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Financial Literacy, Behavioral Biases and Stock Investment Decisions among College Students

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ABSTRACT

This study examines the influence of financial literacy and behavioral biases on stock investment decisions among Nepalese college students. It used a quantitative research approach, focusing on students from four major universities in Bagmati Province, with a total population of 268,838. It distributed 200 questionnaires by utilizing purposive sampling techniques to the university level who are currently studying. However, only 117 responses were utilized after screening incomplete and unnecessary responses. Questionnaires were developed using 5-point Likert type, closed end, structured questionnaires. This study employed descriptive statistics, correlation analysis, and multiple regression. The result shows that financial literacy, prospects biases and heuristic biases play a significant positive contribution to investment decisions. Among them, financial literacy plays the most key role in guiding rational investment decisions. However, investment decisions are positively impacted by herding behavior, but coefficient is insignificant. Hence, this study found that financial literacy and behavioral biases have significant positive contributions on irrational investment decisions. Finally, this study concluded that behavioral biases lead to investment mistakes, so the course of behavioral finance needs to be incorporated into financial education programs. Such programs should aim to strengthen students' decision-making abilities through practical tools like stock market simulations and bias-awareness training. Overall, the study offers useful information for educators and policymakers to better support young investors and encourages further investigation into cultural and long-term behavioral factors.

Keywords: behavioral biases, financial literacy, Herding behavior, heuristic factors, investment decision, Nepalese stock market, prospect theory

Introduction

An investment decision refers to the strategic allocation of financial resources, such as in general commodities or stocks, with the objective of generating future returns seeking profit by individuals or institutional investors (Afriani & Halmawati, 2019; Aristiwati & Hidayatullah, 2021). Similarly, the process of deciding which assets to buy or sell to achieve a particular financial goal is known as an investment decision (Dash, 2010). In Nepal, stock market participation remains limited, with only about 4.8% of the population actively engaged in trading, as indicated by the number of demat accounts (NRB,

2022). College students', despite showing growing interest in investments, often hesitate due to fear and lack of knowledge (Kharel et al., 2024; Thapa & Nepal, 2015). However, A few things, like how well someone understands finance, how they view risk, and certain habits or biases, all play a role in how they make investment decisions (Ashfaq et al., 2023; Sapkota, 2022; Pant et al., 2022; Pokharel, 2020; Dat, 2020; Sapkota & Bhandari, 2023; Sapkota & Bhandari, 2022). Behavioral biases such as heuristic, prospect and herding further complicate decision-making, leading to irrational decision (Sapkota, 2022). However, students often don't feel confident about investing because they haven't learned enough about finance or the markets (Pokharel, 2020; Arianti, 2018). So, the findings show that most Nepalese students want to invest but don't because they are scared and don't know enough about how it all works.

Financial literacy is understanding how money works and knowing the basics of managing finances. It's important because it influences how people make investment choices (Dat, 2020). In Nepal, about 58% of people have some financial knowledge, but only around 47% know enough to handle their money well (NRB, 2022). College students, particularly those from non-finance backgrounds, struggle with complex financial topics such as credit management and stock market operations (Thapa & Nepal, 2015). Only about 27% of people really understand digital financial tools well enough, which shows that digital financial literacy is quite low (Joshi & Rawat, 2024). Financial literacy plays an important role in helping people better evaluate risks, compare different investment choices, and make smarter decisions about their finances (Kumari & Ferdous, 2019; Wagland & Taylor, 2009). But, since financial education isn't really part of most school programs, students often don't know much about managing money (Kharel et al., 2024). So, the findings show that most Nepalese students don't know enough about money to make good financial decisions, and schools aren't really teaching them either.

