

Emotional Intelligence and Financial Decision-Making Behavior: An Integrative Psychological Framework

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Savyata Bakhati¹

¹BBA Graduate
DAV College,
Tribhuvan University, Nepal
Email: savyatabakhati11@gmail.com

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Abstract

This paper aims to explore how financial literacy and emotional intelligence (EI) influence financial decision-making. As financial markets become more complex, individuals need to develop the necessary skills to make informed financial choices. This research examines the impact of financial self-efficacy, digital financial literacy, and financial risk tolerance on financial behavior, with EI playing a moderating role. This study employs a quantitative cross-sectional data employing descriptive and causal research design. A structured questionnaire was distributed to 205 university students who have been working to different organizations to assess their financial literacy, emotional intelligence, and financial behaviors. The study utilized a Likert scale to measure responses, and data were analyzed using SPSS and the mediation analysis was conducted by using Hayes Process Macro. The findings reveal a significant relationship between financial literacy and financial behavior. However, individuals with high emotional intelligence demonstrated better financial outcomes regardless of their financial knowledge. Those with high financial literacy but low EI often struggled with impulsive spending, while individuals with moderate financial literacy but high EI exhibited stronger financial discipline. This finding underscores the importance of integrating EI training into financial literacy as well as trainings programs to enhance financial decision-making. Policymakers and educators should incorporate EI development into financial literacy programs to enhance financial well-being.

Keywords – Decision-making, Digital financial literacy, Emotional intelligence, Financial behavior, Financial wellbeing

Paper – Research paper

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1. Introduction

Financial decision-making is a crucial component of daily life, including choices about saving, spending, investing, and risk management (Adhikari et al., 2025; Lusardi, 2019). These psychologically influenced actions have an impact on both individual well-being and greater economic effects. Emotional intelligence (EI) plays an important part in this decision-making process by functioning as a moderator between psychological variables and financial behaviors. Individuals with higher levels of emotional intelligence can better manage stress, control emotions, and handle difficult financial situations, resulting in more informed and reasonable financial decisions (Chaudhary et al., 2024; Mullins et al., 2020; Fernandes et al., 2024).

A range of psychological and cognitive aspects influence financial behavior, which includes good resource management such as budgeting, saving, and investing (Ghimire et al., 2025). Financial risk tolerance, or an individual's readiness to engage in dangerous financial activities, has a direct impact on decisions such as investing in volatile assets or entering high-risk financial projects (Grable, 2000). Self-efficacy, or one's ability to perform financial responsibilities, has been shown to promote proactive behaviors including debt management and financial planning (Adhikari et al., 2025; Lown, 2011). Adhikari et al. (2024) stated that the digital financial literacy is becoming increasingly important in today's digital age, as internet banking technologies demand users to be digitally educated in order to make informed decisions and enhance financial inclusion.

Despite the significance of these concepts, emotional and psychological variables continue to affect financial decisions (Goleman, 1995). Emotional intelligence has a substantial impact on how people perceive and respond to financial risks, with high EI helping to reduce cognitive biases including overconfidence and loss aversion (Fenton-O'Creevy et al., 2011; Fernandes et al., 2024). Individuals with high EI, for example, are more likely to resist impulsive spending, stick to long-term financial goals, and make financial decisions that benefit them (Fernandes et al., 2024). Generational differences highlight the importance of understanding these psychological processes. While older generation are known for their usage of digital tools and their struggles with school loans and housing, younger generation has grown up in a digitally-driven society, which has influenced their financial decisions. However, both generations have unique issues, such as impulsive spending and a lack of financial literacy, which can be addressed with the help of EI (Mullins et al., 2020).

