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Financial Literacy and Consumer Decision-Making: The Role of Education in Shaping Spending and Investment Behaviour

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ABSTRACT

Financial literacy is progressively seen as a key part of individual financial well-being. It affects both short-term spending choices and long-term saving and investment strategies. However, we do not fully understand how formal education develops financial knowledge and influences consumer behaviour, especially in emerging economies. This study will explore the connection between education levels, financial literacy, and consumer decision-making. It will focus on spending discipline, saving habits, and investment choices. The research will take a quantitative approach. It will use descriptive statistics and inferential analyses to evaluate how different levels of education lead to variations in financial behaviour. We expect that people with higher education will show greater financial literacy, adopt more responsible spending habits, and engage more in wealth-building activities like regular saving and productive investing. On the other hand, those with lower education levels might display less financial awareness, rely on informal financial services, and be more affected by short-term spending pressures. By showing how financial literacy connects education and behaviour, this study aims to provide useful insights for policymakers, educators, and financial institutions. We expect the findings to help create targeted financial education programs that can improve consumer skills, reduce financial risks, and promote lasting economic well-being.

Keywords: Financial literacy, education, consumer behaviour, spending, investment

1. INTRODUCTION

The economy is becoming more complicated, and people need to make important decisions regarding savings, expenditure, borrowing, and investing. With the fast increase of digital payments and investment platforms, financial literacy (FL) has become a driving influence on economic well-being. Financial literateness is well-defined as the information and skills required for making informed financial decisions and is regarded as a foundation of financial security and resilience. Literature indicates that financially aware people save more, become wealthy, diversify assets, and prepare for retirement (Lusardi, 2019). Conversely, those with poor FL are more vulnerable to debt, deficit budgets, and financial scams, both for the individual and the economy (Adam et al., 2017; Fariana et al., 2021).

The changes in the world's financial systems and consumer culture only underscore the role of FL. Previously, the financial decisions were more transactional and localised, but currently people operate in the background of the globalised economy, where the decisions are determined by the market dynamics, the volatility of the environment in which the investment instruments are traded and complex (Gilad & Kliger, 2008; Lyons & Kass-Hanna, 2022). Not only elementary

knowledge regarding financial principles, but also the critical evaluation of the risk, opportunity analysis and aligning actions with long-term goals are also part of this complexity. FL has been shown to directly correlate with financial ability to absorb economic shocks, including loss of employment or economic downturns, since it will allow them to plan and make the best use of resources (Bottazzi and Oggero, 2023). In addition, the evidence shows that knowledge level is not the only dimension of development and that financial education intervention can reinforce the positive effects of real-world financial behaviour, making the notion of level of literacy being shifted to the meaningful changes in the decision-making patterns suitable (Hastings et al., 2013; Mughal et al., 2024).

FL and behaviour determination are also highly dependent on education, as such. The analytical and cognitive skills will be supplemented by formal education, which, in turn, will enable an individual to process financial information and make reasonable decisions (Potrich et al., 2018). In addition, education also influences the attitude towards saving, investing and financial planning because it develops a long-term perspective and reduces an inclination to be influenced by biases. Agarwal et al. (2011) demonstrate that financial counselling and financial education offer a significant addition to household financial decision making, particularly in their retirement planning and diversification investments. Besides the acquisition of knowledge, the other focal determinant of financial behaviour that is promoted by education is self-efficacy, the confidence to act on the financial information. According to Xiao (2021), the incorporation of financial education into mainstream education is necessary to increase the outcome of decision-making in particularly in the emerging economies that have poor literacy levels. Another element of the demographic and contextual factors that are also shown in the literature to influence their behaviour is income, age, gender, and cultural background, which have to interact with FL. There are also disparities in FL and financial behaviour levels between socio-economic groups, with individuals with lower incomes being less literate and possessing more primitive financial behaviour (Kadoya & Khan, 2020). Gender differences are also still there because women do not share high FL levels with men, but certain interventions have also been shown to lead to the reduction of differences (Stolper & Walter, 2017). Besides this, FL not only impacts individual performances but also the macroeconomic performances in terms of market share and overall rate of savings. According to literature, the more literate individuals are, the more they are likely to venture into stock markets where they diversify their investments and strategise on retirement and therefore lead to efficient allocation of capital and stability (Van Rooij et al., 2011; Sticht et al., 2001).

