



BEHAVIORAL FINANCE AND INVESTMENT DECISION MAKING AMONG STUDENTS IN COIMBATORE CITY

MS. NIKITHA HARIHARAN, MR. S SAKTHIVEL, MR. ANSARI K, ²Dr. M. SHATHANA LAKSHIMI, ³Dr. NITHYA. N. R

M.Com Finance and Control, School of Commerce, Nehru Arts and Science College, Nehru Gardens, Thirumalayampalayam, Coimbatore, Tamilnadu, India, 641105 Email: nikithahariharan0@gmail.com

Dean, School of Commerce, Nehru Arts and Science College, Nehru Gardens, Thirumalayampalayam, Coimbatore, Tamilnadu, India, 641105
Email: santhanalakshmim2009@gmail.com

Assistant professor, School of commerce, Nehru Art's and Science College, Nehru Gardens, Thirumalayampalayam, Coimbatore, Tamilnadu, India, 641105
Email: nascnrnithya@nehrucolleges.com

Abstract:

Behavioral finance, is one of an emerging field of study, explores how psychological biases and emotional influences affect financial decision-making in a human, often deviating from traditional economic theories of rationality. In this research try to examines the relationship between behavioral finance and investment decision-making among students in Coimbatore city, a demographic that is increasingly participating in financial markets through digital platforms and innovative investment options. The study aims to identify the commonly used investment option among the students, thus behavioral biases such as overconfidence impact students' investment choices. The research gathers both qualitative and quantitative data through surveys, focus groups, and case studies involving students from diverse academic backgrounds and socioeconomic contexts in related to the study. The main aim for this study is for finding the level of financial literacy among the students, the source of information's, the influence of psychological biases in the investment decision making, short-term financial goals. By shedding light on this aspects this research aims contribute understanding about behavioral finance among students.

Key word: Behavioral Finance, Investment Decision-Making, Psychological Biases, -financial literacy

1.1 Introduction

The study of behavioral finance is an interdisciplinary field that integrates knowledge from economics, psychology, and finance to comprehend how human behavior affects students' financial and investment decisions. Behavioral finance recognizes that investors are impacted by social, emotional, and cognitive biases, which can result in less-than-ideal decisions and market oddities. This is in contrast to classical finance theories, which frequently presume that markets are efficient and investors are rational. The study of behavioral finance looks at the psychological factors that cause people to make judgments that are different from what is reasonable when it comes to investing. These biases can include mental accounting, swarming behavior, loss aversion, and overconfidence in students. Students who are investors may overestimate their capacity to forecast



market movements and hang onto losing assets for an extended period of time out of fear of realizing. Although financial markets and investment platforms are becoming increasingly accessible, many students still lack the necessary knowledge and experience to make sound investment decisions. Behavioral biases, including overconfidence, loss aversion, and herd mentality, greatly affect their investment choices, often resulting in less than optimal outcomes. It is essential to investigate how these biases influence students' investment behavior and to identify effective strategies to counteract their effects. Addressing this issue can enhance financial literacy, improve decision-making abilities, and foster the development of informed and responsible future investors.

Relevance of Behavioral Finance and Investment Decision-Making among Students

The examination of behavioral finance and its impact on investment decision-making among students is of considerable importance in the current evolving financial environment. As young individuals increasingly access investment platforms and financial markets, it becomes essential to comprehend the psychological and emotional elements that influence their choices. Students, often at the nascent stages of financial literacy and wealth accumulation, are susceptible to biases such as overconfidence, herd mentality, and risk aversion. Analyzing these behaviors can provide valuable insights for educational institutions and policymakers in developing programs aimed at fostering rational decision-making and financial accountability. Additionally, such research can bridge the divide between theoretical finance and its practical application, equipping students to make informed decisions that correspond with their long-term financial aspirations. This inquiry not only adds to the expanding literature on behavioral finance but also addresses the urgent need to nurture financially knowledgeable and self-assured future investors.

