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The Role of Financial Literacy in Enhancing Investment Decision among Young Adults

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ABSTRACT: Financial literacy has emerged as a critical skill influencing individuals' ability to make informed and effective financial decisions, particularly among young adults who are at an early stage of their financial journey. This study examines the role of financial literacy in enhancing investment decision-making among young adults. The research focuses on understanding how knowledge of financial concepts such as savings, risk, return, inflation, and diversification impacts investment behavior and choices. With increasing access to diverse investment avenues and digital financial platforms, young adults face complex financial decisions that require adequate financial understanding. The study highlights that individuals with higher levels of financial literacy demonstrate greater confidence, improved risk assessment abilities, and a stronger inclination toward planned and rational investment strategies. Conversely, limited financial knowledge often results in poor financial choices, under investment, or excessive risk-taking.

KEYWORDS: Financial Literacy, Investment Decision-Making, Young Adults, Financial Knowledge, Risk and Return, Savings Behavior, Investment Behaviour, Financial Education, Wealth Creation, Financial Planning

I. INTRODUCTION

Financial literacy is an essential life skill that empowers individuals to manage their personal finances effectively, make informed decisions, and secure their financial well-being. For young adults, understanding how to handle money, manage debt, save, and invest is crucial for their long term financial success. However, despite the growing emphasis on financial literacy, many young adults lack the knowledge and skills necessary to make informed investment decisions. This gap in financial understanding often leads to sub-optimal financial choices, including poor investment decisions that could negatively impact their future wealth-building efforts. This paper explores the critical role that financial literacy plays in enhancing investment decisions among young adults. Investment, as a key component of personal finance, requires an understanding of various concepts such as risk management, asset allocation, investment vehicles, market trends, and compound interest. Without adequate financial knowledge, young adults may be prone to making uninformed choices, which could hinder their financial growth and stability.

In recent years, the importance of financial literacy has been recognized globally, with governments, educational institutions, and financial organizations promoting financial education programs aimed at improving financial knowledge among various demographics. Young adults, particularly those in the early stages of their careers or still in education, are at a pivotal point where their financial decisions can have a lasting impact on their future. This is especially true in the context of investments, which can accelerate wealth accumulation over time if managed wisely. Investment is a long-term strategy that can help individuals build wealth, achieve financial independence, and retire comfortably. However, young adults often face barriers such as limited experience, inadequate financial education, and a lack of trust in financial markets. These factors can lead to risky or poor investment decisions, which may have significant

II. PROBLEM STATEMENT

The growing accessibility of investment opportunities, driven by advancements in digital technology and financial platforms, has created a significant potential for young adults to engage in wealth creation. However, despite the availability of tools and resources, many young adults struggle to make sound investment decisions.



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OBJECTIVES OF THE STUDY

1. To understand financial literacy level on investment among young adults
2. To identify the challenges and benefits of financial literacy for young adults
3. Perception of young adults about the investment plan

III. RIVIEW OF LITERATURE

S NO	AUTHORS	YEAR	OBJECTIVES	RESEARCH METHODOLOGY	MAIN FINDINGS
1	Lusardi A. & Mitchell O.S.	2014	To examine the extent of financial illiteracy among young adults and its impact on financial planning.	Survey-based analysis using the National Financial Capability Study (NFCS)	Significant financial illiteracy was observed among young adults, leading to poor financial planning and weak investment decisions.
2	Robb C.A. & Woodyard A.S.	2011	To investigate the relationship between financial knowledge and credit card behavior among college students.	Cross-sectional survey of college students	Higher financial knowledge correlates with more responsible credit card management behavior.
3	Huston S.J.	1998	To analyze the relationship between personal financial literacy and financial planning behaviors.	Literature review and conceptual model development.	Financial literacy is a multidimensional construct that includes knowledge, skills, and attitudes.

SCOPE OF THE STUDY

1. Growing financial responsibilities:
2. Young adults today start earning early and have to make decisions about saving, spending, and investing. Without financial literacy, they may make poor choices.
3. There are many investment choices like mutual funds, stocks, SIPs, and digital assets. Understanding these requires basic financial knowledge.

RESEARCH DESIGN

This study will use a quantitative research design to explore the correlation between financial literacy and investment decisions

SOURCE OF DATA

The data collection is divided into two methods. Data was collected from primary and secondary sources and the study is based on both primary data and secondary data.

SAMPLE SIZE

A sample size consists of 105 respondents. This sampling number has been arrived at depending on the limited size of the population.

SAMPLING METHOD

Convenience sampling was used to select respondents due to ease of access and time constraints



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TOOLS USED FOR ANALYSIS

Percentage analysis and chi-square test were employed to analyze the data and extreme relationship between variables.

FINDINGS BASED ON PERCENTAGE ANALYSIS

- The majority of respondents are female.
- The majority of respondents (79%) belong to the 18–24 years age group.
- The majority of respondents (79%) are undergraduate degree holders.
- The majority of respondents (52%) are students.
- The majority of respondents (65.3%) rate their financial literacy as average.
- The majority of respondents (35.6%) acquire financial knowledge from family and friends.
- The majority of respondents (37.6%) identify lack of interest as the primary challenge in gaining financial literacy.
- The majority of respondents (35.6%) make investment decisions frequently.
- The majority of respondents (32%) prefer cryptocurrencies as their financial goal/investment avenue.
- The majority of respondents (35.6%) rarely seek financial advisory services.
- The majority of respondents (23.1%) sometimes follow a budget.
- The majority of respondents (30.1%) save 10%–20% of their income.
- The majority of respondents (25.3%) rely on financial advisors for financial education resources.
- The majority of respondents (32%) rate their debt management ability as moderate.
- The majority of respondents (27.9%) consider financial literacy moderately important for long-term stability.
- The majority of respondents (27.8%) believe financial literacy is not necessary in the educational curriculum (though responses are closely distributed).
- The majority of respondents (31.6%) rarely save.
- The majority of respondents (30.4%) prioritise buying a home.
- The majority of respondents (37.8%) report fear of loss as the main challenge in making investment decisions.
- The majority of respondents (34.6%) feel neutral about their personal financial situation.

FINDINGS BASED ON CHI-SQUARE

- The chi-square analysis shows no statistically significant association between age group and financial literacy knowledge.
- Financial literacy knowledge levels are similar across different age groups.
- Age group does not significantly influence how respondents acquire financial knowledge.
- There is no statistically significant association between gender and frequency of investment.
- Investment frequency is consistent across male and female respondents.
- Gender does not significantly affect investment behaviour.

IV. SUGGESTION

- Financial education programs should be made more interesting and practical, as many respondents reported a lack of interest and difficulty understanding financial concepts.
- Colleges and universities should introduce basic financial literacy training, since most respondents are young undergraduates with only average financial knowledge.
- Financial concepts should be explained in a simpler and clearer manner to reduce confusion and improve understanding.
- Awareness campaigns should encourage young adults to develop regular saving habits, as many respondents rarely save.

V. CONCLUSION

The study concludes that financial literacy plays a crucial role in shaping the investment decisions of young adults. A higher level of financial knowledge enhances individuals' ability to evaluate risks, understand returns, and adopt systematic investment strategies. Financially literate young adults demonstrate greater confidence and make more informed and rational financial choices. Therefore, improving financial literacy is essential for fostering responsible investment behaviour, promoting financial security, and supporting long-term wealth creation among young adults.



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