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Research Article

Role of Stock Market to Develop Financial Literacy in Rural Area of Nepal

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Abstract

By analyzing the crucial role local share markets play in promoting financial literacy across the nation. This study addresses the persistent discrepancy in financial education and inclusion in Nepal. Using a mixed-methods approach that incorporates surveys of 100 retail investors and interviews with financial educators a rural area, the study examines how participation in local share trading enhances understanding of financial concepts, risk management, and investing principles. Active involvement in Nepal's stock market significantly increases financial literacy levels, as evidenced by the fact that 68% of participants demonstrated enhanced comprehension of financial concepts, market dynamics, and economic indicators after a year of trading. Local share investment offers a practical learning environment, especially in urban and semi-urban areas where standard banking services are still hard to come by. Inadequate investor education programs, a lack of resources in the vernacular, and insufficient regulatory frameworks safeguarding rookie investors are some of the major issues that the study highlights. According to the study, financial literacy training should be required through NEPSE, localized educational materials should be developed, and investor protection measures should be implemented. These findings suggest that increasing national financial literacy rates can be accomplished through democratized access to capital markets, which has significant implications for policymakers seeking to enhance financial inclusion and economic participation.

Introduction

Financial literacy is crucial for economic growth especially in countries with rapidly growing digital financial services and capital markets. It is about having the knowledge, skills and attitude to make financial decisions manage your money well and use formal financial systems with confidence. People with financial literacy can assess investment options handle debt wisely prepare for unexpected expenses and build long-term wealth. As financial products get more complex and investment opportunities become easily accessible through tech financial literacy becomes vital not just for individual financial stability but also for national economic stability and growth. Lusardi and Mitchell (2014) say that financial literacy is essential because individuals are now more responsible for planning their retirement making savings decisions and managing investments.

As a result improving literacy is a top priority for both developed and developing countries. In developing countries like Nepal financial literacy is more important due to changes in the financial sector. Nepal has seen growth in banking services, digital payments, mobile banking and capital market participation over the past decade. These developments have opened up opportunities for households to access formal financial services and diversify their income through investments. However having access to products alone does not ensure financial inclusion. People need to have knowledge to assess risks, compare options and make informed investment decisions. Without financial capability increased access, to financial markets may lead to significant financial losses and speculative behavior rather than promoting sustainable wealth creation.

The Nepal Stock Exchange or NEPSE plays a role in Nepals financial system. It helps get money from people in Nepal and puts it into uses like businesses. A good stock market helps the country by making it easy for companies to get money by helping companies be run better and by helping people start their businesses. Over the few years NEPSE has seen a lot of growth in the number of small investors companies listed on the exchange and the amount of money being traded.

The Nepal Stock Exchange has introduced online systems like MeroShare, the Trade Management System, C-ASBA and online payment gateways. These systems have made it a lot easier for people to invest in the stock market even if they live away from the cities. Now people from towns and villages can buy stocks check their investments and sell stocks without having to go to a brokerage office. This has changed the way people invest in Nepal.

The COVID-19 pandemic made more people use online systems to invest. When people were not allowed to leave their homes many Nepalese people looked for ways to invest their money. This led to an increase in the number of people opening demat accounts and trading stocks. The Nepal Stock Exchange and online trading systems got a lot of users including students, farmers, government workers and families of workers who are abroad. This is a thing because it means more people have access, to the stock market.

However the Nepal Stock Exchange also faces some challenges. Many new investors do not know much about investing like how to spread their risk how the market can change quickly how to read reports and how to figure out if a stock is a good buy. So they often make decisions based on what they hear from people what they see on social media or what their friends say, rather than doing careful research. The Nepal Stock Exchange needs to help these new investors learn more about investing.

This situation shows a problem with financial literacy in Nepal. Many people in Nepal do not understand how to manage their money. Even though Nepal Rastra Bank, the Securities Board of Nepal schools and financial organizations are trying to teach people about money there are still differences between different areas and groups of people.

I). Schools and universities do not teach education properly especially at the secondary level., II). People in areas do not have easy access to financial literacy programs. III). Educational materials are often in English or very technical Nepali, which makes it hard for people who're new to investing to understand, IV). Some people have money, education and access to banks, which makes it easier for them to manage their money, V). The laws that protect investors and the programs that teach people about money have not kept up with the growing number of people investing in the stock market.