Behavioral biases like overconfidence, following the crowd, and fearing losses can really impact how people make investment decisions. These biases often get in the way of making clear, rational decisions (Hoffmann et al., 2010; Sapkota & Bhandari, 2023; Sapkota & Bhandari, 2022). These biases are prevalent among college students, who often exhibit herd behavior by following peers or market trends without proper analysis (Sapkota, 2022; Pant et al., 2022). Overconfident students believe they can predict market movements better than they actually can, which drives them to trade frequently and select poor investments that often underperform (Pokharel, 2020). Whereas loss aversion compounds this problem because students refuse to sell declining stocks, preferring to wait indefinitely rather than accept the psychological pain of realizing losses (Barberis & Thaler, 2003). Likewise, mental shortcuts like anchoring bias make students fixate on initial price points, while availability bias causes them to overweight recent dramatic market events when making decisions (Sapkota, 2022). When these ingrained psychological tendencies combine with students' generally weak understanding of financial fundamentals, the result is consistently poor investment decision-making across student populations (Arianti, 2018). So, the findings show that students keep messing up their investments because they trust their feelings too much and don't really know what they're doing.

People with strong financial knowledge can spot and fight against their own mental biases, which helps them make smarter investment decisions (Pompian, 2012). In Nepal though, most people lack this financial knowledge, so these mental biases take over their decision-making and expose them to bigger market risks (Kharel et al., 2024). Studies show that overconfidence and following the crowd hurt students' investment decisions, usually creating poor results (Sapkota, 2022; Pokharel, 2020; Sapkota, 2023; Sapkota & Chalise, 2023). Whereas, better financial education can actually reduce these biases by teaching students how to analyze investments properly and understand risks more clearly (Lusardi & Mitchell, 2014). This means that adding behavioral finance concepts to financial education programs will help students develop better judgment and make more thoughtful investment decisions (Barberis & Thaler, 2003). So, teaching people about money and how their brains work seems like the best way to stop them from making expensive mistakes.

Even though a lot has been studied about financial knowledge and how biases affect choices, there's still not enough understanding of how these two things together influence how college students in Nepal make investment decisions (Kharel et al., 2024; Thapa & Nepal, 2015). Previous studies have focused on general investors but lack specific insights into student investors, who face unique psychological and educational challenges (Sapkota, 2022; Sapkota, 2023; Sapkota & Chalise, 2023; Pant et al., 2022). However, there isn't much concrete research on how behavioral biases and financial knowledge work together to affect whether Nepalese students get involved in the stock market (Pokharel, 2020; Arianti,

2018). This study looks at how financial knowledge, common mental shortcuts, and decisions about investments all connect to college students. So, it tries to provide useful information for policymakers and educators to improve financial education and mitigate cognitive biases in investment behavior.

However, this study analyzes the relation between financial literacy, behavioral biases, and stock investment decisions among college students, with particular focus on understanding students' limited engagement in stock markets. The study specifically aims to assess current levels of financial literacy and behavioral biases; investigate how these biases relate to investment decisions; and analyze their influence on decision-making processes.

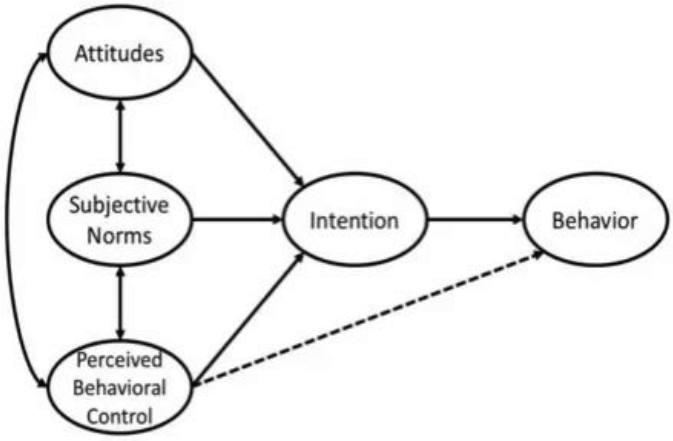
This study is divided into five main chapters. The introduction gives some background about the study, explains what the problem is, states what the study aims to do, and outlines how it's organized. Similarly, the second chapter includes literature review and theoretical framework which is subcategories as key theories, previous studies with conceptual framework and hypothesis regarding the relation between different variables like dependent and independent variable. Likewise, the third chapter contains research methods including research design, population and sample, data collection method, regression model, technique of data analysis. While the fourth chapter includes findings and discussion. Finally, the fifth chapter mentions the conclusion and implications.

