

Examining How Financial Literacy Affects Investment Decision-Making : A Review Study

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Abstract

This thorough analysis looks at how financial literacy affects investing choices, emphasizing how important it is for improving both economic stability and personal financial well-being. In order to enable people to make wise financial decisions, financial literacy—which includes the information and abilities required for efficient money management—is essential. This essay summarizes the body of research, points out recurring themes and gaps, and suggests methods for improving financial literacy. The evaluation analyses papers from 2005 to 2025 using the Systematic Protocol for Assembling, Arranging, and Assessing Research (SPAR-4-SLR). The results show that better financial behaviours, increased risk tolerance, and better investment decisions are all correlated with higher financial literacy. However, disparities in financial literacy levels exist across countries, influenced by cultural, economic, and educational factors. The review also highlights the importance of integrating financial literacy into educational curricula and promoting digital literacy to address these disparities. The study comes to the conclusion that although financial literacy is crucial, it is not the only factor that influences financial behavior. Decision-making results are also greatly impacted by variables like access to financial services, cultural background, and personal income. Future studies should concentrate on creating and assessing specialized financial literacy initiatives as well as investigating the influence of psychological and emotional aspects on financial decision-making.

Keywords: Financial Education, Financial Literacy, Investor Sentiment, Investor Behaviour, Investment Decision, Financial Education Programs, Cross-Country Analysis

Introduction

Effective money management requires financial literacy (FL), which includes the information and abilities needed for borrowing, investing, saving, and budgeting (Braunstein & Welch, 2002). By enabling people to make wise financial decisions, it is essential to both economic stability and personal financial well-being (Lavanya & Mamilla, 2024). Achieving personal financial goals and managing intricate financial systems require financial literacy. It promotes wealth accumulation, helps people avoid financial blunders, and gets them ready for economic difficulties. Increasing financial literacy helps reduce poverty and promote economic progress, especially in emerging nations (Zhuang et al., 2009).

Despite its significance, there are differences in financial literacy between nations due to a combination of educational, cultural, and economic variables. While some nations lag behind, others, like Estonia and Poland, have put in place efficient financial education strategies (Spivak et al., 2024). To raise financial literacy levels, Agu et al. (2024) suggest including financial literacy into school curricula, requiring financial education, and encouraging digital literacy. Initiatives for financial literacy can also benefit greatly from public-private cooperation.

Nonetheless, there are still obstacles to overcome in order to guarantee fair access to financial education for all populations and geographical areas (Atkinson & Messy, 2013). For the world's people to become financially literate, these inequities must be addressed. Reviewing the body of research on the influence of financial literacy on investment decision-making, identifying knowledge gaps, and suggesting areas for further study are the objectives of this paper.

Research Questions and Objectives

Research Questions

1. In what ways does financial literacy affect individual investment decisions?
2. How do financial literacy levels vary across countries and regions?
3. What measures can improve financial knowledge and investment outcomes?

Objectives

1. To critically review literature on financial literacy and investment behavior
2. To identify key themes, trends, and research gaps
3. To suggest practical strategies for improving financial capability

Literature Review

The Role of Financial Literacy in Investment Decision-Making

By providing people with the information and abilities needed to successfully negotiate challenging financial environments, financial literacy has a substantial impact on financial decision-making. Higher financial literacy has been linked to better financial behaviors, increased risk tolerance, and better investment decisions, according to research (Lusardi & Mitchell, 2011). This connection is essential for encouraging responsible financial behavior in people, especially when it comes to investing.

Individuals with higher financial literacy are more likely to make informed, goal-oriented investment decisions, as evidenced by studies in Banjarmasin, Indonesia (Hassan Al-Tamimi & Anood Bin Kalli, 2009). Financial literacy enhances risk tolerance, which mediates the relationship between literacy and investment performance, leading to better returns (Song et al., 2023). Financial literacy influences financial behaviour, which in turn affects investment decisions, although some studies suggest that financial behaviour may not always mediate this relationship (De Bondt, 1998).

