Impact of Financial Literacy on Investment Decisions of Investors in Bhaktapur

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Abstract

Financial literacy has gained critical importance in today's rapidly evolving financial markets as it empowers individuals to make informed and effective investment decisions. This study aimed to assess the level of financial literacy among investors in Bhaktapur and examine its relationship and impact on their investment decisions. A quantitative approach was employed using descriptive and causal research designs. Out of 600 distributed structured questionnaires based on a five-point Likert scale, 489 valid responses were collected. Descriptive statistics (mean and standard deviation) were used to evaluate financial literacy levels, while correlation analysis assessed the relationships between financial literacy components and investment decisions. Linear regression analysis was applied to determine the influence of financial knowledge, financial behavior, and financial attitude on investment decisions. The findings revealed that investors in Bhaktapur exhibited moderate to high levels of financial literacy. A significant and positive relationship was observed between financial knowledge, financial behavior, and financial attitude with investment decision-making, and these factors were found to have a statistically significant positive impact. The study contributes to existing literature by providing empirical evidence on the role of financial literacy in investment decisions within a developing economy context. It also offers valuable implications for policymakers to design targeted financial education programs aimed at improving investor outcomes. However, the study's scope was limited to Bhaktapur district and relied on self-reported data, which may introduce response bias. Future research is recommended to cover wider geographic regions, employ longitudinal and mixed-method approaches, and explore additional factors influencing investment decisions to enhance generalizability and depth of understanding.

Keywords*: developing economy (O16), financial attitude (D03), financial behavior (D03), financial knowledge (G41), investor behavior (G41)*

Introduction

In the present context of complicated and globalized financial markets, people are primarily responsible for ensuring their long-term financial success. Due to this, the significance of financial literacy has increased substantially (Lusardi & Mitchell, 2011). Consequently this development has raised the need of financial literacy among governments, financial institutions, and community groups, as the intricate nature of financial markets and the emergence of new instruments require higher consumer awareness (Hussein et al., 2009). The ability to make well-informed financial decisions has become essential for following an increasingly dangerous global marketplace, especially when the costs of goods and services keep on rising (Lusardi & Mitchell, 2011).

Financial literacy generally means an individual's ability to acknowledge and effectively utilize different available financial skills, including budgeting, saving, investing, and personal financial

management to achieve financial stability for future (Worthington, 2006). More precisely, it is illustrated as "the basic cash management techniques such as budgeting, saving, investing, and insurance" (Natalie et al., 2010, p. 2). Academically, the term is often defined as “one's comprehending and knowledge of financial concepts" (as cited in Lee, 2005; Hogarth & Hilgert, 2002).

Investment decisions can be complex and critical. However, they are taken as a regular part of life (Karlsson et al., 2004). Key issues such as prior abilities and knowledge (Harrison, 2003), liquidity and safety (SEBI and NCAER, 2011) play a crucial role in influencing an investor’s decision. Other important factors that deeply affect the investing choices are monetary risk tolerance, instructions source, investment objectives, and socio-demographic features (Palm, 2014), as well as individual objectives, their ages, risk capacity, and time horizon (Jagdale, 2018).

The relationship between financial literacy and investment decisions is very significant. Foundational research shows that a lack of financial literacy has a considerable negative economic impact. Individuals with weak financial awareness are less likely to engage in investing, accumulate wealth, or properly manage it (Lusardi & Mitchell, 2014). More recent research confirms this, finding that less educated investors are more vulnerable to expensive behavioral biases such as herding behavior and excessive trust (Rasool & Ullah, 2020) and are less prone to have broad investment portfolios, a key risk-mitigation technique (Grohmann, 2018). An investor's prior expertise and skills have significant effects on the fundamental aspects of an investment choice, such as evaluating risks, time frame setting, and objective definition (Harrison, 2003).