This paper investigates the interwoven interactions among financial risk tolerance, financial self-efficacy, and digital financial literacy, with emotional intelligence acting as a moderator in changing these dynamics. Financial decision-making is complex, involving a number of psychological, cognitive, and behavioral factors. By evaluating these major constructs together, this study helps to provide a more complete knowledge of how people approach their financial life and how these methods might be improved. However, the interaction of these components is not purely additive. Emotional intelligence, which determines how people detect, comprehend, and regulate their emotions, has an important moderating function. It has been demonstrated that emotions have a substantial impact on financial decision-making, frequently leading to biases such as impulsivity, overconfidence, or excessive fear. High emotional intelligence can help offset these biases by allowing people to stay calm under pressure, regulate their emotional reactions, and make judgments that are consistent with their long-term goals. Emotional intelligence may assist individuals in making more reasonable, balanced, and informed decisions, especially when faced with uncertainty or stress, by moderating the association between financial risk tolerance, financial self-efficacy, and digital financial literacy.

This study looks at how emotional intelligence interacts with other characteristics to influence financial behavior. Individuals with high emotional intelligence, for example, may be able to use their financial literacy more successfully to manage risks and retain high levels of self-efficacy, even in turbulent financial circumstances. In contrast, when confronted with financial uncertainty, the opposite may struggle to control their emotions, resulting in less optimum financial decision-making while having high financial literacy or risk tolerance. By understanding these interactions, the study reveals important insights into how emotional intelligence might be used to improve financial outcomes. Finally, this study seeks to close the gap between psychological qualities and financial decision-making by emphasizing the moderating impact of emotional intelligence. Understanding how these variables' interaction allows us to build more effective solutions that promote better financial decision-making, improve financial literacy, and boost overall financial well-being.

2. Literature Review and Hypotheses Development

Theoretical Foundation

This study is grounded in the Theory of Planned Behavior (TPB) (Ajzen, 1991), a widely recognized framework for understanding human behavior, particularly in decision-making contexts. According to TPB, an individual's behavior is primarily determined by their behavioral intentions, which are influenced by three key factors: attitudes toward the behavior, subjective norms, and perceived behavioral control. These elements shape how individuals evaluate and respond to situations, such as financial decision-making. Specifically, attitudes reflect an individual's positive or negative evaluation of engaging in a particular behavior, subjective norms represent the perceived social pressures that may encourage or discourage the behavior, and perceived behavioral control relates to an individual's confidence in their ability to perform the behavior. In summary, the integration of the Theory of Planned Behavior with emotional intelligence provides a nuanced perspective on financial decision-making. By addressing the interplay between attitudes, subjective norms, perceived behavioral control, and emotional regulation, this framework offers valuable insights into how psychological factors contribute to financial behavior.

Variables Used in the Study

Financial Behavior

Financial behavior is crucial for achieving financial independence and security (Lusardi & Mitchell, 2014; Lusardi, 2019). Early adulthood financial practices like saving and investing lay the groundwork for future financial stability (Furnham, 2011). Key factors like financial risk tolerance, financial self-efficacy, and digital financial literacy significantly influence these behaviors and shape financial outcomes (Xiao et al., 2014).

Emotional Intelligence

Emotional intelligence (EI) is vital for managing financial stress and making informed decisions (Goleman, 1995). High EI enables individuals to regulate emotions during financial challenges and avoid impulsive behaviors, aligning decisions with long-term financial goals (Lopes et al., 2003). EI also supports financial self-efficacy, allowing for more confident and rational financial decision-making (Bandura, 1997).

Financial Risk Tolerance

Financial risk tolerance reflects an individual's willingness to take financial risks (Grable, 2000). FRT significantly influences how individuals evaluate financial alternatives and respond to risky economic situations. Individuals with high financial risk tolerance are generally more willing to invest in high-return but uncertain financial instruments, whereas risk-averse individuals prefer safer and more stable investment options (Chaudhary et al., 2024; Giri & Adhikari, 2023). Prior studies have shown that financial risk tolerance shapes investment behavior, portfolio diversification, savings patterns, and long-term financial planning decisions (Grable & Lytton, 1999). Moreover, behavioral finance scholars argue that psychological characteristics, emotions, and personality traits strongly influence an individual's level of risk tolerance (Kahneman & Tversky, 1979). In this framework, financial risk tolerance may directly affect financial decision-making behavior by determining the extent to which individuals engage in speculative, conservative, or rational financial choices.