Disparities in Financial Literacy Levels

According to Spivak et al. (2024), cultural, economic, and educational factors all had an impact on the notable differences in financial literacy levels between nations. While some nations, like Poland and Estonia, have put in place efficient financial education programs, others are lagging behind. To raise financial literacy levels, Agu et al. (2024) suggest including financial literacy into school curricula, requiring financial education, and encouraging digital literacy. Initiatives for financial literacy can also benefit greatly from public-private cooperation.

Strategies for Enhancing Financial Literacy

Agu et al. (2024) suggested a number of ways to improve financial literacy, such as incorporating it into curricula, requiring financial education, and encouraging digital literacy. Initiatives for financial literacy can also benefit greatly from public-private cooperation. Even while the importance of financial

literacy for maintaining economic stability is becoming more widely acknowledged, there are still obstacles in the way of guaranteeing equal access to financial education for various groups and geographical areas (Atkinson & Messy, 2013). For the world's people to become financially literate, these inequities must be addressed.

Methodology

SPAR-4-SLR Protocol

The Systematic Protocol for Assembling, Arranging, and Assessing Research (SPAR-4-SLR) was employed to conduct a comprehensive review of the literature on financial literacy and investment decision-making. The protocol involved the following steps:

Assembling

Search keywords were identified to capture relevant literature. The search query used was: (TITLE-ABS-KEY ("financial Education") OR TITLE-ABS-KEY ("financial acumen") OR TITLE-ABS-KEY ("financial literacy") OR TITLE-ABS-KEY ("financial awareness") AND TITLE-ABS-KEY ("investor sentiment") OR TITLE-ABS-KEY ("Investor behavior") OR TITLE-ABS-KEY ("investor aptitude") OR TITLE-ABS-KEY ("investor confidence") OR TITLE-ABS-KEY ("investor decision") OR TITLE-ABS-KEY ("investment decision"))

Arranging

The search was conducted in major academic databases, including Google Scholar, JSTOR, and PubMed. The inclusion criteria were peer-reviewed articles, published between 2005 and 2025, focusing on financial literacy and its impact on investment decision-making. The exclusion criteria were non-peer-reviewed articles, articles not in English, and those not directly related to the research topic.

Assessing

The retrieved articles were screened for relevance based on titles and abstracts. Full-text articles were then reviewed for quality and relevance. Data were extracted on publication details, research methods, findings, and conclusions. The extracted data were analyzed to identify common themes, contradictions, and gaps in the research.

Result and Discussion

Publication Growth

The bar chart in Figure 1 shows the number of documents published each year from 2005 to 2025. There was minimal activity in terms of publications, with fewer than 10 documents per year, indicating limited research or interest in the subject during this period. This suggests that there was little investigation or interest in the topic during this time. There was a modest rise in publications since 2017, with the quantity of documents steadily increasing but remaining relatively modest compared to subsequent years. A minor decrease in the quantity of documents released around 2021 might be attributable to specific occurrences, such as the COVID-19 pandemic, which affected research efforts and publishing. The number of articles increased dramatically and consistently since 2022, with the document count approaching 90 by 2025, showing a considerable increase in research interest or knowledge of this issue.