Despite the extensive research, literature gaps are found. Much of the existing literature tends to examine spending or investment behaviour individually, hence lacking the interaction between financial behaviour. Furthermore, there is a dearth of research on the mediating effect of education, or how FL influences behaviour, especially when it comes to structural equation modelling, which can address a complex cause-and-effect relationship. Furthermore, despite the fact that behavioural factors have gained importance, there hasn't been much research in the literature that combines cognitive, educational, and psychological factors in a single analytical framework. It is essential to close these gaps, create a broader perspective on financial decision-making, and implement more successful educational initiatives.

In light of this, the current study objectives to explore the connection among consumer decision-making, particularly regarding where and how to invest, and educational attainment and knowledge of finances. Using powerful quantitative tools like regression analysis and structural equation modelling, the study aims to combine behavioural and economic thinking. In addition, this study offers valuable information related to the relative worth of the literacy, education and behavioural variables as applied to consumer choice since both the expenditure and investment are combined and evaluated using the same system. It is believed that the results of this research will be valuable not only to the scholarly community in the area of FL but also to the practical policy development, influencing the educational policy, financial advisory business activities, and popular policy efforts to improve financial well-being.

2. METHODOLOGY

2.1 Research Design

The quantitative survey research design is utilises to investigate how FL, education level and consumer decision-making behaviour are related in the areas of spending and investing. The ability to measure variables objectively, establish statistically relevant connections, and test the pre-formulated hypotheses led to the selection of a quantitative approach. According to the sectional study design, the data were collected from the participants, allowing the investigator to establish correlations but not establish causation. When the goal of behavioral finance research is to determine current FL rates and examine how they affect different demographic groups' economic decision-making patterns, this particular design is particularly appropriate.

2.2 Population and Sampling

The study sample in this study will include adults of the age group 18 years and above with diversified financial education and occupational positions, as well as the income level. The reason behind selecting this wide population was to get the different consumer views and also to have the findings in a holistic perspective of FL and decision-making behaviour.

The sample of 500 participants used was advanced than the compulsory smallest sample sizes in the regression analysis and SEM in the case of statistical reliability. The power analysis principles were utilised in calculating the sample size, and it is mentioned that regression models

must have not least 10-15 subjects per predictor variable. With several predictors of interest, a sample of 500 will ensure that the statistical power and generalizability are adequate and can also allow the subgroup analysis.

Being representative required the use of a stratified random (SR) sampling method. It was a stratified population that was divided based on the most significant demographic factors such as age, gender, education level and income. Achieving proportional representation was then done by random sampling within each stratum. This will decrease sampling bias and increase the study's external validity.

2.3 Data Collection Procedure

Being representative required the use of a SR sampling technique. It was a stratified population that was divided based on the most significant demographic aspects. Achieving proportional representation was then done by random sampling within each stratum. This will decrease sampling bias and increase the study's external validity. The questionnaire was administered online so that a geographically varied population sample could be covered, and as many people as possible responded to the survey, and logistics were minimised. Before the study, the respondents were given information on the objective of the research and assured of their privacy.

Construct validity was taken into consideration, and therefore, the questionnaire was formulated with a vast literature review. It comprised five large parts or sections: (1) demographic data, (2) FL test, (3) consumer expenditure behaviour, (4) investment choice, and (5) financial education exposure and perceptions. The questions were a combination of multiple choice questions, Likert questions, and ranking assignments, where some attained objective knowledge and others subjective attitudes.

2.4 Variables and Measurements

The research's variables were classified as either dependent or independent or control elements.

Independent Variables:

- *FL* — assessed using knowledge-based questions and self-rated confidence items.
- *Educational level* — measured based on participants' highest attained qualification.

- **Dependent Variables:**
- *Consumer spending behaviour* — captured through items measuring budgeting practices, savings habits, impulse buying, and spending priorities.
- *Investment behaviour* — assessed by examining participants' investment choices, risk tolerance, investment horizon, and decision influences.

- **Control Variables:**
- *Demographics* such as age, gender, income, and occupation were included to account for their potential confounding effects.

2.5 Data Analysis Techniques

Data analysis in the current research employed a multi-stage process to examined the association between FL, education, and consumer choice. During the initial stage, descriptive measures like frequencies, means, and standard deviations were applied to describe the respondents and detect patterns among major variables such as FL, consumption behavior, and investment requirements.

The second phase used inferential statistics to test hypotheses as well as investigate relationships deeper. Correlation analysis quantified the direction and strength of FL, spending habits, and investment choices relationships. Multiple regression was employed, lastly, to examine how FL and education predicted consumer financial conduct. Other demographic variables of concern, like age, gender, income, and occupation, were also brought under control during this analysis so that the analysis becomes more specific about the consequence of literacy and education on expenditure and investment choice making.