Digital Financial Literacy

Digital financial literacy is essential in today's digital age, which empowers individuals to make informed decisions using fintech tools, improving financial outcomes (Lusardi & Mitchell, 2014). Both factors, along with financial self-efficacy, shape financial behavior and help manage risks in a complex financial landscape (Van Rooij et al., 2011). Individuals with higher digital financial literacy are generally more capable of using online banking, mobile payment systems, digital investments, and financial planning applications efficiently and securely. Research indicates that digital financial literacy positively influences financial inclusion, financial awareness, and responsible financial behavior, particularly in the modern digital economy (OECD, 2025). Furthermore, digitally literate individuals are more likely to evaluate financial risks critically and make rational financial decisions based on accurate digital information (Lusardi & Mitchell, 2014).

Financial Self-efficacy

Financial Self-Efficacy refers to an individual's confidence in their ability to successfully manage financial tasks, solve financial problems, and achieve financial goals. Within the proposed study framework, financial self-efficacy can be considered an independent variable because individuals with strong financial confidence

are more likely to engage in effective financial planning and decision-making behaviors. According to Social Cognitive Theory, self-efficacy significantly influences human motivation, persistence, and behavioral outcomes in challenging situations (Bandura, 1997). Empirical studies have shown that individuals with higher financial self-efficacy demonstrate better budgeting behavior, savings habits, debt management, and investment decisions (Farrell et al., 2016). Therefore, financial self-efficacy plays a vital psychological role in shaping rational, confident, and goal-oriented financial decision-making behavior.

Relationship between Variables

Financial Risk Tolerance and Financial Behavior

Financial risk tolerance refers to an individual's readiness to take on risk when making financial decisions, particularly those involving investments. People with a higher financial risk tolerance are more likely to pursue high-risk investment opportunities, whilst those with a lower tolerance may favor safer, more conservative options (Ainia & Lutfi, 2019; Giri & Adhikari, 2023; Irwin, 1993). This has a considerable impact on financial behavior by impacting decisions about savings, investments, and long-term financial goals. Individuals are more risk-taking, therefore their financial selections frequently involve increased diversification and participation in wealth-building investment techniques. Understanding how risk tolerance influences financial habits helps to explain how people approach financial management and decision-making.

H1: There is a significant relationship between financial risk tolerance and financial behavior.

Digital Financial Literacy and Financial Behavior

Digital financial literacy, defined as the capacity to successfully manage personal finances using digital means, is becoming increasingly important. Individuals who are financially literate understand how to use digital platforms and resources to analyze spending, make smart investment decisions, and efficiently manage their finances online (Adhikari et al., 2024; Kumar et al., 2023). Lusaradi (2019) individual with higher levels of digital financial literacy are better able to make educated and strategic financial decisions, which leads to more stable financial behavior. These behaviors include regular savings, educated spending, and smart investments, all of which help to improve financial well-being and prepare for future needs.

H2: There is a significant relationship between digital financial literacy and financial behavior.

Financial Self-efficacy and Financial Behavior

Financial self-efficacy is an individual's belief in their own competence to manage financial responsibilities and make wise financial decisions (Lown, 2011). This belief in one's financial ability is critical because people with higher self-efficacy tackle financial difficulties with more confidence and decisiveness, which frequently leads to better financial outcomes such as successful budgeting and saving (Prawitz et al., 2006).

H3: There is a significant relationship between financial self-efficacy and financial behavior.

Emotional Intelligence as a Moderating Variable

Emotional intelligence (EI), or the ability to sense, analyze, and regulate one's own and others' emotions, has a significant impact on financial behavior (Salovey & Mayer, 1990; Goleman, 1995). High EI enables people to make emotionally charged financial decisions, manage financial stress, and avoid impulsive financial behaviors like excessive spending. Individuals with high emotional intelligence tend to make more sensible financial decisions, particularly in situations that may otherwise result in fear or impulsive choices. On the basis of the discussion, hypotheses can be formed as:

H4: Emotional intelligence has a significant moderating role between financial risk tolerance and financial behavior.

H5: Emotional intelligence has a significant moderating role between financial self-efficacy and financial behavior.

