

Financial Literacy and Spending Patterns of Millennials and Generation Z in Pokhara, Nepal

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Sushanti Bhandari¹ , Shanti Devi Chhetri²  

¹ School of Business, Faculty of Management Studies, Pokhara University, Nepal

² School of Business, Faculty of Management Studies, Pokhara University, Nepal

Corresponding Author

 Shanti Devi Chhetri
School of Business, Faculty of Management Studies, Pokhara University, Nepal
schhetri635@gmail.com, <https://orcid.org/0000-0001-9958-3944>

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Abstract

Background: The study focus on financial literacy and spending behavior among Millennials (28-44) and Generation Z (18-27) in Pokhara, Nepal, in the aspect of the high rate digitalization of financial systems. Although there is an increasing complexity in financial decision making among the younger demographics, there is a dearth of literature on the same related to the Nepalese context.

Objectives: The study is based on the Theory of Planned Behavior and Human Capital Theory and it examines how financial competencies, self-efficacy and literacy interact to promote prudent financial behaviors. The study involved 250 participants collected using structured surveys using a quantitative and cross-sectional method. Partial Least Squares Structural Equation Modelling (PLS-SEM) was used to examine the direct and mediating relationships between variables.

Results: The results show that Millennials exhibit better financial ability, self-efficacy, literacy and disciplined spending than Generation Z. Millennials showed better abilities in investment strategies, budgeting processes and dealings with financial data, Gen Z used digital tools much more often but were less skilled in advanced financial system. The structural model also recognised that financial literacy mediates the association between financial skills, self-efficacy and spending behavior with financial skills having the highest indirect impact on responsible expenditure through literacy followed by a small but significant role of self-efficacy.

Conclusion: The study found the differences in financial literacy and spending patterns between Millennials and Generation Z. These generational variations can be further studied to improve financial stability and prosperity in the changing economy of Nepal.

Keywords: Financial literacy, generation Z, millennials, planned Behavior, spending behavior



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Introduction

In this era of fast and easy transactions, virtual wallets, quick checkouts, our association with money has never been more interesting and complex. The shift of the paradigm that existed where cash was the important mode of operations to digital finance has changed the manner in which people relate to money in their everyday lives. The technological revolutions have come with new prospects and new financial challenges specifically to the youths as they desire for financial independence. Money management is not merely counting money or sticking to a budget, it is a proficiency that has the potential to deliver an individual a great deal of control in the future (Pokharel & Maharjan, 2024). A sound money management not only assure present financial well being, also leads to the accomplishment of the long term financial goals, like education, owning home and planning for retirement. The people that struggles with the financial confusion are particularly adults who are already mounting lifelong habits. The struggle is even amplified by social factors, absence of formal financial teachings and continuous advertising of marketing that encourages consumerism. As Sereetrakul et al. (2013) note, it is important to teach younger generations more smart spending at an early age in order that they become responsible adults in their financial management. The introduction of financial education in adolescents can help to create a backbone of critical financial thinking where the youth are taught to be disciplined with their savings and expenditures before they can get into adulthood.

Generational differences make the focus on the spending habits even more applicable. The level of inequality is not only based on economic backgrounds, but rather different experiences regarding technology, educational system and financial access as well. Millennials (born between 1981-1996) and Gen Z (born after 1997) are some of the largest generational groups that have been raised differently in terms of economic and technological transitions (Dimock, 2019). Millennials, who grew accustomed to the arrival of the internet and technological tools, were introduced to the digital financial systems later in life, with Gen Z being more oriented toward the tools as a kind of default since childhood. Although Millennials witnessed the growth of the internet and how the global financial crisis has impacted the world, Gen Z grew up in a world that was highly digital and fast-paced with the availability of financial products and services online in high numbers. This has led to significant variations in spending behavior including the tendency to do online shopping, mobile banking, the use of digital influencers to get financial information. These opposing exposures influence the manner in which every generation observes and manages money leading to the necessity of comparative analysis. A comparative study can highlight the generational strengths and gaps, which will finally help to produce more convinced financial literacy programs based on specific behaviors and needs.

Financial literacy is the ability to know and manage finances which as one influences spending behavior. It is important to develop a person potential to make sound decisions to escape the debt and assure future finance. According to Pokharel and Maharjan (2024) financial literacy is human capital encompassing skills, awareness and the talent to use that knowledge by doing financial research and analysis using financial tools and techniques. This shows that financial literacy is a set of tools which are dynamic and bring changes in people to get experience and exposure. The more financial knowledge a person possesses the better they are likely to make informed decisions which improve both personal and family financial condition. Financially literate people can also make contributions to the economic welfare of their societies by ensuring that good economic practices are undertaken. This perspective is reinforced by Rathod (2021), who adds that financial literacy does not solely refer to knowledge since it is experienced as a continuum of learning more and better about proper money management. This supports the notion that financial literacy needs to be fostered over a duration of time to respond to new environments in finances, new stages in life and changes in the economics. Moreover, financial literacy is becoming a main stream recognition of a modern life skill in our contemporary

globalized world of finance. According to Atkinson and Messy (2012), it is a combination of knowledge, skills, attitude and behavior which determines all the financial-related decisions we make. This multifaceted perspective brings out the idea that it is not enough to know the concepts rather one needs to have the confidence and drive to learn how to apply them. Hung et al. (2009) further support this perspective by proposing a model of financial literacy on four parameters financial knowledge, financial skills, perceived knowledge and financial behavior. The components provide a comprehensive knowledge on how individuals evaluate, analyze and use financial information in real life setting. Keeping these contexts in mind, a wider picture of financial literacy and spending habits similarities in Millennials and Gen Z in Pokhara can be explained in more detail for making future strategies and create a more financially responsible society. Since, Pokhara has developed into a busy hub of trade, education and tourism, studying the spending patterns of different generation has become essential to formulate effective financial literacy schemes and promote inclusion in economic development. Therefore, the main focus of the study is to identify the differences in financial literacy and spending patterns among Millennials and Generation Z of Pokhara.

