

# **FINANCIAL LITERACY AND INVESTMENT DECISION OF INDIVIDUAL INVESTORS**

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

by

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## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled FINANCIAL LITERACY AND INVESTMENT DECISION OF INDIVIDUAL INVESTORS. 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 requirement for any academic purposes.

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

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## **ABBREVIATIONS**

ANOVA	Analysis of Variance
BFI	Banks and Financial Institutions
CV	Coefficient of Variation
Df	Degree of freedom
FA	Financial Attitude
FAW	Financial Awareness
FB	Financial Behavior
FK	Financial Knowledge
FL	Financial Literacy
FS	Financial Skills
GoN	Government of Nepal
ID	Investment Decision
MBM	Master of Business Management
NEPSE	Nepal Stock Exchange
OECD	Organization for Economic Co-operation and Development
SACCO	Savings and Credit Co-operatives
SD	Standard Deviation
SMART	Smart, Measurable, Achievable, Realistic, Time-bound
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factor

## **ABSTRACT**

The general purpose of the study is to examine and analyze the financial literacy and investment decisions of individual investors. This study more specially analyzed the effect of financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) on the investment decisions of individual investors. Among all the investors, sample of 400 active investors and their responses are studied in this study. Primary data were collected through the survey in the form of structured questionnaire. The study applied descriptive and casual research design which aims to study financial literacy and investment decision of individual investors in Nepalese capital market. For the data analysis descriptive statistics, correlation analysis and multiple regression mode are applied and the data analysis is conducted using SPSS software. It was found that financial awareness has the most significant effect on investment decision, since without the knowing the financial status and condition, financial system and policy regarding financial activities individuals do not invest in any sectors. Likewise, financial attitude also has significant positive impact on investment decision since, the investment nature of individual are different as per their attitude of investment. Similarly, financial knowledge and financial behavior have significant positive effect on investment decision of the investors since without knowing the financial benefits and without having fund for investment no one can invest in any sector. In the same way, financial skill of individuals to understand the situation in the market also has significant effect in investment decision.

*Keywords: Financial Knowledge, Financial Awareness, Financial Behavior, Financial Skills, Financial Attitude and Investment Decision*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Financial literacy is the degree to which a person feels confident in their capacity to make wise both short and long-term decisions regarding investments while taking the state of the economy into account, as well as their comprehension of important financial concepts (Nye, Pete, & Cinnamon, 2013). As a result, a person's degree of financial literacy has a significant impact on their ability to make wise investment decisions.

Financial literacy is defined as the capacity to apply knowledge and skills to manage financial resources efficiently for a period of financial well-being. The President's Advisory Council on Financial Literacy was established in 2008 with the goal of enhancing financial literacy among all Americans. Financial literacy is the understanding of personal money that empowers people to make wise decisions to enhance their financial health and prevent financial hardship. In the modern world, being able to handle one's own finances has grown in importance. Financial literacy encompasses more than just financial advice and knowledge. It is intended for people who lack the knowledge and resources necessary to handle difficult financial situations. Financial literacy encompasses more than just standard and mathematics literacy; it also involves behavior, attitudes, views, knowledge, and awareness of the financial environment. Essential reading, math, and comprehension skills are included, as well as knowledge of the origins, uses, and exchange of money, as well as the hazards connected to financial products and the capacity to make sound financial decisions in one's own life (Jariwala, 2013).

Investment decisions include allocating funds to a certain asset over a predetermined period of time with the hope of achieving a high rate of return (Mishkin & Eakins, 2007). The choice of how to allocate finances in the present with the hope of future advantages flow is more important. When making an investment, a person must weigh trade-offs between their immediate consumption and their delayed consumption in order to maximize their future consumption gain (Reilly & Brown, 2006). It's critical to comprehend the risk and return connected to different financial items. People who

don't know enough about money are more likely to get into debt and have little or no savings. Insufficient knowledge combined with a lack of financial literacy makes it easy to make poor financial decisions and hinders one's capacity to save money for a good retirement.

Early financial literacy acquisition is recommended since poor financial decisions can have long-term effects. Upon reaching adulthood, a person experiences significant life events such as acquiring employment, buying a home and a vehicle, setting up a savings account, and having to participate in making financial decisions. Being financially knowledgeable might therefore help people transition from a life of concern to one of peace. An individual bears some degree of risk while making any financial decisions. A growing number of financial crises have occurred recently in both established and emerging nations due to the swift transformation of the finance sector. The ability to assess products and make educated decisions is made possible by financial literacy, which empowers and educates customers by educating them about money in ways that are relevant to their daily lives (Wachira & Kihiu, 2012).

By increasing their degree of comprehension of financial issues, people with financial literacy are better equipped to handle financial data and make wise investment choices. The process by which an investor chooses a certain financial product based on his future financial goals is a sophisticated process that is included in financial literacy, in addition to the method for understanding a fundamental financial instrument. Accordingly, there is a clear correlation between financial literacy and people's financial well-being (Singh & Sharma, 2016).

Understanding how money functions in the global economy, how to handle earning it, how to make investments, and how to use it to benefit others makes financial literacy important. It offers a collection of abilities and information that enable one to manage all of their financial resources wisely (Njehia, 2017).

Financial literacy is important because it helps people create risk-reduction plans that work—like conserving money, diversifying their assets, and getting insurance—when they face difficult financial circumstances. Additionally, financially literate consumers are less risky to the financial system as a whole because they can use financial services

responsibly, which supports the stability of the financial market and promotes savings, wider economic growth, and development (Wachira & Kihiu, 2012).

In order to meet its domestic poverty reduction target, the Government of Nepal (GoN) has placed a strong emphasis on the need for an inclusive financial system, which is reflected in the 2017 release of Nepal's Financial Sector Development Strategy Paper. The paper's objective is to "develop a financial system that is accessible to make access to finance relatively simple for those with limited resources and from rural regions and to enhance financial literacy in financial products and instruments and to protect the interests of financial consumers (Nepal Rastra Bank, 2022).

Furthermore, as stated in the NRB Act of 2002, Nepal Rastra Bank, the country's central bank, is "to increase the public confidence in the banking and financial system and increase the access of financial services." Therefore, in order to facilitate the achievement of the goal, the NRB has made this clear in the Financial Inclusion Roadmap (2017–2022), the yearly monetary policy, and its most recent Strategic Plan (2017–2021). This indicates the central bank's emphasis on enhancing consumer protection, empowerment, and education (Nepal Rastra Bank, 2022).

The capital market in Nepal encountered many obstacles that could have affected the choices made by Nepalese investors. In terms of the number of listed firms and industries covered, the Nepalese capital market is tiny and restricted. Those looking for a wider variety of investing alternatives may become discouraged by this lack of diversification. One persistent worry in the Nepalese capital market has been liquidity. Low trading volumes for some listed equities might make it difficult for investors to purchase or sell shares at the prices they want.

The capital market in Nepal has gone through periods of instability, and abrupt changes in stock prices might make investors uneasy. It's possible that many investors in Nepal know very little about investment goods and the capital market. Insufficient knowledge of finance may discourage prospective investors from taking part in the market. Investor confidence and decision-making processes can be greatly impacted by political unpredictability and economic uncertainty. Obtaining a thorough grasp of the concerns

and obstacles that Nepalese investors in the capital market are currently experiencing requires consulting more recent sources and expert viewpoints (SEBON, 2023).

## **1.2 Problem Statement**

The majority of investors in the financial market think of themselves as logical and rational, but when they make decisions about their investments, their emotions, thought patterns, financial literacy, and cognitive biases skew how they see the world and how they make decisions (Iyer & Bhaskar, 2002).

The ability to handle financial risks and make sure that decisions regarding money are made with the long- and short-term interests of the individual in mind is what is meant by financial literacy. Additionally, it refers to the understanding of money and financial goods that individuals may use to financial decisions in order to manage their finances sensibly.

Numerous studies have established a connection between sound investing decisions and financial literacy. According to a 2003 study by Beal and Delpachitra, those who are financially educated are less likely to be duped when it comes to money concerns and make better financial judgments. Similarly, Rooij et al. (2011) evaluated how financial literacy influences financial decision-making, noting that those with low literacy are less likely to invest in stocks and more likely to rely on friends and family for financial guidance. Therefore, raising financial literacy benefits the economy and financial markets.

Even though financial literacy has been the subject of many research, in the case of Nepal, it is frequently one of the aspects that is least taken into account when making investment decisions. When it comes to stock market investments, most people rely their selections on advice from friends, family, and perhaps even brokers. Furthermore, the majority of people have extremely hazardous investing styles since they seldom apply the portfolio idea in their daily life and frequently allocate a large portion of their income or savings to only one or a small number of sectors. Thus, the purpose of this study was to examine the significance of financial literacy and how it influences the choices that people make about their investments.

The research questions that are important to achieve the objectives of the research are listed as below:

- What is level of financial literacy of individual investors?
- Whether there is any relationship between financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) and investment decision of individual investors?
- What is the effect of financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) on the investment decisions of individual investors?

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

The general purpose of the study is to examine and analyze the financial literacy and investment decisions of individual investors. The specific objective of the study are as follows:

- To analyze the level of financial literacy of individual investors.
- To examine the relationship between financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) and investment decision of individual investors.
- To assess effect of financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) on the investment decisions of individual investors.

### **1.4 Research Hypotheses**

According to the research variables used in this study following are the research hypotheses of the study;

H1: There is a significant relationship between financial knowledge and investment decisions.

H2: There is a significant relationship between financial awareness and investment decisions.

H3: There is a significant relationship between financial behavior and investment decisions.

H4: There is a significant relationship between financial skills and investment decisions.

H5: There is a significant relationship between financial attitude and investment decisions.

### **1.5 Rationale of the Study**

People are better able to comprehend the significance of financial literacy and how it affects investing choices thanks to the research. Numerous studies have demonstrated the beneficial association between financial literacy and investment choices; nevertheless, financial literacy is a relatively new idea in Nepal and has not yet been thoroughly investigated. Nonetheless, the study's conclusions encourage consumers to focus on having sound financial knowledge and make informed investing decisions.

Financial literacy is still relatively new in Nepal, and families and individuals have access to a variety of innovative financial products. This has given people and families the chance to make prudent investments in a range of financial products, but it has also made it more difficult for them to make decisions. Therefore, determining the level of financial literacy among investors and making an effort to sufficiently educate them may guarantee a high standard of living and assist people in managing their wealth, both of which can improve people's quality of life.

People who are often not interested in financial problems, such as students, housewives, and young people, may perform accurate and thorough evaluations and invest appropriately thanks to the study's flow of financial knowledge.

Because they lack financial literacy, the majority of individuals, even those with significant investment capacity, are ignorant of a wide range of options. As a result, this study helps people concentrate on developing financial literacy in order to manage their money wisely and generate enormous returns.

The study's conclusions may be helpful to banks and other financial organizations that frequently create new investment plans. Bank and financial institution managers are able to comprehend the present state of people's financial literacy and then create various plans to cater to the demands of individuals and families.

## **1.6 Limitations of the Study**

There are certain restrictions that must be considered when doing research since they have an impact on the study's efficacy and end result. A few of the restrictions are stated as follows:

- The primary constraint on this research project is time constraints; to conduct a more thorough, comprehensive, and definitive investigation, the time period ought to be extended.
- Furthermore, a longer time period would allow for the identification of several factors, improving the accuracy of this study.
- In addition, the findings presented in this study could not hold true in different circumstances or contexts and might not be pertinent in the future.
- Geographically, the study is limited because the survey was limited to participants who were residents of the Kathmandu Valley.
- This study is based on original data that was gathered via a questionnaire survey of 400 Kathmandu Valley residents from private investors rather than institutional investors.
- There might be chances of response errors because of factors such as unawareness of the respondents, hesitation of the respondents, etc.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Conceptual Review**

The philosophical underpinnings of the idea of financial literacy are covered in this chapter. It also examines the body of research on financial literacy and how it affects investing choices. A review and explanation of the literature on the factors influencing financial literacy are also provided.

In order to determine the link between dependent and independent variables, the researcher goes over definitions and theories pertaining to the independent and dependent variables in this chapter. Additionally, a synopsis of earlier empirical investigations on this topic conducted by scholars is included in this chapter. Lastly, the empirical investigations point out the areas of study gaps where an investigator might concentrate to advance the body of knowledge on this subject.

##### **2.1.1 Definition of Financial Literacy**

Financial literacy is defined by the OECD (2011) as the awareness, knowledge, skill, attitude, and conduct required to make wise financial decisions and eventually reach personal financial well-being.

While behavioral finance focuses on how people act and should act with money and income, financial literacy is a component of behavioral finance. According to the OECD (2011) there were five components to financial literacy: knowledge, skills, attitude, behavior, and well-being. People who are financially literate may have more financial awareness, knowledge, and confidence, which will enable them to choose more suitable and superior financial services from a crowded market.

An individual's capacity to find, comprehend, and assess pertinent information required to make decisions while being aware of the potential financial ramifications is known as financial literacy (Anthes, 2004).

The financial literate, according to Beal and Delpachitra (2003) should not only be able to comprehend the fundamentals of money management, have a working knowledge of financial institutions, systems, and services, and be capable of a variety of analytical skills, but also have an attitude that encourages the responsible and efficient management of financial affairs.

Financial literacy is defined as having a basic understanding of economic and financial ideas and being able to apply those concepts together with other financial skills in order to handle financial resources in an efficient manner for long-term financial well-being (Hung et al., 2009).

The ability and confidence of managing personal finances through sound, long-term financial planning and appropriate, short-term decision-making while taking life events and shifting economic conditions into account is measured by one's level of financial literacy (Amoah, 2016).

In order to be financially secure for oneself and one's family in today's society and to participate actively in the financial services and product industry, one must possess a certain level of knowledge, skills, and talents known as financial literacy. A financially educated citizen is one who can manage a personal or family budget responsibly, including managing financial assets and responsibilities in light of changing circumstances (Securities & Exchange Board of India, 2010).

