EVALUATING THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISIONS AMONG YOUNG ADULTS IN DEVELOPING ECONOMIES

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ABSTRACT

Financial literacy plays a crucial role in shaping investment decisions, especially among young adults in developing economies. As financial markets evolve and investment options become more complex, the ability to make informed financial choices is increasingly tied to an individual's financial education. This paper explores the relationship between financial literacy and investment behavior among young adults, identifying how knowledge of financial concepts affects risk perception, asset choice, and long-term financial planning. The article highlights challenges such as limited access to financial education, socioeconomic constraints, and digital misinformation. Policy implications and recommendations for improving financial literacy programs are discussed as strategies to enhance the economic resilience of youth populations in developing regions.

Keywords: Financial Literacy, Investment Decisions, Young Adults, Developing Economies, Financial Behavior, Risk Perception, Financial Education, Personal Finance.

INTRODUCTION

In developing economies, rapid economic shifts, increasing digital financial services, and market volatility have intensified the need for young adults to be financially literate. Unlike previous generations, today's youth face the dual pressure of financial independence and the necessity to plan early for future security (Remund, 2010). Financial literacy the knowledge and understanding of financial concepts such as saving, budgeting, investing, and risk management significantly influences how individuals approach investment decisions. This article investigates how financial literacy impacts the financial behavior of young adults, drawing on research and case studies from various developing countries (Xu et al., 2012).

THE STATE OF FINANCIAL LITERACY IN DEVELOPING ECONOMIES

Financial literacy rates among young adults in developing countries remain relatively low. According to a global survey by the (De Clercq, 2019), fewer than 30% of young people in low- and middle-income countries demonstrate basic financial knowledge. The absence of structured financial education in school curricula, coupled with limited parental guidance on money matters, contributes to this gap (Muat et al., 2024).

In nations like India, Nigeria, and the Philippines, informal financial systems are often the norm, and exposure to formal investment tools such as mutual funds, stocks, or retirement savings is minimal. Consequently, many young adults either delay investing or fall prey to high-risk schemes without understanding the implications (Lusardi et al., 2017).

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IMPACT ON INVESTMENT DECISIONS

Financial literacy directly influences several aspects of investment behavior: Individuals with higher financial literacy are more likely to diversify their portfolios and invest in a mix of assets, balancing risk and return. A lack of understanding, however, often results in either overly cautious behavior (keeping savings in cash or fixed deposits) or speculative decisions driven by peer influence (Lusardi et al., 2014).

Young adults with low financial literacy often rely on informal advice from friends or social media, leading to suboptimal choices. Educated investors are more likely to explore formal instruments like mutual funds, SIPs, or ETFs and assess them based on return potential, liquidity, and risk (Lusardi et al., 2015).

Financially literate youth demonstrate better long-term planning behaviors, such as retirement savings or goal-based investments (e.g., education, housing). Financial education also fosters better budgeting, debt management, and use of digital tools for financial tracking.

BARRIERS TO FINANCIAL LITERACY

Several structural and social factors hinder the development of financial literacy in developing economies: Many public education systems do not incorporate personal finance into school curricula (Klapper et al., 2020).

Youth from lower-income backgrounds may not have access to banking services or financial guidance. In some cultures, young women are excluded from financial decision-making, limiting their practical exposure. The rise of digital financial platforms has made it easier to access information, but not all sources are accurate or trustworthy (Cole et al., 2011).

Improving financial literacy among youth in developing economies requires multi-sector collaboration: Governments should introduce mandatory personal finance education at the secondary school level. Mobile apps and gamified learning platforms can offer accessible financial education (Atkinson et al., 2012). NGOs and financial institutions can provide practical workshops tailored to local contexts and languages. National awareness programs using TV, radio, and social media can help normalize financial discussions.

CONCLUSION

The impact of financial literacy on the investment decisions of young adults in developing economies is profound. It shapes not only how they perceive and manage risk but also how they plan for the future and contribute to national economic development. Addressing the financial literacy gap through education, technology, and policy can empower youth to make informed decisions, improve financial inclusion, and foster sustainable economic growth. Investment in financial literacy is, therefore, an investment in the future stability and prosperity of developing nations.

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