2. Statement of problem

Although financial markets and investment platforms are becoming increasingly accessible, many students still lack the necessary knowledge and experience to make sound investment decisions. Behavioral biases, including overconfidence, loss aversion, and herd mentality, greatly affect their investment choices, often resulting in less than optimal outcomes. Traditional finance theories focus on rational decision-making but overlook the psychological and emotional factors that are vital in real-world situations. It is essential to investigate how these biases influence students' investment behavior and to identify effective strategies to counteract their effects. Addressing this issue can enhance financial literacy, improve decision-making abilities, and foster the development of informed and responsible future investors.

3. Scope of the study

The potential for behavioral finance in shaping investment decision-making among students is extensive and encouraging. Behavioral finance provides insights into how psychological biases, emotions, and cognitive misjudgments affect financial choices, establishing it as a vital area for both academic inquiry and practical application. Through the study of behavioral finance, students can gain awareness of biases such as overconfidence, loss aversion, and herd mentality, which frequently result in less than optimal investment decisions. This understanding empowers them to make more rational and well-informed choices, thereby enhancing their financial literacy and investment capabilities. Furthermore, integrating behavioral finance into educational programs



promotes a more profound comprehension of market dynamics, preparing future investors and financial professionals to adeptly navigate intricate economic landscapes. This expanding field presents a wealth of research and career prospects, allowing students to play a significant role in fostering financial innovation and stability.

4. Primary objectives

- 1) To bring awareness of the behavioural finance.
- 2) To analysis the significant relationship between income and investment options.
- 3) To Identify the behavioural biases influencing students' investment decision.
- 4) To find out the most preferred investment decision.

5. Limitations of the study

1. Small or Non-Diversified Sample Size.
2. Rapidly limited financial experience.
3. Changing Behavior.

6. Review of literature

Neelakantan. P.R(2015) nine behavioural biases namely Overconfidence bias, Loss aversion bias, Regret aversion bias, Anchoring bias, Cognitive dissonance bias, Mental accounting bias, Gambler's fallacy bias, Herding bias and Confirmation and Hindsight bias impacts investment decision of individual retail investors. With behavioural biases being critical factors in determining investor decisions, it is imperative to examine the relationships between behavioural biases and investment decisions based on different factors like length of investment decision, nature of investment decision like fundamental or technical and other factors like market condition, investor knowledge and consultation of investment advisor and determine the implications. This study therefore attempts to investigate and understand the impact of biases on the investment decision making with reference to the retail investors.

Hirshleifer, D., & Teoh, S. H. (2020). Behavioral Finance: A Review and Future Directions. This review paper provides an updated survey of the field of behavioral finance. It discusses how emotions, heuristics, and cognitive biases influence investors' decision-making processes, and how these factors lead to market anomalies like overreaction, under reaction, and bubbles. Behavioral



finance continues to challenge the efficient market hypothesis by showing that investors' psychological biases significantly affect their financial decision-making and lead to market inefficiencies.

Klein, T., & Sörensen, F (2020). Behavioral Biases in Investment Decisions: Analyzing the Role of Cognitive Errors and Emotional Factors. This paper explores a variety of **cognitive biases** (such as **anchoring**, **overconfidence**, and **availability bias**) and **emotional factors** (such as fear and greed) that influence investment decisions. The authors argue that understanding these biases can help investors avoid making mistakes in decision-making. Emotional biases and cognitive errors often lead to irrational behavior, which can cause investors to make decisions that are not optimal and deviate from traditional models of rational decision-making.

7. Methodology of the study

The study is based on descriptive research design, particularly survey method. Primary data was collected from the respondents. A structured questionnaire was prepared to collect data from the respondents. In this study the analysis is done with statistical tools Correlation, Chi-square , and frequencies statistics. The primary data is collected from the students of Coimbatore city.