The third technique used to analyse the data's various facets in terms of their complex causation and mediation was structural equation modelling, or SEM. SEM made it possible to measure indirect as well as direct impacts simultaneously, resulting in a comprehensive model that connected the outcomes of decision-making with the impact of FL. In order to illustrate both the indirect and direct connection and influence of the above factors on consumer behaviour, the advanced technological technique was especially suitable.

2.6 Ethical Considerations

The study complied with all applicable ethical guidelines. Every respondent gave their informed permission, and taking part was entirely voluntary. No personally identifiable information was gathered from the anonymous responses. The information was safely kept and used only for educational purposes. Strict adherence was maintained to all pertinent ethical standards, including those established by the board of review.

3. RESULTS

3.1 Overview of the Analytical Process

The following section contains the discussion of the findings of the data analysis performed to discuss the correlation between FL, education, and consumer decision-making behaviour, in particular, in the spheres of spending and investment. The analysis will be divided into four large sections.

3.2 Descriptive Statistics

The number of respondents who participated in the survey was 500. The demographic profile reveals that it has a mixed sample in relation to age, gender, level of education, employment status and income, hence good representation of all the socio-economic groups.

- **Age Distribution:** The most of the respondents (38%) were amid the ages of 26 and 35 years, then it was 22 per cent between 18 and 25 years, 22 % between 36 and 45 years, 12 per cent between 46 and 55 yrs and 6 % above 56 yrs.

- **Gender Distribution:** Males accounted for 52% of the sample, females 45%, with 3% classifying as non-binary or preferring not to disclose.
- **Education Level:** Approximately 42% of participants held a bachelor's degree, 28% a master's degree, 20% had completed high school, and 6% held doctoral qualifications.
- **Employment and Income:** Nearly half of the respondents (48%) were employed full-time, 18% were students, 14% were self-employed, and the remainder were part-time workers, retirees, or unemployed. About 30% reported a monthly income between $1,001–$2,000, while 26% earned $2,001–$3,500.

These results indicate that the sample reflects a balanced distribution across demographic segments, which strengthens the generalizability of the findings. Figure 1 shows the distribution of survey participants across different age groups, indicating that the majority of respondents fall within the 26–35 age range, followed by 18–25 and 36–45, with fewer participants aged 46 and above.

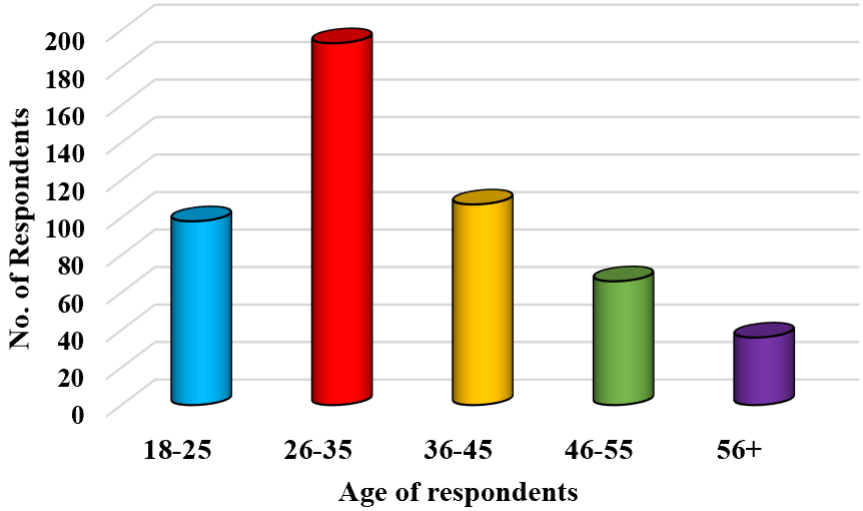

Figure 1: Age Distribution of Respondents

Figure 2 shows the delivery of participants based on their educational background, indicating that the majority hold a bachelor's degree, followed by those with a master's degree and high school education, while a smaller proportion possess doctoral or other qualifications.

