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THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISION-MAKING AMONG YOUNG ADULTS IN BENGALURU CITY

Mruthunjaya A

Faculty Member, H. C. Boraiah Memorial SC/ST First Grade College, Challakere Road, Jagalur Taluk, Davangere District, Karnataka, India.

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Keywords

Financial Literacy; Investment Decision-Making; Young Adults; Investment Behaviour; Bengaluru City.

Abstract

Financial literacy — the ability to understand and apply concepts such as interest, inflation, risk diversification, and compounding — is a critical determinant of sound investment behaviour, particularly among young adults making early independent financial decisions. This study empirically examines the impact of financial literacy on investment decision-making among 385 young adults (18–35 years) in Bengaluru city, using a structured questionnaire and stratified convenience sampling. Financial literacy was measured through a composite score (numeracy, interest/inflation comprehension, risk-return understanding, and product awareness) and related to an investment decision-making quality score (diversification, goal alignment, informed avenue selection) using correlation, multiple regression, one-way ANOVA, and chi-square tests. Results reveal a strong positive relationship between financial literacy and decision-making quality ($r = 0.66$, $p < 0.05$); financial knowledge and risk tolerance emerge as the strongest behavioural predictors, while lack of financial knowledge and fear of losing money are the leading barriers to informed investing. The study concludes with policy and managerial implications for financial institutions, investor-education bodies, and regulators seeking to strengthen financial literacy and investment outcomes among urban youth.

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1. Introduction

Financial literacy refers to the knowledge and skills required to understand and apply financial concepts — budgeting, saving, interest, inflation, risk diversification, and the time value of money — to informed personal financial decisions. As markets have grown more complex and investment instruments have expanded from bank deposits to mutual funds, equities, digital gold, and cryptocurrency, financial literacy has become an increasingly important determinant of investment decision quality. Young adults face investment decisions earlier and across a wider range of instruments than previous generations, aided by mobile investment applications and digital brokerage platforms, even as financial literacy levels among young Indians remain moderate at best — raising concern that easy platform access is not matched by the knowledge required to use it wisely.

Bengaluru, India's leading technology hub with a large population of students and young salaried professionals, offers a distinctive setting: high disposable income and digital investment access combined with widely varying levels of formal financial education. This study empirically investigates how financial literacy among Bengaluru's young adults influences investment decision quality, examining both the strength of the relationship and the behavioural and informational factors that mediate it.

2. Review of Literature

The literature draws heavily on Lusardi and Mitchell (2011), whose "Big Three" numeracy, inflation, and risk-diversification questions form the standard international financial-literacy instrument and are adapted, alongside investment-specific items, in this study's questionnaire; their cross-country evidence consistently links higher literacy to better retirement and investment decisions. In the Indian context, the National Centre for Financial Education's (2019) survey found moderate literacy with notable risk-comprehension gaps among younger respondents, while SEBI's (2021) investor survey reported limited risk-return understanding among first-time retail investors — findings this study's literacy distribution (Table 3) directly engages with.

A second strand connects literacy to behavioural outcomes. Van Rooij, Lusardi, and Alessie (2011) found individuals with low literacy significantly less likely to participate in equity markets and more reliant on informal advice, a pattern echoed by Agarwalla et al. (2015) among urban Indian young adults, where literacy significantly predicted savings and diversification. Kumar and Goyal (2015) further linked lower literacy to greater susceptibility to overconfidence and herd-behaviour biases. Collectively, this literature (Table 1) establishes financial literacy as a well-validated predictor of investment behaviour while identifying gaps — risk comprehension, product awareness, behavioural bias — particularly relevant to young, digitally enabled investors in urban India, a population this study addresses directly using primary survey data from Bengaluru.

Author(s) & Year	Focus Area	Key Finding
Lusardi & Mitchell (2011)	Literacy measurement ("Big Three")	Standard cross-country instrument; higher literacy → better retirement/investment planning.
Van Rooij, Lusardi & Alessie (2011)	Literacy & stock participation	Low literacy → lower equity participation, more informal advice.

