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A Comprehensive Study of Financial Literacy and its Effect on Investment Choices in Chikhli Region

Bharat Gajanan Pawar, Prof. Ashutosh S. Mhaske

Department of Master of Business Administration, Pankaj Laddhad Institute of Technology and Management Studies,
Yelgaon, Buldhana, India

Department of Master of Business Administration, Pankaj Laddhad Institute of Technology and Management Studies,
Yelgaon, Buldhana, India

ABSTRACT: Investment habits and financial knowledge are being acknowledged more and more as vital elements in people's capacity to make educated financial choices, especially regarding investments. Employing a mix of theoretical models and empirical research, this paper examines the multiple aspects of financial literacy and its influence on investment behavior among diverse demographic categories and socio-economic backgrounds. Additionally, it explores the ways in which financial literacy impacts investment choices, encompassing risk awareness, investment understanding, and cognitive biases. The results indicate that greater financial literacy correlates with more cautious investment practices, including diversification, risk mitigation, and planning for the long term. Nonetheless, notable differences are present in financial literacy levels, resulting in varying investment results among different population segments. Tackling these inequalities with focused financial education programs is essential for improving overall investment habits and financial health. This study adds to the current literature by providing insights into the intricate relationship between financial literacy and investment behavior, thus guiding policymakers, educators, and practitioners on effective methods to enhance financial literacy and optimize investment results.

KEYWORDS: Financial Knowledge, Knowledgeable Choices, Demographic & Socio-economic Factors

I. INTRODUCTION

The capacity of every Indian individual to make prudent investment choices is largely influenced by their financial literacy level [3]. The variety and rapid expansion of the economy certainly impact investment decisions [11]. It instructs people on making informed choices by evaluating all pertinent elements, such as risk, return, security, and liquidity, when investing to protect their financial future [7].

In India, individuals have been placing their money in traditional methods such as savings accounts and fixed deposits, which offer them reduced returns [11]. Yet, to invest in more intricate financial instruments such as stocks, derivatives, mutual funds, and others, individuals must possess a greater comprehension of finance [8]. A community that possesses higher financial literacy understands better how to invest in these types of products.

In addition, financial literacy decreases the chances of fraud and misinformation while enhancing investor comprehension and trust [11]. It protects them from losing their hard-earned money by enabling them to distinguish between genuine investment opportunities and fraudulent schemes [12].

Financial knowledge promotes the encouragement of saving and investing and is essential for economic growth [1]. Individuals can vary the portion of their savings they allocate to suitable assets when they possess investment knowledge, understand compounding, and recognize the importance of risk management [7].

Financial literacy influences the country's financial system and overall economic development. When people invest, capital formation—such as the borrowing of funds by businesses—happens organically to directly impact economic growth [10].



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In conclusion, financial literacy allows people to evaluate investment risk and return and make knowledgeable financial choices. Individuals with financial literacy can make informed investment choices considering risk and reward and assess their affordability for such risks [9].

II. LITERATURE REVIEW

Dr. Pradeep K. Gupta (30 Oct 2021) The financial system plays a vital role in the growth and development of the economy. The evolution of financial market economies has been dramatically broadening the opportunities to consumers and investors, business houses, policymakers and the economy of a country.

Shadan Khan (2015) The purpose of this paper is to assess the financial literacy and financial knowledge of the individual and professional investors who invest in the local market. In additions, it examines the relationship between financial literacy, financial knowledge and the influence of risk perception that effect investment decision.

Kamboj Samriti (6 Feb 2023) The importance of financial education is globally acknowledged as a key component for the financial well-being of individuals as well as for the financial stability of a nation.

OUP Oxford (27 Nov 2011) As financial markets grow ever more complex and integrated; households must make increasingly sophisticated and all-too-often irreversible economic decisions. This is particularly evident in retirement decision-making.

Ananda S. Dharmendra Singh (4 October 2021) This book discusses ideas for stakeholders to develop strategies to access and use financial products and services such as deposits, loans, and fund transfer mechanism, insurance, payment services, and intermediaries, distribution channels

Arup Kumar Sarkar, Tarak Nath Sahu (16 July 2018) Investment Behaviour explores the relationship between competing demographic factors, personal awareness and perceived attitudes to risk in shaping the behaviour of individual investors in the stock market. Arup Kumar Sarkar and Tarak Nath Sahu analyse the suitability of using Behavioural Finance theories in understanding investor behaviour across developed, developing and under-developed country contexts and in all types of stock markets.