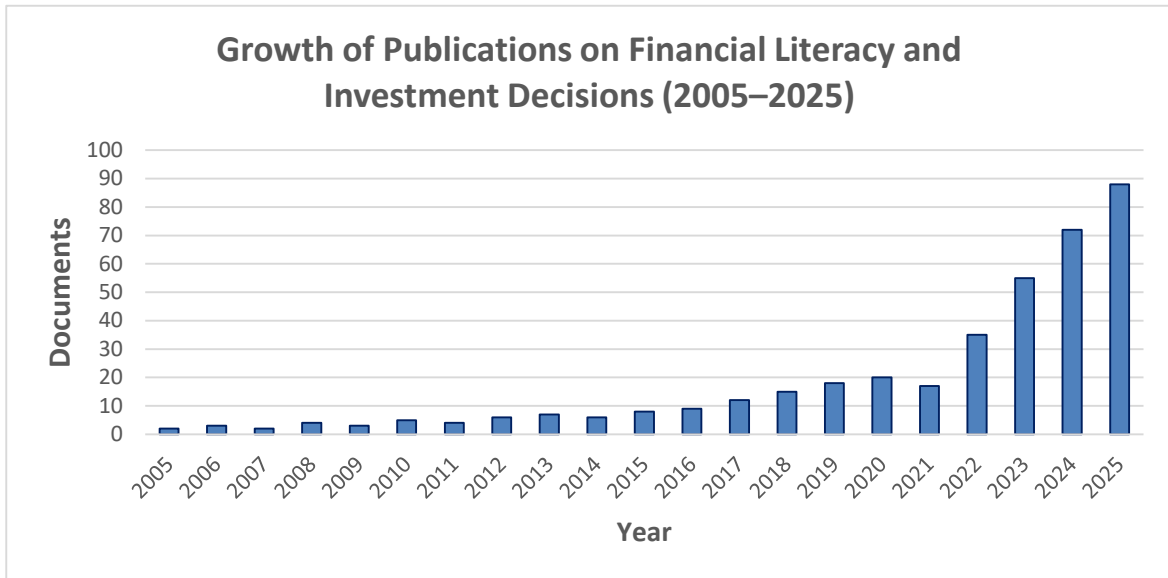


Figure 1: Growth of Publications on Financial Literacy and Investment Decisions (2005–2025)

Most Productive Affiliation

The bar chart in Figure 2 displays the number of documents published by various academic institutions. Bina Nusantara University has the most publications, with around 11 papers, making it the most active university in this field. This might indicate a significant research emphasis or established expertise in this area at the university. Amity University, Universiti Teknologi Malaysia, and Christ University follow, each having around 3-5 papers. These institutions demonstrate some level of involvement and budget deployment. Indian Institute of Technology Kharagpur, Prince Sultan University, Manipal Academy of Higher Education, Zhongnan University of Economics and Law, Universiti Malaya, and Hiroshima University all have around two papers. These institutions contribute to the issue, although to a lesser extent than the prominent ones. Overall, the data shows that while Bina Nusantara University is highly engaged in this research area, several other institutions across different countries also contribute to the field, though to a lesser extent. This distribution indicates a potentially diverse international interest in the topic, with concentrated research efforts in select universities.