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Author(s) & Year	Focus Area	Key Finding
Agarwalla et al. (2015)	Urban working young adults, India	Literacy predicts savings and portfolio diversification.
Kumar & Goyal (2015)	Behavioural biases	Lower literacy → more overconfidence/herd bias.
NCFE (2019)	All-India Financial Literacy Survey	Moderate literacy; risk-comprehension gaps in youth.
SEBI (2021)	Retail investor survey	Young investors show limited risk-return understanding.

Table 1. Summary of Reviewed Literature.

3. Objectives of the Study

- To measure the level of financial literacy among young adults in Bengaluru using a composite Financial Literacy Score.
- To examine the pattern of investment avenue preference among respondents.
- To identify key behavioural/informational factors influencing investment decisions — financial knowledge, risk tolerance, income, peer influence, advisor guidance, and media exposure.
- To empirically examine the relationship between financial literacy and investment decision-making quality.
- To compare investment decision-making quality across financial literacy levels (low, moderate, high).
- To identify principal barriers to informed investment decision-making.
- To offer policy and managerial recommendations for institutions, investor-education bodies, and regulators.

4. Hypotheses of the Study

- H1: There is a significant positive relationship between financial literacy and investment decision-making quality.
- H2: Financial knowledge, risk tolerance, income, peer/family influence, advisor guidance, and media exposure significantly predict decision-making quality.
- H3: Investment decision-making quality significantly differs across financial literacy levels (low, moderate, high).
- H4: There is no significant association between demographics (gender, age group) and financial literacy level.

5. Research Methodology

Research design: A descriptive, empirical design based on a structured primary-data questionnaire, supplemented by quantitative statistical analysis to test the hypothesised relationships.

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Sample and sampling technique: The population comprised young adults aged 18–35 residing in Bengaluru. Using Cochran's formula (95% confidence, 5% margin of error), a minimum sample of 384 was determined; 385 valid responses were collected after data cleaning, using stratified convenience sampling with strata defined by age group and gender.

Instrument: A structured online questionnaire comprising demographic profile; a financial-literacy battery adapted from Lusardi and Mitchell (2011) plus investment-product-awareness items; a five-point Likert battery for six behavioural/informational factors; and an investment decision-making quality battery covering diversification, goal alignment, and informed avenue selection.

Reliability and validity: Internal consistency (Cronbach's Alpha) exceeded the 0.70 threshold for all constructs (Table 2). Content validity was established through expert review and a 30-respondent pilot test.

Statistical tools: Data were analysed in SPSS using descriptive statistics, Pearson correlation, multiple linear regression, one-way ANOVA, and chi-square tests of association, all at the 5% significance level.

6. Data Analysis and Interpretation

6.1 Demographic Profile of Respondents

Variable	Category	n	%
Age Group	18–21 yrs	79	20.5
	22–25 yrs	168	43.6
	26–30 yrs	96	24.9
	31–35 yrs	42	10.9
Gender	Male	200	51.9
	Female	177	46.0
	Prefer not to say	8	2.1
Education	Undergraduate	148	38.4
	Postgraduate	176	45.7
	Professional/Doctoral	61	15.9
Monthly Income	Below ₹25,000	93	24.2
	₹25,001–₹50,000	142	36.9
	₹50,001–₹75,000	101	26.2
	Above ₹75,000	49	12.7

Table 2. Demographic Profile of Respondents (N = 385).

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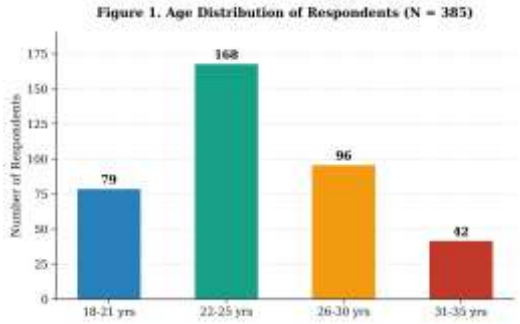