In spite of global recognition of these relationships, countries like Nepal are still facing the various challenges. The equity market in Nepal has been facing a hard time in winning the trust of investors and is often seen as a great risk in comparison to traditional ways of saving money, like the bank deposits (K.C. & Snowden, 1999). In this context, there is a significant absence of localized research for examining the impact of financial literacy on investment decisions in culturally distinct scenario of Bhkatapur. This knowledge gap points out that financial institutions are not able to design their advisory services as per the needs and expectations of the community. Similarly, the policy makers have also failed to formulate and implement focused financial initiatives there. As a rapidly urbanizing city with an increasing number of middle-class households, small investors, and entrepreneurs, Bhaktapur exemplifies itself as a distinctive fusion of traditional and contemporary financial behavior. Despite the cultural diversity and educational development, certain factors such as informal practices, controlled institutional access, different levels of financial awareness, etc influence the decision making in this city. Furthermore, the evaluation of how financial literacy affects investment decisions has also become more imperative in the area due to the increase of local share markets and cooperative-based financial activities. In addition to filling a regional research gap, understanding this relationship in Bhaktapur offers significant insights that can guide more culturally relevant and locally designed financial policies and initiatives.

Research Objectives

This study primarily aims to address the gap between problem and past studies by examining the influence of financial literacy on investment decisions of investors in Bhaktapur. Besides, its objectives are:

i. To analyze the status of financial literacy of investors of Bhaktapur.

ii. To examine the relation between financial literacy and investment decisions of investors of Bhaktapur.
iii. To determine the impact of financial literacy on investment decisions of investors of Bhaktapur.

Literature Review

Conceptual Review

In recent years, the concept of financial literacy has emerged as a complex idea that is essential to one's financial security (Kim, 2001). The Organisation for Economic Cooperation and Development (OECD, 2005) defines this concept as a lifelong process through which individuals develop their knowledge of financial products and concepts by making them able to take more informed decisions and improve their financial security. Scholars have strongly focused on the ability to employ expertise, practical skills, attitudes, and behaviours for effective financial decision-making. (ANZ Bank, 2011; Mandell, 2008).

Financial knowledge is a basic component of financial literacy. It is generally defined as the comprehension of fundamental financial concepts such as interest rates, inflation, risk, portfolio diversification which are essential for day-to-day living (Atkinson and Messy, 2012; Bowen, 2002). Many researches in this field have found out that higher level of financial knowledge is positively associated with self-beneficial financial behavior and long-term financial planning 20Lusardi & Mitchell, 2013). A recently conducted study has made further confirmation that financial knowledge plays a crucial role in influencing investment patterns and risk tolerance, especially developing economies (Bhushan & Medury, 2021; Tavares et al., 2023).

Financial behavior constitutes the activites that individuals perform while managing their financial resources, including budgeting, saving, borrowing and spending (Joo & Grable, 2004; Mandell & Klein, 2009; OECD, 2013). Various studies have shown that these behaviors make strong prediction of investors' financial situation and well-being, that are often more important than demographic factors like income or education (Hasler & Lusardi, 2020; Traveres et al, 2023). It is also noted that positive financial behaviors are required to obtain financial goals and manage financial risk, chiefly in uncertain economic contexts.

Financial attitude denotes an individual’s perception and mindset towards financial issues such as saving, planning and satisfaction (Shockey, 2002). Several studies have demonstrated that positive financial attitudes significantly influence financial behaviours such as consistent saving and reduced impulsive spending (Kaur & Arora, 2021). Moreover, further researches have suggested that a positive financial attitude acts as a strong predictor of financial gratification, mediating the relationship between financial literacy and long-term financial health (Joo & Grable, 2004).

Investment decision-making refers to the process of determining where, when and how to allocate financial resources with the hope of making a profit in future (Bhalla, 1982; Pandey, 2004). This process is influenced by various factors, including risk, return, and personal financial literacy, future return expectation, behavioural tendencies and personal financial goals. Past research also figures out that those individuals who have higher financial literacy probably make more informed, wise and diversified investment decisions (Grohmann, 2018; Rasool & Ullah, 2020). Recent studies make further suggestion that financial literacy contributes to control the impacts of behavioural biases and promote investment efficiency (Roy & Das, 2021).

In spite of having extensive literature, only a few researches have tried to find out the impact of financial literacy on investment decisions at the local or community level. Many studies have primarily prioritized developed economies or national population, but they have failed to address culturally and economically divergent regions. In a rapidly urbanizing historical city like Bhaktapur, informal practices, limited institutional access, and community-based financial systems influence the financial behaviours. However, there is a lack of local level studies conducted to analyze how financial literacy can play a significant role in formulating investment behavior in such settings. This study primarily focuses on this gap by observing the relationship between financial literacy and investment decisions among the investors in Bhaktapur.

