive Analysis of Trust

**Table 4. 8**

*Descriptive Analysis of Trust*

Trust	Mean	Standard Deviation
Most people are basically honest.	3.11	.980
Most people are trustworthy.	3.09	.992
Most people are basically good and kind.	3.27	.976
Most people are trustful of others.	3.16	1.069
Most people will respond in kind when they are trusted by others.	3.63	1.077
Average	3.25	1.019

Table 4.8 represents the responses regarding to trust which show that respondents generally have moderate trustful mindset. With the highest mean score of 3.63 the statement “Most people will respond in kind when they are trusted by others” indicates a moderate to strong agreement among respondents. This shows that the respondents believe that people are kind when they are trusted. However, this statement also has the highest standard deviation of 1.077 which suggests that people have wide range of view regarding it. Similarly, the statement “Most people are trustworthy” has the lowest mean of 3.09 which reflects the respondents does not believe that people are trustworthy. Likewise, the statement “Most people are basically good and kind” has the lowest standard deviation of 0.976 showing relatively higher consistency but the variation in opinion is still scattered among the respondents.

#### 4.2.4 Descriptive Analysis of Deliberate Thinking

**Table 4. 9**

*Descriptive Analysis of Deliberate Thinking*

Deliberate Thinking	Mean	Standard Deviation
Developing a clear plan is very important to me.	4.25	0.507
I like to analyze problems.	4.13	0.501
Average	4.19	0.504

Table 4.9 indicates high preference for deliberate thinking by the respondents. With the highest mean score of 4.25 and a standard deviation of 0.507, the statement "Developing a clear plan is very important to me" shows that respondents strongly agree with the significance of planning and that their views on the subject are generally in agreement. With a mean score of 4.13 and a standard deviation of 0.501, the statement "I like to analyze problems" comes next, indicating a little weaker but still considerable preference for problem analysis with little diversity among respondents' opinions.

#### 4.2.5 Descriptive Analysis of Family Financial Socialization

**Table 4. 10**

*Descriptive Analysis of Family Financial Socialization*

Family Financial Socialization	Mean	Standard Deviation
My family discussed family financial matters with me.	4.26	.772
My family spoke to me about the importance of saving.	4.21	.594
My family discussed how to establish a good credit rating.	3.63	.945
My family taught me how to be a smart shopper.	4.29	.659
My family taught me that my actions determine my success in life.	4.41	.667
Average	4.16	0.727

Table 4.10 illustrates that respondents have strong agreement towards their family in socializing them financially. The highest average was of 4.41 for the statement “My family taught me that my actions determine my success in life.” This shows that majority of respondents agree that their family has provided them moral lesson that their action plays crucial role in their success. While, relatively statement “My family discussed how to establish a good credit rating” had lowest average of 3.63. This shows that their family did not place as much emphasis on or talk about ways to have high good score as they should have. On the contrary, the statement also had the highest standard deviation of 0.945 which means that respondents had widely differing views about the statement, with some agreeing strongly and others disagreeing strongly. Similarly, the statement “My family spoke to me about the importance of saving” had the lowest standard deviation of

0.594. This indicates that the majority of participants have similar opinions, pointing to a general consensus or consistency in their experiences with family conversations about saving.

#### 4.2.6 Descriptive Analysis of Financial Risk Tolerance

**Table 4. 11**

*Descriptive Analysis of Financial Risk Tolerance*

Financial Risk Tolerance	Mean	Standard Deviation
If I believe an investment will earn a profit, I am willing to borrow money to make this investment.	4.45	.586
I believe I need to take more financial risks if I want to improve my financial position.	4.17	.618
I am willing to run the risk of losing money if there is also a chance that I will make money.	3.95	.838
I am willing to take risks, such as starting a business or gambling, unlike other people, who prefer a secure job with fixed pay to an uncertain venture.	3.99	.831
I am prepared to take greater risks (possibility of initial losses) in order to earn greater future returns.	4.29	.700
Average	4.17	0.715

Table 4.11 shows strong agreement among the respondents regarding the financial risk tolerance. However, highest average among these statements was of 4.45 for “If I believe an investment will earn a profit, I am willing to borrow money to make this investment”. This shows that there exists strong willingness among respondents to take calculated

financial risk to earn potential profit. Also, the standard deviation was lowest of 0.586 for this statement which proves relatively consistent agreement across responses. Likewise, relatively lowest mean was of 3.95 for statement “I am willing to run the risk of losing money if there is also a chance that I will make money.” The average only relatively low and its value is still high. Thus, in comparison to other statement, respondents show more precaution when it comes to risks of losing money if there is probability of earning profit. The highest standard deviation was for statement “I am prepared to take greater risks (possibility of initial losses) in order to earn greater future returns.” This shows that there is diverse opinion of respondent regarding the statement.