Review of Literature

Concept of Financial Literacy

Financial literacy refers to the capacity of an individual to apprehend financial skills and use the expertise to make keen decisions. This includes basic knowledge of budgeting, interest rates, inflation, investment and credit. According to Thapa (2025), financial literacy directly influences financial decision making among youths in Nepal, with better informed individuals demonstrating higher levels of savings and investment contribution. Similarly, Khan et al. (2023) found that actual knowledge is more related with responsible behavior among Malaysian millennials than perceived knowledge. Alekam et al. (2018) further noted that financial literacy is more than providing financial information and advice it is the ability to understand and manage financial resources to improve the quality of life and financial security of individual families and business. Lusardi and Mitchell (2014) explained the impact of financial literacy on personal financial choices like saving, investment, borrowing and retirement planning in the United States and found financial literacy as a key factor of healthy financial behavior.

Nevertheless, the simple spread of financial knowledge is not sufficient to change the long-term behavior. Fernandes et al. (2014) conducted a meta-analysis of 201 empirical studies and concluded that the effects of financial education programs tend to diminish over time unless reinforced through realworld application. This raises concerns for the sustainability of classroom based interventions. Additionally, Thapa and Nepal (2015) observed that many youths in urban Nepal possessed surface level awareness but lacked the critical thinking skills to evaluate complex financial decisions, such as loan terms or retirement planning. It is known that financial literacy does not remain the same but develops with respect to life stages, experience and learning within a context. For instance, Chaulagain (2015) found differences in literacy levels between urban and rural populations in Nepal, tied closely to variations in access to formal education and financial services

Generational Differences: Millennials vs. Generation Z

Millennials and Generation Z varies significantly in their attitudes, life experiences and financial practices. Millennials, who grew in the era of economic shifts and having limited exposure to digital life, are more conservative when it comes to money. Ilyas et al. (2022) noted that Millennials in Indonesia displayed higher levels of financial planning and risk aversion compared to Gen Z investors, who were more likely to engage in high-risk, short-term investment strategies. Gen Z is tech-savvy and quick to adopt new technology, they lived in a completely digital world with digitization and instant access to information (Wandhe, 2024). This generational contrast was seen in Khan et al. (2023) study, which found that Gen Z fintech literacy was

stronger in terms of usage, but weaker in terms of understanding financial implications.

In Nepal, the digital gap between generations also displays in behavior. Risal et al. (2024) found that Gen Z accomplices were more affected by social media and peer recommendations in making financial decisions, while Millennials relied more on recognised sources such as reports published by bank and government portals. Generational differences are also affected by socio-economic factors and educational exposure. Purwani et al. (2025) emphasised that, despite having access to digital platforms and technology than earlier generations, Generation Z demonstrated comparatively lower levels of financial discipline. . Similarly, Fernandes et al. (2014) underlined that financial education must be designed to generational preferences and cognitive capacities. Understanding their motivations, beliefs and behaviors helps businesses, marketers and policymakers engage with them successfully (Wandhe, 2024). These disparities confirm the motive why general designs of financial literacy programs should be avoided in highly multicultural contexts such as Nepal.

Spending Behavior of Millennials and Gen Z

Spending behavior refers to the patterns and tendencies of people when managing expenses, saving and investing. Various researchers reveal that financial behaviors of young adults are normally impulsive and are mostly driven by social currents and not calculated appropriately. For instance, Purwani et al. (2025) found that Indonesian Gen Z and Millennials displayed a high rate of repeat borrowing on peer to peer platforms, indicating a tendency toward short term consumption rather than long term savings. This aligns with the findings of Yao and Cheng (2017), who observed that only 37.2% of Millennials in the U.S. had a retirement plan, citing preference for present consumption over future financial security. In addition, Sereetrakul et al. (2013) revealed gender differences in spending attitudes, showing that females had a more positive attitude toward shopping and saving than males, who exhibited a more positive attitude toward spending money than females.

Pant (2024) found that marital status and financial literacy influence saving behavior in Surkhet, Nepal. Those who were married with family responsibilities were more likely to have more stable financial habits because of added financial pressure and long-term commitments. Similarly, Risal et al. (2024) observed that households in Bhaktapur with higher financial literacy scores are more likely to allocate their income toward systematic savings and productive investments, rather than spending it on non essential or discretionary items. These findings support the view that life stage and social responsibility play a role in spending behavior.

According to Chaulagain (2015), the number of financial institutions in Nepal has grown significantly over the years, but lacks to bring substantial or meaningful change in behavior, specifically in the financial practices and decision making patterns of the youth. Most of the Generation Z still spend more than they should and save less influenced from peers.

Financial Knowledge and Financial Literacy

Financial knowledge is the understanding of financial terms, theories and principles in real life situations. Dewi et al. (2020) said that financial knowledge is the basics of financial literacy that enables individuals to make sound decisions and establish good financial behavior. Lusardi, Mitchell and Curto (2010) revealed that financial literacy is an important element to discipline financial decision making and young people wish for adequate financial knowledge. Lack of financial knowledge leads to lack of motivation to pursuit personal financial management and planning, however socio economic factors highly influence individual financial understanding (Loke, 2015).

Additionally, Lusardi (2019) noted that people who use advanced financial technologies, like mobile payment applications lacks financial knowledge and participate in exclusive spending behaviors, which means that

access to financial technology does not bring financial understanding. Furthermore, Lusardi (2019) suggests that financial literacy contributes to wealth accumulation overcoming retirement wealth inequality. Kaiser and Menkhoff (2017) found that financial education has statistically significant impact on financial behavior and an even greater influence on financial literacy. In support of this, Houts and Knoll (2019) designed the Financial Literacy Scale to evaluate financial literacy at the cognitive level by pointing out the extent that financial knowledge contributes to overall financial literacy.