This study is based on various established theories that are crucial in explaining the fundamental components related to financial literacy and investment decision-making.

First of all, the Theory of Planned Behavior (Ajzen, 1991) provides a framework that connects attitudes, subjective norms, and perceived behavioral control to an individual's intention to perform a particular behavior like investing. This shows that financial knowledge, behavior and attitude are significant cognitive and social determining factors for influencing financial decisions.

The Modern Portfolio Theory (Markowitz, 1952) is the second theory that offers an economic rationale. It suggests that rational investors try to optimize their returns on the basis of their risk tolerance. And financial literacy enables individuals to better bear risks, understand market dynamics, and build up diversified portfolios accordingly.

The last theory is the Human Capital Theory (Becker, 1964) that presents financial literacy as an investment in human capability. This theory explains that enhanced financial knowledge and skills improve an individual's decision-making capacity, leading to better economic outcomes and smarter investment behavior.

These theories collectively clarify that the impact of financial literacy on investment decision-making can be understood and empirically tested.

Empirical Review

An extensive number of empirical researches have pointed out that there is a strong and positive relationship between financial literacy and sound investment decision-making. In the UAE, Al-Tamimi et al. found that financial literacy played a very significant role in determining an individual's investment behavior. Further research shows that individuals who have higher financial literacy are more likely to take informed, rational and diversified investment decisions (Grohmann, 2018). It is also noted that this knowledge plays a crucial role in reducing the impact of behavioural biases and boosting investment efficiency (Roy & Das, 2021).

Empirical researches conducted in our neighbouring countries of South Asia justify these findings. Balagobei and Prashanthan (2021) found that financial knowledge, behavior and attitude played notable roles in influencing investment decisions among individual investors in Jaffna, Sri Lanka. In Bangladesh, Hasan et al. (2022) discovered a strong connection between financial literacy and growing interest in participating in the stock market and emphasized its significance in promoting capital market engagement in developing countries.

Recent studies have also divided financial literacy into three major categories – knowledge, behvaiour and attitude— in order to identify how each of this division affects individuals. Singh (2019) exhibited that for working women in India, each factor played a significant role in influencing their financial decisions ability and behaviour. However, Mwathi and Kubasu (2017) noted that all these factors did not have equal influence. Among university staff in Kenya, financial knowledge and skills played crucial roles in influencing investment behaviors, but financial attitude did not. Moreover, Tavares et al (2023) made a systematic review on financial knowledge and investment behavior in developing economies and concluded that financial knowledge is a crucial driver of investment participation and quality.

Similarly there is the increasing digitalization of finance and it has created a new dimension to the study of investment behavior. Emphasizing the importance of digital financial literacy, Kadoya et al. (2023) argued that traditional methods of financial literacy should be updated to compete with modern investment practices supported by FinTech platforms.

Recent empirical studies in Nepal have emphasized the significant role of financial literacy in influencing investment behavior. Bhandari (2021) found a strong relationship between different components of financial literacy and investment decisions among urban youth in Kathmandu Valley. In the same way, Poudel and Gautam (2022) confirmed the significance of financial literacy in having positive impact on stock market participation among salary holding employees in Pokhara. Likewise, Shrestha and Shrestha (2023) showed that both formal education and financial awareness had close relationship with more rational investment decisions in Provice 3.

In spite of this emerging body of evidence, there still exists a significant research gap. Many empirical studies conducted in Nepal chiefly focus on major urban cities like Kathmandu and Pokhara and do not primarily prioritize the local cultural and economic factors that are responsible for influencing investors' behavior in other areas. Fast growing historical city Bhaktapur has its own distinctive socio-cultural and economic environment that is probable to influence financial decision-making in unique ways. So far, there is no in-depth study that has specifically examined the investors in Bhaktapur — particularly how their financial knowledge, behavior and attitude affect their investment decisions. This study, therefore, tries to address this gap by offering a community-level analysis and supporting the developing the localized policy-making and targeted financial initiatives.

Research Gap and Hypotheses

A clear and consistent link exists between financial literacy and investment decisions; however, a significant research gap persists. Most of the studies on financial literacy have been conducted in international contexts, while very few have been carried out in Nepal. This highlights a need for research within the Nepalese context.