Literature Review

The Theory of Planned Behavior (TPB) suggests that when people decide to invest, their decisions are affected by three main things: how they feel about investing personally, the social pressure they feel from others to invest, and how confident they are that they can invest and have the resources to do so (Ajzen, 1991; 2005). These factors together shape whether someone plans to invest, which then often shows up in their real investment decision (Sansom, 2021). In behavioral finance, TPB helps explain why even financially literate investors may deviate from rational decisions due to emotional biases or peer influence (Ajzen, 2005). The framework points out that when we make investment decisions, it's not just about facts and logic. Our decisions are also influenced by the situation we're in and our mental state (Sansom, 2021). The Theory of Planned Behavior Model (Ajzen, 2005), by Accelerating Systematic Change Network is presented into Figure 1.

Figure 1

Theory of Planned Behavior Model



Heuristic Theory states that investors rely on mental shortcuts—rather than exhaustive analysis—to simplify complex financial decisions, though these often introduce systematic biases (Silwal & Bajracharya, 2021; Pokharel, 2020). Heuristic include: (1) representativeness, where similarity is mistaken for probability; (2) gambler's fallacy, thinking that what happened before can affect what happens next, even when the events are actually unrelated (Warikoo, 2024); (3) anchoring, where decisions fixate on initial reference points; (4) overconfidence, an inflated self-assessment of knowledge; and (5) availability bias, prioritizing easily recalled information (Silwal & Bajracharya, 2021; Warikoo,

2024). While heuristics expedite decision-making, they frequently distort risk perception and lead to suboptimal investments (Sapkota, 2020). People often make bad decision because they trust their instincts too much and biases like thinking they know more than they do or assuming things look a certain way can cause investors to skip careful analysis and go with what feels right (Kahneman & Tversky, 1974). The finding shows that these mental shortcuts might save time, but they trick people into thinking they're smarter than they are and lead to bad investment decisions.

Prospect Theory states that investors evaluate potential outcomes relative to a certain starting point, showing loss aversion (losses are more distressing than comparable benefits) and risk-seeking behavior in loss domains (Kahneman & Tversky, 1979). Prospect includes: (1) mental accounting - segregating investments into separate mental categories rather than evaluating holistically (Thaler, 1985); (2) loss aversion - the ability to strongly value preventing losses over achieving gains (Kahneman & Tversky, 1979); and (3) regret aversion - avoiding actions that may lead to regret, even if rationally justified (Loomes & Sugden, 1982). These mental patterns consistently pull people away from making logical economic decisions (Barberis, 2013). When investors fear losses more than they value gains, they misjudge risks and make poor portfolio decisions (Kahneman & Tversky, 1979). This finding shows people's brains are wired to hate losing money so much that they end up making weird investment decisions that don't make financial sense.

Herding Theory shows how investors copy what other people do with their money instead of doing their own research, which often creates market problems (Banerjee, 1992; Bikhchandani et al., 1992). This happens in three main ways: first, people ignore what they actually know and just follow the crowd because everyone else seems to be doing it (Bikhchandani et al., 1998); second, finance professionals follow what their peers do because making different choices might hurt their reputation and career if things go wrong (Scharfstein & Stein, 1990); and third, when everyone gets too excited or too scared at the same time, it creates market bubbles that eventually burst (Shiller, 2000). This behavior goes against logical thinking because people care more about what others are doing than studying whether investments make sense (Devenow & Welch, 1996). When investors keep copying each other like this, markets swing wildly up and down based on crowd behavior rather than what companies are worth (Banerjee, 1992). This finding shows that, when everyone just copies everyone else, markets stop making sense and become more about following the crowd than actual value.

