

The Role of Financial Literacy in Investment Decision-Making Among Young Adults in India

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Abstract

Financial literacy has become increasingly important as young adults encounter a growing range of investment products, digital investment platforms and financial information sources. This paper examines the role of financial literacy in investment decision-making among young adults in India. The study adopts a descriptive secondary-research design and reviews Indian academic studies, regulatory evidence and investor research. Financial literacy is considered through knowledge of interest, inflation, risk, diversification, investment products and financial planning, while investment decision-making is considered through product selection, risk assessment, diversification, time horizon and goal orientation. Existing evidence from India indicates a positive association between financial literacy and informed investment decisions. At the same time, financial knowledge alone does not completely determine behaviour because overconfidence, social influence, family expectations, behavioural biases, risk tolerance and digital-media exposure can also influence young investors. The paper concludes that financial literacy should be treated as a combination of knowledge, skills, attitudes and behaviour. Strengthening financial education among young adults can improve risk awareness, reduce dependence on informal advice and support more disciplined long-term investment decisions.

Keywords: Financial Literacy, Investment Decision-Making, Young Adults, Investment Behaviour, Risk Tolerance, Financial Education, India

1. Introduction

Young adulthood is an important stage in the development of personal financial behaviour. Individuals begin to earn income, manage expenses, repay education or consumer loans, support family members and make independent decisions about savings and investments. At the same time, the Indian financial system has become increasingly accessible through mobile applications, online broking, mutual fund platforms and digital banking.

Greater access does not automatically imply better decisions. Investment products differ in risk,

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return, liquidity, taxation and time horizon. Young investors may also receive information from friends, family members, social media, online communities and financial influencers. Without adequate financial literacy, the abundance of information can create confusion rather than confidence.

Research in India supports the importance of financial literacy. Shroff, Paliwal and Dewasiri (2024), using data from 384 Indian investors, found that financial literacy positively influenced investment decisions and that financially literate investors were more likely to make informed choices. Earlier Indian evidence has also linked financial literacy with financial planning and investment behaviour. These findings make financial education particularly relevant for young adults entering increasingly complex financial markets.

2. Objectives of the Study

- To explain the concept and dimensions of financial literacy.
- To examine the relationship between financial literacy and investment decision-making among young adults.
- To identify major factors influencing young adults' investment decisions.
- To examine the role of risk awareness, financial goals and behavioural biases.
- To suggest measures for improving financial literacy and responsible investment behaviour.

3. Research Methodology

This paper uses a descriptive and analytical secondary-research methodology. Evidence has been drawn from peer-reviewed Indian studies, SEBI investor research, RBI publications and relevant academic literature on financial literacy and investment behaviour. The study does not present fabricated primary survey data. Findings from different studies are compared thematically to identify common relationships between financial knowledge and investment decisions.

4. Meaning and Dimensions of Financial Literacy

Financial literacy is broader than knowing the names of financial products. It includes the ability to understand basic financial concepts and apply them to real-life decisions. Core areas include interest rates, inflation, risk-return relationships, diversification, compounding, taxation, insurance, debt management and investment planning.

For young adults, financial literacy can be divided into four dimensions: financial knowledge, financial skills, financial attitude and financial behaviour. Knowledge enables an individual to understand concepts; skills support comparison and calculation; attitude shapes long-term orientation and risk awareness; behaviour reflects whether knowledge is actually used in saving and investing.

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Dimension	Meaning	Investment relevance
Knowledge	Understanding interest, inflation, risk, return and diversification	Improves product evaluation
Skills	Ability to compare, calculate and interpret financial information	Supports informed selection
Attitude	Long-term orientation and risk awareness	Reduces purely speculative decisions
Behaviour	Actual saving, investing and monitoring practices	Converts knowledge into outcomes

5. Investment Decision-Making Among Young Adults

5.1 Changing Investment Environment

Young adults now have easier access to mutual funds, equities, exchange-traded funds, fixed-income products and other financial instruments. Digital platforms reduce the practical barriers to opening accounts and executing transactions. This has positive implications for financial inclusion, but it also increases the importance of investor education.

SEBI's Investor Survey 2025 demonstrates the diversity of financial goals among Indian households. Goals include children's education, supporting family members, growing wealth, buying a house, building an emergency fund, financial independence and retirement planning. The survey also identifies differences between investors and non-investors, showing that investment decisions are closely connected to broader household objectives.

