

Impact of Financial Literacy on Financial Risk Tolerance in the Context of Investment Decision-Making: Empirical Evidence from Individuals in Gampaha District

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ABSTRACT

Purpose: This study aims to examine the impact of financial literacy and demographic characteristics on the financial risk tolerance of the individuals in the Gampaha District, Sri Lanka.

Design/Methodology/Approach: The study used deductive approach. The population of this study is comprised of 380 individuals in Gampaha District. The study used primary sources of data and data was collected using a close-ended questionnaire. Altogether 320 responses were collected while having an 84 percent of respondent rate. The descriptive statistics, correlation analysis and multiple regression model were used to analyze the data.

Findings: The findings of the empirical analysis revealed that financial literacy and demographic characteristics such as age, gender, marital status, highest educational level, income and wealth are significant in determining the financial risk tolerance. It was evident that majority of respondents in Gampaha district make investment decisions by their own. Another important finding is that average financial literacy of a person in Gampaha district is 56.88%. Further, it was revealed that there was a strong positive relationship between financial literacy and financial risk tolerance level. The results prove that increasing people's financial literacy through various educational programmes is likely to increase demand for financial products with varying risk profiles.

Originality: The study recommends that there should be a greater emphasis on financial education programme for enhancing the financial awareness among individuals in Gampaha district that positively impacts the risk tolerance level.

Keywords: *Financial Literacy, Financial Risk Tolerance, Financial Risk, Demographic Characteristics, Financial Awareness*