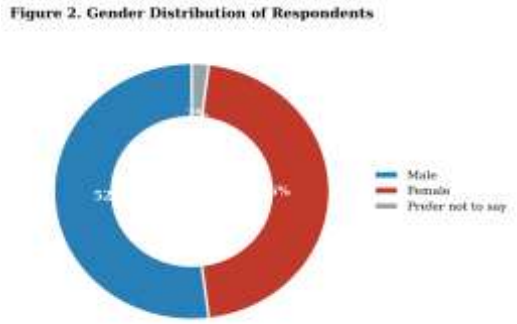

Figure 1. Age distribution. ***Figure 2. Gender distribution.***

The sample is concentrated in the 22–25 years bracket (43.6%), reflecting Bengaluru's early-career and postgraduate population, with a near-balanced gender split (51.9% male, 46.0% female) supporting generalisability. The predominance of postgraduate/undergraduate respondents (84.1% combined) situates the sample within the more formally educated segment of the city's youth.

6.2 Reliability Statistics

Construct	Items	Cronbach's α
Financial Literacy Score	8	0.85
Financial Knowledge	4	0.82
Risk Tolerance	4	0.79
Peer & Family Influence	3	0.75
Financial Advisor Guidance	3	0.77
Media & Online Content Exposure	3	0.76
Investment Decision-Making Quality	6	0.86

Table 3. Reliability Statistics (Cronbach's Alpha).

All constructs exceeded the 0.70 acceptability threshold, with Investment Decision-Making Quality (α = 0.86) and Financial Literacy Score (α = 0.85) showing the highest internal consistency, confirming the instrument reliably measured the intended constructs.

6.3 Financial Literacy Level

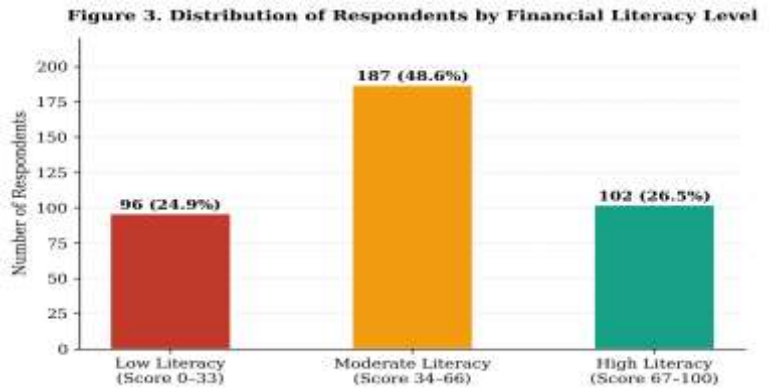

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Figure 3. Distribution of respondents by financial literacy level.

Literacy Level	Score Range	n	%
Low	0–33	96	24.9
Moderate	34–66	187	48.6
High	67–100	102	26.5

Table 4. Distribution of Respondents by Financial Literacy Level.

Nearly half of respondents (48.6%) fall into the moderate literacy category, with roughly a quarter each in the low (24.9%) and high (26.5%) categories — broadly consistent with NCFE (2019) and confirming sufficient variation to test the study's hypotheses.

6.4 Preferred Investment Avenues

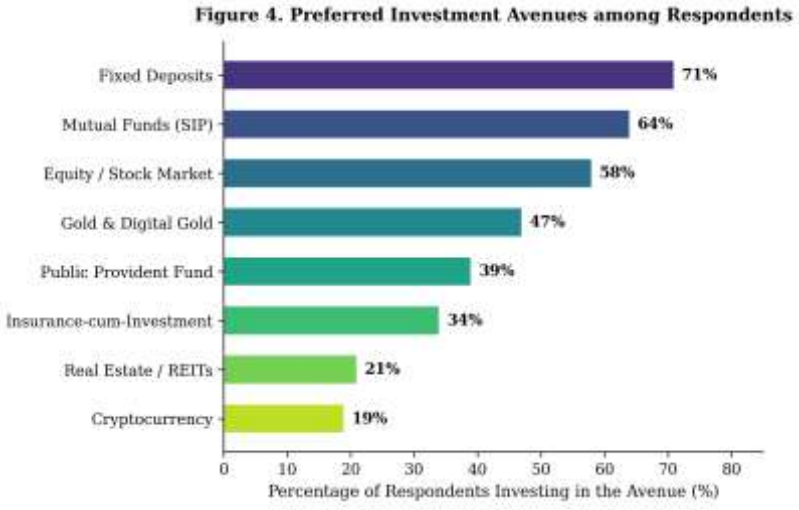

Figure 4. Preferred investment avenues among respondents.