Vishwakarma Sachin (16 Jan 2026) Financial literacy has become a crucial factor in influencing investment decision-making due to the increasing complexity of financial markets. The study highlights that individuals with higher financial knowledge demonstrate better understanding of concepts such as risk–return trade-off, diversification, and time value of money, which leads to more effective investment choices. Financially literate investors are more inclined toward long-term investments and exhibit improved risk management and portfolio diversification.

Garg Harshit & Singh Basant Kumar (Oct 2024) Financial literacy plays a vital role in empowering individuals to make informed investment decisions by improving their financial knowledge, skills, and behavior. The study finds a strong positive relationship between financial literacy and investment outcomes, including better risk tolerance and rational decision-making.

Parsai Pooja & Chandok Arpita Kelkar (March 2025) This study emphasizes that financial literacy significantly impacts individuals' confidence and ability to make sound investment decisions. It shows that individuals with higher financial awareness are more likely to participate actively in financial markets and take calculated risks, while those with low literacy tend to avoid investments.

III. RESEARCH METHODOLOGY

1. Objectives

1. To Reach a level of financial literacy
2. To Analyze investment models
3. To Measuring the impact of financial literacy on risk measurement
4. To Explore the role of education and awareness programs.
5. To Study the impact of financial literacy on economic growth.



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2. Preparation tools of primary data collection

Careful planning and implementation of primary data collection are essential when researching how financial literacy affects investment behavior.

The following resources and step-by-step instructions can help you prepare for collecting primary data:

Data Collection Methods

a. Primary Data Collection

Surveys/Questionnaires:

Formulating systematically organized questionnaires that encompass inquiries pertinent to financial literacy and investment conduct.

Employ digital platforms such as Google Forms.

Sampling:

Defining the target population (e.g., specific age group, income level, education level).

Sample size:

In the present study, we are utilizing a cohort of 100 individuals as respondents, thereby facilitating an investigation into the impact of financial literacy on investment behavior with a sample size comprising 100 individuals.

Total Sample Size – 100 Respondents

Data Analysis:

Use statistical software like Microsoft Excel, Power BI & Tableau for quantitative data analysis.

Tools and Software:

Survey Creation:

Google Forms: <https://www.google.com/forms/>

Data Analysis:

Microsoft Excel: <https://www.microsoft.com/en-us/microsoft-365/excel>

Reporting and Interpretation:

Using narratives, charts, and tables, present your findings.

Assess the findings in light of your study's goals and questions.

b. Secondary Data Collection

The following are potential secondary data sources for our study:

Academic Journals and Articles: Research, surveys, and analyses pertaining to financial literacy and investment behavior are frequently found in scholarly journals. Resources can be found on websites such as ResearchGate, JSTOR, and Google Scholar.

Government Reports: Surveys and studies on investment behavior and financial literacy are frequently carried out by government organizations. such as the Asian Development Bank Survey, the Ministry of Finance, the RBI, and the National Centre for Financial Education (NCFE), among many others.

Financial Institutions: Surveys and studies on financial literacy and investing practices are frequently carried out by banks, investment firms, and credit card companies. These institutions' reports can offer insightful information.

IV. HYPOTHESIS

H0: Due to a lack of financial literacy and the risk associated with contemporary financial instruments like stocks, commodities, derivatives, mutual funds, etc., people avoid making investment decisions. Consequently, it affects economic growth.

H1: Choosing to invest in contemporary financial instruments like stocks, commodities, derivatives, mutual funds, etc. has nothing to do with financial literacy or risk. Consequently, it has no effect on economic expansion.