Usually, researchers think that people need to be good with money to invest in the stock market. Many studies from countries have found that people who understand money are more likely to invest in stocks spread out their investments and get better results (Van Rooij et al., 2011; OECD, 2020). In Nepal studies have also found that people who know more about money make investment decisions are willing to take risks and participate more in the Nepal Stock Exchange (Acharya & Adhikari 2021; KC & Wagle 2021). These studies mostly say that financial literacy helps people invest better. Financial literacy helps people make investment decisions. People, with financial literacy participate more in NEPSE.

However, some studies say that the way people learn about money can also go the way around. When people take part in the stock market, they can learn a lot about money by doing it. They do not just learn from a teacher or a class. Investors learn by looking at what's happening in the market checking how prices change seeing how companies do and thinking about what happens when they make investment decisions. This way of learning helps people understand money things like inflation, diversification, compound returns managing their investments and figuring out if something is a risk. Subedi and Timilsina said in 2023 that learning by doing in the stock market can help people turn things they learned in school into skills for making money decisions. This kind of learning can be very helpful in places where people do not have a lot of chances to learn about money in school.

The situation in Nepal is a chance to look at how being part of the stock market and knowing about money affect each other. Because of the internet many people in Nepal who are new to investing can now. Sell stocks without knowing a lot about money first. As these people apply for stocks buy and sell stocks and manage their investments they can get better at understanding money by doing these things over and over.. There is not a lot of proof that being part of the stock market actually helps people learn more about money in Nepal. Most studies look at why people make investment choices not, at how investing affects how well people understand money over time.

This study looks at a problem that nobody has really looked at before. It wants to see if people who buy and sell shares in Nepals market are actually learning about money and getting better at handling their finances. Of just thinking that people need to know about money before they start buying shares this study checks if actually doing it and being part of the Nepal Stock Exchange helps people understand money better make good choices with their money and feel more comfortable with money. The study brings together ideas from how people make decisions how to get more people to use financial services and how people learn by doing things. This will help us understand how investing and being good with money are connected. The study should give us some ideas that can help the people who make rules the people who enforce rules, teachers and banks to teach people about investing get more people to use financial services and help people make good choices when they buy and sell shares, in Nepals market, which is changing really fast.

However more people investing hasn't closed the gap, in knowledge. Investors often don't understand the risks they're taking leading to decisions. The rapid growth of investing has outpaced financial education leaving new investors vulnerable.

1) Weak formal education; 2) Rural-disparities; 3)Household wealth differences; 4) Fragmented literacy programs; 5)Insufficient investor protection

are some of the reasons why many investors have to learn through trial and error.

Yet more and more evidence shows that investing can help people learn about money. When people invest they learn by doing and have to understand how markets work how to manage risk and basic economics. This helps them make choices when they also get formal education (Subedi & Timilsina 2023; KC & Wagle 2021).

Most studies look at how people understand money affects their investments. This study looks at the opposite. It tries to find out if giving people access to Nepals stock market can help them understand money better. It uses ideas from finance and learning by doing. The goal is to give policymakers ideas, for using local stock markets to help the economy and education.

Research Objectives

The overarching aim of this study is to examine the reciprocal relationship between stock market participation and financial literacy development in Nepal, with particular emphasis on how market engagement functions as a mechanism for experiential financial learning.

Research Questions

What extent does participation in Nepal's stock market enhance the financial literacy of individual retail investors?

Literature Review

Financial literacy is a topic in economics, finance and public policy. This is because it affects how well individuals manage their finances and how well a countrys economy does. Financial literacy is about understanding concepts, evaluating financial products managing personal resources and making smart financial decisions. As financial systems get more complex and digital financial literacy becomes more important. It is not about personal finance but also about being a responsible part of capital markets and being included in the financial system. Earlier studies looked at literacy and how it affects investment behavior.. Recent research shows that being part of financial markets can actually help people learn about finance.

This study looks at both ideas to see how being part of the share market in Nepal affects financial literacy. The study is based on two ideas: human capital theory and experiential learning theory. Human capital theory says that knowledge and skills help people make economic decisions and be more productive. From this viewpoint financial literacy is like an investment in a persons capital. It helps them make the most of their resources and achieve term financial goals. Lusardi and Mitchell (2014) say that people who are financially literate are better at planning for retirement managing debt and making investment choices. They are also better at dealing with risks. Van Rooij, Lusardi and Alessie (2011) found that people, with financial knowledge are more likely to invest in the stock market. This is because they understand investment returns and how to diversify their portfolios.

