Assessing the Determinants of Financial Literacy among Youth in Koshi Province, Nepal

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Abstract

This study investigates the factors affecting financial literacy among youths in Koshi Province, Nepal. Quantitative cross-sectional survey design was used by collecting data from youths aged 18-40 years (n=144) using a structured questionnaire. Financial literacy was modeled as the dependent variable, while attitudes toward investing, actual investment behavior, risk tolerance, and preference for investment options specified as independent variables. Reliability analysis demonstrated strong internal consistency for most constructs (overall Cronbach's alpha = .905). Descriptive statistics revealed moderate level of financial literacy, though the higher mean scores were on the conceptual items as opposed to regular and diversified practice of investment. The Pearson correlation coefficients indicated strong positive relationships between attitudes towards investing (r = .647, p =.001), actual investment behavior (r =.519, p=.001), risk tolerance (r =.406, p=.001) and the investment options preferences (r =.240, p=.004) with the financial literacy. The multiple regression analysis showed that, the attitudes toward investing (beta =.524, p <.001) and actual investment behavior (beta =.257, p =.001) were significant predictors of financial literacy, whereas risk tolerance and investment preferences did not predict financial literacy with significant values. The results have emphasized the critical role of the cognitive and behavioral elements in financial literacy and the importance of practice-based financial education aimed at young population groups in Koshi Province.

Keywords: *financial literacy, youth investors, attitudes toward investing, investment behavior, risk tolerance,*

Introduction

Financial literacy is a well-established prerequisite to sound financial and investment judgment and a significant amount of evidence has been found that the higher the literacy level, the better the financial behavior, market involvement, and long-term economic welfare (Lusardi & Olivia , 2014). Financial literacy has become a key factor in determining individual economic welfare in an age of complicated financial instruments and growing pressure towards making independent financial decisions.

The Organization of Economic Co-operation and Development/International Network on Financial Education (OECD, 2023) International Survey of Adult Financial Literacy reported an average text score of only 60 out of 100 in 39 countries, showing that the global financial competency levels are generally low, limiting people to proper investment habits and putting them at risk when the economy becomes unsustainable. Young people exchange dependence on finance with independence in the formative years, during which investment patterns are solidified; financial literacy consists of cognitive (financial concepts) and affective (money management beliefs) and behavioral (saving and investing practices) aspects, which as a whole constitute the ability to navigate the markets (Makdissi et al., 2024).

Youth investment behaviors, attitudes, risk taking, and preferences are key factors for understanding financial literacy in areas of the world where there is no formal schooling available and there is great economic and market activity causing young people to interpret and act upon new financial opportunities. Nepal is a good example; although financial inclusiveness has improved (90% of adults have access to formal services), the national financial literacy level of 57.9% is still 61% below the international average, with large provincial differences across the country (Nepal Finance Inclusion Report, 2023).

Similarly, Nepal Stock Exchange (NEPSE) showed record growth in fiscal year 2024/25 whereby securities transactions have hit NPR 2.124 trillion which is an 189.23% growth compared to the previous year indicating increased investment opportunities (Nepal News, 2025). Nonetheless, this market growth has not come with proportional addition of youth financial literacy or informed inclusion. The poor financial literacy and information become the barriers to saving and making right financial choices among Nepalese investors (Subedi, 2023). In Koshi Province, it is estimated that approximately 897,000 young individuals are serviced through roughly 2,825 bank branch locations. However, this accelerated increase in financial infrastructure does not include any systemic effort to provide young people with education about personal finance; thus, establishing a considerable gap between potential users' access to products/services, and their capability to use them effectively. Despite relatively equal availability of digital platforms and services, youth continue to participate ineffectively in local markets (Sharma, 2025).