5.2 Financial Knowledge and Investment Choice

Financially literate individuals are more capable of distinguishing between guaranteed and market-linked returns, understanding diversification and recognising that higher potential returns generally involve greater uncertainty. Such knowledge can reduce dependence on product popularity alone.

Shroff et al. (2024) provide direct Indian evidence: financial literacy was positively associated with investment decisions in their sample of 384 investors. The authors concluded that financial literacy increases the likelihood of informed investment decisions. This supports the view that financial education can influence not only awareness but actual investment behaviour.

5.3 Risk Perception and Tolerance

Investment decisions require an understanding of risk. Young adults may have a relatively long investment horizon, but they do not necessarily have the same risk tolerance. Risk tolerance is affected by income stability, family responsibilities, previous experience, financial goals and personality.

Financial literacy can improve the quality of risk perception by helping investors distinguish volatility from permanent loss, understand diversification and evaluate whether an investment is appropriate

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for a particular goal.

5.4 Financial Goals and Time Horizon

Investment decisions become more rational when linked to specific goals. A young adult saving for a short-term emergency requirement should not necessarily select the same product as someone investing for retirement several decades away.

Financial literacy helps individuals connect product selection with time horizon. Goal-based investing can therefore reduce random product selection and encourage disciplined contributions.

6. Factors Influencing Young Adults' Investment Decisions

Factor	Possible influence
Financial literacy	Improves understanding and comparison of investment products
Income	Determines investible surplus and capacity to tolerate losses
Risk tolerance	Influences product and asset allocation choices
Financial goals	Determines time horizon and required return
Family influence	Can shape preferences and confidence
Peer/social influence	May encourage popular or trend-driven investments
Investment experience	Can improve practical understanding but may also create overconfidence
Digital access	Reduces barriers to entering financial markets

7. Role of Family and Social Influence

Family remains an important influence on financial behaviour in India. Research on young adults has found that parental influence can contribute to financial literacy and investment behaviour, while confidence in one's ability to make financial decisions can also affect whether young adults invest.

Social influence has become more complex because young adults increasingly encounter financial information online. Recommendations from peers, influencers and social-media communities may simplify complex investment topics, but they may also encourage herd behaviour or excessive confidence. Financial literacy should therefore include the ability to evaluate the credibility of financial information rather than merely consuming more information.

8. Financial Literacy and Behavioural Biases

8.1 Overconfidence

A person may believe that they understand financial markets better than they actually do. Overconfidence can result in excessive trading, concentrated portfolios or underestimation of risk.

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Indian research has documented a perception-reality gap in financial literacy, suggesting that self-assessed knowledge may exceed actual knowledge among some respondents.

8.2 Herding Behaviour

Young investors may follow friends, online communities or market trends without independently evaluating the investment. Financial literacy can reduce herd behaviour by teaching investors to ask basic questions about the underlying asset, risk, time horizon, costs and suitability for the stated financial goal.

8.3 Loss Aversion and Emotional Decisions

Investors often experience losses more intensely than equivalent gains. Young investors who enter the market during a period of strong returns may react emotionally when prices decline. Financial education can help by explaining volatility, diversification and long-term investment principles before a market downturn occurs.

8.4 Influence of Digital Financial Content

The expansion of financial content on social media has made investment information more accessible. However, accessibility and accuracy are not identical. Young adults may encounter promotional content presented as education, making source evaluation an important component of modern financial literacy.

9. Evidence from Indian Research

Indian academic research broadly supports a positive relationship between financial literacy and investment behaviour. Shroff et al. (2024) found that financial literacy positively influences investment decisions. Chaturvedi et al. (2024) similarly describe financial literacy, financial knowledge and financial attitude as important contributors to investment behaviour among young investors in India. Research on Indian Gen Z investors has also examined financial literacy alongside attitudes, perceived behavioural control and social factors.

More recent research has extended the discussion to behavioural biases. A 2025 study of Indian retail investors examined how financial literacy interacts with heuristics, framing effects, cognitive illusions and herding mentality. The evidence supports a multidimensional view: knowledge improves the foundation for decision-making, but actual investment behaviour also depends on attitudes, confidence, social influence and risk preferences.

10. Financial Goals Identified in SEBI Investor Survey 2025

SEBI's Investor Survey 2025 shows that Indian investment decisions are strongly connected to household goals. Children's education, supporting family members, wealth growth, home purchase, emergency funds and financial independence are among the prominent objectives reported by households. The survey indicates that the meaning of investment extends beyond short-term returns; it is connected with family security and long-term financial planning.

