

## **The Impact of Financial Literacy on Individual Investment Decisions: Mediating Role Of Risk Tolerance With Special Reference to Undergraduates in Western Province, Sri Lanka**

**Dilshan W.M.T.E<sup>1</sup> , S.D.P.Piyananda<sup>2</sup>**

Department of Finance, University of Kelaniya, Sri Lanka<sup>1,2</sup>  
[tedwarnasooriya@gmail.com](mailto:tedwarnasooriya@gmail.com)<sup>1</sup> , [dhanushkap@kln.ac.lk](mailto:dhanushkap@kln.ac.lk)<sup>2</sup>

### **Abstract**

**Introduction:** One of the important elements influencing the financial investment decisions of both individual and institutional investors is financial risk tolerance, which has a significant impact on financial planning and financial counseling. In this study, the researcher investigated the effects of financial literacy on investment decisions with mediating effect of risk tolerance, by using the population of university undergraduates in Sri Lanka.

**Methodology:** The sample was comprised of 200 undergraduates from four public universities in the western province. The study made use of primary data sources. By using a closed-ended questionnaire, data was gathered. A total of 200 replies were gathered, with 95 percent of them being recorded. Measures of central tendency were used in the study as descriptive statistics to describe the data. Multiple linear regression was used in the investigation. The independent variable was financial literacy, and the dependent variable was investment decisions. Furthermore, risk tolerance was used as the mediating variable.

**Findings:** The results of the empirical investigation showed that financial risk tolerance is significantly influenced by investment decisions. This study has explored the mediating role of risk tolerance, and it demonstrated that higher levels of financial literacy make undergraduates more tolerant towards risk which in turn makes a better and more satisfying investment decision-making performance.

**Conclusion:** In this regard, raising undergraduates' financial literacy through a variety of initiatives is likely to raise demand for financial products with diverse risk profiles, which will in turn aid the financial sector's expansion. As a result, this study has several consequences for politicians, financial advisors, and investors. The findings also support the value of financial education programs in raising financial literacy among university undergraduates.

**Keywords:** Financial Risk Tolerance, Financial Literacy, Investment Decisions