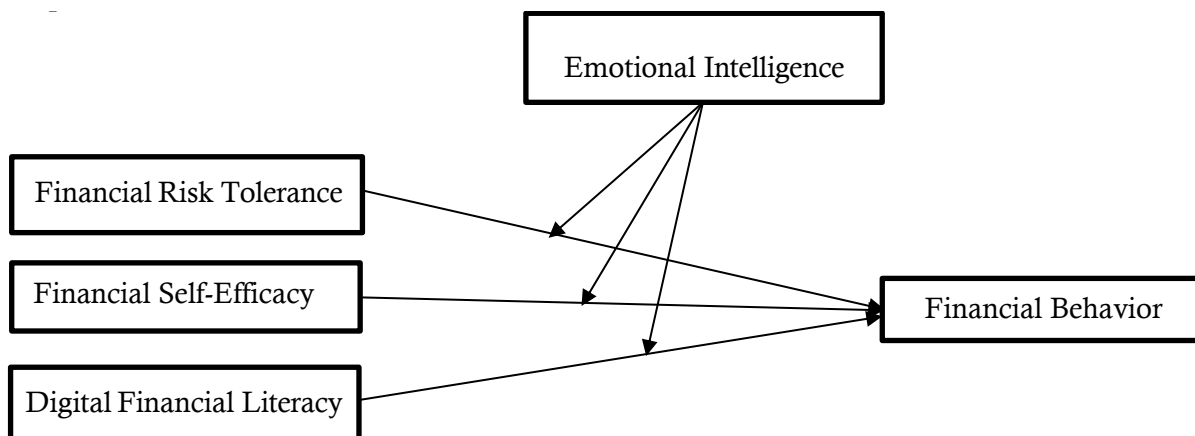
H6: Emotional intelligence has a significant moderating role between digital financial literacy and financial behavior.

Emotional Intelligence and Wellbeing of Financial Behavior

Financial behavior refers to the actions people do to manage their finances, such as saving, spending, investing, and budgeting. Several factors influence these behaviors, including risk tolerance, financial understanding, and emotional intelligence. Understanding financial behavior is critical for explaining how people manage financial risks and make decisions that impact their long-term financial stability (Xiao, 2008).

H7: Emotional intelligence significantly enhances the effect of financial risk tolerance, financial self-efficacy, and digital financial literacy on financial behavior.

Figure 1
Conceptual Framework



Note. Song et al. (2023)

3. Research Method

Research Design and Measurements

The study has used quantitative research using descriptive and causal research design. A cross-sectional survey data were collected through both physically and an online survey questionnaire. The data were collected by using purposive sampling technique through structured questionnaires. The study has covered the sample from the undergraduate and master students of Tribhuvan University in the Kathmandu Valley who were currently joined the organizations. 244 questionnaires were emailed and 30 questionnaires were distributed personally visiting to the respective respondents; however, only 205 questionnaires were completed and received in the usable form. The data were analyzed using descriptive, correlation and moderation analysis. Further, the variables were measured using a five-point Likert scale (1= strongly agree to 5= strongly disagree) for each statement. The method used to measure the internal consistency of variables, using Cronbach’s Alpha.

4. Results

Table 1
Respondents Profile

S. No.	Particulars		Frequency (N)	Percentage %
1.	Gender	Male	69	30.9
		Female	136	69.1
2.	Marital status	Single	139	79.4
		Married	35	20.0
		Divorced	1	0.6
3.	Age	20-30	144	82.3
		31-40	25	14.3
		41-50	3	1.7
		Above 50	3	1.7
4.	Employment sector	Academic	146	83.4
		Administrator	29	16.6
5.	Education level	+2	17	9.7
		Bachelor	120	68.6
		Master Degree	36	20.6
		PhD and above	2	1.1

Table 1 shows the demographic profile of the 205 respondents indicating that 69.1% (n = 136) were female, and 30.9% (n = 69) were male. Regarding marital status, the majority of respondents, 79.4% (n = 139), were single, followed by 20% (n = 35) who were married, and a very small percentage, 0.6% (n = 1), were divorced. In terms of age distribution, the largest group of respondents, 82.3% (n = 144), were aged between 20–30 years, followed by 14.3% (n = 25) in the 31–40 years range, while 1.7% (n = 3) each fell into the 41–50 years and above 50 years categories. Regarding profession, the majority of respondents, 83.4% (n = 146), identified as interned students while 16.6% (n = 29) were administrators. Education levels showed that 68.6% (n = 120) of respondents held a bachelor's degree, 20.6% (n = 36) had a master's degree, 9.7% (n = 17) had completed +2 level, and only 1.1% (n = 2) reported having a higher degree.