Enabling individuals to make knowledgeable and self-assured choices about their spending, saving, and budgeting, as well as their use of financial goods and services, ranging from regular banking to borrowing, investing, and future planning, is the goal of financial literacy (ANZ Bank, 2003).

By increasing their degree of comprehension of financial issues, people with financial literacy are better equipped to analyze financial data and make wise financial decisions. Individual well-being is directly correlated with financial literacy (Sharma & Joshi, 2015).

According to Coussens (2009) financial literacy is the result of a person's interest, attitude, and practices that directly improve their own financial efficacy and efficiency as well as the direct and ultimate benefit of society at large. It also symbolizes a combination of financial access, education, and understanding.

Numerous significant banking institutions, governmental bodies, grassroots consumer and community-based groups, and other organizations have taken an interest in financial literacy in recent years. Interest groups and legislators are worried that consumers do not have the resources necessary to make decisions that will lead to their financial well-being and do not have a working understanding of financial concepts. These lack of financial literacy may have an impact on a person's or family's daily money management and capacity to save for long-term objectives like home ownership, pursuing higher education, or funding retirement. Additionally, poor money management practices can lead to actions that put people at risk of serious financial problems (Mandell & Lewis, 2006).

### **2.1.2 Definition of Investment Decision**

An investment is a medium- to long-term resource allocation with the goal of recovering investment expenses and turning a healthy return. Expected returns on investments are unclear due to the effect of the economic and financial environments. Individuals make the investment selections following a thorough examination of the investment proposals. One of the most important aspects of investing is the risk involved. There is a risk since it is uncertain if the original investment in investment projects can be recovered (Virlics, 2013).

One of the key components of individual financial preparation is investment planning, which includes creating a variety of investment strategies. Creating a strategy for allocating assets and creating an organized investment plan should be part of these tactics (Ayieko, 2004).

An investor's assessment of potential future profits, previous profit margins, financing costs, and other factors all play a role in their choice to invest. Any sane investor would take on a venture that yields returns more than their financing costs (Virlics, 2013).

Everyone wants to spend their hard-earned money in the safest and most liquid options. Every person makes a different investment decision, though, based on their tolerance for risk and the intended use of the money. An individual's investing strategy is determined by their goals. Because making the wrong choice might result in financial loss, an investor must comprehend the chances that may present themselves. Decisions of this nature should thus be taken after doing a thorough study rather than based just on intuition.

### **2.1.3 Importance of Financial Literacy**

An investor's degree of financial literacy is correlated with their financial well-being. The process of learning about different financial products, comprehending the risk-return trade-off, applying the information to make wise decisions, and valuing the expert knowledge that is readily available is referred to as financial literacy (Jariwala, 2013).

Lack of financial literacy can lead to a lack of essential financial knowledge and challenges implementing that information, which can result in bad financial decisions and poor personal financial management. A person who lacks financial literacy chooses to exclude themselves from the financial world or prefers to get their financial knowledge from dubious sources, which can put households in debt and degrade their level of life. Lack of these abilities and knowledge might put people, society, and the economy at large at danger in a number of ways. Because it influences and skews people's investing behavior, financial literacy is therefore a critical issue for the financial systems of all nations.

Through a variety of distribution channels, an increasing number of customers may access the wide range of financial goods and services offered by the different suppliers. Furthermore, fresh financial goods and services that are suited to the demands of the market have been introduced by the deregulation and liberalization of the financial markets, cost savings achieved via financial engineering, and advancements in information and telecommunication. The financial services and product improvements gave customers more options for where to park their funds and increased access to a wider range of financial goods and services. In addition to the options, customers face several obstacles in their quest to comprehend the costs and advantages of the

innovations as well as the unique risk-return matrix that is built into each one. The complexity of investment products in the financial markets has grown recently, which has greatly elevated the significance of financial literacy (Amoah, 2016).

Making educated judgments is getting harder and harder due to the information asymmetry among investors and the markets. In addition to guaranteeing that people comprehend financial ideas, financial literacy also aids in the promotion of financial literacy and, eventually, financial stability (Jariwala, 2013). Making financial decisions has become more challenging for the average person due to the growing complexity of financial goods and services. The fundamental issue lies in investors' incapacity to comprehend fundamental financial ideas. The average person finds it difficult to understand the complex features of financial services and products, which increases perceived risk, necessitates searching through more information to compare various factors, complicates decision-making, and causes delays in making investment decisions (Jariwala, 2013).

Individual accountability has also grown as a result of the altered family structure. People in nuclear families have to make a lot of financial decisions on what to spend, save, invest, credit, etc. Furthermore, parents must budget and make sufficient investments for the educational development of their kids due to the growing expense of school (Amoah, 2016).

In addition to covering how to comprehend a fundamental financial instrument, financial literacy also includes the intricate process via which an investor chooses a certain financial product based on his financial objectives. For this reason, knowing the fundamental financial tool is essential to safeguarding one's future.

Financial education may assist in empowering people with the financial literacy required to establish savings strategies, make thoughtful investment selections, and develop household budgets (Greenspan, 2003). Families that have historically been mistreated by our financial system can benefit greatly from this kind of financial planning, which can help them manage their short-term responsibilities and enhance their long-term well-being.

According to a Hogarth (2002) financial literacy was essential because informed and educated consumers make better financial decisions that enable them to have financial well-being and stability for themselves as well as to further support local economic growth.

The current quality of financial education has to drastically change in order to empower individuals to make autonomous decisions about their retirement and current savings. Furthermore, there is a greater interest in financial education as a result of the growing complexity of financial products and people's growing responsibility for their own financial security.

#### **2.1.4 Challenges of Financial Literacy**

Compared to males, women show less financial literacy and have lower levels of confidence in their abilities and long-term investment strategies. Gender disparity arises because, while women seem to handle their money more sensibly than men do in the short term, their lack of long-term planning and financial literacy makes them less knowledgeable. Additionally, women are less likely to invest in hazardous assets like equities and mutual funds and are more risk averse (Mitchell & Abusheva, 2016).

Furthermore, students are not adequately prepared by the university and school curricula to acquire the information and skill set needed to make informed financial decisions. This indicates that the important lesson that would impact pupils' whole life is not imparted to them (Jariwala, 2013). Therefore, another issue with financial literacy in poor nations like Nepal is the inadequate amount of financial information that is imparted via personal finance.

## **2.2 Theoretical Review**

### **2.2.1 Goal Setting Theory**

The theory of motivation known as Goal Setting was introduced by Edwin Locke. According to the notion, establishing goals is a crucial component in evaluating any task's performance. Furthermore, according to the notion, creating goals should be closely related to completing the work at hand. By guaranteeing that members of a group working toward a shared purpose understand exactly what is required of them in order to accomplish a goal, it is a useful instrument for advancing efforts (Locke, 1968).

The goal setting theory is the most reliable and practical explanation of motivation in the fields of financial behavior as well as organizational and industrial psychology, management of human resources, and organizational behavior. The goals must meet the requirements of SMART goals, which stand for smart, measurable, achievable, realistic, time-bound goals, in the context of personal finance, financial planning, and investment decisions (Securities & Exchange Board of India, 2010).

### **2.2.2 Maslow's Need Hierarchy Theory**

Individuals' financial need hierarchy and Maslow's need hierarchy theory are comparable. According to the notion, before addressing an individual's higher demands, the basic requirements related to human life must be satisfied. Individuals' higher demands are more concerned with improving their quality of life and enhancing their lives than they are with surviving (Jariwala, 2013).

Below are a hierarchy of financial demands (Jariwala, 2013).

- Survival money: The amount of money spent just to meet one's most basic necessities in order to survive.
- What-if money: The sum of money needed to safeguard oneself against unforeseen events in the future.
- Freedom money: The amount of money needed by an individual to pursue activities that make them happy and fulfilled in life.
- Give money as a gift: This takes the place of affection.
- Dream money: The illusive state of self-actualization at which a person discovers genuine contentment and significance.

The order in which a household acquires financial services and instruments depends on its priorities about financial needs and the resources that are available at each stage of the family's life cycle.

### **2.2.3 The Classical Theory of Portfolio**

Markowitz proposed the concept of classical portfolio theory in 1952. According to the idea, there should be no transaction costs in the market, no uninsurable risks, and knowledge asymmetry among investors. According to the notion, those who are not familiar with financial products usually steer clear of them. Return on asset has a stationary normal distribution, according to Markowitz. Furthermore, the hypothesis

shows that the primary factor influencing investors' desire for structured financial products is their level of financial literacy. According to Jariwala (2013) investors benefit greatly from financial literacy before choosing which investment products are best for them.

#### **2.2.4 Portfolio Theory**

Bonds and money are included in the asset portfolio, as outlined by Tobin's Portfolio Approach to Demand for Money. The notion highlights money's function as a store of value. He asserts that people's holdings of money are a component of their asset portfolio. This is because the risk and return characteristics of money differ from those of other less liquid assets, such as bonds. To be more precise, although the prices of stocks and bonds are subject to fluctuations, money provides a guaranteed return. Tobin advises that holding cash should be a part of a household's ideal portfolio.

It is right when an investor assumes that people would rather have more riches than less. The issue that an investor faces, in his words, is determining how much of his portfolio of financial assets to hold in cash and interest-bearing bonds. According to Jariwala (2013) investors aim to diversify their portfolio by maintaining a well-balanced mix of both safe and risky assets.

Additionally, investors show signs of risk aversion, which indicates that for a given rate of return, they would rather take on less risk than more. The future rate of interest is unknown to the individuals. A wealth holder will get a high rate of return but will also be taking on a greater level of risk if he chooses to maintain a larger percentage of bonds in his portfolio. Due to its extreme risk, investors will not choose this type of portfolio. Conversely, if an investor just has secure and risk-free assets, like money, they will be virtually eliminating risk, but they will also be receiving no return, meaning that their wealth will not increase. Consequently, a mixed, diversified portfolio of cash, bonds, and shares is preferred by investors, who each choose a slightly different ratio of risk to return (Jariwala, 2013).

### **2.2.5 Prospect Theory**

One of the most often cited and thoroughly studied concepts in economic psychology is prospect theory, which was created by Kahneman and Tversky in 1979. Risk aversion for gain and risk seeking for gain are the two risk attitudes that investors are established with by the prospect theory. They contend that investors assess outcomes on the stock market that are only theoretically feasible against those that can be achieved with certainty. The idea states that value is distributed across gains and losses but not toward the ultimate asset. Decision weights are shown to replace probability (Thaler, 1999). Additionally, preferences are more impacted by losses and drawbacks than by gains and benefits.

According to the hypothesis, investors have an illogical propensity to bet less when we are winning than when they are losing. Prospect theory described how people behave in risky and uncertain situations. Prospect theory explains a few mental states that influence a person's decision-making, such as Mental Accounting, Loss Aversion, and Regret Aversion. People experience regret when they commit errors. By being willing to sell appreciating shares and refusing to sell dropping ones, investors might prevent regret. Furthermore, selling winning stocks too quickly is not usually a regrettable action for investors as it is for keeping losing equities for too long. Loss aversion describes the varying degrees of psychological harm that people experience from gains or losses of a comparable magnitude (Barberis & Huang, 2001).

Research indicates that people experience greater discomfort when faced with the possibility of losses than they do when faced with comparable advantages (Barber & Odean, 2003). Furthermore, it has been demonstrated that a loss that follows a gain is less painful than normal, but a loss that follows a loss appears to be more painful than usual (Barberis & Huang, 2001). According to Lehenkari and Perttunen (2004) investors may be loss averse if they have a history of both good and negative returns, which may strengthen the negative correlation between the selling tendency and capital losses.

The phrase "set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities" was defined by Thaler (1999). Due to a range of arbitrary factors, this leads to a propensity for people to divide their funds throughout many accounts. According to an independent empirical investigation, it was

found that although connections between various investments opportunities are helpful for arbitrage-free pricing, they are frequently overlooked (Rockenbach, 2004).

### **2.2.6 Decision Theory**

Warner invented decision theory in 1968. It clarifies what people do. The theory is divided into descriptive and prescriptive categories. According to the prescriptive form, people should choose behaviors that would maximize their predicted utility. According to the descriptive form, people don't choose their activities based on what would maximize their predicted benefit. Many parties pursue a wide range of goals while making investment decisions. Those who seek to maximize return and those who desire financial independence and freedom are examples of these actors (Virlics, 2013).

### **2.2.7 Life Cycle Hypothesis of Savings**

Ando and Modigliani created the savings life cycle concept in 1963. This idea states that new investors prefer to take out loans to pay for their consumption while they are still in school and developing their abilities. In their middle years, people store money for the future and pay off the obligations they incurred in their early years. They are anticipated to deplete their collected assets throughout the retirement phase. A specific investment portfolio's components are chosen in part by the investor's stage of life, which also necessitates a strategic emphasis for disciplined financial management (Jariwala, 2013).

Furthermore, demographic variables are crucial in forecasting the anticipated lifetime financial obligations that a person will encounter, such as funding retirement, marriage, and the schooling of their children. Every stage of the human life cycle has a distinct financial goal that must be achieved, and this in turn influences choices about investing, saving, and financing.

## **2.3 Empirical Review**

### **2.3.1 Review of International Articles**

Sujono and Hajar (2023) investigated the effect of financial literacy and behaviour on investment decisions (study on Southeast Sulawesi investors). The purpose of this study was to investigate how investing decisions are influenced by financial behavior and financial literacy. 365 investors who are representatives of Southeast Sulawesi and are

listed on the Indonesia Stock Exchange were the subjects of this study. Cronbach's alpha is used to assess the dependability of five kinds of characteristics that affect investing decisions. It was shown that investing decisions were significantly impacted by financial behavior and financial knowledge. The factor that most closely matches the financial literacy variable is investment knowledge. In the meanwhile, "familiarity" is the financial behavior indicator that most accurately captures financial behavior.