Many young people recognize the value of financial literacy and express a desire for greater financial knowledge to enhance their decision-making capabilities (Lusardi et al., 2010). Financial literacy is an expansion of financial knowledge. Complementing this, Thapa and Nepal (2015) found that financial knowledge tends to be higher among students with advanced level of education, those attending private colleges and individuals enrolled in management programs. These findings suggest that educational environment significantly boost financial knowledge, fostering improved financial literacy and better decision-making. .

Financial Skills and Financial Literacy

Financial skills are needed to discourse financial circumstances, anticipated or sudden and which address financial problems in a manner that develops value and a chance. Dewi et al., (2020) state that individuals with financial issues are likely to possess less financial knowledge, low capacity to access appropriate financial information to make financial choices and deficiency of financial skills. Again, individuals should be financially literate before using financial services therefore, it is important to increase school based financial education. According to Lusardi (2019), financial education in schools has the potential to change student lives by equipping them with the necessary knowledge, skills and confidence to make informed, responsible and actual financial decisions at various phases of their personal and professional lives.

Warmath and Zimmerman (2019) viewed financial skill as one of the three core components of financial literacy, beside financial knowledge and financial self-efficacy. In their study, financial skill is not only taken as a theoretical term but it also quantified by using Bloom psychomotor domain of knowledge which emphasis on applying knowledge into action. This consideration displays that financial literacy is not simply about knowledge of the financial concept, but also the abilities to apply the knowledge in a real financial context. Financial literacy is not just related to financial knowledge but also covers other dimensions like financial skills and financial attitude (Dewi et al., 2020). Therefore, financial literacy is a holistic process that combines all learning processes, develops abilities and forms attitudes in order to build persons who are financially literate and can take proper financial decisions.

Self-efficacy and Financial Literacy

Self-efficacy refers to the confidence an individual develops in his or her capability to perform tasks, solve problems and make choices even in difficult conditions. It is vital for influencing financial behavior and financial literacy of an individual. The study by Amatucci and Crawley (2011) points out that self-efficacy is the trust a person has in his abilities to deal with the financial state without being pressured and crushed. It determines how people make decisions about financial issues. The people with better financial self-efficacy tend to show proactive financial behavior in saving, investment and budgeting as they have potentiality to make decisive choices even in difficult and unpredictable circumstances. Similarly, Arofah (2019) stated that students with high self-efficacy are good at managing their personal finances and also influence financial behavior.

Besides, financial literacy on one hand provides people with the knowledge that helps them make sound financial decisions and in other instills confidence in personal economic management. Atkinson and Messy (2012) posit that financial literacy increase the level of financial inclusion since it increases access and use

of formal financial services by individuals. As people learn about financial concepts and instruments, they gain confidence in negotiating financial systems and hence assure their self-efficacy. This confidence usually brings responsible and independent financial behaviors. Similarly, Arofah (2019) suggested that the more financially educated students are, the more likely they are to save and invest. Kramer (2016) arrives at the conclusion that financial savvy may be associated with a low probability of consulting professional financial advice.

Financial Literacy and Spending Behavior

Various factors are considered to obtain and practice financial knowledge. One of the most important factors is education. Thapa (2025) found a strong association between formal education and financial literacy among youths in Nepal, with university graduates outperforming non graduates in financial decision making. Likewise, Risal et al. (2024) suggested that education predict both financial awareness and behavior in the households of Bhaktapur. These findings are consistent with the human capital theory which states that education improves decision making and enhances economic productivity. Socio-economic factors also plays an important role in decision making. Chaulagain (2015) observed that urban populations with more access to information and financial institutions has better financial practices than people of rural areas. Xie et al. (2023) found that biasness and behavioral adjournment has negative impact on retirement savings in Poland. Also, Yao and Cheng (2017) underlined the importance of financial education in early stage for shaping adult behavior. Mancone et al. (2024) found that digital financial tools were often used by youth without proper understanding leading to risky behavior. A comprehensive study of financial behavior must consider educational, economic, technological and psychological dimensions. Fernandes et al. (2014) argued that even though financial education improves knowledge it does not bring long term impact on behavior emphasizing the need for attitude based interventions. Similarly, Xie et al. (2023) suggested that behavioral responsibility and age significantly influence savings behavior among youth.

Chaulagain (2015) said that the development of financial institutions does not essentially improve financial behavior among youth. Thapa (2025) suggested that financial literacy impact behavior in investment, savings and budgeting. Moreover, Risal et al. (2024) found that variables like education, peer influence and digitization shaped behavior patterns. Similarly, cross country comparison shows that the cultural factors influence behavior. Ilyas et al. (2022) found that in Indonesia knowledge influence investment intentions, attitudes and perceived control had greater impact. Purwani et al. (2025) noted Gen Z high borrowing rates through digital platforms but weak repayment discipline. A study conducted by Lamichhane (2025) also found a high implementation of digital tools, yet a low level of financial understanding. The findings show the necessity of developing culturally specific financial literacy programs.

Theoretical Framework

Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) provides a framework that explains the affection of money. Developed by Ajzen (1991), TPB suggests that behavior is motivated by intention, which in turn is affected by attitude, subjective norms and perceived behavioral control. For financial behavior, attitude can be related to the individual outlook of saving or investment, subjective norms can be social pressures or expectations (like peer influences) and perceived control is the confident to manage finances. The model is used in multiple studies, including Ilyas et al. (2022), who revealed that financial behavior among Indonesian Millennials and Gen Z is strongly influenced by intention and control more than knowledge alone.