Table 2
Reliability analysis

Variables	Cronbach's Alpha	N of Items
Financial risk tolerance	0.815	5
Financial self-efficacy	0.830	5
Digital financial literacy	0.809	5
Emotional intelligence	0.806	5
Financial behavior	0.805	5

Table 3
Correlation Matrix

Variable	FRT	FSE	DFL	FB
Pearson Correlation (Sig. 2-tailed)	1			
FRT				
Pearson Correlation		1		
FSE	.875**			
Sig. (2-tailed)				
.000				
Pearson Correlation	.837**	.863**	1	
DFL				
Sig. (2-tailed)	.000	.000		
Pearson Correlation	.872**	.764**	.654**	1
FB				
Sig. (2-tailed)	.000	.000	.000	

Note. FRT= Financial Risk Tolerance, FSE= Financial Self-Efficacy, DFL=Digital Financial Literacy FB=Financial Behavior.

The correlation matrix reveals significant positive relationships between all the independent variables and financial behavior (FB). Financial Risk Tolerance (FRT) is strongly correlated with Financial Self-Efficacy (FSE),

Digital Financial Literacy (DFL), and FB, with correlations of 0.875, 0.837, and 0.872, respectively, all significant at the 0.001 level. Similarly, FSE shows strong correlations with both DFL (0.863) and FB (0.764), while DFL is moderately correlated with FB (0.654). These results suggest that higher levels of financial risk tolerance, self-efficacy, and digital financial literacy are associated with better financial behavior.

Table 4
Regression Model

Model	B	Std. Error	t	Sig.	Tolerance	VIF
(Constant)	.154	.445	.334	.000		
Financial Risk Tolerance	.453	.091	4.465	.001	.605	1.131
Financial Self-Efficacy	.325	.075	3.412	.001	.597	1.675
Digital Financial Literacy	.162	.080	2.293	.050	.208	3.970
Adjusted R-squared		0.705	R	0.858		
F		82.403	Sig.(F)	.000		

Table 4 shows model fit in which financial risk tolerance (FRT), financial self-efficacy (FSE), and digital financial literacy (DFL) all have a significant impact on financial behavior. FRT and FSE have a substantial statistical significance ($p < 0.001$). DFL is likewise positively associated, albeit with only marginal significance ($p = 0.050$). The collinearity data show no evidence of multicollinearity, as the tolerance values and VIFs are within acceptable bounds. The model explains 70.5% of the variance in financial behavior (Adjusted $R^2 = 0.705$) and has an excellent overall fit ($F = 82.403$, $p < 0.001$), demonstrating its robustness.

Table 5
Coefficient Table

	Coeff	se	t	P	LLCI	ULCI
Constant (Y)	.7532	.3104	2.4278	.0156	0.0156	0.1452
Financial Drivers(X)	.3671	.1294	2.8394	.0048	0.0048	0.1123
Emotional intelligence(W)	.2089	.1156	1.8063	.0424	0.0424	-0.0197
Interaction (X*W)	.1246	.0674	1.8471	.0562	0.0562	-0.0083

Table 5 shows the coefficient which presents the results of the moderation analysis, examining how financial drivers and emotional intelligence affect the dependent variable. The constant term (Y) is statistically significant with a value of 0.7532, indicating that when financial drivers and emotional intelligence are both zero, the dependent variable is 0.7532. Financial drivers (X) have a significant positive effect on the dependent variable, with a coefficient of 0.3671, suggesting that an increase in financial drivers leads to a higher dependent variable. Emotional intelligence (W) also shows a significant positive impact on the dependent variable with a coefficient of 0.2089. The interaction term between financial drivers and emotional intelligence (X * W) has a coefficient of 0.1246, with a p-value of 0.0562, which is just above the typical 0.05 significance threshold. This suggests that emotional intelligence may slightly moderate the effect of financial drivers on the dependent variable, with the confidence intervals indicating that the interaction effect could range from slightly negative to positive.