### 4.3 Correlation Analysis

To investigate the connections between the variables in the study, correlation analysis was performed. The degree and direction of linear relationships between the independent variables: financial threat, optimism, trust, deliberate thinking and family financial socialization with dependent variable: financial risk tolerance were assessed using Pearson's correlation coefficient. This approach offers a quantitative assessment of the degree of relationship between two variables, providing important information about their interdependencies and their impact on the study's findings.

**Table 4. 12**

*Correlation Analysis*

Variables	FT	OP	TR	DT	FFS	FRT
FT	1					
OP	0.541**	1				
TR	0.145	0.247**	1			
DT	0.327**	0.209*	0.116	1		
FFS	0.439**	0.481**	0.095	0.160	1	
FRT	0.771**	0.574**	0.031	0.306**	0.528**	1

Note:

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

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 4.12 represents the correlation among the variables under this study. In alignment to objective this study, we focus on correlation between dependent variable and independent variables.

The analysis indicated a significant influence of financial threat on financial risk tolerance with positive correlation of 0.771, meaning individuals with less financial threat are more likely to take risks to improve their economic welfare. Optimism had a positive correlation of 0.574, which means that an optimistic person tends to take financial risks in order to secure their future. Deliberate or planned thinking, with correlation 0.306, was acknowledged to significantly influence financial risk tolerance, which means that reflection or deliberation enhances financial risk tolerance. Family financial socialization had a fairly moderate positive correlation of 0.528, showing that discussing financial issues on a family level develops risk tolerance further. Trust has not been found significant in the influence of financial risk tolerance.

#### **4.3.1 Relationship Between Financial Threat and Financial Risk Tolerance**

The correlation analysis results between financial threat and financial risk tolerance showed Pearson correlation coefficient ( $r$ ) of 0.771 which indicates a positive correlation between the two variables. A p-value of 0.000, which is less than the predefined significance level of 0.01 indicates that this correlation is statistically significant at the 1% level. Thus, it can be concluded that the correlation analysis results between financial threat and financial risk tolerance is positive and significantly correlated.

#### **4.3.2 Relationship Between Optimism and Financial Risk Tolerance**

The results of the correlation study between financial risk tolerance and optimism revealed a positive relationship between the two variables, with a Pearson correlation coefficient ( $r$ ) of 0.574. This association is statistically significant at the 1% level if the p-value is 0.000, which is less than the predetermined significance level of 0.01. Thus, it can be said that there is a positive and substantial correlation between optimism and financial risk tolerance based on the correlation study results.

#### **4.3.3 Relationship Between Trust and Financial Risk Tolerance**

A Pearson correlation coefficient ( $r$ ) of 0.031 indicated a positive association between the two variables in the research of the relationship between trust and financial risk tolerance. But the  $p$ -value is 0.703 which higher than the predefined significance level of 0.01 at the 1% level, then this link is statistically insignificant. Based on the correlation study results, it can be concluded that trust and financial risk tolerance have a positive but insignificant.

#### **4.3.4 Relationship Between Deliberate Thinking and Financial Risk Tolerance**

The correlation analysis results between deliberate thinking and financial risk tolerance showed a Pearson correlation coefficient ( $r$ ) of 0.306, indicating a moderate positive correlation between the two variables. A  $p$ -value of 0.000, which is less than the predefined significance level of 0.01, confirms that this correlation is statistically significant at the 1% level. Therefore, it can be concluded that deliberate thinking is positively and significantly correlated with financial risk tolerance, suggesting that individuals who engage more in deliberate thinking are likely to exhibit higher levels of financial risk tolerance.