Mirosea and Hajar (2023) examined the effect of financial literacy and financial behavior on investment decisions. The purpose of this study was to investigate how investing decisions are influenced by financial behavior and financial literacy. 365 investors who are listed on the Indonesia Stock Exchange Representative of Southeast Sulawesi were the subject of this investigation. It was shown that investing decisions are significantly influenced by financial behavior and financial knowledge. The factor that most closely matches the financial literacy variable is investment knowledge.

Wijayanto et al. (2023) identified financial literacy relationships and behavioral biases which can lead to irrational behavior in investment decision making. The purpose of this study was to determine the associations between behavioral biases (representativeness, overconfidence, and illusion of control) and financial literacy that might result in irrational behavior while making investment decisions. The individuals included in this research study are Java-based individual investors. Purposive sampling was utilized in this study, and 83 respondents were selected for the sample using a questionnaire. After being acquired, the hypothesis was tested using multiple regression analysis and passed the validity, reliability, and classical assumption tests. According to this study, behavioral biases are negatively impacted by financial literacy, which suggests that financial literacy should rise.

Seraj et al. (2022) explored the roles of financial literacy and overconfidence in investment decisions in Saudi. This study looked at the moderating role of the overconfidence behavioral bias in relation to the impact of financial literacy on investing decisions. 180 Saudi Arabian respondents provided information via a questionnaire, and convenience sampling was used to get the data. The partial least squares structural equation modeling (PLS-SEM) method was used to examine the study's results. It was discovered that investing decisions were favorably and

considerably impacted by financial literacy. Furthermore, the findings demonstrated that overconfidence had a beneficial impact on investment decisions and that overconfidence both favorably and substantially impacted the connection among financial literacy and investment decisions.

Singh and Gupta (2021) studied the impact of financial literacy on investor attitudes and decision-making: an empirical analysis. This study looked at the connection between decision-making, investor attitude, and financial literacy. A structured questionnaire was used to gather information from 510 respondents for the same aim. AMOS 22.0 was used for the data analysis, and hypothesis testing was done. It was shown that there was a strong correlation between decision-making and financial literacy, as well as between investor attitude and financial literacy.

Ullah et al. (2020) analyzed the impact of financial information on individual investor's investment decision. This study looked at the connection between individual investors' investing decisions and their level of financial literacy. An individual's degree of financial literacy is defined as their comprehension of financial issues, which enables them to digest financial data and make wise decisions regarding their own finances. Using the convenience sample method, 267 responses to the online survey were gathered. For data analysis, the five-point Likert scale questionnaire was utilized in conjunction with SPSS software. According to the study, investing decisions and financial literacy are strongly positively correlated. The findings demonstrated the importance of financial knowledge, financial skills, and financial attitudes in influencing investing decisions.

Kumari (2020) investigated the impact of financial literacy on investment decisions: with special reference to undergraduates in western province, Sri Lanka. This research looked at how undergraduates in Sri Lanka's western area made investing decisions in relation to their financial literacy. The primary data analysis method utilized in the study was a partial least squares structural equation model (PLS-SEM), and reliability was assessed using Cronbach's Alpha coefficients. It was discovered that undergraduates' investing decisions were favorably and significantly impacted by their financial literacy. Furthermore, financial abilities emerged as the most important feature when it came to the many aspects of financial literacy. The least important factor

influencing undergraduates' investing decisions was found to be their understanding of financial products.

Niazi and Malik (2019) analyzed the financial attitude and investment decision making-moderating role of financial literacy. The study's main goal was to examine how financial literacy significantly modifies investment diversification in connection to sociodemographics, financial attitudes, and decision-making behaviors. Descriptive research design was used in the study by the researchers. A questionnaire was used to gather primary data. A questionnaire was created, and 775 respondents' answers were gathered. A correlation matrix and descriptive statistics were used in the data analysis. Furthermore, investment variety improves as age, education, and income rise. The fact that 64% of respondents were unable to grasp even the basic questions highlights the need for lawmakers to declare a financial literacy emergency. As a result, the study's findings indicate that the respondents' level of financial awareness is poor.

Singh and Kumar (2017) analyzed the financial literacy of female teaching faculties of Banaras Hindu University. The study's main goals were to identify the most popular and favored investment products as well as to examine the working women's financial knowledge and investing behavior. In the study, a descriptive research design was used. To collect information, a standardized questionnaire was sent out. A sample of 168 female instructors from Banaras Hindu University was selected for the study. The study was assessed using multiple regression and correlation. The study discovered that although women had respectable jobs, they lacked confidence when making investing decisions, gave preference to shorter time horizons, and had a modest risk appetite. The majority of them favored fixed deposits as their investment option, the survey also showed.

Njehia (2017) analyzed the determinants of the level of financial literacy in Meru County, Kenya. Examining and analyzing the variables affecting financial literacy in Meru County was the study's main goal. Descriptive research design was used in the study by the researchers. While secondary data was gathered from pertinent books and journals, primary data was gathered utilizing both open-ended and closed-ended questionnaires. The study's target population in Meru County consisted of males, women, and youth. There were 400 responders in the sample. To characterize the

overall features of the population, descriptive statistics were employed. The link between the dependent and independent variables was evaluated using the Chi-square test of association. According to the study's findings, independent factors such as age and educational attainment were shown to be somewhat significantly correlated with financial literacy, while other independent variables included gender, income level, and information sources.

Mwathi et al. (2017) examined the effects of financial literacy on personal financial decisions among Egerton University Employees, Nakuru County, Kenya. The primary goal of the research is to ascertain how Egerton University workers' personal financial decisions are impacted by their financial literacy, attitude, knowledge, and abilities. The research design used in the study was descriptive. All workers of Egerton University made up the study's population, and 320 respondents were included in the sample. Structured questionnaires were used to gather primary data. Pilot testing and the use of Cronbach Alpha were used to verify the quality and reliability of the data. Utilizing descriptive statistics, the data was examined. Using SPSS, do multiple regression analysis and Pearson correlation. Financial attitudes did not significantly affect financial decisions, according to the research, but financial knowledge and abilities were important in deciding personal financial decisions.

Mugo (2016) analyzed effect of financial literacy on investment decisions among Savings and Credit Co-operative Societies Members in Nairobi. The primary aim of the research was to investigate how SACCO members in Nairobi County make investment decisions in relation to their financial knowledge, financial behavior, financial awareness, and financial attitude. The research design utilized was descriptive. The five SACCOs in Nairobi were chosen via purposeful selection, and 385 members were selected using stratified random sampling. Questionnaires were used to gather primary data. In this study, descriptive statistics were employed. Additionally, regression analysis was performed in order to ascertain how independent and dependent variables related to one another. The study's findings showed that financial behavior and financial awareness had a positive but non-significant association with investment behavior, but financial knowledge and financial attitude had a positive and significant relationship with the choice to make an investment.

Kimunduu et al. (2016) studied the influence of financial literacy on financial performance of small and medium enterprises in Kiambu County, Kenya. The study's main goal was to determine how financial literacy affected the small- and medium-sized businesses' financial performance in Kiambu County, Kenya. The research design used was descriptive. All of the SMEs that Ruiru Municipal Council had granted licenses to and who had completed financial literacy training made up the study's population. A sample of 100 respondents was selected. A questionnaire was used to gather primary data from the sample. The quantitative data was analyzed using descriptive and inferential statistics, and the gathered data was subjected to correlation and regression analysis using SPSS. Descriptive statistical analysis, data quality testing, multiple linear regression testing, F and t tests, and coefficient of determination are among the data analysis approaches employed in this study. According to the research, entrepreneurs that possess personal saving abilities earn more earnings than those who lack such information. Furthermore, SMEs' financial success and financial literacy were significantly positively correlated. Based on the findings, the research came to the conclusion that SMEs with superior financial performance had owners who were highly financially literate.

Singh and Sharma (2016) analyzed financial literacy and its impact on investment behavior for effective financial planning in Delhi. Analyzing how financial literacy affects investment behavior and examining patterns in investment behavior to inform investment decisions were the study's main goals. The research design used was descriptive. To collect data, a standardized questionnaire was administered. 135 samples were gathered. The gathered data was assessed using multiple regression, correlation, and descriptive statistics. Research has shown that having a solid understanding of different financial instruments and financial literacy may assist investors in making well-informed decisions that will protect their own and their dependents' financial futures. Every investor's level of knowledge, interest, and commitment to the financial planning process is extremely important, and it also presents a significant opportunity for market regulators and businesses to promote financial literacy in a way that is easy to understand and helps investors make long-term plans for the future.

Mutuku (2015) analyzed the effect of financial literacy on personal investment decisions amongst employees of Seventh Day Adventist Church in Kenya. Finding out how financial literacy affects people's investing decisions was the study's main goal. A descriptive research design was used in the study. The responders were provided with a self-administered questionnaire. As a result, of the 800 employees, 100 responded, making up the sample size. The quantitative data was analyzed using both inferential and descriptive statistical methods. SPSS was used to examine the data. The survey discovered that while making investment decisions, a significant portion of the workforce takes into account financial concepts including returns, holding periods, investment risks, and interest rate patterns, among others. The findings also showed a high positive correlation between financial literacy and making wise investing decisions.

Musundi (2014) assessed the financial literacy of the real estate investors who invested in the real estate industry in Nairobi County. The study's primary goal was to determine how financial literacy affected real estate investors' decisions about their own investments. The research design used in the study was descriptive. The study's sample consisted of 115 respondents, while the study's target demographic consisted of Nairobi County real estate investors. A self-administered survey was created. Numerous descriptive and inferential statistics were applied to the data analysis process. The findings showed that real estate investors' financial literacy was much below the required level and that this level affected their decision-making when making investments. Furthermore, in this intricate setting of decision-making, decision makers must possess sufficient levels of financial knowledge and expertise in order to attain the best possible results.

Mahfudh (2014) analyzed the financial literacy and investment decisions in Kenya in the Nairobi Securities Exchange. The study's main goal was to find out how Kenyan investors' degrees of financial literacy affected their choices for investments on the Nairobi Securities Exchange. The researcher employed a descriptive study design. A sample size of 360 respondents was selected using the convenience sampling approach from Kenya's 1.9 million individual investors. Questionnaires with predetermined questions were used to gather primary data. Using SPSS, the acquired data was examined using a variety of descriptive and inferential statistics, including means,

frequencies, percentages, and chi-square tests. The study's findings made it clear that financial literacy is significantly correlated with financial education and investment decisions, including portfolio management, speaking with financial experts, selecting investment vehicles, and regularly participating in the NSE. The study's conclusions led to the conclusion that a sizable fraction of local Kenyan investors lacked financial literacy, which adversely impacted their ability to make decisions on the NSE.

#### Summary of International Articles

Author	Titles	Objectives	Methodology	Findings
Sujono and Hajar (2023)	The effect of financial literacy and behaviour on investment decisions (study on Southeast Sulawesi investors).	The purpose of this study was to investigate how investing decisions are influenced by financial behavior and financial literacy.	Southeast Sulawesi's 365 listed investors on the Indonesia Stock Exchange were the subject of this investigation. Using Cronbach's alpha, the dependability of five types of factors influencing investing decisions is evaluated.	It was shown that investing decisions were significantly impacted by financial behavior and financial knowledge. The factor that most closely matches the financial literacy variable is investment knowledge. In the meanwhile, "familiarity" is the financial behavior indicator that most accurately captures financial behavior.
Mirosea and Hajar (2023)	The effect of financial literacy and financial behavior on investment decisions.	The purpose of this study was to investigate how investing decisions are influenced by financial behavior and financial literacy.	This investigation was carried out on 365 investors who are registered as Southeast Sulawesi Representatives on the Indonesia Stock Exchange.	It was shown that investing decisions are significantly influenced by financial behavior and financial knowledge. The factor that most closely matches the financial literacy variable is investment knowledge.
Wijayanto et al. (2023)	Financial literacy relationships and behavioral biases which can lead to irrational behavior in	The purpose of this study was to determine the associations between behavioral biases (representativeness, overconfidence,	Purposive sampling was utilized in this study, and 83 respondents were selected for the sample using a questionnaire.	After being acquired, the hypothesis was tested using multiple regression analysis and passed the validity, reliability, and classical assumption tests. According to this study, behavioral biases

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	investment decision making.	and illusion of control) and financial literacy that might result in irrational behavior while making investment decisions.		are negatively impacted by financial literacy, which suggests that financial literacy should rise.
Seraj et al. (2022)	The roles of financial literacy and overconfidence in investment decisions in Saudi.	This study looked at the moderating role of the overconfidence behavioral bias in relation to the impact of financial literacy on investing decisions.	A convenience sample strategy was used to gather data from 180 respondents in Saudi Arabia who answered a questionnaire. Using partial least squares structural equation modeling (PLS-SEM), the study's results were examined.	It was discovered that investing decisions were favorably and considerably impacted by financial literacy. Furthermore, the findings demonstrated that overconfidence had a beneficial impact on investment decisions and that overconfidence both favorably and substantially impacted the connection between financial literacy and investment decisions.
Singh and Gupta (2021)	The impact of financial literacy on investor attitudes and decision-making: an empirical analysis	This study looked at the connection between decision-making, investor attitude, and financial literacy.	A structured questionnaire was used to gather information from 510 respondents for the same aim. AMOS 22.0 was used for the hypothesis testing used in the data analysis.	It was shown that there was a strong correlation between decision-making and financial literacy, as well as between investor attitude and financial literacy.
Ullah et al. (2020)	The impact of financial information on individual investor's investment decision.	This study looked at the connection between individual investors' investing decisions and their level of financial literacy.	Using the convenience sample method, 267 responses to the online survey were gathered. For data analysis, the five-point Likert scale questionnaire was utilized in conjunction with SPSS software.	According to the study, investing decisions and financial literacy are strongly positively correlated. The findings demonstrated the importance of financial knowledge, financial skills, and financial attitudes in influencing investing decisions.