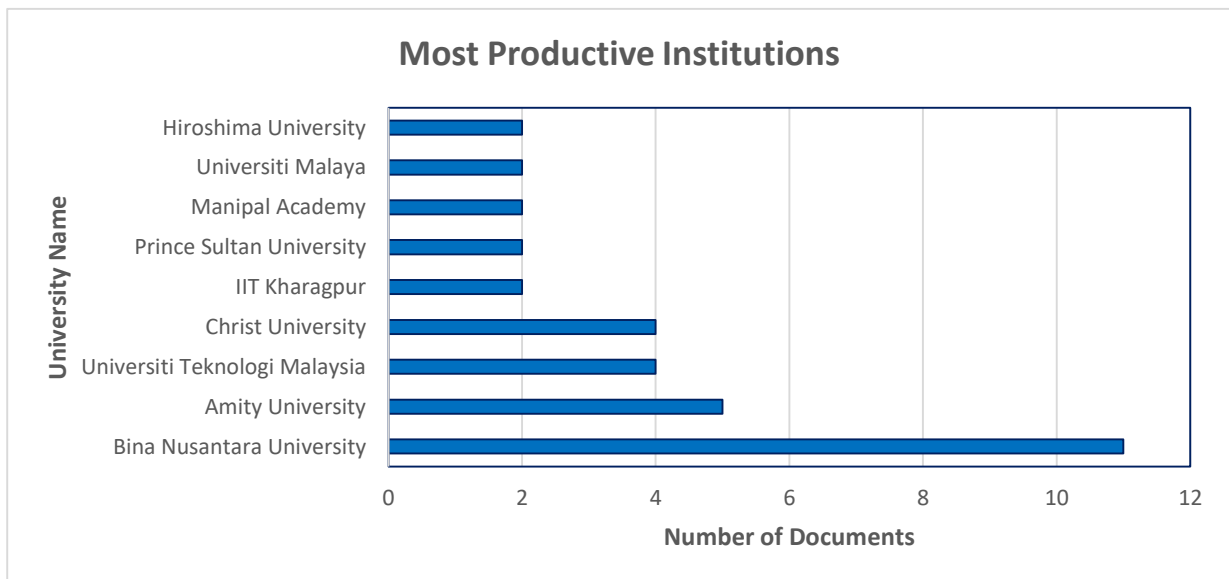


Figure 2: Most Productive Institutions

Types of Documents

The pie chart in Figure 3 shows the distribution of documents by type, revealing the most common formats in which research is published in this field. Articles make up the vast majority of the documents, indicating that journal articles are the primary medium for disseminating research in this area. This suggests a strong focus on peer-reviewed research, often preferred for presenting original findings and analyses. Conference papers represent the second-largest document type, accounting for nearly 9%. This indicates a notable level of engagement in conferences, likely reflecting a need for timely discussions and updates within the academic or professional community. Book chapters contribute a small but significant portion, implying that some findings or topics within this field are published in edited volumes, possibly for a more comprehensive discussion or interdisciplinary collaboration. Review articles make up a modest share, showing that there is some synthesis of existing research, which helps in understanding broader trends or summarizing past findings. These include notes, books, conference reviews, erratum, and retracted papers. Their low percentages suggest limited contributions in these formats, with errata and retracted documents indicating minor corrections or adjustments within the publication history. In summary, the data reveals a strong preference for journal articles and conference papers, reflecting a focus on original research and active academic dialogue. The presence of book chapters and review articles suggests ongoing synthesis and integration of knowledge, although to a lesser extent.