#### **4.3.5 Relationship Between Family Financial Socialization and Financial Risk Tolerance**

A moderate to high positive association between family financial socialization and financial risk tolerance was indicated by the correlation analysis results, which exhibited a Pearson correlation coefficient ( $r$ ) of 0.528. This association is statistically significant at the 1% level, as indicated by a  $p$ -value of 0.000, which is less than the predetermined significance level of 0.01. Therefore, it can be said that financial risk tolerance and family financial socialization are positively and strongly connected, indicating that those who receive more financial advice and conversations from their family are more likely to have a higher financial risk tolerance.

#### **4.4 Regression Analysis**

Using linear regression analysis, the link between the independent variables: financial threat, optimism, trust, deliberate thinking, and family financial socialization and the

dependent variable financial risk tolerance was examined. The primary advantage of employing linear regression analysis is the capacity to assess several independent variables that collectively influence the dependent variable. This approach gives more details regarding the incline of the relationship compared to correlation analysis.

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables influencing financial risk tolerance are presented in the following tables.

**Table 4. 13**

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.819	0.671	0.660	0.29436

From table 4.13 we can observe that the R-value is 0.819 which indicates strong positive relationship between independent variables and dependent variable. The R square is 0.671 which indicates that the independent variables in the model account for 67.1% of the variance in the dependent variable. The model has good explanatory power, as seen by this comparatively high  $R^2$  value. The average difference between the observed and predicted values is shown by the standard error of the residuals. A lower number indicates a better model match. A result of 0.29436 in this instance denotes a considerable degree of prediction error.

**Table 4. 14**

*ANOVA*

Analytical of variance (ANOVA) is a statistical analytical tool that separates observed aggregate variability within a data set into two categories: random factors and systematic components. Random factors do not statistically affect the supplied data set, but systematic factors do. To determine the impact of independent variables on the dependent variable in a regression analysis, analysts employ the ANOVA test.

**Table 4. 15***ANOVA Table*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	25.445	5	5.089	58.734	.000
Residual	12.477	144	0.087		
Total	90.760	299			

Table 4.15 illustrates high F value of 58.734. As model's overall significance is tested using the F-statistic. The model is statistically significant and it explains a significant portion of the variance in the dependent variable. Similarly, the p-value was found to be 0.000 which is smaller than usual cutoff point of 0.05, the regression model is considered highly statistically significant. Hence, the overall model is reliable.

**Table 4. 16***Regression Analysis*

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	.520	.325		1.602	.111
Financial Threat	.488	.050	.588	9.718	.000
Optimism	.188	.062	.185	3.025	.003
Trust	-.070	.028	-.124	-2.512	.013
Deliberate Thinking	.076	.065	.060	1.177	.241
Family Financial Socialization	.206	.063	.183	3.263	.001

Table 4.16 shows the regression coefficient of financial threat is 0.488, optimism is 0.188, trust is -0.070, deliberate thinking is 0.076 and family financial socialization is 0.206. Thus, the regression equation model is as following:

$$\text{FRT} = \alpha + \beta_1 (\text{FT}) + \beta_2 (\text{OP}) + \beta_3 (\text{TR}) + \beta_4 (\text{DT}) + \beta_5 (\text{FFS}) + \varepsilon_i$$

Based on the coefficient the regression equation can be written as following:

$$\text{FRT} = 0.520 + 0.488 \text{ FT} + 0.188 \text{ OP} - 0.070 \text{ TR} + 0.076 \text{ DT} + 0.206 \text{ FFS} + 0.29436$$

The beta of 0.488 of financial threat indicates that when financial threat increases by one-unit financial risk tolerance increases by 0.488 unit. As the significance is 0.000 which is less than 0.05, there exist significant relationship. Thus, from the regression analysis we can conclude that the financial threat has positive and significant influence on financial risk tolerance. Similarly, the beta of 0.188 of optimism indicates that when optimism increases by one-unit, financial risk tolerance increases by 0.188 units. As the significance value is 0.003, which is less than 0.01, there exists a significant relationship. Hence, from the regression analysis, we can conclude that optimism has a positive and significant influence on financial risk tolerance. The beta of -0.070 of trust signifies that when trust increases by one-unit, financial risk tolerance decreases by 0.070 units. Its significance value of 0.013 which is less than 0.05 represents there exists a significant relationship. Therefore, from the regression analysis, we can conclude that trust has a negative and significant influence on financial risk tolerance. Deliberate thinking has a beta of 0.076, meaning that for every unit increase in deliberate thinking, financial risk tolerance rises by 0.076 units. The link is not significant, though, because the significance value is 0.241, which is higher than 0.05. Therefore, we may infer from the regression analysis that financial risk tolerance is positively but insignificantly influenced by deliberate thinking. The beta of 0.206 indicates that when family financial socialization increases by one-unit, financial risk tolerance increases by 0.206 units. As the significance value is 0.001, which is less than 0.05, there exists a significant relationship. Thus, from the regression analysis, we can conclude that family financial socialization has a positive and significant influence on financial risk tolerance.