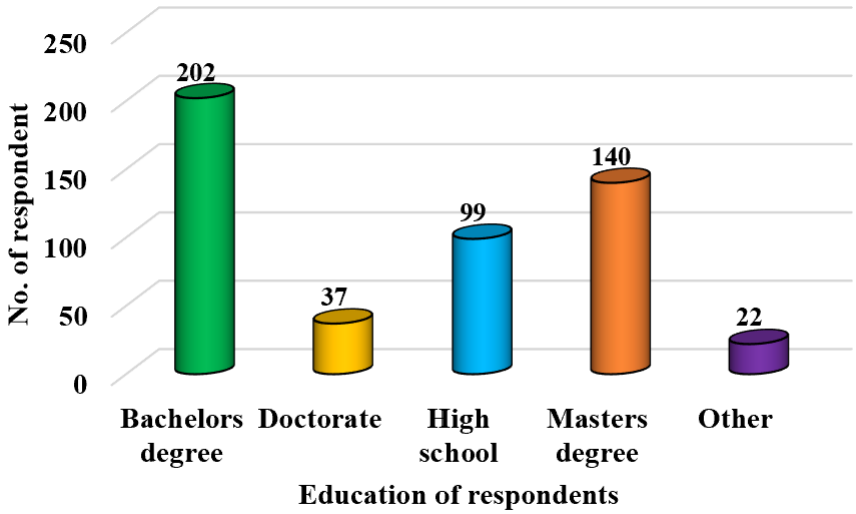

Figure 2: Educational Qualification of Respondents

3.3 FL Levels

The descriptive analysis of FL scores revealed that while most participants possessed basic financial knowledge, significant gaps remained in advanced understanding and practical application. Approximately 72% correctly responded basic questions related to inflation and purchasing power, while 74% know the consequence of interest rates on real returns. However, only 58% demonstrated a clear understanding of compound interest and diversification strategies.

Confidence levels varied: around 62% of respondents agreed/strongly agreed that they felt confident managing their finances, while 38% reported low to moderate confidence. This gap suggests that while foundational knowledge is present, there is room for improved comprehension and application of more complex financial concepts. Figure 3 shows the percentage of respondents demonstrating understanding of key financial concepts, indicating relatively higher knowledge of inflation and real interest, while comprehension of diversification and compound interest remains comparatively lower.

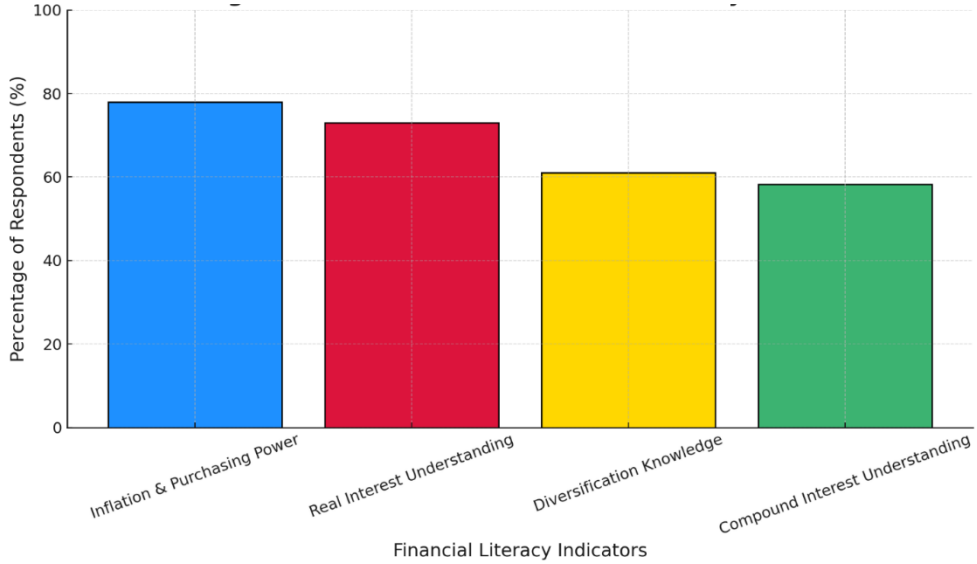

Figure 3: Distribution of FL Scores

3.4 Spending Behaviour Patterns

Analysis of consumer spending behavior revealed that a majority of respondents (68%) reported planning their monthly expenses, and about 66% regularly reviewed and adjusted their budgets. However, impulse buying remained common, with 45% admitting to making unplanned purchases frequently. Saving behaviour was also varied: 35% reported saving 11–20% of their monthly income, 22% saved 21–30%, and only 4% saved more than 50%.