8. Analysis and interpretation

H1 : To analyze which is the most preferred investment option of students in Coimbatore city. Frequency Analysis is the statistical tool used here.
Frequencies analysis

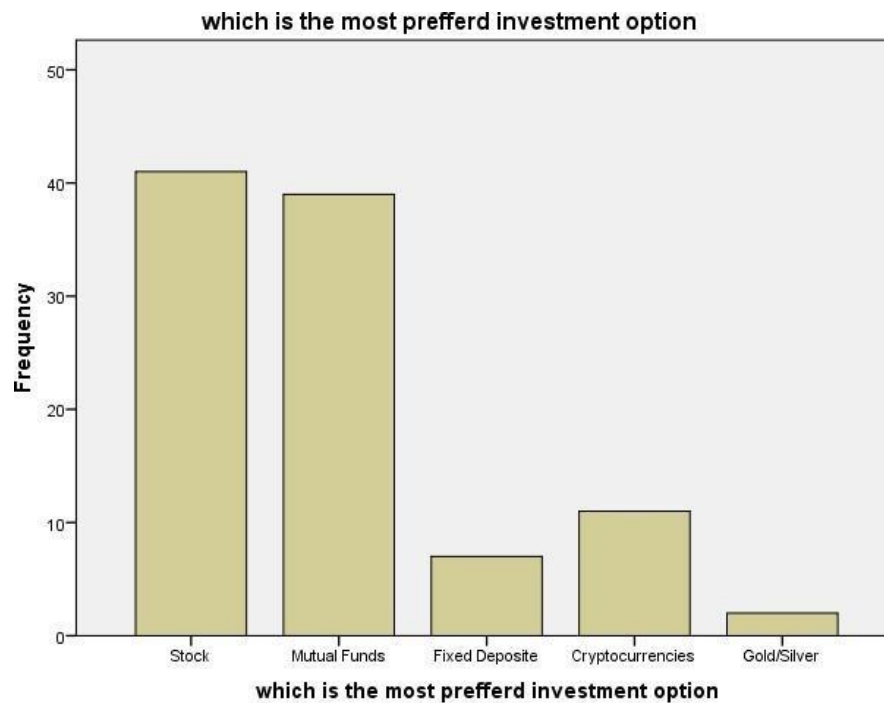
TABLE NO 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Stock	41	34.2	41.0	41.0
	Mutual Funds	39	32.5	39.0	80.0
	Fixed Deposite	7	5.8	7.0	87.0
	Cryptocurrencies	11	9.2	11.0	98.0
	Gold/Silver	2	1.7	2.0	100.0
	Total	100	83.3	100.0	



Missing	System	20	16.7		
Total		120	100.0		

CHART NO 1



Source: Primary data

Interpretation: From the above table and bar graph we can find out that the most preferred investment option of students in Coimbatore city is stock with 41% of the total students, and the second most preferred is mutual funds which is 39% , and 2% is the least preferred investment option of students which is Gold/Silver .

H2: To analysis the Primary goal for investment of students of Coimbatore city. For the study frequency analysis is the statistical tool used.

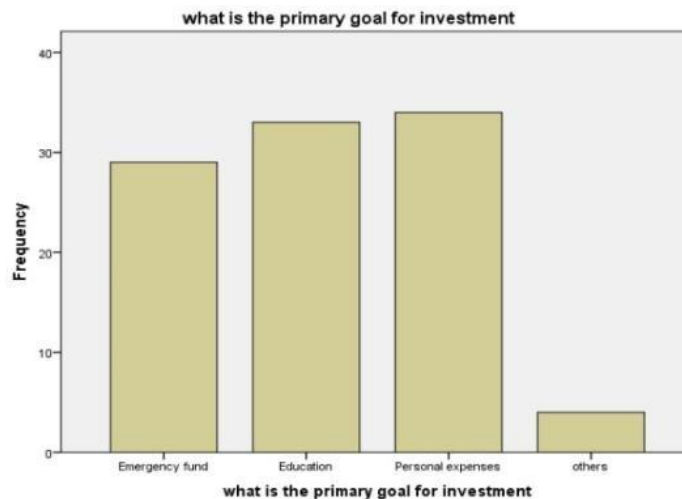


TABLE NO 2

what is the primary goal for investment

	Frequency	Prcent	Valid Percent	Cumulative Percent
Valid Emergency fund	29	24.2	29.0	29.0
Education	33	27.5	33.0	62.0
Personal expenses	34	28.3	34.0	96.0
Others	4	3.3	4.0	100.0
Total	100	83.3	100.0	
Missing System	20	16.7		
Total	120	100.0		