Financial literacy affects how people make investment decisions, with many studies showing this connection (Wahyuni et al., 2022; Dat, 2020; Saputro & Lestari, 2019). However, some studies suggest that simply understanding financial concepts doesn't automatically translate into better financial behavior (Novianggle & Assandimitra, 2019). Other findings shows that financial literacy can improve investment decisions, particularly when combined with practical money management skills (Dat, 2020; Nugraha et al.). Yet Arianti (2018) discovered that financial literacy has less direct influence compared to actual financial behavior patterns and income levels. These conflicting results suggest that while financial knowledge does help investment decisions, how well it works depends on factors like education background and previous financial experience.

When investors copy what everyone else is doing instead of thinking for themselves, they usually end up making bad investment decisions (Novianggie & Asandimitra, 2019; Pokharel, 2020; Sapkota, 2022). Studies from Nepal shows that following the crowd affects which stocks people buy and how much they trade, but experts still argue about whether this actually affect investment returns (Pokharel, 2020; Gyawali & Neupane, 2021). Dhungana et al. (2022) found that people who follow the herd make much worse financial decisions, which means social pressure often beats out careful financial thinking. These studies reveal that copying other investors creates more market chaos and pushes people to abandon their own judgment in favor of going with the crowd.

Herding biases like overconfidence, anchoring, and representativeness often messes up how investors make decisions (Lambert et al., 2012; Kartini & Nahda, 2021; Gyawali & Neupane, 2021). Some studies say these mental tricks don't really affect investment results that much (Pokharel, 2020), but other studies show they have a big impact, especially overconfidence and availability bias (Kartini & Nahda, 2021; Dhungana et al., 2022). These quick-thinking patterns make investors depend on wrong ideas about how markets work instead of doing proper research, which leads to poor financial decisions.

Prospect theory elements like loss aversion, regret aversion, and mental accounting shape how people invest their money (Said et al., 2020; Santi et al., 2019; Silwal & Bajracharya, 2021). Loss

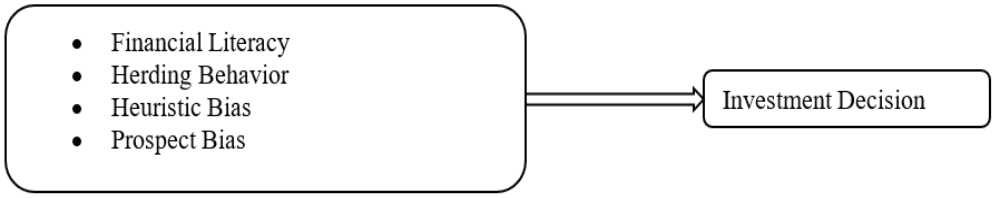
aversion and mental accounting matter most in decision-making because they change how people see risk (Said et al., 2020; Santi et al., 2019), while regret aversion shows mixed results in different studies (Said et al., 2020; Pokharel, 2020). Silwal and Bajracharya (2021) discovered that these psychological factors hurt investment performance because emotions take over logical thinking. These studies show that people's fear of losing money has too much control over their investment decisions.

Financial literacy and behavioral biases work together in complicated ways when people make investment decisions. Even though understanding finances helps people choose better investments (Wahyuni et al., 2022; Dat, 2020), psychological factors like following the crowd, mental shortcuts, and fear of losses often make people act illogically (Novianggie & Asandimitra, 2019; Pokharel, 2020; Sapkota, 2022). Notably, financial education can mitigate some biases (Ashfaq et al., 2023), yet their persistence across markets (Gyawali & Neupane, 2021; Dhungana et al., 2022) emphasizes how important it is to focus on specific solutions. So, understanding how people think and feel about money is key. Including behavioral finance ideas in financial education can help people make better, more thoughtful investment choices and stay on track.

