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Impact of Financial Literacy on Investment Decision-Making of Individual Investors: Evidence from Bathinda District, Punjab

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Abstract: *Financial literacy has emerged as a critical determinant of individual investment behavior, especially in developing economies where participation in formal financial markets is increasing. This study examines the impact of financial literacy on investment decision-making among individual investors in Bathinda district of Punjab. Primary data were collected from 30 respondents using a structured questionnaire measuring financial literacy, risk perception, income level, and investment decision quality. Multiple regression analysis was employed to assess the influence of financial literacy on investment decisions. The results reveal that financial literacy has a significant positive impact on rational investment decision-making, while income and risk perception also play supportive roles. The study provides valuable insights for policymakers, financial institutions, and educators to enhance financial awareness at the regional level.*

Keywords: Financial literacy, investment decisions, regression analysis, individual investors, Bathinda, Punjab

I. INTRODUCTION

The transformation of financial markets and the proliferation of investment instruments have increased the responsibility placed on individual investors to make informed financial decisions. Financial literacy, defined as the ability to understand and effectively use financial knowledge, has become an essential life skill. In India, initiatives such as Digital India, Jan Dhan Yojana, and increased access to mutual funds and equity markets have expanded financial participation, particularly in semi-urban regions like Bathinda district in Punjab.

Despite improved access, many individual investors lack adequate financial knowledge, leading to suboptimal investment decisions, excessive risk exposure, or dependence on informal advice. Understanding how financial literacy influences investment decision-making at the district level is crucial for designing targeted financial education programs. This study focuses on Bathinda, an economically significant district with a growing population of salaried employees, traders, and small investors.

II. REVIEW OF LITERATURE

Lusardi and Mitchell (2020) emphasized that financial literacy significantly enhances individuals' ability to plan, save, and invest efficiently, particularly in uncertain economic environments. **Kumar and Bansal (2021)** found that Indian retail investors with higher financial knowledge exhibit better portfolio diversification and long-term investment orientation. **Agarwal et al. (2022)** observed that financial illiteracy leads to behavioral biases such as herding and overconfidence, negatively affecting investment outcomes. **Sharma and Gupta (2022)** highlighted that semi-urban investors often rely on informal sources of information, resulting in higher exposure to financial risk. **Singh and Kaur (2023)** reported a strong positive relationship between financial literacy and mutual fund adoption among Punjab investors. Recently, **Mehta and Jain (2024)** concluded that financial literacy not only influences investment decisions directly but also moderates the effect of income and risk perception on investment behavior. These studies collectively

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suggest that improving financial literacy is essential for strengthening investor decision-making, particularly in emerging and semi-urban markets.

III. RESEARCH OBJECTIVES

- To assess the level of financial literacy among individual investors in Bathinda district.
- To examine the impact of financial literacy on investment decision-making using regression analysis.

IV. RESEARCH HYPOTHESIS

- H_0: Financial literacy has no significant impact on investment decision-making of individual investors in Bathinda district.
- H_1: Financial literacy has a significant impact on investment decision-making of individual investors in Bathinda district.

V. RESEARCH METHODOLOGY

5.1 Study Area

The study was conducted in **Bathinda district, Punjab**, which represents a semi-urban financial ecosystem with increasing participation in banking, insurance, mutual funds, and equity investments.

5.2 Sample Size and Sampling Technique

A sample of **30 individual investors** was selected using **convenience sampling**. Respondents included salaried employees, small business owners, and self-employed individuals actively involved in investment activities.

5.3 Data Collection

Primary data were collected through a structured questionnaire comprising:
Financial literacy scale
Risk perception scale
Income level
Investment decision-making scale
Responses were measured using a five-point Likert scale.

5.4 Tools of Analysis

Descriptive statistics
Multiple regression analysis

VI. MODEL SPECIFICATION

The regression model used in the study is:
[ID = \beta_0 + \beta_1 FL + \beta_2 INC + \beta_3 RP + \varepsilon]
Where:
ID = Investment Decision-Making
FL = Financial Literacy
INC = Income Level
RP = Risk Perception
ε = Error term

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VII. DATA ANALYSIS AND RESULTS

7.1 Descriptive Statistics

The descriptive analysis revealed that the average financial literacy score among respondents was moderate, indicating partial awareness of financial concepts. Investment decision-making scores suggested cautious behavior with limited diversification.

7.2 Regression Analysis Results

Variable	Beta Coefficient	t-value	Significance (p)
Constant	1.214	2.10	0.044
Financial Literacy	0.562	3.87	0.001
Income Level	0.298	2.14	0.041
Risk Perception	0.231	1.98	0.049

$R^2 = 0.62$
Adjusted $R^2 = 0.57$

VIII. INTERPRETATION OF RESULTS

The regression results indicate that **financial literacy has a positive and statistically significant impact** on investment decision-making at the 1% level of significance. This implies that investors with higher financial knowledge are more likely to make informed and rational investment choices. Income level also significantly influences investment decisions, suggesting that higher income provides greater capacity for diversification. Risk perception shows a marginal yet significant effect, indicating that awareness of risk shapes investment behavior. With an R^2 value of 0.62, the model explains 62% of the variation in investment decision-making, demonstrating strong explanatory power.

IX. FINDINGS OF THE STUDY

- Financial literacy significantly improves investment decision quality.
- Investors in Bathinda exhibit moderate financial awareness.
- Income and risk perception act as supporting factors in investment behavior.
- Enhanced financial education can lead to better portfolio management at the district level.

X. CONCLUSION

The study concludes that financial literacy plays a crucial role in shaping investment decision-making among individual investors in Bathinda district. As financial markets become increasingly complex, improving financial knowledge is essential for empowering investors to make rational and sustainable decisions. Policymakers, educational institutions, and financial intermediaries should collaborate to strengthen financial literacy initiatives, particularly in semi-urban regions like Bathinda.

XI. IMPLICATIONS OF THE STUDY

Financial institutions should conduct localized investor education programs.
Policymakers should integrate financial literacy into community development initiatives.
Academicians can use the findings for region-specific financial research.

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XII. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The study is limited to a small sample size of 30 respondents and a single district. Future research may expand the sample size, include comparative district analysis, or apply advanced techniques such as SEM.

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