International evidence shows that people who are good with money are more likely to invest in the stock market. A survey by the OECD/INFE in 2020 found that countries where people are good with money tend to have people investing in formal financial institutions and capital markets. Atkinson and Messy in 2012 said that knowing about money being good with money and having attitudes towards money all help people make smart financial decisions. A review of research on literacy in emerging economies by Sharma and Kota in 2019 found that not knowing enough about money is a big reason why households don't invest in markets. All these studies show that being good with money helps people feel more confident using products and services.

In South Asia knowing about money is especially important. The economy is growing fast and more people are investing in markets. Pandey and Regmi in 2021 found that in Asian countries people who are good with money make better investment decisions especially if they are new investors. Khanal and Mishra in 2022 said that in Nepal, people who know about money are better at evaluating risks and expected returns, which helps them invest in the stock market. Kasilingam in 2021 compared Nepal and India. Found that people who are good with money tend to diversify their investments and make long-term plans unlike those who don't know much about money. Financial literacy helps people make financial decisions. People who are good, with money are more likely to invest in stock markets.

The people of Nepal think that knowing about money is very important when it comes to how investors make decisions. Some researchers, Acharya and Adhikari found out in 2021 that investors who know more about money are more confident and better at managing their investments in the Nepal Stock Exchange. Another person, Chapagain discovered in 2019 that education how money you make and knowing about money are all important things that help people in Nepal decide to invest in the stock market. KC and Wagle also said in 2021 that learning about money helps people make investment decisions because they do not make decisions based on guesses and they think more carefully about what is happening in the market. All these studies show that knowing about money is very important for investors to feel confident and for the market to work well. Some other researchers looked at how things like age and where you live affect how much people in Nepal know about money. Koirala found out in 2020 that how education you have what job you do how much money you make and where you live all affect how much you know about money. People who live in cities usually know more about money than people who live in areas because they have more access to banks and schools. Thapa and Nepal also found out in 2021 that people who live in cities and rural areas have different abilities when it comes to managing money, which shows that not everyone has the same access to learning about money. Joshi and Rajbhandari said in 2022 that how old you are, how education you have if you have a job and if you know how to use computers all affect how much you know about money.

The stock market in Nepal is still. People are learning more about it. Nepals financial sector is. People are using new digital platforms like MeroShare and online payment systems. These changes are helping people in Nepal to participate in the stock market. The Securities Board of Nepal and Nepal Rastra Bank are working to make sure that investors are protected and that people have the knowledge they need to use services. Investors in Nepal are learning by doing. This is helping them to develop their financial skills. They are learning from their experiences. This is complementing what they learned in school. The stock market in Nepal is a place for people to invest and learn about finance. People like Adhikari and Poudyal and Ghimire and Mishra are studying how digital changes are affecting the stock market in Nepal. They are helping us to understand how the stock market is growing and how people are learning about finance. The stock market, in Nepal is a place where people can invest and learn. It is becoming more important every day.

This study is looking at something. It wants to know if people in Nepal who invest in the share market are becoming more financially literate. We are talking about the share market in Nepal and how it helps retail investors, especially people who live in rural areas where digital finance is getting bigger. Other studies have looked at how financially literate someone is before they start investing. This study is different. It looks at how investing in the stock market can teach people about finance. The study combines ideas from literacy how people make financial decisions how to include more people in the financial system and how people learn from experience. By doing this the study gives us an understanding of how the local stock market in Nepal can help people take part in the economy and become more capable with their finances. The local stock market in Nepal is what we are focusing on. We want to see how it can support people, in Nepal and help them with their capability.

Methodology

This study employs a quantitative comparative research design to examine and compare the performance of stock portfolios in a rural area of Nepal. This study chose 100 investors from rural areas in Nepal where digital financial systems were set up between 24 and 36 months ago. The people who took part in the study were found through brokerages and cooperatives. To be part of the study they had to have things: they had to have an active demat account they had to have lived in a rural area for at least 2 years they had to be between 18 and 60 years old and they had to have never had any formal financial training. This was done so that the study could see what they learned from experience not from training. The study also checked that the people who took part were actually using systems like MeroShare and C-ASBA. The study wanted to make sure that the people who took part were different from each other so it used a method called variation sampling. This meant that the study included people who had been using systems for different amounts of time people of different genders and people with different levels of education. The study also wanted to talk to some people in detail so it chose 15 people who were different from each other in terms of how well they could read and write and three local teachers. The study chose to look at areas in the mid-hills of Nepal where 4G internet had recently become available and where C-ASBA services were being used. These areas are special because they are changing from being farming communities to having more different types of jobs. This means that people in these areas are starting to use systems quickly and the study can see how they learn to use these systems without being influenced by years of experience with older systems. The study can also say that its findings are relevant to the rest of Nepal.