Objectives of the study

Individual investors show a lack of full knowledge in the basic investment principles, risk management techniques and portfolio diversification practices, which results in single-asset investment and inefficient wealth acquisition (Sharma, 2025). This study examines how youth investment attitudes, behaviors, risk tolerance, and preferences collectively impact financial literacy levels in Koshi Province, Nepal. Particularly, this paper aims to:

i. To access the financial literacy of the youth in Koshi Province, Nepal.

ii. To examine the multidimensional interconnections between financial literacy and the attitudes of the youths towards investing, actual investment behaviour, risk-taking level and preference of various types of investments in Koshi Province.

Hypothesis Formulation and Development

As per the objectives of the study the following hypothesis are formulated:

Attitudes towards investing and Financial Literacy

Theory of Planned Behavior (Ajzen, 1991) and Human Capital Theory (Becker, 1965) propose that the positive attitude towards learning, and more knowledge of the financial world improve the intention and ability of people to make informed decisions concerning investments. Empirical research indicates that attitudes to investment and involvement in financial markets are positively correlated with financial literacy, and better-informed persons have higher chances of engaging in investment and diversifying their portfolios (Van Rooij et al., 2011). In the Nepalese case, that financial literacy applies well in enhancing attitude to invest and perceived behavior control among stock market investors (Chhetri et al., 2024). After these theories and empirical findings, the hypothesis is as follows:

H1: There is a positive significant relationship between the attitudes towards investing and financial literacy.

Actual Investment Behavior and Financial Literacy

Human Capital Theory holds that financial knowledge is a kind of human capital that increases the financial decision-making expected returns over the life cycle (Becker, 1965). There is evidence that increased financial literacy translates to greater involvement in products related to the market, as well as more proactive investment behavior with respect to the youth (Bala & Jayanti, 2025). According to Sharma (Sharma, 2025), the value of personal savings, investment options knowledge, and financial knowledge accounted for a substantial proportion of difference in investment decisions among investors in Koshi Province in Nepal. Based on these arguments, the hypothesis is as given:

H2: There is a positive significant relationship between Actual Investment behaviour and financial literacy.

Risk tolerance and Financial Literacy

Theory of Planned Behavior extensions indicate that financial literacy can promote perceived behavioral control and readiness to undertake investment risk by enhancing confidence and minimizing cognitive biases (She et al., 2024). Empirical studies show that financially literate people are risk takers with greater risk and risk-reward trade-offs in investing (Awais et al., 2016)**.** The studies of Nepalese that have included TPB also demonstrate that a financial literacy level has a strong impact on attitude and perceived behavioral control, which consequently leads to more confident investment decisions (Chhetri et al., 2024). In this connection, the hypothesis is as follows:

H3: There is a positive significant relationship between Risk Tolerance and Financial Literacy.

Investment option preferences and Financial Literacy

Human capital and portfolio choice spaces When financial literate, people can more positively compare and contrast investment products and have more diversified and complex asset allocation (Lusardi & Olivia , 2014). According to findings by other researchers across the world, financially literate young people tend to invest into formal financial markets and consider systematic investment products instead of depending only on traditional or informal ones (Bala & Jayanti, 2025). Nepalese structural equation modeling evidence indicates that financial knowledge and financial skills play an important role in determining the portfolio diversification and choice of investment products among investors (Rana, 2024). Based on this, it is hypothesized that:

H4: *There is a positive significant relationship between Investment Option preferences and Financial Literacy.*

Conceptual Framework

In this case, the dependent variable is financial literacy and it is tested as an outcome that depends on four independent variables which were the attitudes of youths towards investment, actual investment behavior, risk tolerance and preferences of different investment options. The research framework is below:

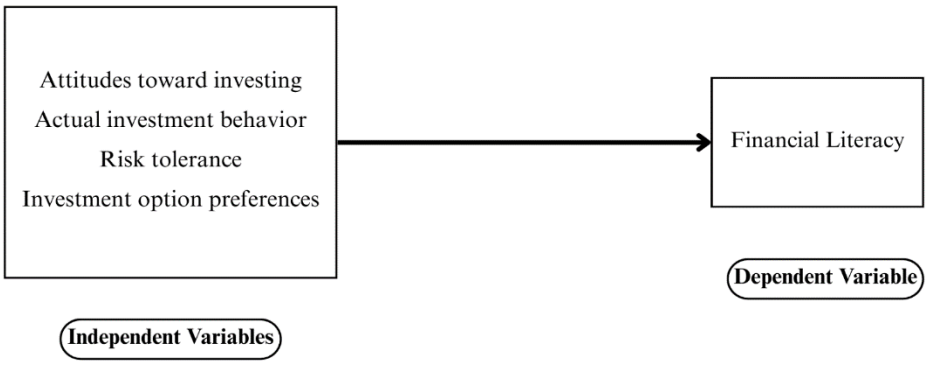

Fig:1 *Research Framework*

Research Methodology

The study employs the descriptive and the causal correlation research design to investigate the role of financial literacy in shaping youth investment behavior. The descriptive methodology helps to describe as well as show the direction and the strength of the relationship among the variables.

The target group for the study is youths of Koshi Province aged 18-40 years, where the convenience sampling methodology is used. The sample size of size is 144 respondents. The data collection is done with the help of Google Forms where the demographic information and the construct for the variable are disclosed using the five-point Likert scale. The data is analyzed by using the IBM SPSS Statistics Version 26, where the demographic analysis, descriptive analysis, reliability test based on the Cronbach alpha value, correlation analysis and regression analysis is performed. Any variables used in the study whose cronbach alpha is below the thresh hold value 0.70 in the reliability test will be removed in

the further data analysis i.e. correlation and regression analysis to make the stud more reliable as well as validate.

Data Analysis

The data analysis part consists of the demographic analysis of the respondent, with the reliability test of the construct used in the study with the comparison of Cornba Alpha Value. The descriptives analysis of the statements and the correlation analysis as well as the regression analysis is performed of the data collected for the study.

Table.1

Demographic Analysis

Demographic Variables	Categories	Frequency	Percentage
Gender	Female	49	34.0%
	Male	95	66.0%
Age	18-40	144	100.0%
Academic Qualification	Above Masters	1	0.7%
	Bachelor's	41	28.5%
	Master's	2	1.4%
	Secondary (10+2)	100	69.4%
Employment Status	Employed	24	16.7%
	Student	112	77.8%
	Unemployed	8	5.6%
Residence	Rural	27	18.8%
	Urban	117	81.3%

(Source: Survey Report 2025 & SPSS)

The sample consisted of 144 respondents, with a gender distribution of 34.0% (n = 49) female and 66.0% (n = 95) male indicating high involvement of male respondent's survey. The respondent size of the study is (*N* = 144, 100.0%) and age category of 18-40 years. The study is based on the youth as per the objective of the study. The majority of respondent possess Secondary (10+2) qualification (69.4%, *n* = 100), and (28.5%, *n* = 41) respondent have Bachelor's degree where the minority possessed a Master's degree (1.4%, *n* = 2). And only (0.7%, *n* = 1) respondent have the academic qualification above master degree.

Among the respondent of the study, (77.8%, *n* = 112) are student where (16.7%, *n* = 24) are employed and (5.6%, *n* = 8) are unemployed. This distribution reflects a predominantly student-based youth sample. The majority of respondents resided in urban areas (81.3%, *n* = 117), while 18.8% (*n* = 27) reported living in rural areas, indicating a skew towards urban youth in the sample.