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Kumari (2020)	The impact of financial literacy on investment decisions: with special reference to undergraduates in western province, Sri Lanka.	This research looked at how undergraduates in Sri Lanka's western area made investing decisions in relation to their financial literacy.	The primary data analysis method utilized in the study was a partial least squares structural equation model (PLS-SEM), and reliability was assessed using Cronbach's Alpha coefficients.	It was discovered that undergraduates' investing decisions were favorably and significantly impacted by their financial literacy. Furthermore, financial abilities emerged as the most important feature when it came to the many aspects of financial literacy.
Niazi and Malik (2019)	Financial attitude and investment decision making - Moderating role of financial literacy	To examine how financial literacy significantly modifies investment variety in connection to decision-making, financial attitude, and sociodemographics.	Research Design: Descriptive research. Population & Sample: 775 respondents. Nature & Sources of data: Primary data were used. Data Collection: Structured questionnaire. Data Analysis: Descriptive Statistics and Correlation Matrix	It is evident that the respondents had minimal knowledge of finances given that 64% of them were unable to even understand the literacy questions.
Singh and Kumar (2017)	Study of women's financial literacy – A case of BHU	To determine the working women's most popular and preferred investment products and to assess their investing behavior and financial awareness.	Research Design: Descriptive research. Population & Sample: 168 female teaching faculties. Nature & Sources of data: Primary data were used. Data Collection: Structured questionnaire. Data Analysis: Correlation and Regression	Despite holding respectable jobs, women lacked confidence when making investing decisions, preferred to invest over longer time horizons, and had a modest tolerance for risk. The report also shows that the majority of them chose fixed deposits as their primary investment option.

Njehia (2017)	Determinants of the level of financial literacy Inmeru county, Kenya: A survey of Meru county	To investigate and assess the variables affecting Meru County's financial literacy.	Research Design: Descriptive research. Population & Sample: 400 respondents. Nature & Sources of data: Primary data and secondary data were used. Data Collection: Open and Closed-ended questionnaire. Data Analysis: Descriptive statistics, Chi-square test.	Independent factors showed a reasonably strong correlation with financial literacy included age and educational attainment, while variables with a weaker correlation included gender, income level, and information sources.
Mwathi, et al. (2017)	Effects of financial literacy on personal financial decisions among Egerton university employees, Nakuru county, Kenya	To ascertain how Egerton University workers' personal financial decisions are impacted by their financial literacy, attitude, knowledge, and abilities.	Research Design: Descriptive research. Population & Sample: 320 respondents. Nature & Sources of data: Primary data were used. Data Collection: Structured questionnaire. Data Analysis: Descriptive statistics, Pearson Correlation and Multiple Regression, Cronbach Alpha	While views about money had little bearing on financial decisions, financial knowledge and abilities were important in deciding individual financial decisions.
Mugo (2016)	Effect of financial literacy on investment decisions among savings and credit co-operative societies	To investigate the impact of financial behavior, knowledge, awareness, and attitude on investment choices made by Nairobi County SACCO members.	Research Design: Descriptive research. Population & Sample: 385 respondents. Nature & Sources of data: Primary data were used.	Financial conduct and financial awareness exhibited a positive but non-significant association with the investment behavior, whereas financial knowledge and attitude had a favorable and significant relationship

	members in Nairobi		Data Collection: Questionnaire. Data Analysis: Descriptive statistics, Multiple Regression	with the investment choice.
Kimunduu, et al. (2016)	A study on the influence of financial literacy on financial performance of small and medium enterprises in Ruiru town, Kiambu county, Kenya	To determine how financial literacy affects small and medium-sized businesses' financial performance in Kenya's Kiambu County.	Research Design: Descriptive research. Population & Sample: 100 respondents. Nature & Sources of data: Primary data were used. Data Collection: Questionnaire. Data Analysis: Descriptive statistics and inferential statistics, Correlation and Multiple Regression	Entrepreneurs that possess personal saving abilities tend to generate more earnings than those who lack such expertise. Furthermore, SMEs' financial success and financial literacy were significantly positively correlated. Consequently, SMEs with superior financial success were those whose owners had higher levels of financial literacy.
Singh and Sharma (2016)	Financial literacy and its impact on investment behaviour for effective financial planning	To examine how financial literacy affects investment behavior and to examine patterns in investment behavior in order to make investment decisions.	Research Design: Descriptive research. Population & Sample: 135 respondents. Nature & Sources of data: Primary data were used. Data Collection: Structured Questionnaire. Data Analysis: Descriptive statistics, Correlation, Multiple Regression	Every investor's level of knowledge, interest, and commitment to the financial planning process is extremely important, and it also presents a significant opportunity for market regulators and businesses to promote financial literacy in a way that is easy to understand and helps investors make long-term plans for the future.
Mutuku (2015)	The effect of financial literacy on personal	To ascertain how a person's level of financial literacy	Research Design: Descriptive research.	When making investment selections, a significant portion of the workforce took into account

	investment decisions amongst employees of seventh day adventist church in Kenya	affects their choice of investments.	Population & Sample: 100 respondents. Nature & Sources of data: Primary data were used. Data Collection: Self-Administered Questionnaire. Data Analysis: Descriptive statistics and Inferential Statistics	financial concepts including returns, holding periods, investment risks, and interest rate patterns, among others. Additionally, making wise investment decisions is strongly positively correlated with financial literacy.
Musundi (2014)	The effects of financial literacy on personal investment decisions in real estate in Nairobi county	To determine how financial literacy affects real estate investors' decision-making while making personal investments.	Research Design: Descriptive research. Population & Sample: 115 respondents. Nature & Sources of data: Primary data were used. Data Collection: Self-administered Questionnaire. Data Analysis: Descriptive statistics and Inferential Statistics	Real estate investors' degree of financial literacy was much below what was required, and this had a big impact on the choices they made about their investments. Furthermore, in this intricate setting of decision-making, decision makers must possess sufficient levels of financial knowledge and expertise in order to attain the best possible results.
Mahfudh (2014)	Financial literacy and investment decisions in Kenya: A case of individual investors in the Nairobi securities exchange	To look at how Kenyan investors' degrees of financial literacy affect their choices for investments on the Nariobi Securities Exchange.	Research Design: Descriptive research. Population & Sample: 360 respondents. Nature & Sources of data: Primary data were used. Data Collection: Structured Questionnaire. Data Analysis: Descriptive and	Financial literacy was significantly correlated with financial education and investment decisions, including portfolio investing, contacting financial analysts, selecting an investment vehicle, and regularly participating in the NSE. As a result, a sizable section of local investors in Kenya lacked financial literacy, which adversely

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Inferential Statistics such as Percentages, Frequencies, Means and Chi-square tests	impacted their ability to make decisions on the NSE.
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### 2.3.2 Review of National Articles

Pantha (2023) examined the influence of financial literacy on personal financial planning in Nepal. The impact of financial literacy on individual financial planning in Nepal was investigated in this study. In order to accomplish the study's goal, a systematic questionnaire was created. To determine the significance and impact of financial literacy on personal financial planning in Nepal, regression models and correlation coefficients were estimated. Financial planning was found to be positively impacted by financial knowledge, financial awareness, financial attitude, financial confidence, and financial socialization. It demonstrated that better personal financial planning results from having a wider range of financial knowledge, greater financial awareness results from having a higher level of financial awareness, a more upbeat outlook results in more effective personal financial planning, greater financial confidence results from having a higher level of financial confidence, and increased socialization among investors in the Nepalese market results in better personal financial planning.

Lamichhane (2022) examined financial literacy and individual investors' stock market participation in Nepal. The effect of financial literacy on the stock market participation (SMP) of individual investors was investigated in this study. A questionnaire with a survey structure was used to gather the data. This study examined the impact of financial literacy on individual investors' stock market participation (SMP) in Nepal using both a descriptive and a causal research approach. It was discovered that the three components of financial literacy, knowledge, conduct, and attitude, all positively and significantly impacted Nepalese stock market participation by investors. To enhance the financial literacy, positive conduct, and attitude of individual investors, the Nepalese government, policy makers, and stock market regulatory bodies ought to devise sound policies and programs. This will ultimately draw in more investors to participate in the Nepalese stock market.

Chaudhary et al. (2021) analyzed an investors' interest towards mutual funds: a study of Kathmandu valley, Nepal. The study's goal was to determine how investors in the Kathmandu Valley felt about mutual funds. A total of 230 prospective respondents were purposefully chosen by questionnaire in order to meet the specified objectives. Analysis of the gathered data is done using both correlation and descriptive analysis. Regarding knowledge of the several financial products that are presently offered in the financial sector of Nepal. According to the survey, the majority of investors had a moderate level of acquaintance with shares, a very low level with bonds, debentures, and money market instruments, and a medium level of familiarity with fixed deposits. According to the study, the reasons why investors were drawn to mutual funds in Nepal were their professional management services, flexibility, and safe investing mechanism.

Gnawali (2021) analyzed the behavioral biases and individual investor's decision making in Nepalese stock market: Descriptive perspectives. The purpose of this study was to investigate how independent factors affected people's stock market investing decision-making. This study examined the impact of independent factors on individual stock market decision-making behavior in Nepal using primary data. The study's data, which was utilized to compute correlation and regression, was gathered from the investors present at the broker house. Both descriptive and inferential analysis were employed in this investigation. The study discovered that, for all investors, social interaction and regulatory policies are the only factors that significantly influence how investors make decisions. Regression analysis for novice investors revealed that, for them, social interaction, regulatory policies, psychological factors, and company reputation all significantly influence how investors make decisions, while for seasoned investors, social interaction alone significantly influences how they make decisions.

Shrestha (2020) studied the factors influencing investment decisions of Nepalese investors. With 110 respondents, the study's goal was to examine the variables impacting Nepalese investors' stock market investing decisions. Likert scale questions and structured questionnaires are used to collect the data. The business related variable (CRV), the risk and return related variable (RRV), and the market related variable (MRV) are the three key variables that influence investment decisions. According to the report, most investors prefer to purchase stock in the primary market, they research companies before making an investment, they periodically check their portfolios, and

most of them use their own savings when purchasing stock. It was discovered that all regression models showed a positive and significant coefficient of the company-related variable (CRV). It was determined that Nepalese investors make their investment decisions by keeping an eye on the variables connected to Nepalese enterprises.

Baral and Pokharel (2020) examined the behavioral factors and investment decision: a case of Nepal. The study's primary goal was to investigate the beliefs and actions of investors in the Nepalese stock market. This study, which was based on other studies, employed the Nepal Stock Exchange's investment performance as the dependent variable and four independent variables—the heuristic, prospect, market, and herding. Based on primary data gathered from 120 respondents who have invested in shares of NEPSE-listed businesses, this study is an empirical investigation. The study found that the performance of investments is significantly impacted by market factors.

Shrestha and Pokhrel (2019) investigated the factors affecting stock index in Nepal. Using monthly NEPSE data, the research conducted an empirical analysis of the factors influencing the Nepalese stock market index. It was also determined how significant political shifts will affect Nepal Rastra Bank's lending practices regarding paid-up capital and share collateral. The broad money growth and interest rate have a positive and negative correlation, respectively, with the Nepal stock index, according to empirical data derived from OLS estimates of behavioral equations. The stock index was found to respond significantly to changes in the political environment and Nepal Rastra Bank's policies regarding lending against share collateral, as well as partially to paid-up capital hikes. It also had an association with inflation and a negative association with broad money and interest rates.

Poudel and Shrestha (2019) examined the stock return and trading volume relation in Nepalese stock market: an ARDL approach. Using 149 months of data, the study sought to determine the link between trading volume and stock returns. Using the Autoregressive Distributed Lag Approach, the study examined the short- and long-term relationships between trading volume and stock returns. The investigation revealed a strong positive correlation between trading volume and stock returns over the long and short terms. Additionally, it is discovered that market participants utilize volume as an

introduction to stock returns and that there is a considerable influence of stock returns on trading volume in the Nepalese stock market.

Pokharel (2018) analyzed the investors' preference on stock market: a case of Nepal Stock Exchange. The study's objectives were to investigate why investors choose to invest in the listed firms on NEPSE, investigate the rationale behind their choice of specific NEPSE companies, identify the driving forces behind their investment preferences, and investigate the rationale behind their investment in initial public offerings (IPOs). The survey strategy used in the study included a structured questionnaire. The findings showed that investors were discovered to be interested in secondary markets for investments. The primary factors that led to the selection of shares were their high earning rate and liquidity. Investors believed that broker advice and subsequent index movement were the main factors affecting their decision to participate in the NEPSE secondary market. The daily newspaper's news and the state of the market were thought to have the least impact on investing decisions. The respondents ranked capital gains as the most important driving element, followed by liquidity, dividends, safety, and bonus shares. The respondents ranked tax advantages and rights shares as the least preferred motivating reasons.

Dangol and Shakya (2017) examined the investment pattern of financially literate persons in Nepal. This research looked at the investment habits of Nepali investors who were financially literate. Utilized include the mean, ANOVA, and logistic regression. The findings indicated that investors possess a greater degree of financial literacy. Both the income and education levels rose in tandem with the rise in financial literacy. The study found that those with high and poor levels of financial literacy had different investing habits. The aforementioned categories exhibit variations with respect to their investing inclinations, goals, duration of investment, sources of guidance, and degree of awareness.