The model is useful in Nepalese context, where influence of community and family are given importance in society. Pant (2024) argued that the responsibilities of family shape financial behavior in Surkhet, indicating

subjective norms as a key factor in decision making. Also, Risal et al. (2024) found that Gen Z people in Bhaktapur are influenced from peer advice and social media than from formal education and institutional advice. People will perform when their actions are positive and believe others desire to do, concluding that both personal decision and perceived social acceptance affect behavioral decisions (Arifin, 2017). Tahir (2025) advised that overconfidence can increase risk taking behavior and overspending. On the contrary, financial behaviors of Millennials are more likely to be influenced by economic condition faced in early adulthood leading towards proper financial planning.

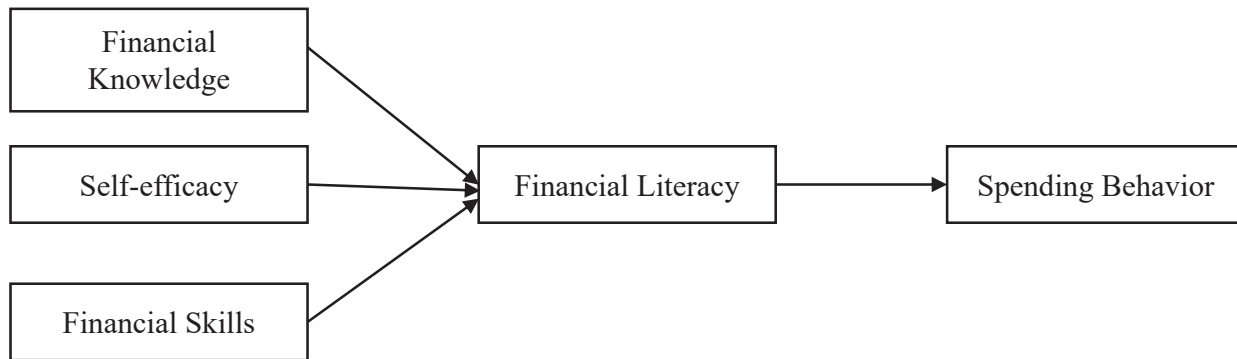
Human Capital Theory

Human Capital Theory, developed by Becker (1964) said that to enhance productivity and economic stability it is important to invest in education and skills development. The theory in relation to financial literacy suggest that people who are provided with financial education are more liable to make sensible and profitable decisions. Fernandes et al. (2014) found a positive association between financial education and responsible behaviour. Thapa (2025) confirmed that respondents with higher educational achievement exhibit proper financial planning skills and budgeting behavior.

Human Capital Theory aligns with findings of Risal et al. (2024), who showed that formal education contributes to enhance financial literacy and encourage investment among Bhaktapur households. Chaulagain (2015) emphasized that without contextual and practical exposure, even educated individuals may struggle with financial decision making. This justifies the expansion of Human Capital Theory to encompass informal forms of education, including financial talks within families, peer education and experience based education with the help of digital tools.

Figure 1

Conceptual Framework



The theoretical model Figure 1 of this research is based on the Theory of Planned Behavior (TPB) and Human Capital Theory, which join two behavioral and education related views to describe spending behavior. In the framework, financial knowledge, self-efficacy and financial skills are considered significant aspects of human capital and found to develop financial literacy which affects the spending behavior of an individual. Based on TPB, the model presumes that the behavior of people (decisions related to spending) can be influenced by their intentions, which can be developed due to their attitudes, perceived behavioral control (self-efficacy) and knowledge. Financial literacy is a mediator variable, enhancing the relationship between intention and behavior. Basically, the framework displays a desired interaction of educational input and behavioral intent in the formation of responsible spending behavior.

Methods

The study employed a quantitative, cross-sectional research design and followed a descriptive and comparative framework. A structured questionnaire administered through Google Forms was used for the collection of

data which were analysed primarily using SPSS and Excel. The target population comprised individuals aged 18–44 in Pokhara. (Dimock, 2019) provides the about the age range of Millennials from 28-44 and Generation Z from 18-27. The consent of all the participants were taken before the collection of data. A total of 250 participants were surveyed that covered demographics, financial knowledge, financial skills, self-efficacy, financial literacy and spending behaviour. The sample size was determined using Taro Yamane formula with 6.33 percent of margin of error. Data were collected both online and in person, with items measured using objective questions and a 5-point Likert scale. In addition, SmartPLS software was employed to conduct Partial Least Squares Structural Equation Modelling (PLS-SEM), which explored the relationships among financial skills, self-efficacy, financial literacy, and spending behaviour, including mediation effects. The study employed non-probability sampling, specifically purposive sampling.

Results

Respondents Profile

Table 1

Respondents Profile by Age Groups

Variables	Categories	18-27	Percent	28-44	Percent
Gender	Male	55	39.9	83	60.1
	Female	70	62.5	42	37.5
Qualification	Grade 11 & 12	13	54.2	11	45.8
	Bachelor	73	63.5	42	36.5
Income	Master & above	39	35.1	72	64.9
	Below 10,000	53	80.3	13	19.7
	10,000-20,000	19	70.4	8	29.6
	20,000-40,000	31	47	35	53
Current Occupation	Above 40,000	22	24.2	69	75.8
	Self-employed	14	35.9	25	64.1
Current Occupation	Employed	56	39.7	85	60.3
	Unemployed	55	78.6	15	21.4
Received Financial Education	Yes	60	45.1	73	54.9
	No	65	55.6	52	44.4

Table 1 presents the information of participants across two age groups (18–27 and 28–44) by selected demographic and socioeconomic profiles. Male respondents are more than female in the 28–44 age group (60.1%), whereas female respondents are high in the 18–27 age group (62.5%). With respect to educational qualification, respondents with Grade 11–12 and bachelor level education belongs to the younger age group, while respondents with master degree or above are more in the 28–44 age group (64.9%). Income distribution shows that lower income respondents (below NPR 10,000 and NPR 10,000–20,000) are mostly found in the 18–27 age category, whereas higher income earners, particularly those earning above NPR 40,000 belongs to 28–44 age group (75.8%). In terms of occupation, self-employed and employed individuals are more in older respondents, while unemployment is more in the younger age group. Finally, majority of the respondents aged 28–44 report had received financial education, whereas majority of those aged 18–27 have not received any formal financial education.