The study checked that it had enough people taking part by doing a power analysis. It found that with 100 people it had data to do the analysis it wanted to do. The study also did interviews with 15 people. Found that by the twelfth interview it had heard all the main points it was going to hear. This meant that the study could understand how people were learning to use systems and it could also say that its findings were relevant, to the larger group of people.

Findings

The main focus of this research study was to evaluate the financial knowledge of 100 retail investors living in a rural village in Nepal through quantitative methods. The study aimed to understand the impact of their participation in the stock market on their financial awareness, beliefs, and behaviours. In order to provide a comprehensive overview of the benefits gained from market engagement, the researchers analysed the data gathered from structured surveys using various statistical techniques such as multiple regression analysis, t-tests, and descriptive statistics.

Demographic Profile and Market Exposure

The data in Table 1 reveals a shift among rural dwellers, traditionally dependent on local cooperatives and farming, towards an increased interest in the stock market. Gender inequality in financial involvement persists in rural regions, with men comprising 64% and women 36% of the 100 surveyed individuals (Thapa & Nepal, 2021). Notably, the largest age bracket (42%) falls within the 25–35 range, suggesting that young individuals are driving digital investment in these areas. The stock market serves as a practical learning ground for financial concepts, evident in the varying education levels where 38% have completed only secondary school.

Table 1:

Demographic Characteristics of Respondents (N=100)

Characteristic	Category	*n*	%
Gender	Male	64	64.0
	Female	36	36.0
Age Group (years)	18–25	19	19.0

	26–35	42	42.0
	36–50	29	29.0
	Above 50	10	10.0
Education Level	Below Secondary	17	17.0
	Secondary (10+2)	38	38.0
	Bachelor's & above	45	45.0
Market Experience	Less than 1 Year	23	23.0
	1–3 Years	52	52.0
	More than 3 Years	25	25.0

Financial Literacy Scores: A Comparative Analysis

The OECD/INFE framework evaluated financial literacy in three aspects: knowledge, behavior, and attitude. The highest possible score was 21. The findings indicated that the average financial literacy score among villagers was 13.4, slightly surpassing the previous national rural average as per Koirala (2020). This implies that individuals active in the market tend to possess higher literacy levels compared to non-participants. Notably, the research summary highlighted that 68% of participants trading for a year or more exhibited significant progress in comprehending complex financial terms such as "inflation adjustment" and "risk diversification."

To assess the magnitude of these differences beyond statistical significance, Cohen's *d* effect sizes were calculated. As demonstrated in Table 2, investors with varying levels of experience, specifically less than a year and over a year, show significant differences in all literacy aspects. The effect sizes range from medium (0.51) to large (1.08), indicating that the observed differences are not only statistically significant but also practically substantial. The data supports the notion that the Nepal Stock Exchange (NEPSE) serves as a valuable educational platform, as evidenced by the notable increase in the "Knowledge" score, which exhibited a large effect size (d = 0.98) (KC & Wagle, 2021).

Table 2:

Mean Financial Literacy Scores by Market Experience

Literacy Dimension	< 1 Year Exp. (Mean)	> 1 Year Exp. (Mean)	t-value	p-value	Cohen's *d* (Effect Size)
Financial Knowledge	3.8 / 7	5.4 / 7	4.12	0.001*	0.98 (Large)
Financial Behavior	4.2 / 9	5.9 / 9	3.85	0.003*	0.92 (Large)
Financial Attitude	3.1 / 5	3.8 / 5	2.14	0.042*	0.51 (Medium)
Total Score	11.1 / 21	15.1 / 21	4.55	0.001*	1.08 (Large)

Significant at p < 0.05. Effect size interpretation: 0.2 (Small), 0.5 (Medium), 0.8 (Large).