Chaulagain (2017) analyzed the relationship between financial literacy and behavior of small borrowers. The study's main goals were to gauge the small borrowers' degree of financial literacy and determine whether or not their attitude and financial literacy influence their financial behavior. The research employed a quantitative research technique. Additionally, the study employed a cross-sectional survey approach using

pre-structured questions to gather data. Chi-square test statistics were employed together with multiple regression, correlation analysis, and descriptive analysis. In the districts of Kavre Palanchowk, Bhaktapur, Lalitpur, and Kathmandu, there are two cooperative societies. 393 people made up the sample size that was chosen to be representative. The research's findings indicate that small borrowers have a comparatively high degree of financial literacy. Furthermore, a statistically significant correlation has been seen between financial literacy and attitude, as well as between financial literacy and conduct. Consequently, the outcome shows that raising the small borrowers' financial literacy is necessary to influence their financial behavior.

#### Summary of National Articles

Author	Titles	Objectives	Methodology	Findings
Pantha (2023)	Influence of financial literacy on personal financial planning in Nepal.	To investigate how financial literacy affects individual financial planning in Nepal.	To determine the significance and impact of financial literacy on personal financial planning in Nepal, regression models and correlation coefficients were estimated.	Financial planning was found to be positively impacted by financial knowledge, financial awareness, financial attitude, financial confidence, and financial socialization. It demonstrated that improved personal financial planning would result from having a wider understanding of finance.
Lamichhane (2022)	Financial literacy and individual investors' stock market participation in Nepal.	The effect of financial literacy on the stock market participation (SMP) of individual investors was investigated in this study.	This study examined the impact of financial literacy on individual investors' stock market participation (SMP) in Nepal using both a descriptive and a causal research approach.	It was discovered that the three components of financial literacy, knowledge, conduct, and attitude, all positively and significantly impacted Nepalese stock market participation by investors.
Chaudhary et al. (2021)	An investors' interest towards mutual funds: a study of	To evaluate the Kathmandu Valley investor's mindset	Analysis of the gathered data is done using both correlation and descriptive analysis.	According to the survey, the majority of investors had a moderate level of acquaintance with shares, a very low level with bonds, debentures, and money

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	Kathmandu valley.	toward mutual funds.		market instruments, and a medium level of familiarity with fixed deposits. According to the study, the reasons why investors were drawn to mutual funds in Nepal were their professional management services, flexibility, and safe investing mechanism. It was discovered that, for all investors, social interaction and regulatory policies are the only factors that significantly influence how investors make decisions. Regression analysis for novice investors revealed that psychological factors, social interaction, regulatory policies, and company image significantly influence how investors make decisions, and for seasoned investors, social interaction alone significantly influences how they make decisions.
Gnawali (2021)	Behavioral biases and individual investor's decision making in Nepalese stock market: descriptive perspectives	To investigate the impact of independent factors on an individual's stock market investing decision-making behavior.	Regression and correlation analysis techniques were employed in this study's descriptive and inferential analyses of the data.	According to the report, most investors prefer to purchase stock in the primary market, they research companies before making an investment, they periodically check their portfolios, and most of them use their own savings when purchasing stock. It was discovered that all regression models showed a positive and significant coefficient of the company-related variable (CRV).
Shrestha (2020)	Factors influencing investment decisions of Nepalese investors.	To examine the variables influencing Nepalese investors' stock market investing choices.	OLS estimates are used for data analysis once the data are gathered using a structured questionnaire with Likert scale questions.	It was discovered that the performance of investments is significantly impacted by market factors.
Baral and Pokharel (2020)	Behavioral factors and investment decision: a case of Nepal.	To investigate the beliefs or actions of investors in the Nepalese stock market.	Using OLS estimates, the data was empirically investigated.	

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Shrestha and Pokhrel (2019)	Factors affecting stock index in Nepal.	To use NEPSE monthly data to investigate the variables influencing Nepal's stock market index.	Using OLS estimates, the data was empirically investigated.	It was discovered that the wide money growth of Nepal's stock index had a positive correlation with it, whereas the interest rate had a negative correlation. The stock index was found to respond significantly to changes in the political environment and Nepal Rastra Bank's policies regarding lending against share collateral, as well as partially to paid-up capital hikes. It also had an association with inflation and a negative association with broad money and interest rates.
Poudel and Shrestha (2019)	Stock return and trading volume relation in Nepalese stock market: an ARDL approach.	To determine how trade volume and stock returns are related.	Trading volume and stock returns: a long- and short-term link utilizing the Autoregressive Distributed Lag Approach.	It was discovered that trading volume and stock returns had a strong positive correlation over the long and short terms. Additionally, it is discovered that market participants utilize volume as an introduction to stock returns and that there is a considerable influence of stock returns on trading volume in the Nepalese stock market.
Pokharel (2018)	Investors' preference on stock market: a case of Nepal Stock Exchange.	To investigate why investors choose to invest in the listed firms on NEPSE, investigate the rationale behind their choice of specific NEPSE companies, identify the driving forces behind their investment	The survey strategy used in the study included a structured questionnaire.	It was found that investors were found to have investment interest in secondary market. Investors believed that broker advice and subsequent index movement were the main factors affecting their decision to participate in the NEPSE secondary market. The daily newspaper's news and the state of the market were thought to have the least impact on investing decisions. The respondents

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		preferences, and investigate the rationale behind their investment in initial public offerings (IPOs).		ranked capital gains as the most important driving element, followed by liquidity, dividends, safety, and bonus shares.
Dangol and Shakya (2017)	Investment pattern of financially literate persons in Nepal.	To look into the investment habits of Nepalese investors who are financially literate.	Utilized include the mean, ANOVA, and logistic regression.	The findings indicated that investors possess a greater degree of financial literacy. Both the income and education levels rose in tandem with the rise in financial literacy. The study found that those with high and poor levels of financial literacy had different investing habits.
Chaulagain (2017)	Relationship between financial literacy and behavior of small borrowers	To assess the small borrowers' degree of financial literacy and determine whether or not their attitude and level of financial literacy influence their financial behavior.	Research Design: Quantitative research. Population & Sample: 393 respondents. Nature & Sources of data: Primary data and secondary data were used. Data Collection: pre-structured questionnaire. Data Analysis: Descriptive statistics, Correlation and Multiple Regression, Chi-Square test	The small borrowers had a comparatively high degree of financial literacy. Furthermore, a statistically significant correlation was seen between financial attitude and conduct, as well as between financial literacy and attitude. Therefore, in order to alter the financial behavior of small borrowers, it is necessary to promote financial literacy.

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### 2.3.3 Review of Thesis

Pandit (2021) investigated financial instruments and investor preferences in Nepal. The purpose of this study was to examine and evaluate investors' choices and preferences for financial instruments. Equity shares hold a monopoly on the Nepali security market. Professional large individual investors are quite rare. On the other hand, there are a lot of little investors. While modest investors are rarely aware of the workings of the market mechanism, those huge professional investors have a very high level of

understanding. Many of them, who have recently made investments as a result of friends' and family's encouragement, are even unaware of the steps involved in the transfer of share ownership. The general investor population has very low awareness. In Nepal, institutional investors are likewise largely inactive. The principal institutional investors in any economy include commercial banks, finance businesses, insurance companies, pension funds, investment trusts, etc. None of them are actively participating in the secondary market in our nation. It appears that there is a significant need to boost stock market liquidity. The main perceived needs in this respect include effective services for market intermediaries, reasonable and supportive regulations from regulatory bodies, investor awareness campaigns, greater consideration for the psychology and preferences of investors, and so on.

Subedi (2020) investigated Nepalese investors' knowledge of the securities market. The purpose of this study was to examine the criteria that Nepalese investors used while making investment decisions as well as the level of information that was accessible to them from the perspective of the market. The purpose of regulations, information disclosure by listed firms, and regulatory submissions is to guarantee investors' protection, sound corporate governance, and transparency. It was discovered that timely and equitable information disclosure was a necessary component for the securities market to operate efficiently. One of the potential causes of the capital market's information deficit may be the determination made by speculators and gamblers, which in turn leads to their dominance. Given the quality of information at their disposal, investors in Nepal are unlikely to be very sensible. The NEPSE's trading processes and price generation mechanism were mostly unknown to investors.

Dahal (2019) investigated the stock market performance of Nepali joint stock businesses that were listed. With the use of the NEPSE index, the study's particular goals were to investigate and evaluate investors' perspectives on stock investment decisions and the effects of signaling elements on company price. According to the report, the majority of Nepalese investors favored commercial bank stocks. Due to investors' lack of knowledge about investing, Nepal's stock market is still in its infancy. On the NEPSE trading floor, there existed a conventional, methodical trading methodology. The return on their investment did not satisfy the investors. The primary motive for Nepalese investors to buy shares was the dividends. It was also discovered

that stock market participants base their investing decisions on share prices. The most important element influencing the market price of a share was rumors. In terms of the necessary assistance from these parties, the effectiveness of the various stock market participants, including brokers, market makers, and securities exchange limited, was determined to be inefficient.

Baral (2018) examined stock price movement and volume, examining newly listed and maintained listed companies in NEPSE, analyzing investor opinions regarding stock investment decisions, and studying and examining the impact of signaling factors on stock price with the aid of the NEPSE index. According to the study's examination of stock price movement, the trend for stock prices has been declining steadily for many years, but in the last year, the price of the stock has dropped significantly. The signaling impact was determined to have been a significant influence in the stock price fluctuations after the paired t-test for signaling factor was analyzed using reference big three events. The Nepalese stock market is in a growth stage, according to an examination of various bar diagrams used to identify the firms with the highest stock prices. Manufacturing and processing companies, as well as insurance companies, were determined to have the highest stock prices throughout the study period.

Gyanwali (2017) conducted a study on factor influencing investment decision: the case of individual investor at Nepal stock exchange (NEPSE). This study's primary goals were to determine the kinds of factors that affect investment decisions and the makeup of NEPSE's individual investors. It was discovered that there are differences in the percentages of male and female investors in the Nepalese market. 61% of the 128 respondents that were included in the study were men and 39% were women. Thus, men make up the majority of investors in the Nepalese stock market. Most of the Nepalese respondents had between one and five years or less experience in the stock market. The predicted corporate earnings, the expected dividend statement from government authorities, the date in reports and prospectuses, the necessity for diversification, and the order of priority are the five most important criteria affecting an individual investor's decision to participate in the NEPSE. When making an investment decision, stock marketability has a significant influence among market information factors, whereas other stocks' prices have a low impact.

Adhikari (2016) studied on share price movement of joint venture bank in Nepal. The study's primary goals were to assess the market share price behavior of joint venture banks on the Nepalese stock exchange, determine if investing in venture bank shares is safe or dangerous, and use the beta coefficient to assess how sensitive a share is to the market. Correlation coefficient, recreation analysis, and auto correlation were employed in the study. The study's analysis of the stock price movement revealed that the market value does not fully convey the market share and growth rate of the various banking indicators utilized. The majority of banks offer annual divisions, which might not be appropriate to other kinds of non-banking businesses. Throughout the sample period, these banks' average realized rates of return differ from one another. Thus, when it comes to risk management, CV might be chosen above SD based on coefficient of variation (CV).

Khanal (2015) studied the stock price movement in Nepalese security market. The study's primary goals were to examine and evaluate price and volume, as well as the rate of newly listed companies and the maintenance of already listed companies in NEPSE. It also aimed to investigate and evaluate investor perspectives on stock investment decisions, recommend study findings to relevant parties, and investigate the impact of signaling factors on stock price using the NEPSE index. According to the price movement investigation, the majority of respondents were questioned regarding the main factors influencing stock price movement and the impact of dividends on stock price. The respondents believed that the bullish trend in stock price movement was appropriate for the Nepalese securities market. When asked which investment industry they preferred, the majority of investors stated that they were attached to their income. When asked which investment sector they preferred, the majority of investors said that they were most closely associated with the banking industry. Likewise, it was discovered that stock market investors in Nepal make decisions based on independent analysis.

Koirala (2013) studied the impact of stock price behaviors in Nepal stock exchange. Examining the quantitative and qualitative elements influencing the NEPSE stock price, with a particular emphasis on commercial banks, and utilizing financial indicators to evaluate the stock price in order to assess MVPS market trends were the primary goals of this study. According to the study's examination of the stock price behavior of

Nepalese stocks, DPS's CV is EBL, which is the greatest, and SCBNL, which is the lowest. SBL and BOKL have high aviation coefficients. Therefore, it can be said that out of all the banks, EBL has greater DPS fluctuations. In a similar vein, SCBNL has the lowest CV of BVPS while EBL has the highest. Additionally, the CV of SCBNL indicates less volatility across the selected Banks, whereas the CV of EBL indicates that there is variability in BVPS.

Bhatta (2012) analyzed the dynamic of stock market in Nepal. The study's goals were to examine the trend of the Nepalese stock market, assess and contrast the sector-specific financial standing of the market's stocks, examine market share prices, and determine how the secondary market affects the primary market and vice versa. The study came to the conclusion that economic activity and the stock market move in the same direction. They have an effect on one another. The latter reflects the evolution of the former. The economy's long-term, major initiatives are financed by investable resources that are raised and mobilized via the stock market. As a result, the stock market may be thought of as the center of the economy. The stock market in the Nepalese economy attracts investors who want to put their money into business sector shares. Fostering entrepreneurship is essential, as is motivating entrepreneurs to launch profitable businesses as soon as feasible. The Nepalese stock market has a strong chance of mobilizing resources to fund profitable businesses in the country's economy, even if it is now too late to address these issues and restore the market's vitality and support.

## **2.4 Research Gap**

One crucial component that enables people to make wise financial decisions is financial literacy. When compared to investors who lack financial literacy, financially educated investors often make wiser investment choices and commit fewer errors. For this reason, the idea of financial literacy is crucial to people's investing. Even while financial literacy is becoming more and more important, investors seldom take it into account when making decisions. The majority of Nepali investors appear to be interested in acting on instinct when making financial decisions, and they often do so by taking advice from friends or family. Few investors comprehend the technical and fundamental ideas involved in investing, let alone track market trends. Furthermore,

regardless of a nation's economic growth stage, a low degree of financial literacy exists among the various demographic categories of people in different countries.