Reliability and Discriminat Test
Cronbach Alpha Test

The internal consistency of the measurement items was tested using Cronbach Alpha. Cronbach Alpha values above 0.70 indicate acceptable reliability, while values above 0.90 are considered excellent (Taber, 2017).

Table 2
Result of Reliability Test

Construct	No. of Items	Cronbach Alpha	Reliability Level
Financial Skills	7	0.926	Excellent
Self-Efficacy	7	0.937	Excellent
Financial Literacy	7	0.911	Excellent
Spending Behaviour	7	0.946	Excellent

The results in Table 2 indicate that each item used in the study was reliable and acceptable for further analysis. The strong reliability scores also confirm that the items within each construct were consistently assessing the same underlying concept, thereby enhancing the validity of the findings.

Discriminant Validity Assessment

Table 3
Fornell Larcker Criterion Results

Construct	Financial Literacy	Financial Skills	Self-efficacy	Spending Behavior
Financial Literacy	0.81			
Financial Skills	0.761	0.834		
Self-efficacy	0.731	0.747	0.854	
Spending Behavior	0.809	0.825	0.709	0.869

The examination of discriminant validity, as per the Fornell Larcker criterion, was conducted by comparing the square root of the Average Variance Extracted (AVE) for each construct with its correlations with all other constructs in Table 3. The diagonal elements, which represent the square roots of the AVE (in bold), were found to be higher than the inter construct correlations in their respective rows and columns. For instance, the square root of the AVE for Financial Skills (0.834) surpasses its correlations with Financial Literacy (0.761), Self-efficacy (0.747) and Spending Behavior (0.825). This findings confirm the establishment of discriminant validity.

HTMT Criterion

Table 4
HTMT Ratios

Construct Relationship	HTMT Value
Financial Skills ↔ Financial Literacy	0.825
Self-efficacy ↔ Financial Literacy	0.787
Self-efficacy ↔ Financial Skills	0.8
Spending Behavior ↔ Financial Literacy	0.872
Spending Behavior ↔ Financial Skills	0.882
Spending Behavior ↔ Self-efficacy	0.751

Table 4 substantiate the establishment of discriminant validity within the measurement model. All HTMT

values, are below the critical threshold of 0.90, confirming that the constructs, Financial Literacy, Financial Skills, Self-efficacy and Spending Behavior are empirically different (Hair et al., 2019). This validation underpins the strength of the measurement model, thereby supporting the integrity of subsequent structural model evaluations.

Table 5*Collinearity Statistics*

Model	Variables	Tolerance	VIF
1 (Constant)			
	Financial Skill	0.346	2.886
	Self Efficacy	0.385	2.596
	Financial Literacy	0.366	2.731

Dependent Variable: Speding Behavior

The table 5 depicts the value of VIF (variance inflation factor) is less than 5 which means there is no major concerns related to multicollinearity in the model (Montgomery et al., 2012).

Comparison of Financial Knowledge by Generation

Table 6*Responses to Financial Knowledge Questions by Generation*

Questions	Response Option	Gen Z ((18–27) %)	Millennials ((28–44) %)	Total %
Inflation & Savings: Imagine the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly same as, or less than today with money in this account?	Exactly the same as today	4.8	0	2.4
	Less than today (Correct)	77.6	82.4	80
	More than today	17.6	17.6	17.6
Interest Rates & Bonds: If the interest rate rise, what should happen to bond prices?	They will fall (Correct)	53.6	69.6	61.6
	They will rise	40	26.4	33.2
	They will stay the same	6.4	4	5.2
Highest Long-Term Return: Considering a long time period (for example 10 or 20 years), which asset described below normally gives the highest return?	Bonds	19.2	20	19.6
	Savings accounts	6.4	4	5.2
	Stocks (Correct)	74.4	76	75.2
Simple Interest: If you lent your friend Rs. 30,000 at 5% per annum interest and your friend repaid after 1 month, how much interest did they pay you?	Rs. 100	0.8	0.8	0.8
	Rs. 125 (Correct)	87.2	93.6	90.4
	Rs. 150	11.2	5.6	8.4
	Rs. 200	0.8	0	0.4

Diversification: When an investor spread his or her money among different assets, does the risk of losing a lots of money increase, decrease or stay the same?	Decreases (Correct)	81.6	84	82.8
	Increases	13.6	12.8	13.2
	Stays the same	4.8	3.2	4
High Inflation: High inflation means cost of living is increasing rapidly.	True (Correct)	96.8	99.2	98
	FALSE	3.2	0.8	2
Loan Duration: A 15-year loan requires higher monthly payments than a 30-year loan, but total interest is less.	True (Correct)	92	92	92
	FALSE	8	8	8

Both generations demonstrated strong financial literacy fundamentals in Table 6. When asked about inflation impact on savings, 77.6 percent of Gen Z and 82.4 percent of Millennials correctly recognized that money loses value over time. Most respondents also understood that stocks typically yield the highest long term returns (74.4% Gen Z, 76% Millennials) and that diversification reduces investment risk (81.6% Gen Z, 84% Millennials). Nearly all participants (98%) correctly identified high inflation as rapid cost of living increases and 92% understood that shorter loan terms mean higher monthly payments but lower total interest costs. Though, prominent knowledge gaps appeared. In relation to the question bond prices decline when interest rates rise 53.6 percent of Gen Z and 69.6 percent of Millennials correctly recognized that while 40 percent of Gen Z falsely believe the opposite. Again the question related to simple interest calculations majority of the respondents (87.2% Gen Z and 93.6% Millennials) answered correctly. This signify that even though with sound theoretical concepts with both the participants, they lack knowledge of simple practical applications related to interest calculations and techniques of bond market. Millennials consistently performed marginally better than Gen Z reflecting more real world financial experience.