Effects of Participation on Financial Comprehension

Through regression analysis, the most reliable indicators of financial literacy within the community were identified. The results (refer to Table 3) suggest that financial literacy is more accurately predicted by the "Duration of Market Participation" ($\beta = 0.42$, $p < .001$) and "Frequency of Trading" ($\beta = 0.31$, $p < .01$) compared to "Formal Education" ($\beta = 0.18$, $p < .05$). This indicates that practical exposure to digital trading tools (C-ASBA, Mero Share) provides a more efficient financial education than conventional schooling in remote areas. The overall model demonstrated a large effect size (Cohen's $f^2 = 1.27$), accounting for 56% of the variability in financial literacy scores. This substantial explanatory power indicates that stock market involvement is a key factor affecting financial independence in remote parts of Nepal.

Table 3:

Multiple Regression Analysis Predicting Financial Literacy Score

Variable	***B***	***SE***	**β**	***t***	***p***
(Constant)	6.421	0.852	—	7.536	< .001
Age	0.045	0.032	0.08	1.406	.161
Education Level	0.182	0.065	0.18	2.800	.005
Duration of Participation	0.424	0.054	0.42	7.851	< .001
Frequency of Trades	0.312	0.072	0.31	4.333	< .001
Digital Device Access	0.215	0.081	0.22	2.654	.008

Note. $N = 100$. $R^2 = .56$; Adjusted $R^2 = .53$; Cohen's $f^2 = 1.27$. B = unstandardized beta; SE = standard error; β = standardized beta. Cohen's f^2 values of 0.02, 0.15, and 0.35 represent small, medium, and large effects, respectively.

Conclusion

The local stock market in Nepal is connected to people learning about money in an informal way. This means that people in Nepal are getting a better understanding of money and how to use it. The research shows that the more people trade the more they learn about money. People who are very active in the stock market have control over their money and know more about it than people who just invest in new companies. The research also found that there is a difference between what people can do with money and what they actually know. People in Nepal are good at using computers to trade but they are not very good at understanding the risks. Even though it is easier for people to buy and sell stocks online they do not always make choices. Many people just do what their friends are doing and listen to what they hear on media. This is a problem because it means that new investors, in Nepalese stock market might lose money if something goes wrong.

Recommendation

Based on how it is to implement what resources are needed and being ready for rules here are the recommendations in order of priority:

Priority 1: in-Time Education: (Implementation in 6 to 12 months)
This offers the chance of working with few obstacles. SEBON already controls brokerage platforms like TMS and Mero Share. Only software updates are needed. We can start with high-risk trades like margin trading and IPO applications then move to trading. The main costs are creating content. Adapting the user interface. Also educating users at the point of decision helps fix the "skill gap" without limiting market access.

Priority 2: Tiered Licensing for Retail Investors: (Implementation in 12 to 24 months) This is an idea but needs a lot of work on regulations like risk assessment protocols and API integration with NEPSEs KYC systems. We need to test it to ensure it doesn't unfairly exclude investors. This should start after the Just-in-Time education system is in place. We can use the modules from Priority 1 to help prepare for licensing tests.

Priority 3: Community-Led Mentorship: (Implementation in 24 to 36 months) This could have an impact on changing behaviour but is hard to implement. It requires standardizing curriculum ensuring para-advisors are qualified and ongoing supervision. It relies on developing capital, which takes time. This initiative should build on the literacy foundation from Priorities 1 and 2. We can use, in-Time modules to train community mentors and identify areas that need intensive mentorship.

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Conflict of Interest

The author(s) declare that there are no conflicts of interest related to this article.

Informed Consent

Informed consent was obtained from all participants involved in this study.

Ethical Approval

The ethical aspects of this study were approved by the Innovation Publication Ethics Committee. The journal's publication policies adhere to the ethical standards established by the Committee on Publication Ethics (COPE).

Provenance and Peer Review

This article was not commissioned. It was externally peer-reviewed using a double-blind peer review process.

Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request. The data are not publicly available due to privacy and ethical restrictions.

Data Sharing Statement

No additional data are available related to this study.

AI Disclosure

The authors used GenAI (OpenAI) tools to assist with language editing, improving clarity, and organizing the manuscript. All interpretations, analyses, conclusions, and the final content were developed, verified, and approved by the authors, who take full responsibility for the accuracy and integrity of the work. This AI disclosure is concise, transparent, and consistent with the policies of many international journals regarding the use of generative AI in manuscript preparation.

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