Nevertheless, the evaluation could not locate any previous research on the effect of financial literacy using the same characteristics on individual investment decisions in relation to the Kathmandu Valley. Previous research has demonstrated a positive and substantial association between financial knowledge and attitude and investment decision-making, whereas financial behavior and financial awareness have a favorable but not statistically significant relationship with investment behavior. Therefore, the purpose of this study is to determine how investors in the Kathmandu Valley make personal investment decisions and what effects their financial behavior, knowledge, awareness, and skill have on their finances. This research may be a helpful tool for determining whether or not the previously investigated and proven subject is appropriate in the Nepali setting. Furthermore, the results of this study may serve as a foundation for future research projects.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

The purpose of this chapter is to provide an explanation of the research techniques employed to achieve the study's stated goals. The research design, sampling design and sample size, research instruments, data collecting, and data analysis methodologies are all part of the research methodology used in this study to examine the relationship between individual investors' investment decisions and their level of financial literacy. In addition, it involves creating the questionnaire that participants must complete. Additionally, this chapter describes the methods for assessing the existing data as well as the data collecting process.

#### **3.1 Research Design**

The study applied descriptive and casual research design which aims to study financial literacy and investment decision of individual investors in Nepalese capital market. Descriptive research design is used to describe the variables used for the analysis of financial literacy and investment decision with the average, standard deviation, maximum, and minimum values of the responses from the survey. The casual research design is adopted for the analysis of relationship and impact of financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) and investment decisions of individuals in Nepalese capital market.

#### **3.2 Population and Sample**

The population for the study has been defined as the entire people of Kathmandu Valley. There is a tendency of investing in different portfolio from different sphere of population of Kathmandu Valley from which researcher has taken 400 sample. The sample has been selected from individuals of age group of 16-65 years old from within Kathmandu Valley. Under quantitative sample procedure, a non-probability sampling technique was used in the research. Non-probability sampling comprise sampling like convenience, quota and snowball sampling, among which, convenience sampling technique was used to collect the data by distributing the questionnaire to the sample. The convenience of the researcher in terms of place and sample was taken into consideration in this research.

### 3.3 Nature and Source of Data

Primary data have been employed in the research to get the data. An organized questionnaire was created for the primary cross-section data. For the primary data collection, the questionnaire had closed-ended questions and a 5-point rating scale. A commonly used 5-point rating scale asks respondents to indicate how much they agree or disagree with each set of statements. The categorization of each scale item response ranges from "Strongly Disagree" to "Strongly Agree." Statements on an ordinal scale were rated on an ascending range from 1 (strongly disagree) to 5 (strongly agree), depending on the degree of a behavioral feature. A self-administered questionnaire with 400 participants of varying ages, genders, occupations, and educational levels was used to gather data.

### 3.4 Methods of Analysis

The data gathered and analyzed from the respondents was put to use using descriptive analysis. Several tools, including percentage, frequencies, mean, and standard deviation, were produced to provide an overview of the data.

#### Mean

The average of the replies is determined using the mean. A higher mean indicates that the respondents agree with the replies, whilst a lower mean indicates that they disagree (Sharma & Chaudhary, 2018).

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$$\bar{x} = \text{Mean}$$

$$\sum x = \text{Sum of no. of observations}$$

$$n = \text{No. of observations}$$

#### Standard Deviation

The standard deviation is employed in the computation of the value's divergence from the mean. Greater variation in the replies deduced from the respondents is indicated by a higher standard deviation. Low standard deviation, however, is preferred (Sharma & Chaudhary, 2018).

$$\text{Standard Deviation} = \sqrt{\frac{\sum(X - \bar{X})^2}{n-1}}$$

Where,

s = Standard Deviation

$\bar{x}$  = Mean

n = No. of observations

### Percentage

One of the best tools for comparing two amounts or variables is a percentage. The word "percentage" simply means "per hundred." Stated otherwise, the percent is a fraction with 100 as the denominator, and a rate of percent is the numerator of this fraction.

### Correlation Analysis

The link between the independent and dependent variables is computed using the correlation. To determine the link between the dependent and independent variables, Karl Pearson's coefficient was employed. The direction and intensity of the association between the two variables were described using correlation (Sharma & Chaudhary, 2018).

$$\text{Correlation Coefficient} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

r = correlation coefficient

n= no. of observations

X and Y are the variables

### Multiple Regression Analysis

Several When examining the relationship between any independent variable and the dependent variable, one versatile technique for data analysis is called regression. According to Cohen et al. (2003) the relationships may be nonlinear, the independent variable may be quantitative or qualitative, and the impact of one or more variables may be examined with or without the consideration of other factors. A statistical method for determining the relationship between the variables is regression analysis. When focusing on the link between a dependent variable and one or more independent

variables, it encompasses a wide range of modeling and analysis approaches for multiple variables.

**Regression Model:** Regression model was presented in the following way.

$$ID = \beta_0 + \beta_1FK + \beta_2FAW + \beta_3FB + \beta_4FS + \beta_5FA + e_i$$

Where,

ID = Personal Investment Decision of Investors

$\beta_0$  = Base Constant

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

FK = Financial Knowledge

FAW = Financial Awareness

FB = Financial Behavior

FS = Financial Skills

FA = Financial Attitude

$e_i$  = error term

### Sample t-Test

When comparing the means of two separate groups based on an identical continuous, dependent variable, the independent-samples t-test, or independent t-test for short, is employed (Sharma & Chaudhary, 2018).

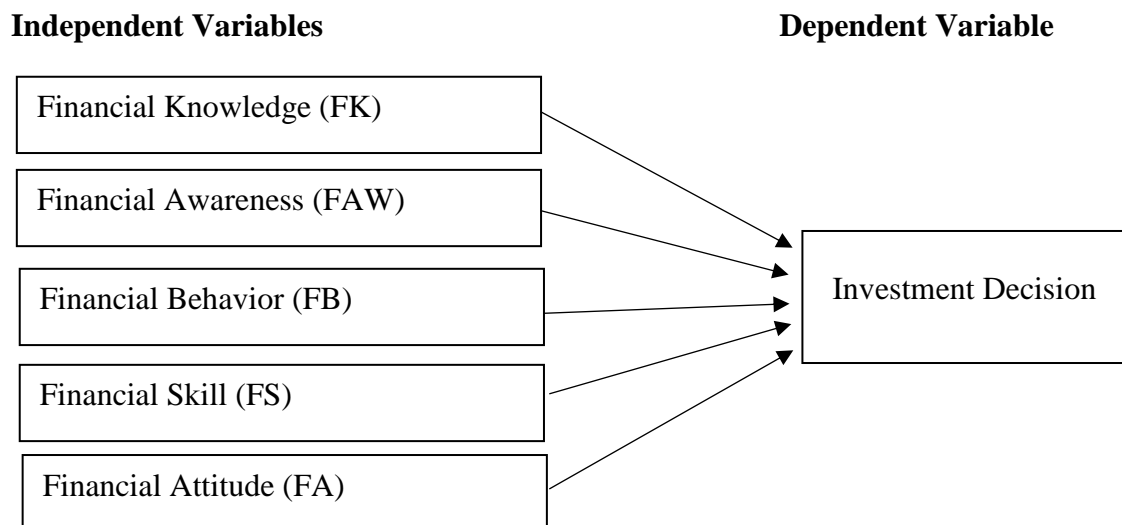
### One Way ANOVA

If there are any variations that are statistically significant among the means of more than two independent (unrelated) groups, the one-way analysis of variance (ANOVA) is used to find them (though it is typically used when there are at least three groups, not just two) (Sharma & Chaudhary, 2018).

### 3.5 Research Framework and Definition of Variables

A conceptual framework is a diagrammatic depiction that illustrates the link among the dependent and independent variables. The study's dependent variable is the individual investor's choice, whereas the independent variable is financial literacy. The operational definition of financial literacy includes knowledge, awareness, behavior, skill, and attitude related to money. Additionally, the moderating variable, which has the ability

to moderate the link between the independent and dependent variables, is also depicted in the figure. The study's conceptual framework is shown below;



*Figure 1.* Research Framework

Source: Niazi and Malik (2019); Singh and Kumar (2017); Singh and Sharma (2016); Mugo (2016); Musundi (2014)

## Definition of Variables

### Financial Knowledge

A person who is financially literate will understand certain important financial concepts on a basic level. As a result, one important aspect of financial literacy is financial understanding. Instead of focusing on fundamental financial ideas. Herd et al. (2012) assessed financial knowledge as an individual's understanding of their personal financial problems and considered it as a requirement to make sound financial decisions. Financial knowledge is the comprehension of key ideas in personal finance, such as saving and budgeting (Gina et al., 2012). According to the conventional portfolio theory, investors often steer clear of financial assets about which they know very little or nothing at all.

According to Bush et al. (2000) understanding finance has evolved from a convenience to a necessary survival skill. A person's financial conduct is greatly influenced by their level of financial understanding. Furthermore, Chaulagain (2015) identified financial knowledge as the initial component of financial literacy that financial education adds.

Among the sources of financial knowledge are fundamental ideas and comprehension of the financial services and market (Jariwala, 2013).

### **Financial Awareness**

A person has to be able to manage both their resources and assets in order to make wise investing selections. Understanding the risk-return trade-off and people's tolerance for risk are essential when selecting an investment. Financial literacy is necessary for evaluating various investment opportunities in order to comprehend the significance of the characteristic. As a result, the origin of financial education is crucial. The focus of financial awareness is on the necessity and the source of financial education (Jariwala, 2013). All people need to be more financially educated; in fact, any family that wants to buy a house, manage their budget, send their kids to college, and make sure their parents will have a source of income when they retire has to know this. Investors are always aware of the potential return on their investment as the prospect theory compares outcomes in the stock market that are only possible with outcomes that can be achieved with certainty.

### **Financial Behavior**

An individual's financial well-being is greatly influenced by his behavior. As a result, it is crucial that the financial literacy test include evidence of behavior. High financial behavior individuals were more likely to trade stocks and engage in other formal financial markets (Jariwala, 2013). According to Agarwalla et al. (2013) people who practice self-discipline when managing their personal finances and household finances are more likely to set financial goals, assess the affordability of products, pay their bills on time, carefully consider financial products, and rely on savings or assets rather than loans during difficult times. Any human behavior that is pertinent to money management can be classified as financial behavior (Xiao, 2008). Portfolio theory suggests that since money is a store of value, investors should include it in their ideal portfolio. Investors also exhibit evidence of risk aversion, which means they would prefer to take on less risk than more for a given rate of return.

### **Financial Skill**

A more crucial component of financial well-being than producing or earning money is managing the money. A person with strong financial management skills manages their

available funds to increase their income; this type of money management expertise is sometimes referred to as financial skill. Perceived financial knowledge reflects financial knowledge, which in turn impacts knowledge-dependent financial abilities. Financial literacy is the capacity to manage financial resources wisely for long-term well-being using other financial skills and an understanding of fundamental economic and financial principles (OECD, 2011). The life cycle hypothesis states that novice investors would rather take out loans to pay for their consumption while they are still in school and developing their abilities, which will help them decide which stocks to buy.

### **Financial Attitude**

Financial attitudes are one's values and opinions about several aspects of personal finance, such as whether saving money is necessary or not (Gina et al., 2012). A person's attitude toward their finances is determined by their position and state of mind. This is known as their financial attitude. It has to do with choosing one project or financial opportunity over another. The term "financial attitude" describes a person's mindset, assessment, and judgment toward their finances that are indicative of their stance (Pankow, 2012). According to prospect theory, investors assess probable stock market outcomes differently from outcomes that can be achieved with certainty. Typically, investors base their decisions on investments on their presumptions and attitudes toward the market.

### **Investment Decision**

An investment is a medium- to long-term resource allocation with the goal of recovering investment expenses and turning a healthy return. Expected returns on investments are unclear due to the effect of the economic and financial environments. Individuals make the investment selections following a thorough examination of the investment proposals. One of the most important aspects of investing is the risk involved. There is a risk since it is uncertain if the original investment in investment projects can be recovered (Virlics, 2013).

## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

This chapter deals with results from the survey and the analysis of the data collected from the questionnaire. The data analysis presents particularly demographic characteristics, descriptive analysis, relationship analysis, regression analysis and hypothesis testing. Excel and SPSS software was used to analyze the data.

#### **4.1 Results**

##### **4.1.1 Demographic Profile of Respondents**

From 400 questionnaires distributed to the people within the Kathmandu Valley, the entire questionnaire was used for analysis. The following table shows the profile of the respondents by age, gender, marital status, education level, occupation and income level of respondents.

Table 1 shows the age classification of the respondents categorized into five different groups as Below 18 years, 18 years to 25 years, 25 years to 35 years, 35 years to 55 years, and Above 55 years. The majority of respondents, i.e., 35 percent lies in the age group “25 years-35 years”. Similarly, the age group “235 years-55 years” constitutes 30 percent of the total respondents, followed by the age group “18 years-25 years” which constitutes 27.50 percent of the total respondents. Likewise, the age group “Below 18 years” constitutes 4 percent of the total respondents. Finally, the age group “Above 55 years” embraces the least respondents i.e., 3.5 percent. The data demonstrates that most of the respondents are below 35 years of age.

The gender of the respondents is categorized into two groups as Male and Female. The total respondents whereby the male constitutes 67.50 percent of the total respondents and the female constitutes 32.50 percent of the total respondents. This demonstrates that there is majority of frequency distribution based on the Male respondents.

The marital status of the respondents is categorized into two groups as Unmarried and Married. Out of total respondents surveyed, 290 respondents i.e., 72.50 percent of

respondents were unmarried, 110 respondents i.e., 27.50 percent of respondents were married.