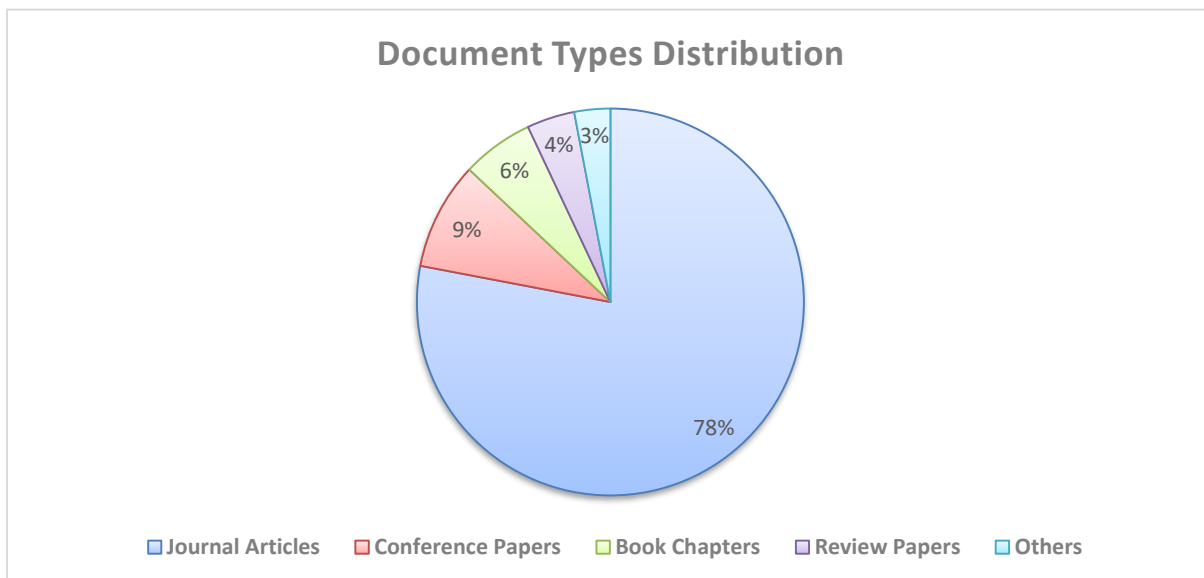


Figure 3: Document Types Distribution

Subject Area The doughnut chart in Figure 4 highlights the distribution of documents across various subject areas, with Economics and Econometrics (26.4%) and Business, Management, and Accounting (24.5%) emerging as the most dominant fields, indicating a strong research focus on economic and corporate topics. Social Sciences (13.8%) also hold a significant share, reflecting the integration of societal perspectives in research. Technological and engineering advancements are represented by Computer Science (6.5%) and Engineering (4.6%), while Environmental Science (4.0%) and Decision Sciences (4.0%) underscore growing interest in sustainability and strategic decision-making. Energy (2.8%), Psychology (2.8%), and Mathematics (2.3%) are comparatively smaller but still contribute to interdisciplinary research. The "Other" category (8.2%) likely captures emerging fields or unclassified topics, showcasing diversity in research activities. This distribution highlights a balanced yet economically and socially driven research focus, with a notable emphasis on interdisciplinary studies.

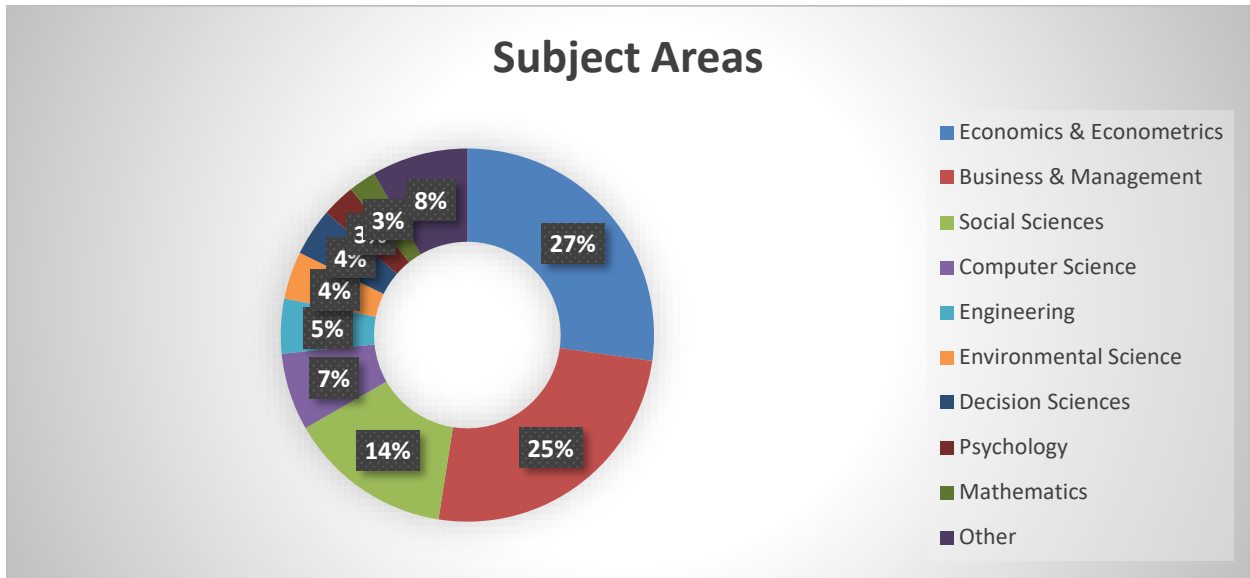


Figure 4: Subject Areas

Most Producing Country

The column chart in Figure 5 presents the number of documents produced by different countries or territories. India stands out as the leader, contributing the highest number of documents, followed by Indonesia. The United States and China occupy the third and fourth positions, respectively, reflecting strong research activity in these global hubs. Malaysia and Pakistan also contribute significantly, showcasing their growing involvement in research. Countries like the United Kingdom, Germany, Saudi Arabia, and Italy have comparatively fewer documents but represent a diverse range of contributions from various regions. This distribution highlights India and Indonesia's dominance in document production, potentially reflecting their focus on specific research areas or the size of their academic and research communities. Overall, the chart indicates a mix of contributions from both developed and developing nations.