Interestingly, 78% of respondents indicated a willingness to cut non-essential spending to increase savings or investment contributions, highlighting a potential for behavioral change through education and awareness. These results suggest that while basic budgeting practices are widely adopted, behavioral biases such as impulsive spending remain significant challenges. Figure 4 illustrates the distribution of respondents based on the proportion of their monthly income saved, showing that the majority save between 11–20%, while a smaller segment saves more than 50%. Figure 5 shows the budgeting behaviour of participants, indicating that a majority (301 respondents) plan their monthly expenses, while a smaller portion (199 respondents) do not engage in budgeting

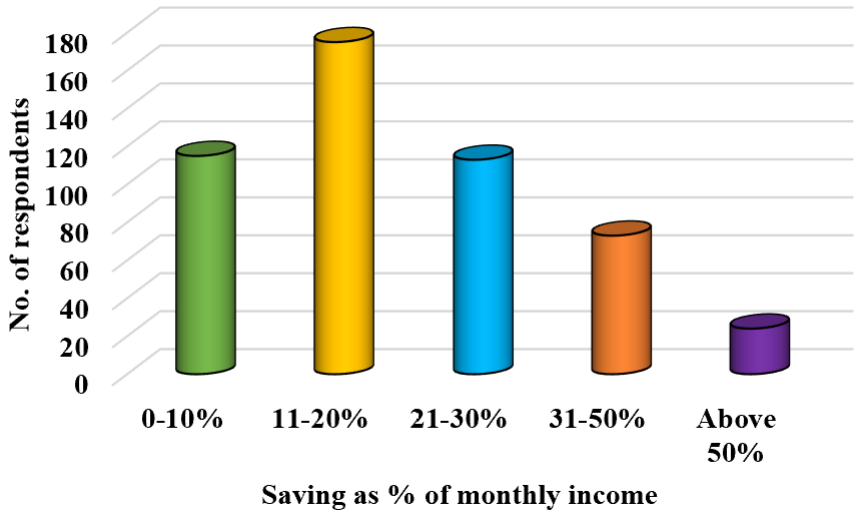

Figure 4: Monthly Savings Distribution and Spending Behaviour

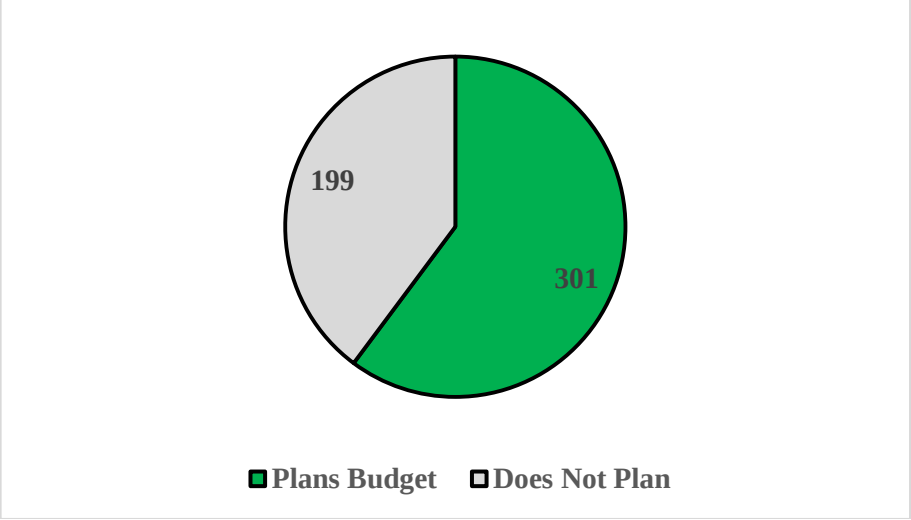

Figure 5: Budgeting Practices Among Respondents

3.5 Investment Behaviour and Risk Attitudes

The survey data revealed notable insights into investment behaviour. Approximately 66% of respondents reported investing in at least one financial product. Among these, mutual funds (48%), fixed deposits/bonds (42%), and stocks (38%) were the most common instruments. Only 15% reported investing in cryptocurrencies, reflecting risk-averse tendencies among most participants.

Risk tolerance levels varied significantly: 36% agreed that they were comfortable with high-risk, high-return investments, while 42% preferred moderate-risk options. Long-term investment horizons were prevalent, with 46% indicating a preference for holding investments for more than three years. The primary factors influencing investment decisions were personal financial knowledge (30%), experience (22%), and advice from family and friends (22%).

These findings indicate that while FL correlates with participation in investment activities, risk perception and behavioural preferences also play critical roles in shaping decision-making. Figure 5 illustrates respondents' preferences for various investment instruments alongside their attitudes toward financial risk, showing a stronger inclination toward low- to moderate-risk options.