The limited research conducted in Nepal has not effectively examined the key elements that investors consider when making investment decisions. As a result, there is a gap in understanding the critical factors that influence investment behavior. Additionally, existing studies in Nepal tend to be broad in scope and have not explored the complex and localized factors affecting investors in Bhaktapur. To the best of the researcher's knowledge, no prior study has holistically examined the influence of financial knowledge, financial behavior, and financial attitude on the investment decisions of investors specifically in Bhaktapur.

Based on the theoretical insights and the conceptual framework, the following hypotheses are proposed for testing in the context of Bhaktapur:

H1: Financial literacy has a significant and positive effect on the investment decisions of investors in Bhaktapur.

Sub-hypotheses:

H1a: Financial knowledge has a significant and positive effect on investment decisions.

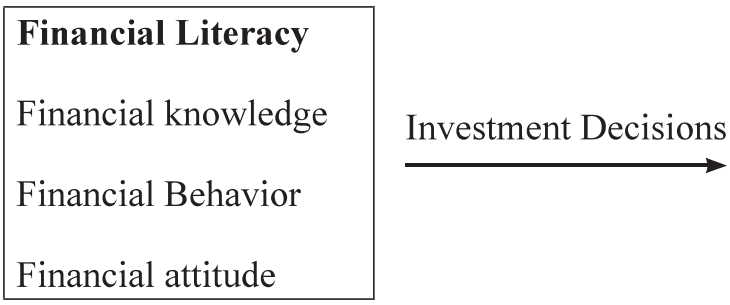
H1b: Financial behavior has a significant and positive effect on investment decisions.

H1c: Financial attitude has a significant and positive effect on investment decisions.

Research Framework

Figure 1

Conceptual Framework



Note: Adapted from Organisation for Economic Co-operation and Development (OECD, 2005).

This research framework clearly gives outlines for the proposed relationship between financial literacy and investment decisions of individual investors. Financial literacy is measured through its three key factors: financial knowledge, financial behavior, and financial attitude. These elements serve as the independent variables that are considered to influence the dependent variable 'investment decisions'.

The structure and logic of this model are guided by the definition of financial literacy introduced by OECD's (2005), which presents financial knowledge, behavior, and attitude as very essential factors for making informed and effective financial decisions.

The given framework is further supported by various following theories:

i. The Theory of Planned Behavior (Ajzen, 1991) which connects attitudes and perceived control to behavioral control intentions as well as decisions about investing.
ii. Human Capital Theory (Becker, 1964) which perceives financial knowledge as a kind of investment in human capital that is responsible for improving financial decision-making capabilities.
iii. Modern Portfolio Theory (Markowitz, 1952) which explains that financially educated individuals are capable enough in diversifying investments and managing risk.

This model functions as the foundation for making empirical analysis in this study, especially within the unique socio-economic and cultural phenomena of Bhaktapur.

Methodology

This study used a deductive approach and a descriptive and causal-comparative research design with the objectives of examining how financial literacy influences investment decisions among individual investors in Bhaktapur (Creswell, 2014; Kothari, 2004).

Population and Sampling

The study especially focused on individual investors in Bhaktapur who were engaged in stock trading, real estate, and mutual funds. Due to not having a comprehensive investor database, purposive sampling was used to select informed respondents. Out of the 600 questionnaires distributed, only 489 valid responses were received after screening, exceeding the minimum required sample size of 384 calculated for a 95% confidence level and 5% margin of error (Cochran, 1977).

Data Collection

Primary data were collected through a structured questionnaire available in both English and Nepali. The questionnaire included different sections such as demographic profile, investment section, and financial literacy assessment. Financial literacy was measured by using 22 Likert-scale items adapted from Singh (2019) which covered factors such as knowledge, behavior, and attitude. Investment decision was measured by using a five-item scale adapted from Jagdale (2018) and Kaur and Arora (2021).

Study Variables

Variable	Type	Components	Source
Financial Literacy	Independent	Knowledge,Behavior, Attitude	Singh (2019), OECD (2013)
Investment Decision	Dependent	Confidence, Planning, Risk, Returns	Jagdale (2018), Kaur & Arora (2021)

Data Analysis

Data were coded in Excel and analyzed using SPSS Version 20. Reliability was confirmed with Cronbach's Alpha above 0.70. Analyses included descriptive statistics, Pearson's correlation, and multiple regression.