#### **4.5 Hypothesis Testing**

A statistical technique for determining the probability that a particular hypothesis is true is hypothesis testing. To ascertain if the observed differences between groups or variables are real or merely the result of chance, inferential analysis is used in this procedure. For this study, five hypotheses were assumed which were stated in chapter I. From the regression analysis, the result of hypothesis is tested as following:

**H1: There is significant influence of financial threat on financial risk tolerance.**

From the regression analysis, we found the p-value for financial threat is 0.000 which is less than 0.05. Hence, the alternate hypothesis is accepted which implies that there is significant influence of financial threat on financial risk tolerance.

**H2: There is significant influence of optimism on financial risk tolerance.**

Regression analysis found that the p-value of optimism is 0.003 which is less than 0.05. Therefore, the alternate hypothesis is accepted which infers that there is significant influence of optimism on financial risk tolerance.

**H3: There is significant influence of trust on financial risk tolerance.**

The p-value for trust was found to be 0.13 from the regression analysis which is less than 0.05. Thus, we accept the alternate hypothesis which shows that there is significant influence of trust on financial risk tolerance.

**H4: There is significant influence of deliberate thinking on financial risk tolerance.**

The regression analysis showed that the p-value for deliberate thinking was 1.177 which is more than 0.05. Since the p-value is greater, we accept the null hypothesis. Hence, we can deduce that there is no significant influence of deliberate thinking on financial risk tolerance.

**H5: There is significant influence of family financial socialization on financial risk tolerance.**

Regression analysis found that the p-value of family financial socialization is 0.001 which is less than 0.05. Therefore, the alternate hypothesis is accepted which infers that there is significant influence of family financial socialization on financial risk tolerance.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

The study's results, conclusions, and suggestions are presented in this chapter. The statistical analysis of the gathered data and the testing of the hypotheses described in Chapter I are presented as the results and conclusions. The three primary components of the chapter are as follows: the first covers the main findings, the second gives the inferences derived from these findings, and the third provides practical suggestions based on the study's findings.

#### **5.1 Summary**

The main objective of this study was to find the influence of financial threat, optimism, trust, deliberate thinking, and family financial socialization, on financial risk tolerance. The survey was conducted among 150 respondents through questionnaire. Males made up the majority of the sample (71.3%), and most of the respondents (74.7%) were in the 20–30 age range. The participants' educational backgrounds were generally high, with the majority (64.7%) having at least a bachelor's degree, indicating a highly educated group. With 38.7% working in the private sector, 36% being students, and lower percentages representing government employees, business owners, and the unemployed. 48.7% of respondents made less than Rs 2,00,000, making up the majority of those with moderate to low incomes.

The findings on financial threat indicated that respondents generally feel moderately secure about their financial situation, although some expressed insecurity. The highest mean score for financial threat was related to a positive attitude toward improving

financial well-being, while the lowest mean was related to feeling secure in one's financial position. In terms of optimism, respondents demonstrated a generally positive outlook, though some exhibited difficulty in relaxing. Trust was shown to be moderate, with varied opinions regarding people's general trustworthiness. Family financial socialization emerged as a key influence on financial risk tolerance, with respondents reporting strong moral lessons from their families about financial success. Finally, when it comes to financial risk tolerance, respondents showed a high willingness to take calculated risks, especially when they believed an investment would yield a profit.