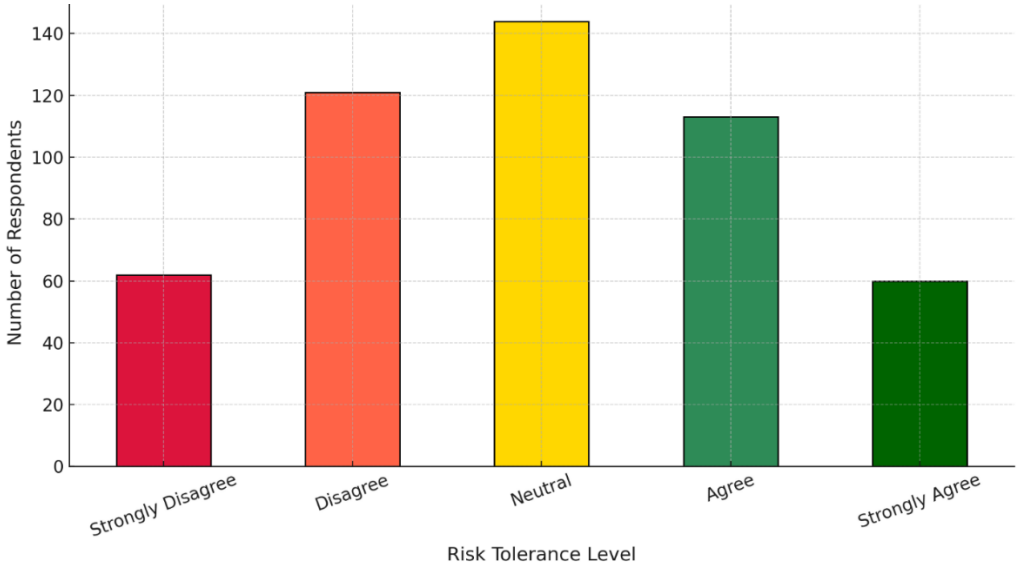

Figure 5: Distribution of Investment Instruments and Risk Preferences

3.6 Correlation Analysis

Correlation analysis was conducted to assess the relationships among key variables. FL was found to have a moderate positive correlation with consumer spending behaviour ($r = 0.47$, $p < 0.01$) and a strong positive correlation with investment behaviour ($r = 0.62$, $p < 0.01$). Education level also showed significant positive correlations with both spending ($r = 0.39$, $p < 0.05$) and investment decisions ($r = 0.51$, $p < 0.01$).

These findings indicate that financially educated and literate individuals are more inclined to use education and high FL to practice deliberate spending habits and implement investment strategies that are achievable in their financial objectives. Table 1 shows the correlation

coefficients of prominent variables of the study, which show that there are strong positive relationships between FL, education level, spending discipline and investment decisions.

Table 1: Correlation Matrix of Key Variables

Variables	1. FL	2. Education Level	3. Spending Behaviour	4. Investment Behaviour	5. Age	6. Income
1. FL	1.00	0.52**	0.47**	0.62**	0.18*	0.36**
2. Education Level	0.52**	1.00	0.39**	0.51**	0.22*	0.41**
3. Spending Behaviour	0.47**	0.39**	1.00	0.49**	0.19*	0.34**
4. Investment Behaviour	0.62**	0.51**	0.49**	1.00	0.24*	0.48**
5. Age	0.18*	0.22*	0.19*	0.24*	1.00	0.27**
6. Income	0.36**	0.41**	0.34**	0.48**	0.27**	1.00

A correlation table showing relationships among FL, education, spending, investment, and demographic variables.

3.7 Multiple Regression Analysis

To determine the predictive effect of FL and education on spending and investment behaviour, multiple regression models were developed, controlling for demographic variables.

- **Model 1: Spending Behaviour**
  FL ($\beta = 0.38$, $p < 0.01$) and education ($\beta = 0.29$, $p < 0.05$) emerged as significant predictors, explaining 42% of the variance in spending behaviour. Income ($\beta = 0.21$, $p < 0.05$) also showed a significant positive effect, while age and gender were not significant predictors.
- **Model 2: Investment Behaviour**
  FL ($\beta = 0.54$, $p < 0.01$) and education ($\beta = 0.33$, $p < 0.01$) were the most influential variables, explaining 57% of the variance. Income and risk tolerance were also significant predictors ($\beta = 0.25$, $p < 0.05$ and $\beta = 0.22$, $p < 0.05$, respectively).

These findings confirm the hypotheses that FL and education significantly predict consumer decision-making, with stronger effects observed in investment behaviour. Table 2 displays the results of the multiple regression analysis, showing the predictive influence of FL and education on spending and investment behaviours.