Traditional, low-complexity instruments — fixed deposits (71%) and mutual funds/SIPs (64%) — remain the most widely used avenues, followed by direct equity (58%), while complex or higher-risk instruments such as real estate/REITs (21%) and cryptocurrency (19%) show markedly lower uptake, consistent with Van Rooij et al.'s (2011) link between lower literacy and more conservative behaviour.

6.5 Correlation Analysis

Variable	1	2	3	4	5	6
1. Financial Literacy	1.00					
2. Financial Knowledge	0.61*	1.00				
3. Risk Tolerance	0.44*	0.42*	1.00			
4. Peer & Family Influence	-0.28*	-0.24*	0.19*	1.00		
5. Advisor Guidance	0.31*	0.33*	0.27*	0.22*	1.00	
6. Decision Quality	0.66*	0.59*	0.48*	-0.21*	0.36*	1.00

Table 5. Pearson Correlation Matrix (*p < 0.05, two-tailed).

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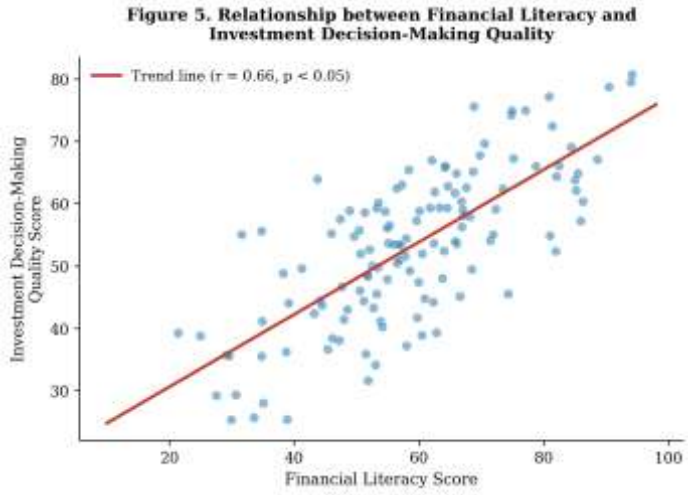

Figure 5. Financial literacy vs. investment decision-making quality.

Decision-making quality correlates significantly and positively with Financial Literacy (r = 0.66), Financial Knowledge (r = 0.59), and Risk Tolerance (r = 0.48), and negatively with Peer & Family Influence (r = -0.21), consistent with Van Rooij et al. (2011). The strong literacy–quality correlation provides initial support for H1.

6.6 Factors Influencing Investment Decisions

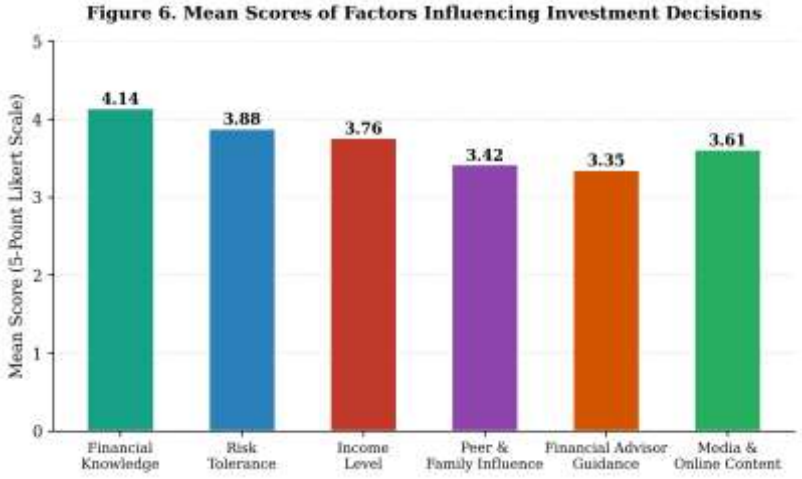

Figure 6. Mean scores of factors influencing investment decisions.