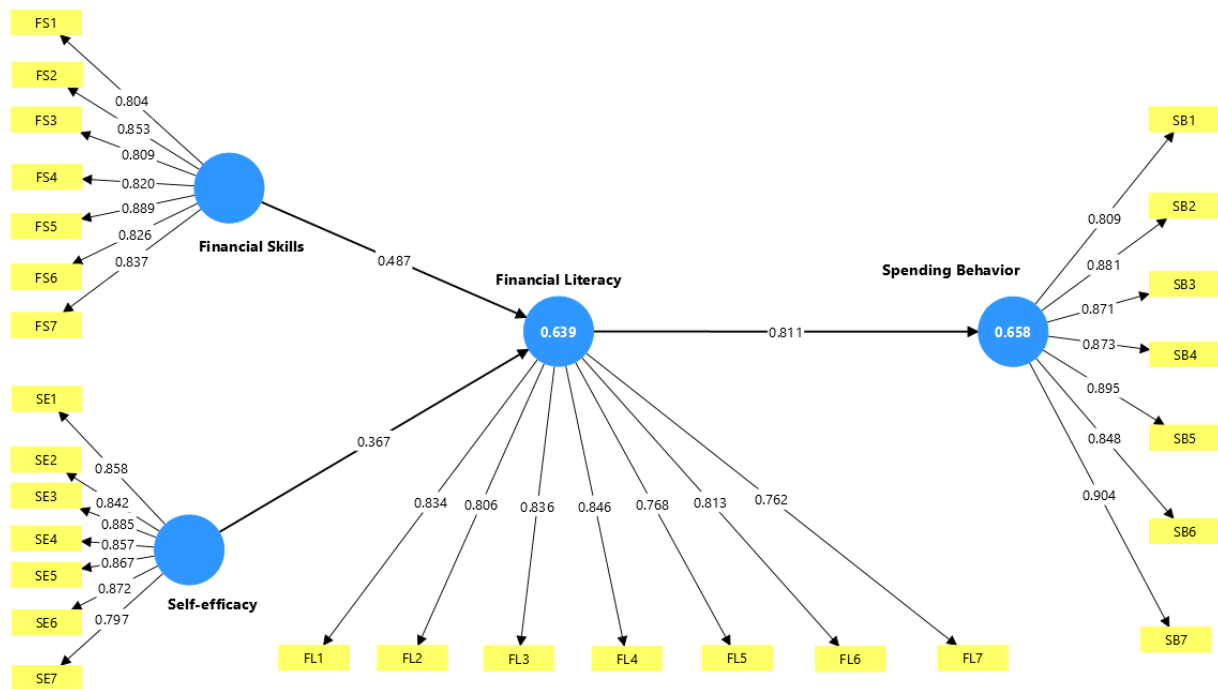
Comparison of the Relative Influence of the Independent Variables

Partial Least Squares Structural Equation Modelling (PLS-SEM) is employed to determine the most important factor impacting the financial literacy of Millennials and Generation Z in Pokhara. For the analysis Financial Skills (FS) and Self-Efficacy (SE) impact is examined on dependent variable, Spending Behavior (SB), where Financial Literacy (FL) taken as a mediating factor. The approach examined direct and indirect effects and also provided an understanding of how financial skills and self-efficacy contribute to financial literacy and consequently influence spending decisions.

Structural Model (Path Coefficients)

Figure 2 exhibits the outcomes of the structural model. It demonstrates that the Financial Skills (FS) and Self-efficacy (SE) has a significant contribution to Financial Literacy (FL) and subsequently exerts a substantial effect on Spending Behavior (SB). The path coefficient as of Financial Skills to Financial Literacy ($\beta = 0.487$) shows that an individual with the knowledge of capital management like saving, budgeting makes sound financial decisions and is more likely to have high levels of financial literacy. Moreover, Self-efficacy also shows positive impact on Financial Literacy ($\beta = 0.367$) suggesting that with confidence people can manage unpredicted and complex financial situations. These results highlight the essential roles of applied skills and self belief in promoting financial literacy as the primary mechanism for attaining sensible financial outcomes.

Figure 2
Structural Model (Path Coefficients)