Hypothesis Testing

S.N.	Hypothesis	Result
H1	There is a significant relationship between financial risk tolerance and financial behavior.	Accepted
H2	There is a significant relationship between financial self-efficacy and financial behavior.	Accepted
H3	There is a significant relationship between digital financial literacy and financial behavior.	Accepted
H4	Emotional intelligence has a significant moderating role between financial risk tolerance and financial behavior.	Accepted
H5	Emotional intelligence has a significant moderating role between financial self-efficacy and financial behavior.	Accepted
H6	Emotional intelligence has a significant moderating role between digital financial literacy and financial-behavior.	Accepted
H7	Emotional intelligence significantly enhances the effect of financial risk tolerance, financial self-efficacy, and digital financial literacy on financial behavior.	Accepted

5. Discussion

The results of this study highlight the essential role of psychological factors in financial decision-making. Financial risk tolerance, financial self-efficacy, and digital financial literacy emerged as significant predictors of financial behavior, confirming findings from previous studies (Grable, 2000; Lusardi & Mitchell, 2014). Most respondents demonstrated cautious financial behavior, yet were highly confident in managing their finances and utilizing digital tools effectively, showing a positive shift in financial literacy. Emotional intelligence (EI) was found to be a crucial moderator in strengthening the relationship between financial risk tolerance, self-efficacy, and financial behavior. This finding aligns with earlier studies suggesting that EI helps individuals manage emotional triggers, such as stress or overconfidence, which can lead to impulsive financial decisions (Fenton-O'Creevy et al., 2011; Kidwell et al., 2008).

However, it was observed that EI did not have a direct effect on financial behavior, which contrasts with some previous research (Fernandes et al., 2024). This might indicate that while EI strengthens the influence of other psychological drivers, its direct role may depend on other factors, such as external financial pressures or socioeconomic status. Further research should explore additional variables to better understand these relationships.

6. Conclusion

This study examined the factors influencing financial behavior, focusing on Financial Risk Tolerance, Financial Self-Efficacy, Digital Financial Literacy, and the moderating role of Emotional Intelligence. Through analysis using SPSS, the findings highlighted significant positive correlations between financial behavior and these variables. The regression analysis showed that financial self-efficacy, digital financial literacy, and financial risk tolerance had substantial impacts on financial behavior. Emotional intelligence played a key role as a moderator but did not directly affect financial behavior. The study found generational differences in financial behavior, with younger participants relying heavily on digital financial tools, while Millennials exhibited higher levels of self-efficacy and risk tolerance. The results stress the importance of integrating digital and emotional competencies to enhance financial behavior, especially among young adults. Policymakers, educators, and financial institutions can leverage these insights to foster responsible and informed financial behaviors.

7. Implications

This study has important theoretical and practical implications. Theoretically, it enhances our understanding of the role of psychological drivers like financial risk tolerance, self-efficacy, and emotional intelligence in shaping financial behavior, particularly in emerging economies like Nepal. It also invites further research into the direct and indirect effects of emotional intelligence as a moderator in these relationships. Practically, the findings emphasize the need for policies and programs that improve financial literacy and emotional

intelligence. Financial institutions and policymakers should focus on initiatives that build digital financial skills and self-efficacy while promoting a balanced approach to risk-taking. Financial service providers should design user-friendly platforms that simplify budgeting, saving, and investing, thereby encouraging better financial practices. Additionally, training programs to enhance emotional intelligence could improve individuals' decision-making capabilities under financial stress. This research provides actionable insights for financial institutions to offer tailored financial solutions that foster long-term financial stability and well-being in the population.

Conflict of Interest

The author has no conflict of interest while preparing this article.

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