The developed hypotheses and conceptual framework **(Figure 2)** are grounded in extensive empirical evidence from previous studies. The study shows that students who understand financial concepts tend to make smarter investment decisions **(H_1)**. When people know more about money, risk, and how different options work, they're better at deciding where to put their money (Lamichhane & Simkhada, 2024; Khurshid et al., 2023; Ashfaq et al., 2023; Oppong et al., 2023; Raut, 2020; Dat, 2020; Thapa & Nepal, 2015). Conversely, behavioral biases, including herding **(H_2)**, heuristic **(H_3)**, and prospect **(H_4)** biases are consistently shown to distort investment decisions through irrational behavior's such as following trends (Pokharel, 2020; Sapkota, 2022), overconfidence (Gyawali & Neupane, 2021; Kartini & Nahda, 2021), and loss aversion (Said et al., 2020; Silwal & Bajracharya, 2021).

Figure 2

Conceptual framework of the Study



The conceptual framework **(Figure 2)** shows the relation between key psychological and financial factors influencing stock investment decisions among college students. It identifies financial literacy, herding behavior, heuristic bias, and prospect bias as the primary independent variables. These elements are drawn from previous empirical studies that emphasize their significance in shaping investment behavior. Investment decisions are observed as the dependent variable, representing students' actual or intended behavior in stock markets. This framework shows how both behavioral biases and what students know about finance come together to shape how they invest. It takes a complete look at what influences student investors.

Research Methodology

This study adopted a quantitative research approach to examine how financial literacy and behavioral biases affect investment decisions among Nepalese college students. The study focused on four major universities in Bagmati Province (Tribhuwan, Kathmandu, Pokhara, and Purbanchal), which together cover the main educational institutions in this area. The total number of populations of the study is the total number of students who are currently studying on campus or college level in Bagmati Province is 268,838 (UGC EMIS Report, 2021/22). However, only 200 students are selected as a sample because previous studies have signified that these numbers may provide sufficient result for analysis (Sapkota, 2022; Pokharel, 2020; Silwal & Bajracharya, 2021). Hence, the study was conducted with a sample size of 200 participants, selected through purposive sampling. The questionnaires were handed out by visiting colleges in person, like during class breaks or in spots where students usually hang out. This face-to-face distribution method ensured better response quality and allowed for immediate clarification of any queries. After thorough data screening and validation processes, 117 complete and usable responses were

obtained, which aligns with similar studies conducted in developing market contexts (Thapa & Nepal, 2015; Kharel et al., 2024). Among them, only 149 responses were collected from the respondents. However, final usable responses after screening the incomplete questionnaire are 117 representing 58.50 percent response rate.

The questionnaire covered six main areas: background information like age, gender, education, and income; financial literacy testing using 4 questions based on OECD/INFE standards; herding behavior measurement through 4 questions from Pokharel (2020); mental shortcuts assessment using 4 questions about anchoring and overconfidence from Silwal & Bajracharya (2021); prospect theory evaluation with 3 questions about loss aversion and mental accounting from Said et al. (2020); and investment decision assessment using 6 questions. All behavioral and decision variables were analyzed using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The questionnaire is carefully tested, including review by finance professors from the participating college and a pilot test with 14 students. The reliability checks show that all parts of the questionnaire are consistent, with Cronbach's alpha values above 0.7, as shown in Table 1.

Table 1

Coefficient of Cronbach's Alpha

Variables	Items/Statements	Cronbach's Alpha
Financial Literacy (FIL)	4	.809
Herding Behavior (HEB)	4	.745
Heuristic Bias (HUB)	4	.777
Prospect Bias (PRB)	3	.798
Investment Decision (IND)	6	.851

Note: Field Survey, 2025

Construct validity was ensured through various approaches. Content validity was established through extensive literature review and expert evaluation by finance professor who assessed the relevance and comprehensiveness of measurement items. The questionnaire items were adapted from established scales with proven validity in previous studies (Pokharel, 2020; Silwal & Bajracharya, 2021; Said et al., 2020). Convergent validity was shown by strong, meaningful relationship between related ideas (Table 3). Discriminant validity was backed up by clear differences in the factors and VIF numbers below 2.0, which means there aren't any problems with variables being too similar (Table 6).