Results

This section presents the results of the descriptive and inferential statistical analyses performed, including the demographic and investment profiles of the respondents, the reliability of the measurement instruments, the descriptive analysis of the variables, the correlation analysis, the multiple regression analysis, and the testing of the hypotheses.

Demographic Profile/Background Information of Respondents

An effort has been made to get the demographic profile of the respondents which is presented below:

Table 1

Demographic Profile of the Respondents

	Frequency	Percent
Age		
Below 25	150	30.67
25-34	168	34.36

35-44	108	22.09
45-54	57	11.66
Above 54	6	1.23
Educational Qualification		
+2	36	7.36
Bachelor's	221	45.19
Master's	214	43.76
Above Master's	18	3.68
Years of Working Experience		
Below 3	69	14.11
4-6	105	21.47
7-9	128	26.18
10-12	97	19.84
Above 12 Years	90	18.40
Monthly Income		
10,000-30,000	237	48.47
30,001-50,000	152	31.08
50,001-70,000	68	13.91
70,001-90,000	22	4.50
90,001-1,10,000	10	2.04
Marital Status		
Married	258	52.76
Unmarried	225	46.01
Separated	6	1.23
Number of Family Members		
Three	30	6.13
Four	100	20.45
Five	148	30.27
Above five	211	43.15
Number of Dependents		
Zero	32	6.54
One	64	13.09
Two	48	9.82
Three	155	31.70

More than three	190	38.85
Total	489	100.00

Note: Field survey (2025)

Table 1 shows that out of 489 respondents, majority are of the age group 25-34 which come out to 34.36% and 1.23% were above 54 years of age. Out of 489 respondents, majority i.e., 221 (45.19%) have pursed bachelor's degree and the minority 18 (3.68%) out of total respondents have pursued above master's degree respectively. Majority of respondents, i.e., 26.18% (n=128) have 7-9 years of working experience and 90 (18.40%) have working experience above 12 years. From the statistics, majority of respondents, 237 (48.47%) out of total respondents earn below Rs.30,000 per month, while only 10 respondents (2.04%) earn between Rs.90,000-Rs. 1,10,000. Majority of the respondents (258, i.e., 52.76%) participated are married. Out of total respondents, there are a maximum of respondents whose family have more than three dependents, i.e., 190 respondents.

Respondent's Investment Profile

This section provides the descriptive analysis of investment profile of investors shown in the table below:

Table 2

Investment Profile

	Frequency	**Percent**
Percentage of Income Invested		
0-5%	169	34.56
5-10%	97	19.84
10-15%	111	22.70
Above 15%	112	22.90
Expected Return on Investment		
0-5%	98	20.04
5-10%	110	22.49
10-15%	106	21.68
Above 15%	175	35.79
Risk Tolerance Level		
High Risk Taker	38	7.77
Moderate risk taker	305	62.37
Low Risk Taker	146	29.86
Total	489	100.00

Note: Field survey (2025)

Table 2 shows that majority of investors, that is, 169 (34.56%) respondents invest upto 5% of their income. Out of total investors, regarding return on investment, it is evident from the above table that the highest portion of the respondents i.e. 175 (35.79%) expect above 15% return from

their investment and respondents on the basis of risk tolerance level, moderate risk tolerance level investors are highly dominated.

Investment Preference of Investors

Table 3

Investment Preference

Investment Avenues	Most preferred	Relatively preferred	Preferred	Relatively Less Preferred	Least Preferred
Bank Deposit	142	92	156	80	19
Real Estate	63	135	123	53	115
Insurance/ Pension Plans	75	106	111	84	113
Mutual Fund	28	86	147	140	88
Shares	180	141	139	24	5
Bond/ Debentures	77	107	116	103	86

Note : Field survey (2025)

Above table shows that among 489 respondents, 142 respondents chose bank deposit as most preferred, and the least preferred in bank deposit is only 19 respondents. Similarly, 63 respondents chose real estate as most preferred while only 115 respondents chose real estate as least preferred. Out of total, 75 respondents highly preferred insurance/pension plans while 113 respondents selected insurance/pension plan as least preferred. 28 out of total respondents chose mutual fund as most preferred while 88 chosen mutual fund as least preferred. 180 respondents selected investment in shares as most preferred and only 5 investors least preferred investment in shares. 77 respondents chose investment in bond/debentures as most preferred and 86 respondents have least preferred investment in it. So, from above data, it can be seen that among above given 6 investment avenues, investment in shares and bank deposit is mostly preferred by investors.