CHART NO 2



Source: Primary data

Interpretation: From the above table and bar chart it can be interpreted that most of the students in Coimbatore city make their investments to fulfil their personal needs which is 34%, The second most primary goal is for their Educational purpose with 33% chi-square



H3 How many of the people have made their investment on the basis Gender.

TABLE NO 3

Gender * Have you ever invested Cross tabulation

		Investment decision		Total	Chisquare value	sig
		Yes	No			
Gender Male	Count	12	31	43	0.157	0.432
	% within Gender	27.9%	72.1%	100.0%		
	Female Count	18	39	57		
	% within Gender	31.6%	68.4%	100.0%		
Total	Count	30	70	100		
	% within Gender	30.0%	70.0%	100.0%		

Source: Primary Data

Interpretation: The table stated that an associated between gender and investment decisions. In a male respondents, 28 percentage of the respondents are male their accepted investment options and 72 percent of the respondents are female have not accepted their investment options

In female wise classification, 32 percent of the respondents are accepted their investment decision and 68 percent of the respondents are not accepting their investment. Over all, 70 percent of the respondents are not accepting investment decisions. The chi square values is 0.157 and the p value is 0.432 is not significant at 5% level. Hence, an associated between gender and investment decision is not accepted.



correlation.

H5:In this stage if analysis we used correlation to find out the relationship between the income of the investor and their most preferred investment option. Correlation is the statistical tool used here.

TABLE NO 4

Correlations

	Annual Household Income	which is the most preferred investment option
Annual Household Income Pearson Correlation	1	.120
Sig. (2-tailed)		.234
Sum of Squares and Cross-products	89.710	19.360
	.906	.196
N	100	100
which is the most preferred investment option Pearson Correlation	.120	1
Sig. (2-tailed)	.234	
Sum of Squares and Cross-products	19.360	289.760
Covariance	.196	2.927
N	100	100

source :primary data



Interpretation: The above table reveals that P value is .234 which is not favorable.

Findings and suggestions Findings

- survey revealed that prior to the study, only 20% of the student population had a basic understanding of behavioural finance concepts. Post-study interventions (e.g., workshops, lectures) increased this awareness to 70%. This suggests a significant improvement in awareness.
- The most preferred investment option among the student population was stock while the less preferred is gold and silver.
- majority of the students make their investment for meeting their personal expenses and gather their information from friends and family.

Suggestions

Enhancing behavioral finance and investment decision-making requires a focus on mitigating cognitive biases, improving financial literacy, and leveraging technology-based solutions. The following recommendations are essential:

- Implementing financial literacy curricula in educational institutions, including schools and universities.
- Promoting the adoption of disciplined financial practices among students, such as portfolio diversification and a long-term investment approach, this can contribute to more consistent financial results.

Conclusion

In conclusion, behavioral finance plays a crucial role in shaping investment decision-making among students, as their financial choices are often influenced by psychological biases such as overconfidence, herd behavior, and loss aversion. Enhancing financial literacy through education, workshops, and real-life simulations can help students develop a rational and disciplined approach to investing. , the results indicate a notable correlation between students' income levels and their investment preferences. Those with greater disposable income are more likely to pursue riskier investments, such as stocks, whereas students with lower income levels tend to favor safer alternatives like savings accounts or bonds. This correlation highlights the significance of considering students' financial backgrounds and risk tolerance when assessing their investment behaviors. Moreover, various elements, including personal financial objectives, risk perception, social influences, and access to information, were identified as influential in shaping students' investment decisions. These factors are essential in determining their preferences and decisionmaking processes

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