Financial knowledge (mean = 4.14) recorded the highest mean score, followed by risk tolerance (3.88) and income level (3.76); advisor guidance (3.35) and peer/family influence (3.42) scored lowest, indicating Bengaluru's young investors rely more on self-directed knowledge than third-party advice.

6.7 Regression Analysis

Predictor	B	β	t	p
(Constant)	15.87	—	5.72	< 0.05
Financial Literacy Score	0.478	0.66	13.94	< 0.05

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Predictor	B	β	t	p
Financial Knowledge	0.142	0.16	2.87	0.004
Risk Tolerance	0.089	0.10	2.02	0.044
Peer & Family Influence	-0.061	-0.08	-1.98	0.048

Table 6. Regression: Predictors of Decision-Making Quality ($R^2 = 0.54$, $F = 111.4$, $p < 0.05$).

The model explains 54% of variance in decision-making quality. Financial Literacy Score is the strongest predictor (β = 0.66, p < 0.05), followed by Financial Knowledge (β = 0.16) and Risk Tolerance (β = 0.10); Peer & Family Influence shows a significant negative effect (β = -0.08). Results support H1 and partially support H2.

6.8 Decision Quality by Literacy Level (ANOVA)

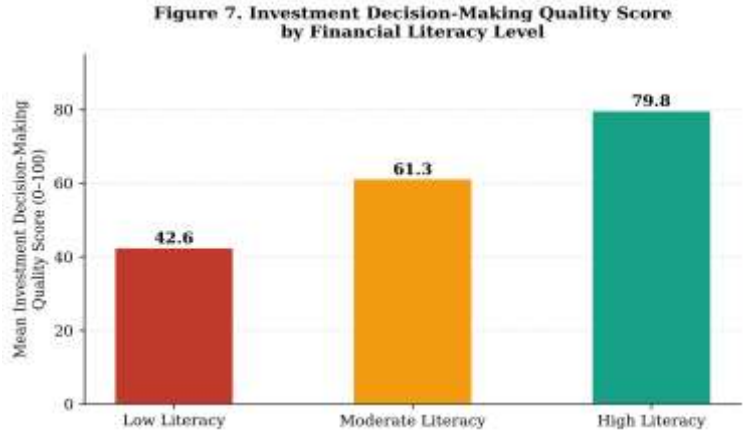

Figure 7. Investment decision-making quality score by financial literacy level.

Source	SS	df	MS	F	p
Between Groups	38,452	2	19,226	97.8	< 0.05
Within Groups	75,014	382	196.4	—	—
Total	113,466	384	—	—	—

Table 7. One-Way ANOVA: Decision Quality across Literacy Levels.

Mean decision quality rises step-wise from 42.6 (low literacy) to 61.3 (moderate) to 79.8 (high), a statistically significant difference (F = 97.8, p < 0.05) that strongly supports H3.

6.9 Chi-Square Test of Association

Demographic Variable	χ^2	df	p	Result
Gender × Literacy Level	1.87	2	0.393	Not significant
Age Group × Literacy Level	7.42	6	0.284	Not significant

Table 8. Chi-Square Test Results.

Financial literacy level is not significantly associated with gender (p = 0.393) or age group (p = 0.284), indicating it is evenly distributed across these segments; H4 is supported.