Reliability Test

If a measurement tool consistently gives the same score to study or things or people with same value, it should be thought as reliable (As a result, it is linked to the interconnectedness of the items in a test (Tavakol & Dennick, 2011.) The reliability test of this research questionnaire is determined using Cronbach's Alpha. Following table shows the Cronbach's Alpha of each of three constructs of the study.

Table 4
Cronbach's Alpha Coefficients

Variable	No. of Items	Cronbach's Alpha
Financial Knowledge	8	0.764
Financial Behavior	6	0.718
Financial Attitude	8	0.726

Note: Adapted from data analysis

Cronbach's alpha values for financial knowledge, financial behavior and financial attidude are all above the cutoff point of 0.70. The questionnaire used had enough internal reliability and interconnectedness of items to measure The scale (Travalol & Dennick 2011.)

Descriptive Analysis of Variables

Table 5
Descriptive Analysis of Financial Knowledge

Code	N	Minimum	Maximum	Mean	Std. Deviation
FK1	489	2.00	5.00	3.76	0.905
FK2	489	2.00	5.00	3.98	1.005
FK3	489	2.00	5.00	3.86	1.035
FK4	489	2.00	5.00	4.31	0.900
FK5	489	2.00	5.00	4.33	0.675
FK6	489	2.00	5.00	3.57	1.069
FK7	489	2.00	5.00	4.22	0.963
FK8	489	2.00	5.00	4.48	0.899
Overall	489	3.00	4.88	4.06	0.580

Note: Adapted from data analysis

The overall mean score of the eight questionnaire is 4.06 which indicates that the degree of agreeing to financial knowledge's mean score was above average, i.e., 4.06 > 3.00. Thus, the overall mean score revealed that the degree of agreeing to financial knowledge falls under the "Fully Agree" category.

Table 6
Descriptive Analysis of Financial Behavior

Code	N	Minimum	Maximum	Mean	Std. Deviation
FB1	489	2.00	5.00	3.99	0.849
FB2	489	2.00	5.00	4.05	0.848
FB3	489	2.00	5.00	4.33	0.788
FB4	489	2.00	5.00	4.40	0.729
FB5	489	2.00	5.00	4.15	0.842

FB6	489	2.00	5.00	4.16	0.844
Overall	489	2.50	5.00	4.18	0.520

Note: Adapted from data analysis

The overall mean score of six questionnaires is 4.18 which indicates that the financial behavior's mean score was above average, i.e., 4.18 > 3.00. Thus, the overall mean score revealed that degree of agreeing to financial behavior falls under the "Fully Agree" category.

Table 7

Descriptive Analysis of Financial Attitude

Code	N	Minimum	Maximum	Mean	Std. Deviation
FA1	489	2.00	5.00	3.45	0.949
FA2	489	2.00	5.00	3.48	0.947
FA3	489	2.00	5.00	4.03	0.804
FA4	489	2.00	5.00	4.16	0.789
FA5	489	2.00	5.00	3.71	1.021
FA6	489	2.00	5.00	3.64	0.892
FA7	489	2.00	5.00	3.62	0.955
FA8	489	2.00	5.00	4.38	0.694
Overall	489	2.75	5.00	3.81	0.52

Note: Adapted from data analysis

The overall mean score of the eight questionnaires is 3.81 indicates that the mean score of financial attitudes is above average, i.e., 3.81 > 3.00. Hence, the overall mean score revealed that the extent of assessing into the financial attitude falls under the "Fairly True" category.

Table 8

Descriptive Analysis of Investment Decision

Code	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ID1	489	3.00	5.00	3.88	0.85
ID 2	489	3.00	5.00	3.34	0.59
ID 3	489	3.00	5.00	3.64	0.60
ID 4	489	3.00	5.00	3.62	0.56
ID 5	489	3.00	5.00	3.72	0.67
Overall	489	3.00	4.40	3.64	0.33

Note: Adapted from data analysis

The overall mean score of investment decision was 3.64 which indicates that the mean score of investment decision is above average, i.e., 3.64 > 3.00. Hence, it revealed that the extent of investment decision falls under the category "Partially Agree".