The regression analysis revealed that financial threat, optimism, and family financial socialization had a positive as well as significant influence on financial risk tolerance. Similarly, trust had a negative but significant relation on financial threat. On the other hand, deliberate thinking, although positively related, did not show a significant effect on risk tolerance. These findings underline the complex interplay of psychological factors of emotions in shaping individuals' willingness to take financial risks.

## **5.2 Discussion**

The findings of this study provide significant insight into the factors influencing the share price of Nepalese commercial banks. It gives us bird view from the lens of investors' emotion. The demographic structure of the sample plays a crucial role in shaping financial attitudes and risk tolerance. With 74.7% of respondents aged between 20 and 30 years, the study is heavily youth-oriented. This indicates that conclusions regarding financial behavior, risk perception, and emotional factors are largely influenced by individuals in their early adulthood. The majority of respondents were male which is 71.3% and the highly educated nature of the sample accounted for 64.7% who had bachelor's degrees.

The occupational and income distribution of the respondents also contributes significantly to understanding investment behavior. A large portion which is 38.7% were private employees, followed by students who were 36%, indicating a blend of working professionals and young learners who may have varying levels of exposure to the

financial market. A significant portion of respondents that is 48.7% had an annual income below Rs. 2,00,000, suggesting that most participants operate within a low to middle-income bracket, which likely influences their approach to investment and financial risk-taking.

The psychological dimensions: namely financial threat, optimism, trust, deliberate thinking, and family financial socialization were central to understanding the underlying behavior that could indirectly affect share price movement through investor behavior. Financial threat emerged as the most significant predictor of financial risk tolerance, with a strong positive correlation of 0.771 underscoring that individuals who feel financially stable are more willing to engage in risky investments. Optimism also showed a significant positive correlation of 0.574, confirming that emotionally positive individuals are more inclined toward taking investment risks, which could influence share demand and pricing in the stock market.

Interestingly, family financial socialization was also found to significantly impact risk tolerance which suggests that early financial education and discussions within families play a role in shaping risk perceptions and investment behavior. Trust, however, despite having a moderate correlation, was statistically insignificant which implies that generalized social trust does not strongly influence individual investment decisions in the context of Nepalese commercial banks. Similarly, although respondents showed a high preference for deliberate thinking, its impact on risk tolerance was statistically insignificant indicating that rational planning alone may not necessarily translate to higher financial risk-taking behavior. Overall, these results highlight the influence of emotion on investor psychology in determining financial risk tolerance.

### **5.3 Conclusion**

From the survey conducted in this study it was found that the response toward financial threat shows that respondents have positive attitude towards their financial well-being. However, they have concern regarding their security of their financial position. In overall statements regarding financial threat has very strong agreement among respondents.

While the statements regarding optimism shows strong agreement only. Most respondents are found to have good social life but find hard to get relaxed. In regards of trust, respondents have shown concern regarding it with more neutral responses. The respondent has shown faith that when people are trusted their responses is kind. There is strong response toward the deliberate thinking. Respondents strongly believe to making a clear plan and analyzing the problem is essential. Family financial socialization is also strongly supported. They believe that their family has taught that their action determines their success in life. However, they believe that there is no sufficient discussion regarding credit rating among family members. Respondent have shown strong responses towards financial risk tolerance. They very strongly agree with majority of the statements regarding financial risk tolerance. The strongest agreement was regarding their willingness to make investment where there is potential to make profit.

The correlation analysis of this study found that various factors influence financial risk tolerance, with financial threat having the most significant impact. Individuals who feel less threatened by their financial position are more likely to take chances to improve their financial situation by taking more risk. Optimism has also been found as significant variable influencing financial risk tolerance. Thus, if people are more optimistic, they tend to take more financial risk. Additionally, deliberate thinking also increases financial risk tolerance of an individual. Those who make meaningful decisions are more willing to take financial risks. Family financial socialization is also found to influence the financial risk tolerance. When financial matters are discussion within the family it provides essential information and boost confident to take higher financial risks. In the contradiction, trust had no significant effect on financial risk tolerance. Trust which has importance in other aspects of life was found to have no direct influence people's willingness to take financial risks.