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V. LIMITATIONS

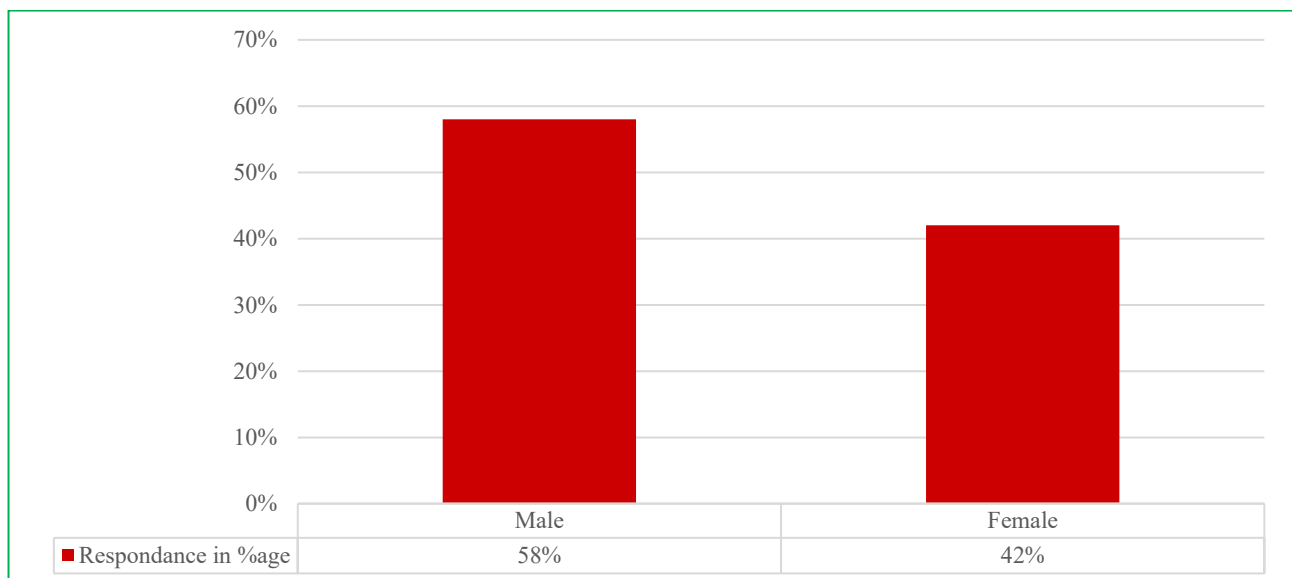
1. People don't want to disclose their personal views on their financial decisions
2. Differences in the income of people studying
3. Measuring financial literacy

Analysis and interpretation

Based on the survey responses, the five key questions that represent the study's "in-depth analysis of the impact of financial literacy on investment behavior" and brief qualitative and quantitative analysis are listed below.

Gender

Gender	Respondents in %age
Male	58%
Female	42%
Total	100%



The data reveals a significant disparity between men and women, with 58% of respondents being male and 42% being female. This suggests that levels of financial literacy and investment behavior may differ between genders, highlighting the need for gender-specific analyzes to accurately understand the impact of financial literacy on investment decisions.

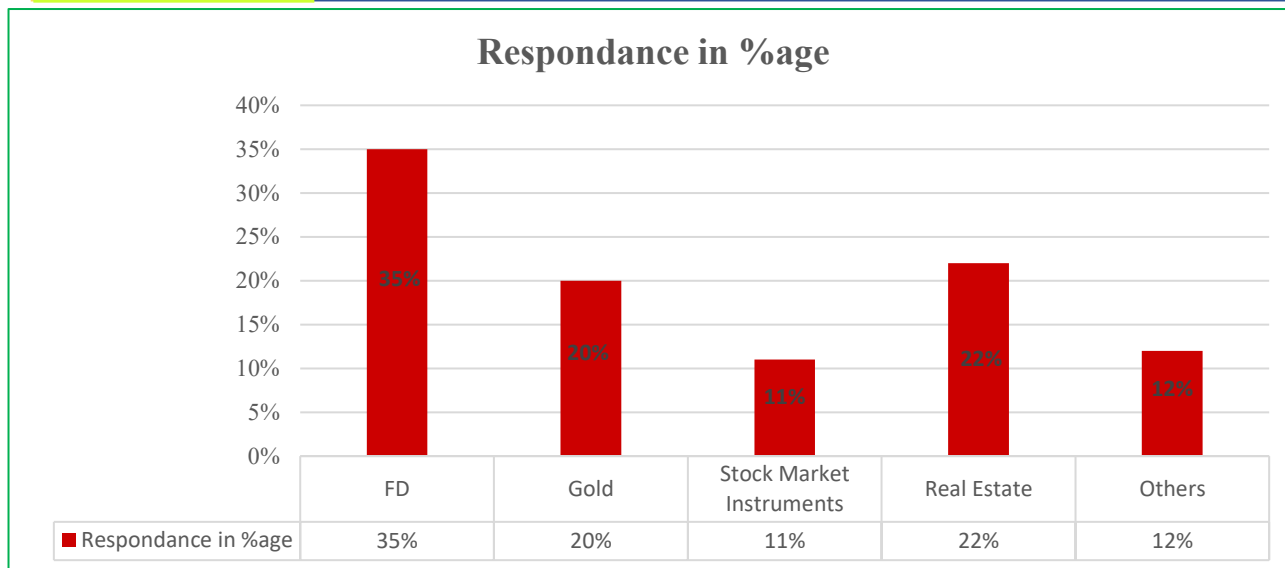
- **Where do you invest?**

Options	Respondents in %age
FD	35%
Gold	20%
Stock Market Instruments	11%
Real Estate	22%
Others	12%
Total	100%