Table 2: Results of Multiple Regression Analysis

Predictor Variables	Spending Behaviour (Model 1)		Investment Behaviour (Model 2)	
	β (Standardised)	p-value	β (Standardised)	p-value
FL	0.38	<0.001 **	0.54	<0.001 **
Education Level	0.29	0.003 **	0.33	<0.001 **
Income	0.21	0.014 *	0.25	0.009 **
Age	0.07	0.172	0.10	0.126
Gender	0.04	0.284	0.05	0.243
Risk Tolerance	—	—	0.22	0.015 *
Model Statistics				
R^2	0.42		0.57	
Adjusted R^2	0.39		0.54	
F-statistic	16.27	<0.001 **	21.83	<0.001 **
Observations (N)	500		500	

A regression table showing standardised coefficients, p-values, and model fit statistics.

3.8 Structural Equation Modelling (SEM) Results

To further investigate the relationships between FL, education, and consumer decisions, a structural equation model was developed. The model demonstrated a good fit with the data ($\chi^2/df < 3$, RMSEA < 0.05, CFI > 0.90).

Key findings from the SEM analysis include:

- FL had a direct positive effect on spending behaviour ($\beta = 0.42$, $p < 0.01$) and investment decisions ($\beta = 0.58$, $p < 0.01$).
- Education had a significant indirect effect on both spending ($\beta = 0.27$, $p < 0.05$) and investment ($\beta = 0.35$, $p < 0.05$) through its influence on FL.
- FL mediated the relationship between education and financial behaviours, indicating that the impact of education on decision-making operates largely through its enhancement of financial knowledge and confidence.

This model underscores the central role of FL as a mediating factor and highlights the importance of education as a foundational element influencing financial behaviour. Figure 6 illustrates the structural equation model (SEM) results, highlighting both direct and indirect effects of education and FL on spending and investment behaviours.

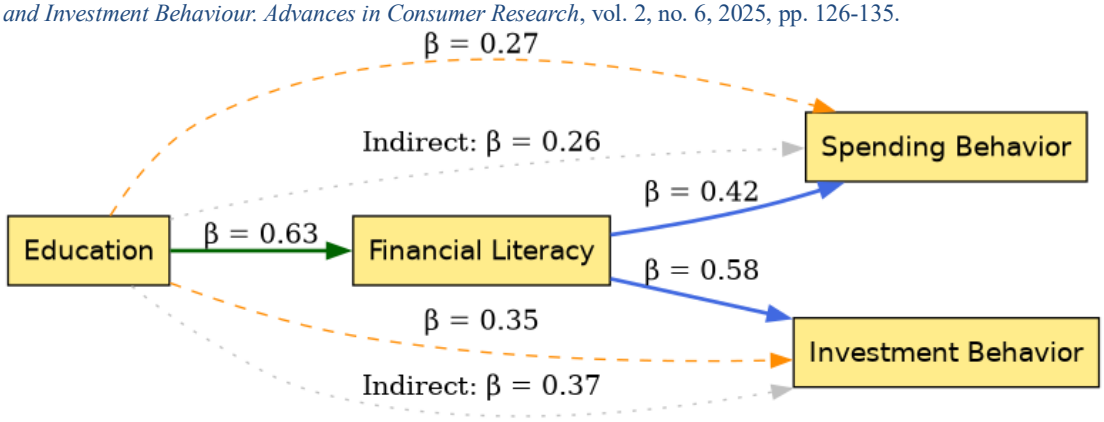

Figure 6: SEM Path Model Showing Direct and Indirect Relationships

3.9 Robustness Checks and Subgroup Analyses

Sensitivity tests were conducted, including the subgroup tests and monocollinearity tests, to make sure that the results were valid. The variance inflation factors (VIF) were below 5, which implied that there was no cause of multicollinearity. Subgroup analysis indicated that there were regular trends across the various demographic categories, but the strength of the relation was somewhat disparate. FL was a stronger predictor of investment decisions among higher-income participants, but less-income decedent participants; but education was a better predictor of the spending behaviour among the younger respondents.

3.10 Summary of Key Findings

The tests of sensitivity were conducted, including multicollinearity tests and the subgroup tests to ensure that the results were valid. The VIFs were below 5 and which implied that multicollinearity was not caused. The subgroup analysis revealed that the consistency in patterns was similar across the various categories of demographics, but the strength of the relation varied slightly. Having considered that, FL was found to be a stronger predictor of investment choices among the more-income participants as compared to education being a stronger predictor of the spending behavior among the younger respondents.

5. DISCUSSION

These findings of this paper have provided plausible validation to the central thesis which argues that FL and education play significant roles in influencing consumer decision making particularly in the spending and investment decision making. The results indicate that, the rates of FL are highly connected with more deliberate budgeting, increased savings, and more diversified-nature of decision-making. This correlation was very high even when such demographic changes as age, income and gender were considered. The most important predictors in the spending (0.38, $p < 0.01$) and investment behavior (0.54, $p < 0.01$) showed the main influence of FL on all the regression outcomes. Education was also the significant determinant which influences the choice either directly or indirectly depending on the FL.