The analysis process consisted of several stages: first, descriptive statistics were calculated to establish baseline patterns in the data; second, correlation analysis using Pearson's correlation coefficient examined relationships between variables; and finally, multiple linear regression analysis tested the predictive model shown below:

$$IND = \beta_0 + \beta_1 FIL + \beta_2 HEB + \beta_3 HUB + \beta_4 PRB + e$$

Where IND = Investment Decisions, FIL = Financial Literacy, HEB = Herding Behavior Factor, HUB = Heuristic Bias, and PRB = Prospect Bias

All statistical analyses were analyzed with SPSS (v23), following careful data cleaning in MS Excel. Result with a p-value of less than 0.05 was statistically meaningful. This approach provided a solid way to explore how psychological factors and financial understanding influence student investment decisions. It combined thorough, reliable measurement tools, and suitable analytical techniques to ensure the findings were both credible and meaningful.

Results and Discussion

This chapter analyzes survey data from 117 respondents to examine the variables. It describes respondent characteristics before investigating relation between independent and dependent variables through regression analysis. The findings clearly show what needs to be addressed to meet the study's objective and give a detailed explanation of the data we collected.

Table 2

Descriptive Statistics of the Study Variables

Variables	Min.	Max.	Mean	Std. Deviation
FIL	1.000	5.000	3.656	0.908
HEB	1.250	4.250	2.842	0.724
HUB	1.000	5.000	2.878	0.824
PRB	1.000	5.000	2.928	0.787
IND	1.000	5.000	3.246	0.805

Note: Field Survey, 2025

Table 2 shows the descriptive statistics for the study's key variables, measured on a 5-point Likert scale. Financial Literacy (FIL) showed the highest mean score (Mean=3.656, Std. Dev=0.908), indicating relatively strong self-reported financial knowledge among respondents. Herding behavior (HEB) demonstrated the lowest meaning (Mean=2.842, Std. Dev=0.724), suggesting only moderate tendency toward crowd-following trends or behaviors. Both heuristic bias (HUB) (Mean=2.878, Std. Dev=0.824) and prospect bias (PRB) (Mean=2.928, Std. Dev=0.787) revealed neutral-to-moderate tendencies, with means closely grouped around the scale midpoint (3.0), indicating respondents neither strongly agreed nor disagreed with these behavioral bias statements. Investment decisions (IND) show a moderately positive meaning (Mean=3.246, Std. Dev=0.805). All variables showed adequate dispersion (Std. Deviation range: 0.724 – 0.908), with variance values confirming balanced distribution. The full-scale utilization reflects diverse respondent perspective across measurement items.

Table 3

Correlation Analysis among the Variables

	FIL	HEB	HUB	PRB
HEB	.098			
	(.291)			
HUB	.246**	.349**		
	(.008)	(.000)		
PRB	.258**	.442**	.292**	
	(.005)	(.000)	(.001)	
IND	.568**	.281**	.442**	.479**
	(.000)	(.002)	(.000)	(.000)

Note: Field Survey, 2025.