The model summary of this study showed that the overall model was valid and had good explanatory power. The ANOVA table showed that model is statistically significant and it explains a significant portion of the variance in the dependent variable. The regression analysis was the main statistical analysis to fulfill the objective of this study. From

regression analysis, we can conclude that when people feel less threatened financially they tend to take more financial risk. Financial threat positively and significantly influences the financial risk tolerance among individual. Similarly, optimism also had positive and significant impact. More optimistic people are they are more willing to take financial risk. While the trust has inverse and significant relation with financial risk tolerance. This implies that when people have less trust toward other, they are ready to take more financial risk. Though deliberate thinking has positive relation with financial risk tolerance, it was found statistically insignificant. This means that deliberate thinking does not necessarily impact individual's decision to take financial risk. Finally, when there is more financial socialization in a family, the individual tends to take more financial risk. Thus, it is important to create positive environment among family members to discuss about the financial topics. Increasing financial literacy with in family gives confident to take calculated financial risk.

In conclusion, the factors of emotions have significant impact on financial risk tolerance of individual. Financial threat, optimism, trust and family financial socialization have significant impact on financial risk tolerance while deliberate thinking was found statistically insignificant.

#### **5.4 Implications**

The findings of this study have important implications for financial advisors, policy makers, individual and commercial investors, banks and financial institutions. Financial advisors need to gain insights into the emotional factors that influence clients' risk tolerance which help them to better in formulating investment strategies that ensure individual preferences and goals. When the policy is in alignment with the emotions of the client the satisfaction of clients is enhanced. It also helps to heightens the possibility that long-term financial goals will be achieved by balancing emotional outbursts with logical reasoning.

This study may be very helpful for policymakers to develop regulations and financial policies that better address the emotional biases affecting financial risk tolerance. Such

policies can assist individual to recognize and the manage the emotional factors for making better financial decisions. As a whole, a systematic financial practice can be reformed for broader economic growth and stability.

Banks and financial institutions can utilize this research to to redesign and offer better financial products and services that align closely with the emotional aspects of their clients. By understanding how emotional factor influence financial risk tolerance, they can create customized offerings. For example, simple and safe investment portfolios can be introduced for risk-averse clients which provides fixed return during the period. In contract, volatile and high potential scheme which has no fix return for risk aversion customers. Moreover, this insight can improve communication with the clients by enabling institutions to provide reassurance during periods of market volatility and to promote responsible financial behaviors.

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## **APPENDIX**

Dear Respondents,

Thank you for dedicating your time to participate in survey. I am MBS student at Shanker Dev Campus, Tribhuvan University. I am conducting a study on "THE INFLUENCE OF EMOTION ON FINANCIAL RISK TOLERANCE". Your participation is completely voluntary and your responses will be kept confidential and anonymous.

Best Regards

Kapur Thapa

### **Section I**

#### **Demographic Profile**

1. Gender
  - Male
  - Female
  - Others
  
2. Age Group
  - Below 20 Years
  - 20 – 30 Years
  - 30 – 40 Years
  - 40 – 50 Years

- Above 50
3. Education
    - High School
    - Bachelors
    - Masters
    - Mphil/PhD
  4. Profession
    - Student
    - Private Employee
    - Government Employee
    - Business
    - Unemployed

<b>Financial threat</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
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5. Annual Income
  - Upto 2,00,000
  - 2,00,000 – 5,00,000
  - 5,00,000 – 10,00,000
  - Above 10,00,000

## Section II

I feel confident and certain about my financial situation.					
I feel secure and protected in my financial position.					
I feel reassured and stable regarding my financial situation.					
I feel at ease and have peace of mind about my financial security.					
I focus positively on maintaining and improving my financial well-being.					

<b>Optimism</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
In uncertain times, I usually expect the best.					
It's easy for me to relax.					
If something can go wrong for me, it will.					
I'm always optimistic about my future.					
I enjoy my friends a lot.					

<b>Trust</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Most people are basically honest.					
Most people are trustworthy.					

Most people are basically good and kind.					
Most people are trustful of others.					
Most people will respond in kind when they are trusted by others.					

<b>Deliberative thinking</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Developing a clear plan is very important to me.					
I like to analyze problems.					

<b>Family Financial Socialization</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
My family discussed family financial matters with me.					
My family spoke to me about the importance of saving.					
My family discussed how to establish a good credit rating.					
My family taught me how to be a smart shopper.					
My family taught me that my actions determine my success in life.					

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