The structural equation modeling (SEM) results supported and showed that the impact of education on spending and investment behavior is achieved through the mediation of FL. This implies that an individual can have heightened financial knowledge through formal education thereby enhancing FL of such individuals in making sound judgment about their finances. However, there were also some important shades that were disclosed by the information. The basic concepts of finances such as inflation and real returns were familiar to the majority of individuals, however those which were more technical, such as compound interest and diversification, were not. Similarly, despite the fact that most of the participants said they prepared their budgets and reviewed where the money was spent on a frequent basis, there were also a significant number of participants who reported impulse buying which is the consequence of the behavioral biases even in the case of the financially literate. The same applied to the investment behavior: although the participation rates were relatively high, most respondents were interested in the low to moderate risk products such as mutual funds and bonds and a relatively small proportion of high risk products such as stocks or cryptocurrencies.

The result of the study can be connected with the growing volumes of literature unveiling the significance of the relationship between FL and financial behavior. Lusardi and Streeter (2023) discovered that FL is a strong predictor of good financial outcomes that are higher levels of savings, lower levels of debt, and better financial well-being. In line with this, Kaiser and Menkhoff (2024) found out that financial education programs can boost FL that in turn has a significant impact on individual financial decisions. The mediated pathway has been discovered in this research as an equivalent of their findings that the role of education in financial behavior is achieved by increasing financial knowledge instead of changing behavior directly.

The results of this study in terms of risk preferences and investment behavior are also consistent with those of Choowan et al. (2023) meta-analysis, which established a positive relationship between literacy and education and willingness to invest and portfolio diversification. In addition, Sajid et al. (2024) highlighted that financial confidence, which is usually influenced by education, mediates the relationship between literacy and financial well-being, which confirms the current research finding

that the higher the knowledge, the higher the confidence and behavioral results.

Such predisposition to development of impulsive spending habits in the course of having adequate FL is reminiscent of the findings by Khan (2020), who discovered that the reasoning of financial literate individuals can be compromised under the influence of cognitive biases and emotional impact. It means that without behavioral interventions, financial education could be an inappropriate remedy to the issue of suboptimal behaviors.

The effects of this research are colossal to the policy makers, teachers and the financial service providers. To start with, it is placed high on the mediating role of FL that means that a thorough financial education within the school and university course can greatly affect the future financial behavior of individuals. Based on the recommendations of OECD/INFE (2023), the official education systems may be improved to be more economically stable and make judgments through incorporating financial education.

Hypothetically, the study assists in developing behavioral finance literature because it provides empirical support to the hypothesis that FL acts as an intermediating variable between the association which exists between education and financial behavior. This follows the cognitive-behavioral methods of financial decision-making that presupposed that knowledge influences attitudes and perceived control that ultimately influences behavior (Kaiser and Menkhoff, 2024). The results also support the more recent concept of a financial capability which takes into consideration the knowledge, confidence, and behavior in a holistic framework of understanding financial results (Finch & Han, 2024).

The findings also show that prejudices in practices are still a significant hindrance to successful decision-making process even among economically prudent individuals. This further explains the necessity of taking into account the behavioral facts of financial learning as a means of enhancing the effectiveness of financial learning programs not only in filling the gap in knowledge, but also psychological aspects that affect the decision making process.

6. CONCLUSION

The paper includes noteworthy arguments about how consumer decision-making, especially when it comes to spending and investing, is influenced by FL and education. According to the research, people with higher levels of FL are much more likely to practice sound financial practices, such as sensible saving and budgeting as well as diversified investment strategies. Because education fosters the improvement of critical thinking abilities, confidence, and FL necessary to assess financial options, it also improves these effects in both indirect and direct measures. It is important to note that the study demonstrates that FL mediates the interaction between academic achievement and financial behavior, highlighting the necessity of implementing specific educational interventions that can enhance financial capabilitiesThe research identified that factors like risk tolerance, income, and psychological bias play important roles in financial decision-making, making the issue complex. This implies that merely enhancing financial knowledge is insufficient without considering behavioural components. Hence, educators, financial institutions, and policymakers must join hands to establish complete financial education programs incorporating behavioural training. These programs can improve decision-making ability, minimize biases, and facilitate knowledgeable financial decisions leading to long-term economic stability. Ultimately, increasing FL is not only a personal aspiration but a social imperative for the creation of financially independent communities and to broaden economic prosperity overall.

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