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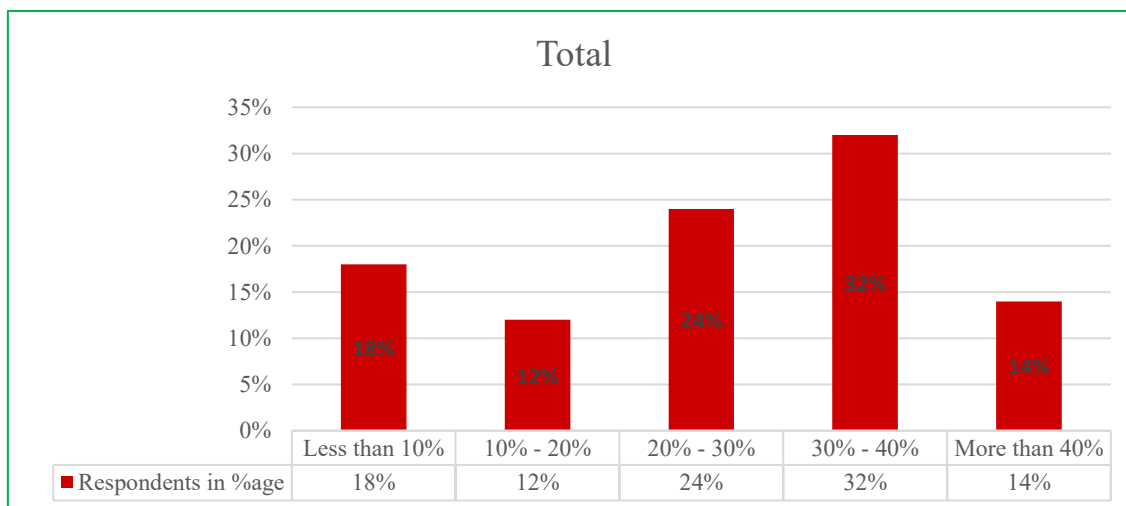
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The data shows a diversity of investment environments among respondents, with Fixed Deposits (FDs) being the most popular choice (35%), followed by Real Estate (22%). Gold and Stock Markets also received significant interest at 20% and 11% respectively, suggesting a balanced allocation across different investment areas.

• **How much percent do you invest of your saving**

Options	Respondents in %age
Less than 10%	18%
10% - 20%	12%
20% - 30%	24%
30% - 40%	32%
More than 40%	14%
Total	100%





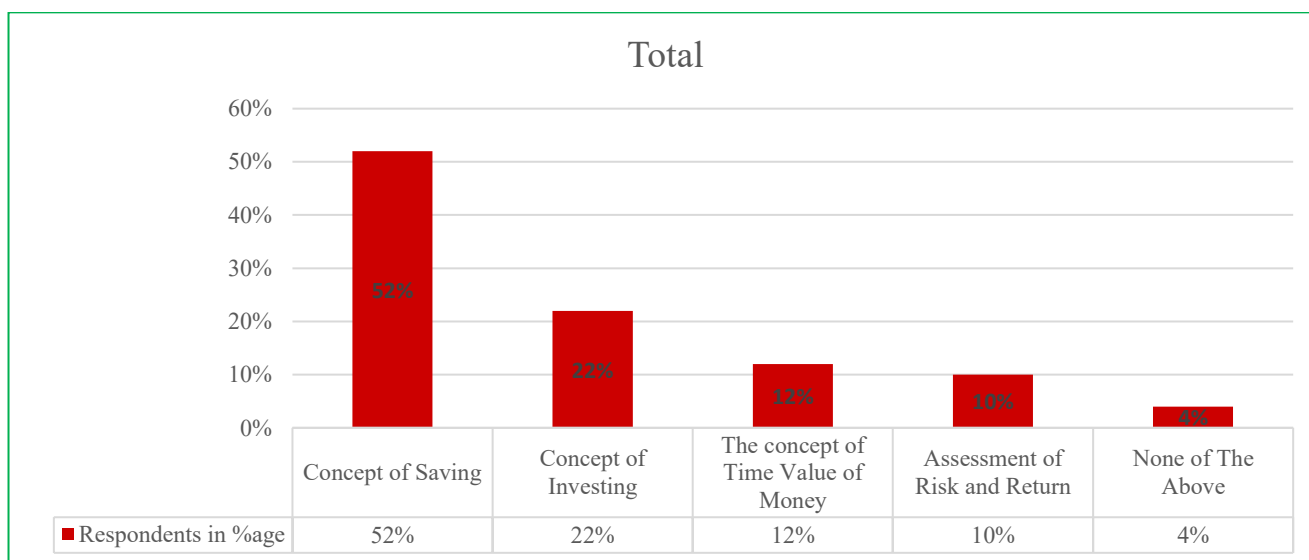
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The data indicates a wide range of investment habits among respondents, with a notable portion (32%) investing between 30% to 40% of their savings. Additionally, a significant proportion (24%) invests between 20% to 30%, suggesting a varied approach to saving and investment behavior influenced by financial literacy levels.