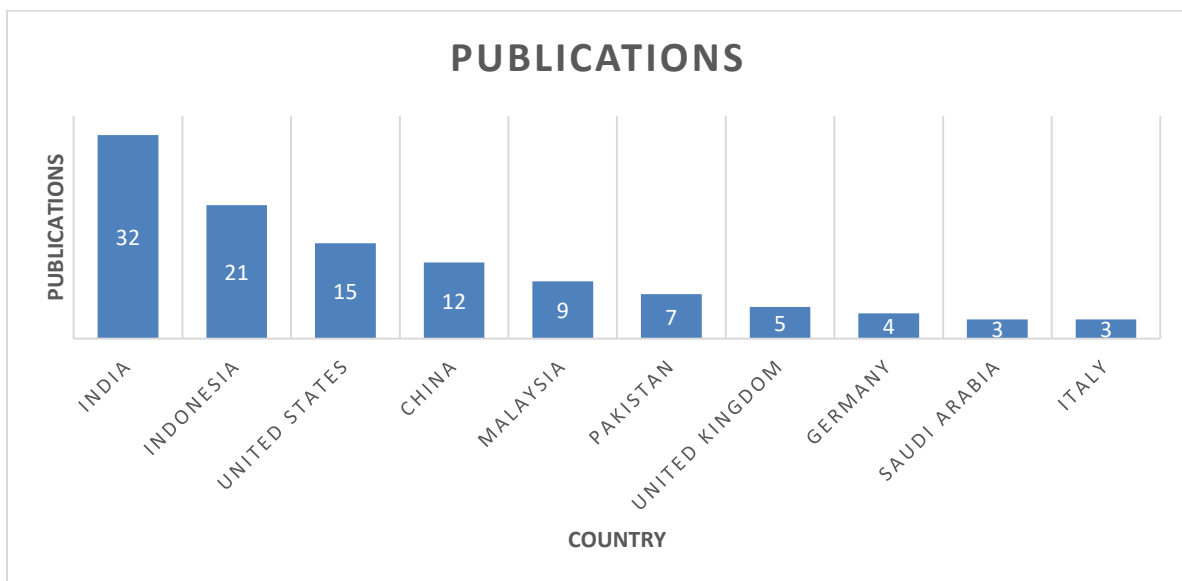


Figure 5: Publications

Conclusion

By improving comprehension and proficiency in handling financial resources, financial literacy has a substantial impact on personal financial decision-making. Higher financial literacy increases a person's likelihood of making wise investment decisions, creating an efficient budget, and making retirement plans. As shown in the sections that follow, this link is apparent in a variety of settings. Research from Kazakhstan and Indonesia has shown that higher financial literacy is linked to more informed and goal-oriented investing choices (Hassan Al-Tamimi & Anood Bin Kalli, 2009). Programs for financial literacy have been shown to reduce reliance on unofficial advice by changing investment behaviors toward more consistent and varied strategies. Risk assessment and payment commitments are two examples of superior financial behaviors exhibited by people with moderate to high financial literacy. Decision-making effectiveness is directly impacted by knowledge of financial concepts like interest rates and inflation, particularly in emerging economies (Lusardi & Mitchell, 2014). The growing body of studies emphasizes how crucial comprehensive financial education is to empowering people and enhancing their general financial well-being. Customized financial literacy initiatives can increase economic resilience by addressing the distinct problems that different communities face. On the other hand, although financial literacy is important, it is not the only factor that determines financial behavior; other important elements that influence decision-making results include personal income, cultural context, and access to financial services.

Implications and Future Research

The study emphasizes the need for structured and accessible financial education initiatives tailored to different demographic groups. Future research should:

- Assess the effectiveness of customized financial education programs
- Explore behavioural and psychological influences on investment decisions
- Develop strategies to reduce financial literacy gaps across regions and populations

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