Table 1  
*Demographic Profile of Respondents*

Demographic	Frequency	Percent
<b>Age:</b>		
Below 18 years	16	4.00
18 years to 25 years	110	27.50
25 years to 35 years	140	35.00
35 years to 55 years	120	30.00
Above 55 years	14	3.50
Total	400	100
<b>Gender:</b>		
	Frequency	Percent
Male	270	67.5
Female	130	32.5
Total	400	100
<b>Marital Status:</b>		
	Frequency	Percent
Unmarried	290	72.50
Married	110	27.50
Total	400	100
<b>Level of Education:</b>		
	Frequency	Percent
Upto +2 level	40	10.00
Bachelor's level	186	46.50
Masters level	170	42.50
MPhil level	4	1.00
PhD level	0	0.00
Total	400	100
<b>Occupation:</b>		
	Frequency	Percent
Teacher	50	12.50
Business Person	72	18.00
Student	110	27.50
Banker	70	17.50
Accountant	40	10.00
Government Services	54	13.50
Others	4	1.00
Total	400	100
<b>Level of Income:</b>		
	Frequency	Percent
Below 20,000	40	10.00
20,001 to 40,000	170	42.50
40,001 to 60,000	140	35.00
60,001 to 80,000	30	7.50
Above 80,000	20	5.00
Total	400	100

Note: Survey Report 2023

The education level of the respondents is categorized into four groups as Upto +2 Level, Bachelor's Level, Master's Level, MPhil Level, and PhD Level. The Bachelor's Level occupies the highest number with 186 respondents i.e., 46.50 percent of the respondents, followed by Master's Level which constitutes 170 respondents i.e. 42.50 percent of the respondents. Upto +2 Level occupies 10 respondents i.e., 10 percent. Finally, MPhil Level occupies only 4 respondents i.e., 1 percent of the respondents. There were no respondents from PhD Level.

The occupation of respondents is divided into seven groups as Teacher, Business Person, Student, Banker, Accountant, Government Services and Others.; 72 respondents were Business person i.e. 18 percent of the total respondents; 70 respondents were Banker i.e. 17.50 percent of the total respondents; 54 respondents were Government Services category i.e. 13.50 percent of the total Out of the total respondents surveyed 110 respondents were Student i.e. 27.50 percent of the total respondents respondents; 50 respondents each were from Teacher comprising 12 percent, 40 respondents were Accountant i.e. 10 percent of the total respondents and 4 respondents are categorized themselves in Other category.

The income level of the respondents is categorized into five groups as Below 20,000, 20,001 to 40,000, 40,001 to 60,000, 60,001 to 80,000, and Above 80,000. Out of total respondents surveyed, 170 respondents i.e., 42.50 percent of respondents had income 20,001 to 40,000, 140 respondents i.e., 35 percent of respondents has income between 40,001 to 60,000, 40 respondents i.e., 10 percent of respondents had income Below 20,000, 30 respondents i.e., 7.50 percent of respondents had income between 60,001 to 80,000, and 20 respondents i.e., 5 percent of respondents had income Above 80,000.

#### **4.1.2 Respondent's profile by Investment Objective**

The investment objective of the respondents is categorized into four groups as High Return, Moderate Return, Low Risk and Capital Appreciation. The frequency distribution and percent composition of the respondents as per their investment objectives is shown in the Table 2 as:

Table 2  
*Respondent's profile by Investment Objective*

Investment Objective	Frequency	Percent
High Return	150	37.50
Moderate Return	200	50.00
Low Risk	20	5.00
Capital Appreciation	30	7.50
Total	400	100

Note: Survey Report 2023

Table 2 shows the major investment objectives of the respondents. Out of total respondents surveyed, 200 respondents i.e., 50 percent of respondents focused on Moderate Return, 150 respondents i.e., 37.50 percent of respondents focused on High Risk, 30 respondents i.e., 7.50 percent of respondents focused on Capital Appreciation, 20 respondents i.e., 5 percent of respondents focused on Low Risk.

#### **4.1.3 Respondent's profile by Preferable tools of Investment**

The preferable tools of investment is categorized into five categories; bank deposits, real estate, share, bonds and debentures, and insurance. The frequency distribution and percent composition of the respondents as per their preferable tool of investment is shown in the Table 3 as:

Table 3  
*Respondent's profile by Preferable tools of Investment*

Preferable tool of Investment	Frequency	Percent
Bank Deposits e.g., Savings etc.	40	10.00
Real Estate	80	20.00
Share	160	40.00
Bonds and Debentures	30	7.50
Insurance	90	22.50
Total	400	100

Note: Survey Report 2023

Table 3 shows the preferable tools of investment of the respondents. Out of total respondents surveyed, 160 respondents i.e., 40 percent of respondents preferred to invest in Shares, 90 respondents i.e., 22.50 percent of respondents preferred to invest in Insurance companies, 80 respondents i.e., 20 percent of respondents preferred to invest in Real Estate, 40 respondents i.e., 10 percent of respondents preferred to deposit their savings in Bank Accounts and 30 respondents i.e. 7.50 percent of respondents prefer to invest in Bonds and Debentures.

#### 4.1.4 Respondent's profile by Proportion of income invested

The proportion of income invested is categorized into four categories; 0%-10%, 11%-30%, 31%-50%, and above 50%. The frequency distribution and percent composition of the respondents as per proportion of income invested is shown in the Table 4 as:

Table 4

*Respondent's profile by Proportion of income invested*

Proportion of income invested	Frequency	Percent
0% - 10%	120	30.00
11% - 30%	110	27.50
31% - 50%	140	35.00
Above 50%	30	7.50
Total	400	100

Note: Survey Report 2023

Table 4 shows the proportion of income invested of the respondents. Out of total respondents surveyed, 140 respondents i.e., 35 percent of respondents invested 31%-50% of their income followed by 110 respondents i.e., 27.50 percent of respondents who invested 11%-30% of their income, 120 respondents i.e., 30 percent of respondents invested 0%-10% of their income, and 30 respondents i.e., 7.50 percent of respondents invested above 50% of their income.

#### 4.1.5 Respondent's profile by Investment Horizon

The investment horizon of respondent is categorized into four categories as; 3 months to 6 months, 6 months to 1 year, 1 year to 5 years, and above 5 years. The frequency distribution and percent composition of the respondents as per their investment horizon is shown in the Table 5 as:

Table 5

*Respondent's profile by Investment Horizon*

Investment Horizon	Frequency	Percent
3 months to 6 months	20	5.00
6 months to 1 year	90	22.50
1 year to 5 years	200	50.00
Above 5 years	90	22.50
Total	400	100

Note: Survey Report 2023

Table 5 shows the investment horizon of the respondents. Out of total respondents surveyed, 200 respondents i.e., 50 percent of respondents had an investment horizon of 1 months to 5 year, followed by 90 respondents each with 6 months to 1 year and Above 5 years, i.e., 22.50 percent each of respondents, and 20 respondents i.e., 5 percent of respondents had an investment horizon of 3 months to 6 months. Thus, it was inferred that most of the investors preferred long-term investment over short-term.

#### **4.1.6 Respondent's profile by Type of Investor**

The type of investor can be divided into three categories as; low risk taker, moderate risk taker and high risk taker. The frequency distribution and percent composition of the respondents as per the type of investor is shown in the Table 6 as:

Table 6

*Respondent's profile by Type of Investor*

Type of Investor	Frequency	Percent
Low Risk Taker	20	5.00
Moderate Risk Taker	310	77.50
High Risk Taker	70	17.50
Total	400	100

Note: Survey Report 2023

Table 6 shows the type of the investor. Out of total respondents surveyed, 310 respondents i.e., 77.50 percent of respondents were Moderate Risk Taker, followed by 70 respondents i.e., 17.50 percent of respondents were High Risk Taker, 20 respondents i.e., 5 percent of respondents were Low Risk Taker. Thus, the survey shows that most of the respondents preferred low to moderate risk than to take high risk.

#### **4.1.7 Respondent's profile by Source of Information**

The main source of information is categorized into five categories as; print media including newspaper, television and radio, websites from the internet, family and friends, and brokers. The frequency distribution and percent composition of the respondents as per the main source of information is shown in the Table 7 as:

Table 7  
*Respondent's profile by Source of Information*

Source of Information	Frequency	Percent
Print Media including Newspaper	30	7.50
Television and Radio	50	12.50
Websites from the Internet	110	27.50
Family and Friends	70	17.50
Brokers	140	35.00
Total	400	100

Note: Survey Report 2023

Table 7 shows the main source of information of the respondents. Out of total respondents surveyed, 140 respondents i.e., 35 percent of respondents took information from Brokers, followed by 110 respondents i.e., 27.50 percent of respondents took information from Websites from the Internet, 70 respondents i.e., 17.50 percent of respondents took information from Family and Friends, 50 respondents i.e., 12.50 percent of respondents took information from Television and Radio, and 30 respondents i.e., 7.50 percent each of respondents took information from Print Media including Newspaper.

#### 4.1.8 Descriptive Analysis

The descriptive summary analysis of responses of the investors are analyzed using SPSS tools is shown in the Table 8 as:

Table 8  
*Descriptive Summary*

Code	Variables	Min.	Max.	Mean	Std. Deviation
FK	Financial Knowledge	1.75	5.00	3.14	.79
FAW	Financial Awareness	1.75	5.00	3.32	.71
FB	Financial Behavior	1.00	5.00	3.27	.74
FS	Financial Skill	1.25	5.00	3.17	.79
FA	Financial Attitude	1.00	5.00	3.46	.89
ID	Investment Decision	1.25	5.00	3.36	.79

Note: calculation from SPSS (Appendix- II)

Table 8 shows the descriptive analysis of overall variables where Investment Decision is a dependent variable, and Financial Knowledge, Financial Awareness, Financial Behavior, Financial Skill, and Financial Attitude are independent variables. The overall mean of Financial Knowledge is 3.14, with minimum and maximum of 1.75 to 5 point.

The standard deviation in the response of Financial Knowledge i.e. 0.79 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

Similarly, average score of Financial Awareness is 3.32, with minimum and maximum of 1.75 to 5 point. The standard deviation in the response of Financial Awareness i.e. 0.71 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

Likewise, average score of Financial Behavior is 3.27, with minimum and maximum of 1 to 5 point. The standard deviation in the response of Financial Behavior i.e. 0.74 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

In the same way, average score of Financial Skill is 3.17, with minimum and maximum of 1.25 to 5 point. The standard deviation in the response of Financial Skill i.e. 0.79 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

Similarly, the average score of Financial Attitude is 3.46, with minimum and maximum of 1 to 5 point. The standard deviation in the response of Financial Attitude i.e. 0.89 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

At last the average score of Investment Decision is 3.36, with minimum and maximum of 1.25 to 5 point. The standard deviation in the response of Investment Decision i.e. 0.79 indicates that the respondents were rationally responding the questions and there was quite less variation in the responses.

This indicates that the Financial Attitude had the highest mean of 3.46, whereas Financial Knowledge had the lowest mean of 3.14. Similarly, standard deviation of Financial Awareness is 0.71, which was lowest among other variables while standard deviation of Financial Attitude was highest i.e. 0.89.

#### 4.1.9 Correlation Analysis

Correlation analysis was carried out to identify financial literacy and investment decision of individual investors. The following tables reveal the association between the dependent and independent variables namely customer satisfaction of banks and factors. In this research correlation analysis made to obtain relationship between variables. In this analysis the researcher found, value of correlation co-efficient by using SPSS package. The correlation analysis focused on the overall relationship between financial literacy indicators i.e. financial knowledge, financial awareness, financial behavior, financial skill and financial attitude and investment decision. The results of correlation analysis is presented in Table 9.

Table 9  
*Correlation Analysis*

Variables	FK	FAW	FB	FS	FA	ID
FK	1					
FAW	.639**	1				
FB	.454**	.571**	1			
FS	.485**	.563**	.789**	1		
FA	.490**	.733**	.517**	.489**	1	
ID	.675**	.892**	.687**	.669**	.810**	1

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

Note: calculation from SPSS (Appendix- II)

Table 9 demonstrates the Pearson's correlation coefficients between the studied variables. The table shows that there was strong correlation between Financial Knowledge and Investment Decision as their correlation was 0.675, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. Similarly, there was very strong correlation between Financial Awareness and Investment Decision as their correlation was 0.892 which is more than 0.75, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. Correlation between Financial Behavior and Investment Decision was found to be strong as their correlation was 0.687 which is more than 0.6, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. Financial Skill and Investment Decision were also found to have strong correlation as their correlation was 0.669, which is significant at 1 percent level of significance meaning that the same result can

be expected in the entire investors. Correlation between Financial Attitude and Investment Decision were also found to be very strong as their correlation was 0.810 which is more than 0.75, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors.

#### 4.1.10 Regression Analysis

The multiple regression analysis includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable (investment decision) and independent variables (financial knowledge, financial awareness, financial behavior, financial skill and financial attitude).

Table 10

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.945	.894	.893	.25964	2.044

a. Predictors: (Constant), FA, FS, FK, FB, FAW

b. Dependent Variable: ID

Note: calculation from SPSS (Appendix- II)

Table 10 shows the model summary indicates the R-square also known as coefficient of determination which can help in explaining variance. R-square value is 0.894 i.e., 89.40 percent variation in Investment Decision is explained by independent variables (FK, FAW, FB, FS and FA). However, it is still leaving 11.6 percent variance is unexplained in this research model. In other words, there are other additional variables that are important explaining Investment Decisions that have not been considered in this study. Similarly, adjusted R-square is 0.893 which means 89.30 percent variation in Investment Decision is explained by independent variables after adjusting degree of freedom (df). Model summary also indicate the standard error of the estimate of 0.25964 which shows that the model is better at explaining the variability of Investment Decision and the reliability of a regression model's predictions is quite high. Likewise, summary also shows the Durbin-Watson statistics of 2.044 which shows that there is no issue of autocorrelation in the variables used for the analysis.