*** The correlation is statistically major at the 1% level, based on a two-tailed test.*

Parentheses are the p-value

Table 3 shows Pearson correlation coefficients examining relationships between financial literacy (FIL), herding behavior factors (HEB), heuristic bias (HUB), prospect bias (PRB), and investment decisions (IND). The analysis shows that people with good financial literacy tend to make smarter investment decisions, with a fairly strong relationship ($r=0.568$, $p<0.01$). There are also smaller but still meaningful relation between financial literacy and biases like heuristic bias ($r=0.246$, $p<0.01$) and prospect bias ($r=0.258$, $p<0.01$). Herding behavior factors correlate moderately with both heuristic bias ($r=0.349$, $p<0.01$) and prospect bias ($r=0.442$, $p<0.01$). Each of the three behavioral bias variables—HEB, HUB, and PRB—show clear positive correlations with investment decisions. The correlation coefficients range from 0.281 to 0.479, all statistically important at the $p<0.01$ level. The strongest inter-bias correlation exists between herding behavior and prospect bias ($r=0.442$, $p<0.01$). All the correlations mentioned are statistically major at the 0.01 level (two-tailed).

Table 4

Model Summary

Multiple R	0.705
R Square	0.497
Adjusted R Square	0.479
Standard Error	0.582

Note: Field Survey, 2025

Table 4 shows the regression model summary examining how well the combination of financial literacy (FIL), herding behavior factors (HEB), heuristic bias (HUB), and prospect bias (PRB) predicts investment decisions (IND). The model demonstrates a strong overall relationship with the outcome variable, as indicated by a Multiple R of 0.705, showing that approximately 70.5% of the variance in investment decisions can be explained by the linear combination of these predictors. The R Square value of 0.497 shows that the model accounts for 49.7% of the variance in investment decisions, while the Adjusted R Square (0.479) confirms the model's robustness after accounting for the number of predictors. The standard error of 0.582 reflects the average distance between the observed values and the regression line. The analysis covered all 117 observations in the dataset, and every one of the four predictor variables contributed greatly to the model. This was confirmed through both the ANOVA results (Table 5) and the coefficients tables (Table 6), indicating their meaningful impact.

Table 5

Analysis of Variance (ANOVA)

	df	**Sum of Squares**	**Mean Square**	**F**	**Sig. F**
Regression	4	37.424	9.356	27.658	0.000
Residual	112	37.887	0.338		
Total	116	75.311			

Note: Field Survey, 2025

Table 5 shows the Analysis of Variance (ANOVA) results analyzing the overall significance of the regression model predicting investment decisions (IND) from financial literacy (FIL), herding behavior factors (HEB), heuristic bias (HUB), and prospect bias (PRB). The model shows a strong ability to predict outcomes, with an important F-value of 27.658 and a p-value less than 0.001. This suggests that

the combined predictors reliably account for variation in investment decisions. The regression component accounts for 37.424 sum of squares (49.7% of total variance), while the residual sum of squares (37.887) represents unexplained variance. The mean square values (Regression = 9.356; Residual = 0.338) confirm the model's substantial explanatory power relative to error variance. These results validate the model's statistical significance and support proceeding with the interpretation of individual predictor coefficients.

Table 6

Regression Model of the Study

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	B			Tolerance	VIF
(Constant)	0.221	0.312	-	0.709	0.480		
FIL	0.383	0.063	0.432	6.107	0.000	0.898	1.114
HEB	0.031	0.086	0.028	0.357	0.722	0.748	1.337
HUB	0.238	0.072	0.243	3.287	0.001	0.822	1.217
PRB	0.291	0.079	0.285	3.674	0.000	0.748	1.337

Note: Field Survey, 2025

Table 6 shows the results of the multiple regression analysis analyzing the predictive power of financial literacy (FIL), herding behavior factors (HEB), heuristic bias (HUB), and prospect bias (PRB) on investment decisions (IND). The analysis shows that financial literacy ($\beta = 0.432$, $p < 0.001$) and prospect bias ($\beta = 0.285$, $p < 0.001$) are the most important predictors when it comes to investment decisions. heuristic bias ($\beta = 0.243$, $p = 0.001$) also play a major role but are a bit less influential. Herding behavior factors ($\beta = 0.028$, $p = 0.722$) didn't seem to have a meaningful impact. The constant term wasn't major ($p = 0.480$), which means the model basically goes through the origin. The standardized beta coefficients demonstrate that financial literacy has approximately 1.5 times greater influence on investment decisions than prospect bias, and nearly 1.8 times greater influence than heuristic bias. All the important factors are connected to better investment decisions, meaning that when these factors go up, people tend to make more positive and rational decisions. Based on the regression output demonstrated in Table 6, the following regression equation is developed:

$$IND = 0.221 + 0.383FIL + 0.031HEB + 0.238HUB + 0.291PRB + e$$

where,

IND implies Investment Decisions of College Students,

FIL implies Financial Literacy,

HEB implies Herding Behavior Factor,

HUB implies Heuristic Bias,

PRB implies Prospect Bias.

The regression findings both support and contradict aspects of the proposed hypotheses and existing literature. Hypothesis 1 (H_1) is clearly supported. Financial literacy (FIL) has the strongest positive impact on investment decisions ($\beta=0.432$, $p<0.001$). This matches findings from Lamichhane & Simkhada (2024) and Khurshid et al. (2023), who both emphasized how being financially knowledgeable helps people make better, more knowledgeable rational decisions. However, hypothesis 2 (H_2) was not supported because herding behavior factor (HEB) didn't have any real effect ($\beta=0.028$, $p=0.722$). This

goes against what Sapkota (2022) and Gyawali & Neupane (2021) found, as they reported negative impacts. This unexpected result is due to the increasing accessibility of financial information and digital platforms, allowing students to make more independent decisions rather than blindly following others. Getting more involved with financial literacy programs and online trading tools probably helped them rely less on their friends' opinions. As a result, the tendency to follow the crowd or herd behavior likely got weaker. Surprisingly, both Hypothesis 3 (H_3) and 4 (H_4) are contradicted, as heuristic bias (HUB: $\beta=0.243$, $p=0.001$) and prospect bias (PRB: $\beta=0.285$, $p<0.001$) demonstrated positive rather than negative influences, diverging from Khurshid et al. (2023) and Silwal & Bajracharya (2021). Sometimes, quick guesses or gut feelings, and even careful thinking about risks, can actually help make better decisions in certain situations. This shows that how we behave isn't always as simple as we think, and there are more factors at play than the usual ideas suggest. The different outcomes show how behavioral biases can affect investment decisions in different situations.

The positive influence of heuristic and prospect biases warrants further elaboration. Nepalese college students who haven't gone through much investing often lean on quick mental tricks, like trusting their gut or thinking back on what they've seen before, to steer clear of complicated financial stuff they don't really get. However, people who are new to investing often tend to play it safe because they're worried about losing money or just thinking about their investments in a cautious way. This can make their approach more conservative, but it also helps keep them out of risky situations. These biases might function as protective mechanisms, preventing students from making highly risky investments beyond their financial capacity. This aligns with the 'ecological rationality' perspective, which suggests that heuristics can be adaptive in specific environments where they match the decision-making context (Gigerenze & Gaissmaier, 2010). This suggest that thinking might actually protect students from making expensive mistakes when they don't know enough about investing yet.

Conclusion and Implication

This study shows that when Nepalese college students have a better understanding of finances, they make rational decision when it comes to investing. However, mental patterns like fear of losing money or thinking too highly of their own skills can still influence their decision during tough market conditions. The results show that students who understand finances better usually make smarter investment decisions, which means universities really need to improve their financial education programs. What's surprising is that Nepalese students don't seem to copy what other investors do, which is different from what happens in other countries. These results show that Nepal needs financial education programs that teach both basic money concepts and address the specific thinking patterns found in Nepal's developing market.

Universities and colleges should add hands-on financial training and lessons about behavioral biases to their classes so students can spot and fight against common thinking mistakes. Future studies should look at how cultural background and digital apps affect how young people invest their money. When Nepal improves both financial knowledge and understanding of psychological habits, it can help people make better investment decision and develop stronger financial markets.

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