Respondents Level of Financial Literacy

Frequency and percentage is used to measure the level of financial literacy. Score above 80% are categorized as high level of financial literacy, 60-79% as moderate level of financial literacy and below 60% are categorized as low level of financial literacy.

Table 9

Respondents Level of Financial Literacy

S.N	Level of Financial Literacy	No. of Respondents	Percentage (%)
1	Low (below 60%)	8	1.64
2	Medium (60-79%)	226	46.22
3	High (Above 80%)	255	52.15
	Total	489	100

Note: Adapted from data analysis

Table 9 shows the highest proportion of the respondents, i.e., 255 (52.15%) fall under the category of high level of financial literacy followed by medium level of financial literacy, 226 (46.22%), and only 8 (1.64%) respondents scored below 60% thus representing low level of financial literacy. Hence, it can be concluded that respondents having high level of financial literacy have high and moderate risk taking attitude. Respondents with medium level of financial literacy have medium and low risk taking attitude which shows that they want to invest their earnings in those investment alternatives which are less to moderately risky and assured guaranteed return.

Correlation Analysis

Pearson's Correlation Analysis is used to determine the relationship between various independent and dependent variables associated with the research. Table 10 shows the relationship between dependent variable and independent variables. All the values of correlation coefficients are positive and significant at 1 percent level of significance. Based on the correlation coefficient and *p*-value, hypothesis 1, i.e., a significant and positive relationship between financial literacy and investment decision, has been accepted.

Table 10

Correlation Matrix

		ID	FK	FB	FA
ID	Pearson Correlation	1	.734**	.640**	.778**
	Sig.		0.000	0.000	0.000
FK	Pearson Correlation		1	.514**	.622**
	Sig.			0.000	0.000
FB	Pearson Correlation			1	.519**
	Sig.				0.000
FA	Pearson Correlation				1
	Sig.				

** Correlation is significant at the 0.01 level (2-tailed).

FK = Financial Knowledge; FB = Financial Behavior; FA = Financial Attitude; ID = Investment Decision

Relationship between Financial Literacy and Investment Decision.

The Pearson's Correlation Coefficient between the investment decision and financial knowledge is $r = 0.734$, which implies positive correlation and a strong positive relationship between the financial knowledge and investment decision, significant at 1% level of significance ($p = 0.000$). The two variables financial behavior and investment decision are positively correlated ($r = 0.640$ at $p = 0.000$), which implies moderately positive relationship. Similarly, correlation coefficient between investment decision and financial attitude is $r = 0.778$, which implies that the two variables are positively correlated at 1% level of significance ($p = 0.000$). Thus, significant and positive relationship between financial literacy and investment decision has been accepted.

Multiple Regression Analysis

This study has also conducted regression analysis to examine the impact of variables including testing of hypotheses stated in the objective. It has examined the linear relationship of the dependent variable to given three independent variables for the study. Multiple regression analysis has been employed to measure the impact of independent variables (financial knowledge, financial behavior and financial attitude) on investment decision (dependent variable).

Table 11

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.863	0.745	0.743	1.476

Predictors: (Constant) financial knowledge, financial behavior and financial attitude

Table 12

ANOVA of financial literacy and investment decision

	Sum of Squares	*Df*	Mean Square	*F*	Sig.
Regression	3088.92	3	1029.64	472.36	0.000
Residual	1057.18	485	2.18		
Total	4146.10	488			

Note: Adapted from data analysis

Table 13

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			*Tol*	*VIF*
(Constant)	2.611	0.42		6.25	0.000		

Financial Knowledge	0.154	0.01	0.33	10.91	0.000	0.56	1.78
Financial Behavior	0.149	0.02	0.24	8.45	0.000	0.67	1.49
Financial Attitude	0.224	0.02	0.45	14.62	0.000	0.56	1.79

Note: Adapted from data analysis

Table 11 shows that R square is 0.745 which indicates that 74.5 percent of the variation in investment decision is explained by three predictors, i.e., financial knowledge, financial behavior and financial attitude. The remaining 25.5 percent is explained by other variables, which are not included in this model. Table 12 shows the ANOVA test table which indicates that the fitted model or R square is highly significant, $F(3, 485) = 472.36$, $p = 0.000$