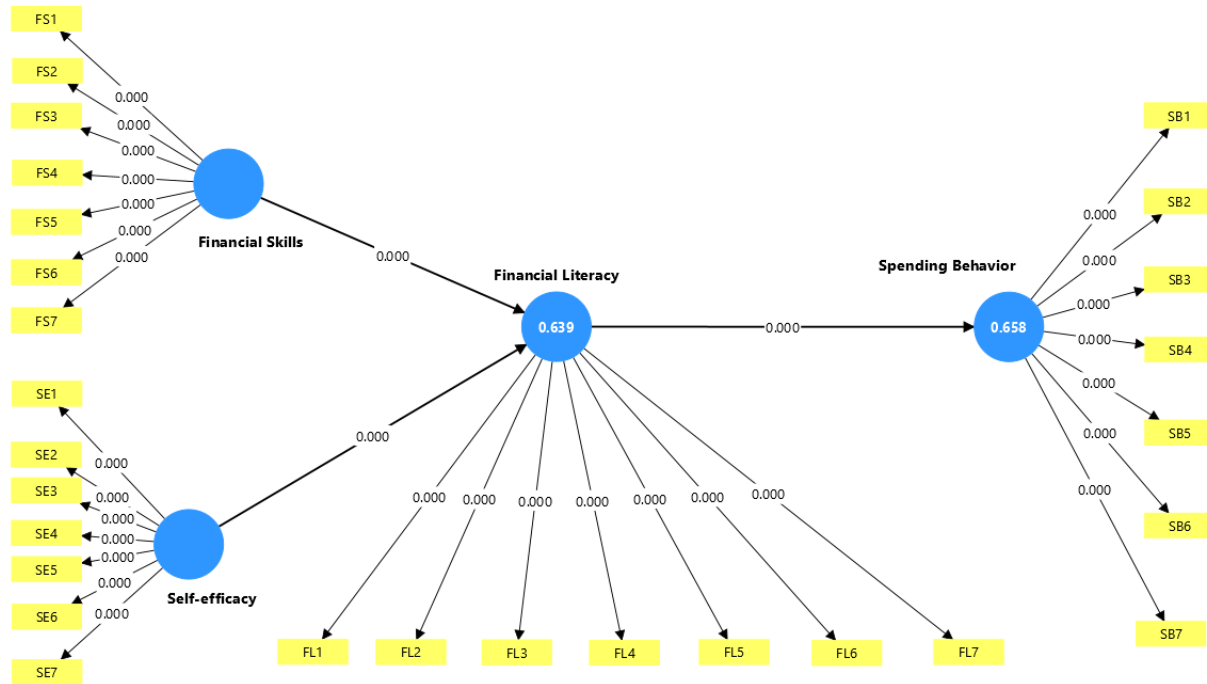
Spending Behavior is strongly affected by financial literacy ($\beta = 0.811$), acting as a critical mediator within the model in the Figure 2. This relationship specifies that respondents with higher financial literacy are more persuaded towards disciplined spending patterns, setting long term goals, tracking expenses and avoiding unwanted expenses. The variance values ($R^2 = 0.639$ for Financial Literacy and $R^2 = 0.658$ for Spending Behavior) explain that the model accounts for a considerable proportion of difference in both constructs, reinforcing the strength of the relationships. The results suggested even though skills and self-efficacy provide foundational framework, financial literacy is the key factor through which these capabilities, responsible financial behaviour is driven. as the primary Thus, financial literacy is the key element of disciplined spending among Millennials and Generation Z in Pokhara.

Bootstrapping Results (Significance Testing)

Figure 3 reveals the results of bootstrapping. The bootstrapping demonstrates whether all specified pathways are statistically significant ($p < 0.001$). The findings show that the hypothesized relationships within the model are not simply a result of chance. Specifically, FS was found significant to predict FL. Simultaneously, SE also shows a positive effect on FL. These results recommend that both financial competencies and confidence in the abilities are critical antecedents for the development of financial literacy in Millennials and Generation Z. Furthermore, Financial Literacy was determined as significant factor of Spending Behavior (SB), validating the proposed mediating role.

Figure 3

Bootstrapping Results (Significance Testing)



This results denotes that the attainment of financial knowledge is a vital since individuals are able to use foundational skills and personal confidence for disciplined spending behaviors. The high coefficients of determination further provide the model explanatory power. The results shows that 63.9 percent of the variance in Financial Literacy is explained by Financial Skills and Self-efficacy. Similar result was found for Spending Behavior with 65.8 percent of its variance being accounted for, primarily by Financial Literacy. The statistical significance of each pathway confirms the proposed mediation, suggesting Financial Literacy as the crucial mechanism linking skills and self-efficacy to positive spending outcomes.

Table 7

Direct, Indirect and Total Effects

Pathway	Direct Effect (β)	T Statistic	p-value	Indirect Effect (through FL)	Total Effect (β)	Significance
Financial Literacy → Spending Behaviour	0.811	–	0.000	–	0.811	Significant
Financial Skills → Financial Literacy	0.487	–	0.000	–	0.487	Significant
Self-Efficacy → Financial Literacy	0.367	–	0.000	–	0.367	Significant
FS → FL → SB (Mediated Path)	–	–	0.000	0.395	–	Significant
SE → FL → SB (Mediated Path)	–	–	0.000	0.298	–	Significant

The results in Table 7 presents that both Financial Skills (FS) and Self-efficacy (SE) significantly influence Spending Behaviour (SB), with Financial Literacy (FL) serving as a critical mediator. Specifically, FS shows

more considerable indirect effect on SB through FL ($\beta = 0.395$, $p < 0.001$) in comparison to the effect for SE ($\beta = 0.298$, $p < 0.001$). The variation suggested that the use of competencies for budgeting, saving and financial planning, possesses a greater ability to facilitate responsible spending behaviors when mediated by financial literacy. While SE plays an important role, for shaping behaviour sound financial knowledge is important since confidence alone is not significant.

The mediation effect of FL is essential to explain how FS and SE demonstrates behavioral outcomes. Furthermore, FL revealed a strong direct effect on SB ($\beta = 0.811$, $p < 0.001$) indicating it as a primary element for disciplined spending. Accordingly, FS emerged as the more influential factor among the two which provides financial literacy and also yields a larger mediated effect on SB. SE remaining a contributing factor, appears to operate primarily as a complementary variable that enhances individual literacy and indirectly influences behavior. The findings revealed that FL is the key mechanism through which both applied skills and personal self-belief produce responsible financial habits, with FS representing the dominant factor within this process.

Discussions

Financial Knowledge by Generation

The findings indicated that both Millennials and Gen Z in Pokhara have a relatively strong level of financial knowledge regarding many concepts, exhibiting particularly high accuracy in areas such as inflation, diversification, long-term returns and loan repayment. The findings supports with the previous study of Lusardi (2019) who observed that even though the people have knowledge in principles of inflation, the understanding of basics of diversification and investment is scientifically lower worldwide. The current study indicated an understanding gap in Gen Z and Millennials related to the inverse relationship between bond prices and interest rates. Which is similar to the results of Lusardi and Mitchell (2014), who said that particularly among youths the concept of investment in bonds and stocks is less. Again, Rathod (2021) also stated that financial literacy is multidimensional and is more practical. Skills such as interest calculations and making investment decisions are more difficult to than theoretical knowledge. The majority of financial knowledge related questions showed a constant trend of financial literacy among Millennials than Gen Z. The findings are consisted with the study of Pokharel and Maharjan (2024), who concluded that millennials had high proficiency in financial concepts and attitudes affecting their financial behaviour.