Table 11  
*ANOVA Table*

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	223.816	5	44.763	664.001	.000
	Residual	26.561	394	.067		
	Total	250.378	399			

a. Dependent Variable: ID

b. Predictors: (Constant), FA, FS, FK, FB, FAW

Note: calculation from SPSS (Appendix- II)

Table 11 presents the analysis of variance based on ANOVA, the p-value is 0.000 which is equal to alpha. Besides that, the F-statistic is significant at the value 664.001. Therefore, the model is good description of relation between dependent and predictor variables. As a result, the independent variables (financial knowledge, financial awareness, financial behavior, financial skill and financial attitude) significantly explain the variance in the Investment Decision.

Table 12  
*Coefficients Table*

Variables	Coefficients	t	p-value	Collinearity Statistics Tolerance	VIF
(Constant)	-.431	-6.208	.000		
FK	.127	5.806	.000	.568	1.760
FAW	.520	16.590	.000	.336	2.974
FB	.149	4.994	.000	.349	2.867
FS	.095	3.426	.001	.351	2.847
FA	.252	11.643	.000	.448	2.231

a. Dependent Variable: ID

Note: calculation from SPSS (Appendix- II)

Table 12 presents the regression coefficient of independent variables financial knowledge, financial awareness, financial behavior, financial skill and financial attitude and the intercept value of investment decision. It shows that tolerance values were all above 0.1 and VIF below 10. That's why, there is issue of multicollinearity among the independent variables in the model.

The table shows that the coefficient of Financial Knowledge is 0.127, which implies that an increase in one unit of Financial Knowledge leads to an increase in 0.127 units in Investment Decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of Financial Knowledge in Investment Decision is significant.

The coefficient of Financial Awareness is 0.520, which implies that an increase in one unit of Financial Awareness leads to an increase in 0.520 units in Investment Decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of Financial Awareness in Investment Decision is significant.

The coefficient of Financial Behavior is 0.149, which implies that an increase in one unit of Financial Behavior leads to an increase in 0.149 units in Investment Decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of Financial Behavior in Investment Decision is significant.

The coefficient of Financial Skill is 0.095 which implies that an increase in one unit of Financial Skill leads to an increase in 0.095 units in Investment Decision and vice versa. Since, the p-value for the coefficient i.e. 0.001 is less than 1 percent, the effect of Financial Skill in Investment Decision is significant.

The coefficient of Financial Attitude is 0.252 which implies that an increase in one unit of Financial Attitude leads to an increase in 0.252 units in Investment Decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of Financial Attitude in Investment Decision is significant.

The table depicts beta for all the attributes or independent variables taken in the study to determine its influence on Investment Decision. Since the beta of Financial Awareness is highest i.e. 0.520, it has the most dominant influence on the Investment Decision.

#### **4.1.11 Hypothesis testing**

Five hypotheses were drawn for the purpose of the relationship between dependent and independent variables in the study of impact of financial literacy on the personal

investment decisions in Kathmandu Valley. Test of each hypothesis is discussed below at the level  $p < 0.01$  and presented in table 13.

Table 13  
*Hypothesis Testing Table*

Hypothesis	Standard Coefficient	t- Value	p-Value	Result
H1: There is a significant relationship between financial knowledge and investment decisions.	.127	5.806	.000	Supported
H2: There is a significant relationship between financial awareness and investment decisions.	.520	16.590	.000	Supported
H3: There is a significant relationship between financial behavior and investment decisions.	.149	4.994	.000	Supported
H4: There is a significant relationship between financial skills and investment decisions.	.095	3.426	.001	Supported
H5: There is a significant relationship between financial attitude and investment decisions.	.252	11.643	.000	Supported

### **Hypothesis**

H1: There is a significant relationship between financial knowledge and investment decisions.

P-value of financial knowledge is 0.000 which is significant 1 percent level of significance. So, hypothesis 1 is accepted.

H2: There is a significant relationship between financial awareness and investment decisions.

P-value of financial awareness is 0.000 which is significant 1 percent level of significance. So, hypothesis 2 is accepted.

H3: There is a significant relationship between financial behavior and investment decisions.

P-value of financial behavior is 0.000 which is significant 1 percent level of significance. So, hypothesis 3 is accepted.

H4: There is a significant relationship between financial skills and investment decisions.

P-value of financial skill is 0.001 which is significant 1 percent level of significance. So, hypothesis 4 is accepted.

H5: There is a significant relationship between financial attitude and investment decisions.

P-value of financial attitude is 0.000 which is significant 1 percent level of significance. So, hypothesis 5 is accepted.

## **4.2 Discussion**

The study was conducted to analyze the impact of financial literacy on the personal investment decision of Kathmandu Valley. The research was done with the sample size of 400 respondents representing the population size. Considering the demographic profile, the variable of the study focused on major demographic components such as gender, age, education level, occupation, marital status, income, etc. The gender distribution of the respondents shows that there is majority of frequency distribution based on the Male respondents i.e. 67.50 percent. Likewise, the majority of respondents i.e. 35 percent lies in the age group 25 years-35 years. Out of total respondents surveyed, 290 respondents were unmarried, 110 respondents were married. Similarly, the educational distribution of respondents shows that Bachelor's Level occupies the highest percent i.e. 46.50 percent of the respondents. The majority of respondents i.e. 110 respondents were Student i.e. in this study. In contrast, most of the respondents i.e. 170 respondents had income of 20,001 to 40,000.

Moreover, considering the major investment objectives of the respondents, 50 percent of respondents focused on moderate return. Focusing on the preferable tool of investment of the respondents, 40 percent of respondents preferred to invest in shares. Likewise, considering the proportion of income invested of the respondents, 35 percent of respondents invested 31%-50% of their income. Similarly, as per the investment horizon of the respondents, 50 percent of respondents had an investment horizon of 1

months to 5 year, thus, it was inferred that most of the investors preferred long-term investment over short-term. Out of total respondents surveyed 77.50 percent of respondents were moderate risk taker, which shows that most of the respondents preferred low to moderate risk than to take high risk. Most of the respondents surveyed i.e. 35 percent of respondents took information from brokers for the investment decision.

The relationship analysis showed that there was strong correlation between financial knowledge and investment decision as their correlation was 0.675, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. The result is similar with the finding of Mwathi et al. (2017) who stated that financial knowledge was significant in determining personal financial decisions.

Similarly, there was very strong correlation between financial awareness and investment decision as their correlation was 0.892 which is more than 0.75, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. The research results similar with the study conducted by Mugo (2016) where financial awareness had positive and significant relationship with the investment behavior.

Correlation between financial behavior and investment decision was found to be strong as their correlation was 0.687 which is more than 0.6, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. This result is not similar with the finding of Mugo (2016) who found that financial behavior had non-significant positive relationship with the investment behavior.

Financial skill and investment decision were also found to have strong correlation as their correlation was 0.669, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. The result is similar with the finding of Mwathi et al. (2017), who showed that financial skills were significant in determining personal financial decisions.

Correlation between financial attitude and investment decision were also found to be very strong as their correlation was 0.810 which is more than 0.75, which is significant at 1 percent level of significance meaning that the same result can be expected in the entire investors. This result is not similar with the finding of Mwathi et al. (2017) who stated that financial attitude was not significant in determining investment decisions of investors.

The multiple regression analysis in the model found that the independent variables (financial knowledge, financial awareness, financial behavior, financial skill and financial attitude) significantly explain the variance in the investment decision of investors and the results is similar with the finding of Lamichhane (2022), who found that financial literacy variables have significant positive effect on investors participation in Nepalese stock market. The coefficient of financial knowledge is 0.127, which implies that an increase in one unit of financial knowledge leads to an increase in 0.127 units in investment decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of financial knowledge in investment decision is significant. The result is in line with the result of Lamichhane (2022) who stated that financial literacy as financial knowledge had significant positive effect on investors participation in Nepalese stock market.

The coefficient of financial awareness is 0.520, which implies that an increase in one unit of financial awareness leads to an increase in 0.520 units in investment decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of financial awareness in investment decision is significant. The result is not similar with the result of Mugo (2016) who found financial awareness had positive and non-significant relationship with the investment behavior.

The coefficient of financial behavior is 0.149, which implies that an increase in one unit of financial behavior leads to an increase in 0.149 units in investment decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of financial behavior in investment decision is significant. The result is similar with the result of Sujono and Hajar (2023) who showed that the financial behaviour indicator that reflects the most financial behaviour is familiarity.

The coefficient of financial skill is 0.095 which implies that an increase in one unit of financial skill leads to an increase in 0.095 units in investment decision and vice versa. Since, the p-value for the coefficient i.e. 0.001 is less than 1 percent, the effect of financial skill in investment decision is significant. The results is similar with the finding of Ullah et al. (2020) who found positive effect of financial skill on investment decision of investors.

The coefficient of financial attitude is 0.252 which implies that an increase in one unit of financial attitude leads to an increase in 0.525 units in investment decision and vice versa. Since, the p-value for the coefficient i.e. 0.000 is less than 1 percent, the effect of financial attitude in investment decision is significant. Similarly, the results is similar with the finding of Ullah et al. (2020) who found positive effect of financial attitude on investment decision of investors.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

This final chapter discusses summary of the findings of the study and conclusion of the study. Lastly, based on major findings and conclusion from the study the applicable implication if this study are presented.

#### **5.1 Summary**

People are becoming more aware of the fundamentals of financial literacy as a result of the recent development of numerous financial goods and services. Even though money has played a significant role in people's lives since the dawn of human civilization, people seldom recognized the need of comprehending financial terms and ideas in their day-to-day existence. Globalization and the recent upheavals have, however, increased people's awareness of the value of financial literacy and asset management techniques for maximizing wealth. As a result, the study is primarily concerned with the many aspects of financial literacy that influence people's investing choices. The researcher initially examines material on the study topic from a variety of literary sources before evaluating and testing the results.

The objective of the study is to analyze the impact of financial literacy on the personal investment decision in Kathmandu Valley. More especially this study tries to assess effect of financial literacy (i.e. financial knowledge, financial awareness, financial behavior, financial skills and financial attitude) on the investment decisions of individual investors. The study applied descriptive and casual research design which aims to study financial literacy and investment decision of individual investors in Nepalese capital market. The population for the study has been defined as the entire people of Kathmandu Valley. Among all the investors, sample of 400 active investors and their responses are studied in this study. Primary data were collected through the survey in the form of structured questionnaire which was distributed among 400 respondents residing inside the Kathmandu Valley.

The results of the study found that gender distribution of the respondents shows that there is majority of frequency distribution based on the Male respondents i.e. 67.50

percent. Likewise, the majority of respondents i.e. 35 percent lies in the age group 25 years-35 years. Out of total respondents surveyed, 290 respondents were unmarried, 110 respondents were married. Similarly, the educational distribution of respondents shows that Bachelor's Level occupies the highest percent i.e. 46.50 percent of the respondents. The majority of respondents i.e. 110 respondents were Student i.e. in this study. In contrast, most of the respondents i.e. 170 respondents had income of 20,001 to 40,000. Moreover, considering the major investment objectives of the respondents, 50 percent of respondents focused on moderate return. Focusing on the preferable tool of investment of the respondents, 40 percent of respondents preferred to invest in shares. Likewise, considering the proportion of income invested of the respondents, 35 percent of respondents invested 31%-50% of their income. Similarly, as per the investment horizon of the respondents, 50 percent of respondents had an investment horizon of 1 months to 5 year, thus, it was inferred that most of the investors preferred long-term investment over short-term. Out of total respondents surveyed 77.50 percent of respondents were moderate risk taker, which shows that most of the respondents preferred low to moderate risk than to take high risk. Most of the respondents surveyed i.e. 35 percent of respondents took information from brokers for the investment decision.

## **5.2 Conclusion**

The descriptive analysis of variables in the study conclude that financial attitude of the investors is the most influencing factors to effect on the consumers investment decision followed by financial awareness, financial behavior, financial skill and financial knowledge of the investors.

The relationship analysis between financial literacy and investment decision of individual investors conclude that financial knowledge, financial awareness, financial behavior, financial skills and financial attitude have significant positive relation with investment decision of the investors. The highest positive correlation with investment decision is seen in financial awareness, whilst the weakest positive correlation is found in financial competence. Making informed financial decisions requires having a solid understanding of finance. People that exhibit good financial conduct also tend to make reasonable investment selections; that is, they have a positive financial mindset. Having

a solid understanding of finances really helps people make wise investing selections. However, financial acumen really helps people make sensible investing choices.

The effect analysis of financial literacy on investment decision of individual investors conclude that financial awareness has the most significant effect on investment decision, since without the knowing the financial status and condition, financial system and policy regarding financial activities individuals do not invest in any sectors. Likewise, financial attitude also has significant positive impact on investment decision since, the investment nature of individual are different as per their attitude of investment. Similarly, financial knowledge and financial behavior have significant positive effect on investment decision of the investors since without knowing the financial benefits and without having fund for investment no one can invest in any sector. In the same way, financial skill of individuals to understand the situation in the market also has significant effect in investment decision. In short it can be concluded that financial literacy does have statistically significant impact on the investment decisions. Thus, financial literacy empowers the investors to make investment decisions.

### **5.3 Implications**

The findings from the study have various important implication to different stakeholders which are as follows;

- The research's findings will serve as a roadmap for people, as well as banks and other financial organizations, to equip people with the essential financial awareness, knowledge, and skills.
- In order to bring a significant amount of untapped savings into the formal economy, banks and other financial organizations should concentrate on creating campaigns to educate the public about financial terms. This will address the macro-level lack of liquidity and capital in the form of investments to business houses in addition to helping individuals at the micro level enhance their savings.
- Furthermore, with the aim of transforming the country from a nation of savers into a nation of knowledgeable investors, this study may be helpful to legislators, financial planners, and other organizations that support financial literacy through financial education.

- As a result, the study's findings have various implications for the banks. This study highlights the significance of financial literacy in influencing people's investing choices. Additionally, this study adds to the body of theoretical and empirical studies on the connection between individual investing decisions and financial literacy.

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