Table: 2

Reliability Analysis

Variables	**Cronbach's Alpha**	**No of items**
Financial literacy	.979	5
Attitudes towards Investing	.869	5
Actual Investment Behavior	.816	5
Risk Tolerance	.860	5
Preference for Investment Options	0.489	5
Overall Reliability Statistics	.905	25

(Source: Survey Report 2025 & SPSS)

The internal consistency of the survey instrument was excellent, with an overall Cronbach's Alpha of .905 for the 25 items. Among the individual constructs, Financial Literacy (.979), Attitudes towards Investing (.869), Actual Investment Behavior (.816), and Risk Tolerance (.860) all demonstrated high reliability. Preference for Investment Options showed lower reliability (.489), suggesting potential variability in how respondents prioritized different investment vehicles. Since the Cronbach alpha value for the variable preference for investment options is less then threshold 0.70 where the reliability standard is not meet. The preference for investment options will be removed from the further data analysis to findings of the study more reliable and to make the findings and conclusion of the study more effective.

Table.3

Descriptive Analysis of Attitude towards Investing

S. No	Statement	N	Mean	S. D
Q.No.1	I can calculate the return on a simple investment.	144	3.70	.99
Q.No.2	I understand how inflation affects the value of money.	144	3.77	1.04
Q.No.3	I am familiar with basic financial concepts such as interest, diversification, and compound interest.	144	3.65	1.04
Q.No.4	I can compare different saving or investment products.	144	3.72	.92
Q.No.5	I can interpret basic information in bank statements or investment reports.	144	3.62	.99

(Source: Survey Report 2025 & SPSS)

The table 3 consists of the descriptive analysis of the construct Attitude towards investing with the respondent size 144 and the mean as standard deviation value is calculated and analyzed. The mean value lies between the 3.62 to 3.77 which is good to moderate level of agreement towards the statement of the respondent. And the standard deviation lies between .92 to 1.04 which also indicates moderate variability.

Table.4

Descriptive Analysis of Actual Investment Behaviour

S. No	Statement	N	Mean	S. D
Q.No.1	Investing is useful to achieve long-term financial goals.	144	4.19	1.10
Q.No.2	I feel confident about making investment decisions.	144	3.56	1.13
Q.No.3	I believe investing is important even with a small amount.	144	4.13	1.03
Q.No.4	I have a positive view of investing compared with leaving money idle.	144	3.81	1.09
Q.No.5	I am interested in learning more about investment opportunities.	144	4.22	1.08

(Source: Survey Report 2025 & SPSS)

Table 4 consists of the descriptive analysis of the construct. Actual Investment Behaviour. The mean score for the statement used for the construct actual investment behaviour lies between 3.56 to 4.22 which reflects the agreement of the respondent towards the statement used for the data collection and the standard deviations lies between 1.03 to 1.13 which shows the moderate variation.

Table.5

Descriptive Analysis of Risk Tolerance

S. No	Statement	N	Mean	S. D
Q.No.1	I have made one or more financial investments in the past 12 months	144	3.18	1.41
Q.No.2	I regularly set aside money specifically for investment.	144	3.18	1.22
Q.No.3	I diversify my investments across two or more types of assets.	144	3.03	1.16
Q.No.4	I seek information from reliable sources before investing.	144	3.91	1.09
Q.No.5	I track the performance of my investments regularly.	144	3.47	1.14

(Source: Survey Report 2025 & SPSS)

Table 5 represents the descriptive analysis of the construct risk tolerance with the 5 statements where the 144 respondents have made the respond and consists of the mean and the standard deviation values. The risk tolerance of the respondent is of a moderate level where the mean value lies between 3.03 to 3.91. The variability lies between1.16 to 1.41 reflecting the considerable variable in the risk tolerance of the individual respondent.

Table.6

Correlation Analysis

		Financial Literacy	Attitudes towards Investment	Actual Investment Behaviour	Risk Tolerance
Financial Literacy	Pearson Correlation	1			
Attitudes towards Investment	Pearson Correlation	.647**	1		
Actual Investment Behaviour	Pearson Correlation	.519**	.513**	1	
Risk Tolerance	Pearson Correlation	.406**	.537**	.529**	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Survey Report 2025 & SPSS)

Pearson correlation analysis revealed significant positive relationships between Financial Literacy and independent variables. There was a strong positive correlation between Financial Literacy and Attitudes towards Investing ($r = .647$, $p < .001$) and Actual

Investment Behavior (r = .519, p < .001). Moderate positive correlations were found with Risk Tolerance (r = .406, p < .001).