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11. Benefits of Financial Literacy for Young Adults

- Improves understanding of risk and return.
- Encourages diversification and goal-based investing.
- Reduces dependence on unverified investment tips.
- Improves awareness of fees, taxes and investment conditions.
- Supports disciplined saving and long-term planning.
- Can increase confidence while reducing uninformed risk-taking.
- Helps young adults evaluate digital financial content more critically.

12. Challenges in Improving Financial Literacy**12.1 Knowledge-Behaviour Gap**

Knowing a financial concept does not guarantee that an individual will act accordingly. A person may understand diversification but still hold a concentrated portfolio because of personal preferences or social influence. Financial education must therefore connect concepts with practical decision-making exercises.

12.2 Complexity of Financial Products

The financial market offers products with different levels of risk, liquidity, tax treatment and cost. Young investors may find it difficult to compare them without guidance. Simplified financial education should focus on suitability and risk rather than product promotion.

12.3 Digital Misinformation

The digital environment has dramatically increased access to financial information, but misinformation can spread quickly. Financial literacy programmes should teach young adults to verify information through reliable regulatory, institutional and official sources.

12.4 Unequal Access to Financial Education

Financial literacy can differ by education, income, geography and family background. Programmes should therefore reach college students, first-time employees and young adults in semi-urban and rural areas, rather than focusing only on existing investors.

13. Strategies for Improving Financial Literacy

- Introduce practical personal-finance modules in colleges and universities.
- Provide financial-literacy workshops for first-time employees.
- Teach inflation, compounding, diversification and risk through real-life examples.
- Include digital financial literacy and fraud awareness.
- Promote goal-based investing rather than product-based selling.
- Use objective quizzes and simulations to test financial knowledge.

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- Strengthen collaboration among educational institutions, regulators and financial institutions.
- Encourage young adults to maintain emergency savings before taking excessive investment risk.

14. Conceptual Framework

The relationship examined in this paper can be represented as follows:

Financial Literacy → Financial Knowledge & Skills → Risk Understanding → Investment Evaluation → Investment Decision Quality

The relationship is influenced by moderating factors such as income, risk tolerance, financial goals, family influence, investment experience and behavioural biases. This framework indicates that financial literacy is an important enabling factor but not the only determinant of investment behaviour.

15. Findings of the Study

- Financial literacy is positively associated with informed investment decision-making in Indian research.
- Knowledge of risk, return, inflation and diversification is particularly important for product evaluation.
- Young adults' investment decisions are influenced by financial goals, income and risk tolerance.
- Family and social networks continue to influence investment attitudes.
- Digital platforms improve access to investment products but also increase exposure to misinformation.
- Behavioural biases can weaken the effect of financial knowledge.
- Financial education should combine knowledge, skills, attitudes and practical behaviour.

16. Suggestions

- Universities should integrate financial literacy into commerce, management and professional programmes.
- Employers should provide basic investment and retirement-planning education to young employees.
- Financial education should include practical exercises on budgeting, compounding, diversification and risk assessment.
- Young investors should verify financial information through SEBI, RBI, AMFI and other recognised sources.
- Educational programmes should address behavioural biases and the influence of social media.
- Investment platforms should use clear risk disclosures and simple product explanations.

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- Parents and families should encourage informed decision-making rather than merely recommending specific products.

17. Conclusion

Financial literacy plays an important role in shaping investment decision-making among young adults in India. The evidence reviewed in this paper indicates that financially literate individuals are more capable of evaluating risk, comparing investment alternatives and aligning financial decisions with long-term goals. Indian research provides support for a positive relationship between financial literacy and investment decision quality.

Nevertheless, knowledge alone is insufficient. Investment behaviour is also affected by risk tolerance, family influence, social pressure, previous experience, overconfidence and digital information. Young adults increasingly receive investment information through online platforms, making digital financial literacy an essential extension of traditional financial education.

The most effective approach is therefore to develop financial capability rather than simply financial knowledge. Young adults should be able to understand financial concepts, apply them to real situations, assess risks, question unreliable information and maintain disciplined investment behaviour.

Limitations of the Study

This paper is based on secondary research and does not present original primary survey results. Differences in age definitions, sample characteristics and measurement methods across existing studies limit direct comparison. Future research may collect primary data specifically from Indian young adults aged 18–35 and examine financial literacy using objective knowledge questions alongside behavioural measures.

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