Table 13 reveal the individual impact of each variable. The unstandardized coefficients (B) formulate the predictive equation:

$$Y = 2.611 + 0.154FK + 0.149FB + 0.224FA + u$$

To assess their relative importance, the standardized coefficients (β) were examined: Financial Attitude showed the highest predictive impact (β=0.45), followed by Financial Knowledge (β=0.33), and Financial Behavior (β=0.24). The Collinearity Statistics (VIF values ≤1.79) confirm that multicollinearity is not a concern, as all VIF values are well below the common threshold of 5 (Hair et al., 2010). Based on these significant positive effects, all specific hypotheses regarding the positive effect of financial literacy components on investment decision were supported.

Hypothesis Testing

Table 14

Summary of Hypothesis Test

Hypothesis	Statement	p-value	Conclusion
H1(Overall Model)	Financial literacy has a significant and positive effect on the investment decisions of investors in Bhaktapur.	0.000 (p<.001)	**Supported**
H1a	Financial knowledge has a significant and positive effect on investment decisions.	0.000 (p<.001)	**Supported**
H1b	Financial behavior has a significant and positive effect on investment decisions.	0.000 (p<.001)	**Supported**
H1c	Financial attitude has a significant and positive effect on investment decisions.	0.000 (p<.001)	**Supported**

Discussion

This research studied about various levels of financial literacy among investors in Bhaktapur and how these levels affected their investment decisions. The findings indicated that investors showed moderate to high levels of financial literacy. Among the three factors, financial attitude had the strongest positive influence on investment decisions, followed by financial knowledge and behavior. These results are found to be consistent with prior international research by showing a strong relationship between financial literacy and suitable financial outcomes (Lusardi & Mitchell, 2013).

Internationally, the major findings of this study are consistent with the established theories such as the Theory of Planned Behavior and Modern Portfolio Theory. Both theories suggest that cognitive factors such as knowledge and attitudes are responsible for shaping rational investment decisions. The results also align with the findings by Mwathi et al. (2017) and Singh (2019), who showed that financial knowledge, behavior, and attitude can influence investment patterns differently in developing economies. Similarly, the evidence from other developing markets shows that the three components of financial literacy significantly influence investment patterns (Al-Tamimi et al., 2009). Further research confirms that financial knowledge is critical for overcoming status quo bias in investing (Grohmann, 2018), and that higher financial literacy strongly connected to retirement preparedness and financial security (Lusardi & Mitchell, 2011). However, this study adds nuanced understanding by focusing on a culturally unique and rapidly urbainizing city like Bhaktapur. It also highlights that informal financial practices and limited institutional access may still pose barriers despite relatively good literacy levels.

This study has several inherent limitations. The geographic focus on Bhaktapur limits the generalizability of findings to other contexts with differing demographic and cultural characteristics. The use of self-reported data introduces potential biases such as social desirability and recall inaccuracies. Additionally, the cross-sectional design precludes causal inferences and temporal analysis. Future research should address these limitations by expanding geographic scope, employing longitudinal designs, and incorporating mixed methods to deepen understanding of financial literacy's impact on investment decisions.
Overall, the study substantiates the critical role of comprehensive financial literacy in fostering informed investment decisions, echoing similar research globally while contributing valuable localized evidence useful for financial education policy in Nepal.

Conclusion

This study confirms a statistically significant positive impact of financial literacy on the investment decisions of Bhaktapur investors. Enhanced financial knowledge, behavior, and attitude contribute to more rational, confident investment choices. These results emphasize the importance of promoting financial education tailored to the local context to foster informed investment behavior and economic development. As Bhaktapur continues to urbanize, improving financial literacy could boost investor participation and stimulate market growth.

Implications and Future Research

The findings offer clear implications for policymakers, financial educators, and institutions in Nepal and similar emerging economies. Targeted financial literacy programs should prioritize improving attitudes and behaviors alongside knowledge to maximize investment decision outcomes. Financial institutions can leverage these insights to design culturally relevant advisory services and digital tools that enhance accessibility and understanding. Furthermore, regulatory bodies might consider integrating investor education into broader market

development strategies to increase confidence and participation in formal financial markets. Finally, ongoing community-level research and data collection are essential to continually refine educational interventions and policy measures.

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