

The Impact of Financial Literacy and Risk Aversion on Investment Choices of Undergraduates in Sri Lanka

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This study investigates the impact of financial literacy and risk aversion on investment choices of undergraduates in a developing country context. The study was conducted as a cross sectional survey using a sample of 200 undergraduate in Sri Lanka. Data were collected by means of a structured questionnaire. Investment choice was measured in terms of an unordered categorical variable. Risk aversion, and financial literacy was measured using standard questions. The study shows that financial literacy significantly influences the choice of equity and debt instruments relative to savings deposits. Moreover, the relationship is found to be positive indicating that the increase in financial literacy results higher chances of choosing equity and debt instruments as opposed to savings deposits. Relationship of risk aversion and choice of equity and debt instruments found to be negative but significant only at 10% level. Choice of retirement plans relative to savings deposits is also significantly influenced by financial literacy and the relationship is found to be positive. Moreover, when the individuals are more risk averse they are more likely to choose retirement plans relative to savings but the relationship is insignificant. Findings reveal the importance of financial literacy of individuals.

Keywords: *Equity, Debt, Financial Literacy, Investment Decision, Investment Choice, Risk Aversion*

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