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6.10 Barriers to Informed Investment Decision-Making

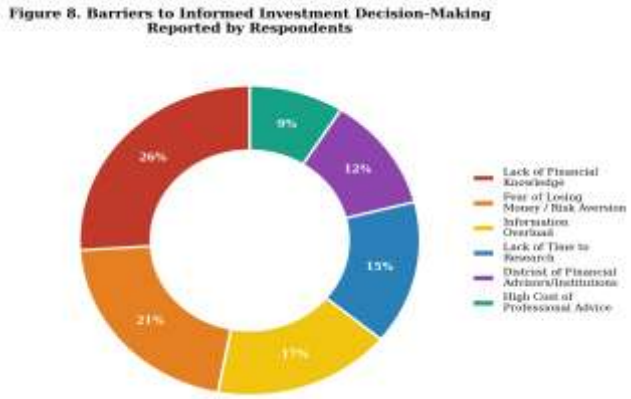

Figure 8. Barriers to informed investment decision-making.

Lack of financial knowledge is the most cited barrier (26%), followed by fear of losing money (21%) and information overload (17%); lack of time (15%), distrust of advisors (12%), and cost of advice (9%) are less frequent but relevant among lower-literacy respondents.

6.11 Hypothesis Testing Summary

Hypothesis	Result
H1: Literacy → decision quality (positive)	Supported ($r = 0.66$, $p < 0.05$)
H2: Behavioural/informational predictors	Partially supported
H3: Quality differs across literacy levels	Supported ($F = 97.8$, $p < 0.05$)
H4: No demographic–literacy association	Supported

Table 9. Summary of Hypothesis Testing Results.

7. Key Findings

- 48.6% of respondents fall into the moderate financial literacy category; 24.9% low and 26.5% high.
- Traditional instruments (fixed deposits, mutual funds/SIPs) dominate; complex instruments (REITs, crypto) show low uptake.
- Financial literacy and decision quality are strongly correlated ($r = 0.66$) and literacy is the strongest regression predictor ($\beta = 0.66$, $R^2 = 0.54$).
- Decision quality rises significantly across literacy levels, from 42.6 (low) to 79.8 (high) ($F = 97.8$, $p < 0.05$).
- Financial knowledge and risk tolerance are the strongest behavioural predictors; peer/family reliance predicts lower quality.
- Literacy is evenly distributed across gender and age — gaps are not demographically concentrated.

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- Lack of financial knowledge and fear of loss are the leading barriers to informed investing.

8. Suggestions and Implications

Given the strong literacy–decision quality relationship, financial institutions, investment platforms, and regulators should treat structured financial education — covering risk-return concepts, diversification, and product knowledge — as a direct lever for improving investment outcomes rather than a peripheral awareness activity. Because financial knowledge and risk tolerance are the strongest behavioural predictors, investor-education programmes for young adults should prioritise conceptual understanding and structured risk assessment over generic product promotion. The negative association between peer/family influence and decision quality suggests digital platforms could embed credible educational content within the investment journey to reduce reliance on informal sources. Finally, since lack of knowledge and fear of loss are the leading barriers, targeted, low-cost interventions delivered through channels young adults already use — workplace onboarding, college curricula, and app-embedded learning modules — could meaningfully narrow the gap between low- and high-literacy investors.

9. Limitations of the Study

The stratified convenience sample was restricted to Bengaluru, which may limit generalisability to other Indian cities with different financial-education and investment-access levels. The cross-sectional design captures literacy and decision quality at one point in time and cannot fully establish causal direction; a longitudinal design would strengthen causal inference. Self-reported decision quality is also subject to social desirability and recall bias, which future research could address using actual portfolio data.

10. Conclusion

This study empirically examined the impact of financial literacy on investment decision-making among young adults in Bengaluru. Financial literacy is not evenly distributed across this population, and this variation is strongly and significantly associated with decision-making quality — explaining over half the variance in the regression model and producing a near-doubling of mean scores between the lowest and highest literacy groups. Financial knowledge and risk tolerance emerge as the primary behavioural drivers of sound decisions, while reliance on informal peer/family advice is associated with weaker outcomes, and lack of knowledge together with fear of loss remain the principal reported barriers. Consistent with Lusardi and Mitchell (2011) and Van Rooij, Lusardi, and Alessie (2011), these findings underscore that continued investment in structured, accessible financial education is likely to translate into measurably better investment decisions, and should be a central component of institutional investor-education strategy and public financial-inclusion policy targeting India's urban youth.

AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

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CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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