Financial Skills, Self-Efficacy and Financial Literacy by Generation

The results show that Millennials are continually outperforming Gen Z over several dimensions of financial capability such as financial skills, financial self-efficacy and financial literacy. This finding is consistent with the study of with Lusardi and Mitchell (2014) as they also found weakness in financial knowledge among youths. Rathod (2021) suggested that financial literacy is a learning process shaped by individual personal and social contexts. However, these findings are in contrast to past studies like Arofah (2019) found self-efficacy to have a strong direct influence on students financial behavior while the current study found self-efficacy to only have an indirect influence on spending behavior through financial literacy. The disparity may be attributed due to contextual differences, differences in respondents. For millennials and Gen Z in Nepal, practical knowledge plays a more central role. Similarly, the findings shows that Gen Z in Nepal are behind Millennials in advanced financial knowledge is in contrasts with the study of Khan et al. (2023), who concluded that there is a high fintech literacy among younger Malaysian. This variations might be due to differences in the financial ecosystems and usage of fintech in Malaysia and Nepal.

Spending Behaviour by Generation

The study found significant generational differences in spending behaviour between Millennials and Gen Z. These findings is supported by past study of Pokharel and Maharjan (2024) and (Wandhe, 2024), who

suggested that financial attitudes and ethical considerations have a substantial impact on financial behaviour. Also, the study supports that Millennials demonstrate stronger discipline in financial acts compared to Gen Z. Likewise, Sereetrakul et al. (2013) present differences in saving and spending attitudes, emphasizing the role of demographics and psychosocial factors in balancing consumption and financial control. Few similarities were also observed between Millennials and Gen Z towards affordability prior to purchasing. This finding aligns with Xiao et al. (2014), who infers that both subjective and objective financial knowledge reduce behaviours such as overspending or late payments. The study findings differ from Purwani et al. (2025), who concluded that Gen Z, usually repeat borrowing through peer to peer lending, representing a consumption oriented and risk tolerant personality.

Structural Model: Relationships between Financial Skills, Self-Efficacy, Financial Literacy and Spending Behaviour

Structural equation modeling (SEM) was used to assess the relationships among financial skills, self-efficacy, financial literacy and spending behavior. The results show that financial skills (FS) and self-efficacy (SE) had a significant effect on financial literacy (FL). Financial skills had a strong positive influence on financial literacy ($\beta=0.487, p<0.001$), while self-efficacy also impacted significantly ($\beta=0.367, p<0.001$). While, financial literacy was found to have a powerful impact on spending behavior (SB) ($\beta=0.811, p<0.001$). These findings indicate that financial literacy is a medium through which skills and confidence impact financial outcomes. For indirect effects, financial skills had a stronger impact on spending behavior through the financial literacy ($\beta=0.395$) compared to self-efficacy ($\beta=0.298$). This proposes that financial competencies (investment decisions and resource management) are more impactful for responsible spending than only possessing confidence. Self-efficacy effect was fully mediated by financial literacy entailing that confidence contributes indirectly by improving financial knowledge which then brings improved behavior. The findings are in contrast with previous studies of Arofah (2019), who suggested that self-efficacy directly affects financial behaviour of students. The results of the study align with Fernandes et al. (2014) and Ilyas et al. (2022), who revealed a strong association between financial literacy and disciplined behaviors. Therefore, the study model endorses that financial skills are the most significant factor influencing financial literacy and is an essential mediator which explains both financial skills and self-efficacy and develop disciplined spending behavior. The study contributes to the present literature by covering established knowledge such as Human Capital Theory in the context of developing nations. Most of the study are based on developed countries, findings from Nepal provide valuable empirical evidence to the developing nations. The study delivers actionable understandings to policy making bodies, educational institutions and banking and financial institutions. Overall, the study works as a foundation for connecting the gap between financial knowledge and real world financial behavior in Nepal, finally contributing to wider goals of economic empowerment and financial inclusion.

Conclusion

The main objective of this study was to analyze generational differences in financial knowledge, financial skills, self-efficacy, financial literacy and spending behaviour, as well as to evaluate the mediating role of financial literacy in shaping disciplined financial behavior. The findings showed that Millennials (aged 28-44) had better performance in all the constructs than Gen Z (aged 18-27). Both the groups showed an understanding of foundational financial concepts like inflation, diversification and saving. Notable deficiencies were observed in the application of concepts in bond pricing and simple interest calculations. The results of the structural model demonstrate a deeper understanding of these differences. Financial Skills was found to be the most significant direct variable of spending behaviour, followed by financial literacy. As a key mediator financial literacy affects the pathway from both financial skills and self-efficacy to spending patterns. Self-efficacy was

not a significant direct predictor of controlled spending, had an indirect effect through its relationship with financial literacy. The current study expands the available literature on generational financial behaviour by explaining the complicated relationship of knowledge, skills and self-beliefs in an environment of Nepal. The findings hold relevant implications for future researchers, policymakers and financial institutions. Educational institutions for Generation Z may focus on advanced literacy, investment expertise and sophisticated decision making in complex financial situations. Meanwhile, Millennials might benefit from enduring guidance in accepting new financial technologies. Future research may build on these findings by conducting longitudinal and cross cultural studies to ensure that financial literacy interventions remain pertinent in rapidly changing economic and technological settings.

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