Table. 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.683[a]	.466	.450	.55081

(Source: Survey Report 2025 & SPSS)

The multiple regression model explained 46.6% of the variance in Financial Literacy (R^2 = .466, Adjusted R^2 = .450). The model indicates that the set of independent variables significantly predicts financial literacy levels among youth.

Table.9

Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	36.774	4	9.194	30.302	.000[b]
Residual	42.172	139	.303		
Total	78.946	143			

(Source: Survey Report 2025 & SPSS)

The ANOVA results confirm that the regression model is statistically significant (F(4, 139) = 30.30, p < .001), indicating that the predictors collectively have a significant effect on the dependent variable, Financial Literacy.

Table.10

Multiple linear regression coefficient

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	1.311	.296		4.434	.000		
Attitudes towards Investment	.441	.068	.524	6.458	.000	.584	1.711
Actual Investment Behaviour	.208	.062	.257	3.327	.001	.645	1.549
Risk Tolerance	-.006	.065	-.007	-.093	.926	.617	1.620

(Source: Survey Report 2025 & SPSS)

Among the predictors, Attitudes towards Investing had the strongest significant positive impact on Financial Literacy (*beta* = .524, *t* = 6.46, *p* < .001). Actual Investment Behavior also significantly predicted Financial Literacy (*beta* = .257, *t* = 3.33, *p* = .001). However, Risk Tolerance (*p* = .926) is not statistically significant predictors in this model.

Findings and Conclusion

This research has significant implications on the financial literacy situation among youth in Koshi Province, Nepal with financial literacy of young people in the area was found to be at a moderate-high level, certain trends were evident in terms of how knowledge was translated into investment behaviors. Specifically, youths demonstrated better performance on conceptual questions related to inflation effects and calculation of investments returns compared to performing consistent diversified investment plans, indicating a clear knowledge-practice gap.

The strong positive associations between financial literacy and both attitudes toward investing and actual investment behavior suggest that those young people that possess favorable attitudes toward investing (and also actively engage in investing), tend to also report having higher levels of financial literacy. Consistent with previous studies conducted by researchers in developing countries including Lebanon, India and several areas of Nepal, these data provide evidence of similar positive associations between various aspects of financial literacy and both behavioral participation and cognitive mastery (Bala and Jayanti, 2025; Makdissi et al., 2024; Sharma, 2025). Conversely, the non-statistically significant beta-coefficients for risk tolerance and investment preference suggest that merely expressing one's willingness to take risk in investments or preferring one type of financial instrument over another is not indicative of having high levels of literacy.

These findings support the theoretical argument that cognitive understanding/knowledge and practical experience/engagement with financial decision-making processes represent the core components of financial literacy rather than abstract attitudinal beliefs or constructs pertaining to risk. Overall, the findings from this research support the notion that cognitive competence and practical application/experience in making

financial decisions represent the most direct avenues through which individuals achieve and display financial competencies.

These findings clearly establish that increasing both the level of theory-based knowledge and the amount of applied/practical learning via targeted financial education programs designed for young people in Koshi Province will be essential to creating a culture of financially literate youth. Additionally, these results further reinforce the need to create and implement broad based formalized financial literacy programs throughout developing nations (Lusardi and Mitchell, 2014; OECD, 2023; Rana, 2024).

In summary, the results of the given research indicate that youth financial literacy in Koshi Province is provably and substantially linked with their attitudes toward investment as well as their rate of actual investment activities, a relationship that underscores the critical necessity for developing and implementing comprehensive, practice-oriented financial education initiatives. This multi-pronged approach will have to be one that not only provides knowledge but also equips young people to actively participate in an increasingly rapidly changing financial landscape in Nepal; thereby allowing them to capitalize upon increased access to market opportunities leading to better economic outcomes and greater overall financial security.

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