- **Financial Knowledge**

Options	Respondents in %age
Concept of Saving	52%
Concept of Investing	22%
The concept of Time Value of Money	12%
Assessment of Risk and Return	10%
None of The Above	4%
Total	100%



According to the research, respondents' levels of financial literacy varied, with 52% of them recognizing the Concept of saving and 22% recognizing the concept of investing. But an alarming 4% said they had none of the possibilities, suggesting that a sizeable percentage might not have basic financial understanding, which could influence their investing choices.

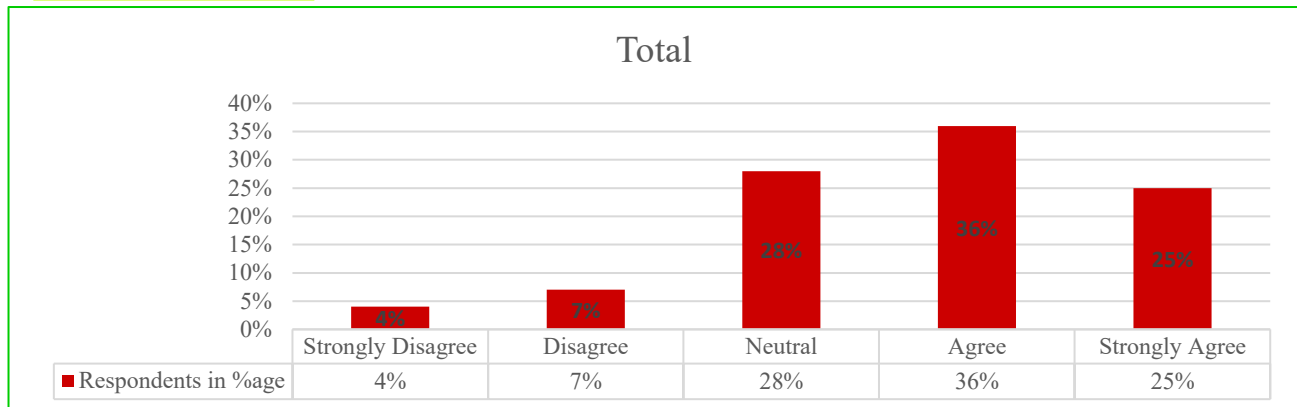
- **How much do you think your educational background has impacted your comprehension of investment techniques and financial concepts?**

Options	Respondents in %age
Strongly Disagree	4%
Disagree	7%
Neutral	28%
Agree	36%
Strongly Agree	25%
Total	100%



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The data suggests a diverse range of perceptions regarding the influence of education on financial literacy and investment understanding, with a notable 36% expressing Agrees. However, a significant portion (28%) neutral that education has influenced their understanding, indicating the potential impact of educational background on investment behavior.

VI. SUGGESTIONS

1. Examine how well different financial education initiatives raise financial literacy and, in turn, impact investing behavior.
2. Examine the disparities in gender-specific financial literacy and how they impact investment choices.
3. Examine the ways in which age-related disparities in financial literacy affect investment strategies and decisions.
4. Analyze how socio-economic status and cultural backgrounds affect financial literacy levels, which in turn affect how various demographic groups invest.

VII. CONCLUSION OF THE RESEARCH STUDY

The study looking into how much financial smarts affect how people invest has given us some really useful ideas about that connection. By digging into what's already been written, crunching some real-world numbers, and thinking about different theories, a few main points have popped up. Basically, the research shows that being financially savvy really makes a difference in how people invest. When folks know more about money, they're more likely to make smart, sensible choices about their investments. They get a better handle on what financial products are, how risky they are, and how to manage their money well. This just goes to show how important it is to push for financial education to boost what investors know and can do.

The study also pointed out that different groups of people have different levels of financial understanding. Things like how old you are, how much schooling you've had, how much money you make, and where you come from can really change how financially literate someone is. It's super important to try and fix these differences with programs and help that are aimed at specific groups so everyone can get a fair shot at financial resources and opportunities.

On top of that, the research highlighted how things like our own quirks and psychological tendencies play a role in how we invest. Even if someone knows their stuff financially, they might still do things that don't make sense because of feelings, mental shortcuts, or what others are doing. Getting a handle on these tendencies is key to coming up with good ways to lessen their effect and help people invest better.

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