

Financial Knowledge or Financial Capacity? Financial Literacy and Income on Investment Decisions among Nepal's University Students

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Abstract

Investment is crucial for financial well-being and long-term wealth creation. Among young adults, particularly university students, investment decisions are influenced by financial literacy and financial capacity. This study investigates the impact of financial literacy and income on investment decisions among university students in the Kathmandu Valley, Nepal, and examines which factor has a stronger influence. Using a quantitative approach, data were collected from 122 university students through a questionnaire and analyzed using descriptive statistics, correlation, multiple regression, and hierarchical regression. The findings reveal that both financial literacy and income have a positive and significant effect on investment decisions. Financial literacy is positively associated with investment decisions ($r = 0.254$, $p = 0.005$), but its influence is weaker than that of income ($r = 0.431$, $p = 0.001$). Multiple regression confirms that financial literacy ($\beta = 0.187$, $p = 0.013$) and income ($\beta = 0.425$, $p < 0.001$) are significant predictors. Hierarchical regression shows that income adds significant explanatory power beyond financial literacy ($R^2 = 0.041$, $p = 0.013$). The findings suggest that while financial literacy enhances investment knowledge and decision-making, financial capacity plays a greater role in shaping actual investment behaviour. This study contributes to the literature by comparing the relative influence of financial literacy and income on investment decisions in a developing-country context, highlighting the importance of strengthening both to encourage youth investment.

Keywords

Financial literacy, Income, Investment decision, University students, Nepal, Financial capacity, Investment behaviour.

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1. Introduction

Investment decisions are super important for securing your finances, building wealth, and ensuring you're economically comfy in the long run. People put their money into different stuff like stocks, bonds, mutual funds, and savings accounts thinking this will boost their wealth in the future. With the explosion of digital platforms and financial info available online, investing has gotten way easier, especially for college kids. Apps and the web now allow young students to dive into investments early in life.

Understanding what drives people to invest has become a key research topic in finance and behavioural economics. One big factor scholars look at is financial literacy how well someone gets financial stuff, knows about risks and rewards, and can plan smartly. Research shows folks who get finance better tend to make wiser investment choices. So in today's complicated markets, knowing your way around financially really helps pick good investment paths.

Financial smarts are great, but having extra dough also seriously impacts if and how people can invest. Income sets up a person's ability to save and then put that cash into market tools. If you earn more, you're usually in a better spot to handle life costs and stash some cash in stocks or bonds. So even when you know all the ins and outs, low income can still hold you back from investing.

Tons of past studies have checked out how both financial literacy and income shape how people choose to invest. They've seen positives from each, yet pinpointing which one money skills or actual income matters more hasn't been decided. Some data suggests knowing finance pushes investment habits more, while other reports say having extra cash does. This unclear link means there's heaps to learn still.

University students present an interesting case. Many pick up financial learning from classes or self-teaching, yet most don't exactly boom with riches. Their mix of financial savvy and limited cash makes them perfect guinea pigs for sorting out where knowledge and cash power lies when it comes to steering investments.

In Nepal, researchers keep looking into financial literacy, behaviours, and mental quirks affecting investment picks. Still, not many compare

knowledge against cold hard cash to see which pulls more weight in shaping what students do with their finances. Closing this info gap would clue us in on if beefing up financial lessons will nudge more students to start investing, or whether greater emphasis should also be placed on enhancing individual financial capacity.

Therefore, this study seeks to examine and compare the influence of financial literacy and income on investment decisions among Nepalese university students. By identifying the relative importance of financial knowledge and financial capacity, the study aims to contribute to the growing literature on investment decision-making and provide practical insights for promoting informed and sustainable investment behaviour among young adults.

1.2 Hypotheses

Based on the research objectives, theoretical foundations, and empirical evidence the following hypotheses are formulated to examine the influence of financial literacy and income on investment decisions among Nepalese university students:

H₁: Financial literacy has a significant positive influence on investment decisions among Nepalese university students.

H₂: Income has a significant positive influence on investment decisions among Nepalese university students.

2. Literature Review

The literature review offers a thorough look at the theoretical and empirical studies about financial literacy, income, and investment choices. It seeks to clarify the main variables and examine the existing evidence on how they affect investment decision-making. The review also emphasizes the results of earlier studies in various contexts and points out gaps in the current literature. By combining relevant theories and empirical data, this section lays the groundwork for exploring whether financial literacy or income has a greater impact on investment decisions among university students in Nepal.

2.1 Financial Literacy and Investment Decisions

Financial literacy means the knowledge, skill, and ability in the management of finance. Financial literacy involves basic concepts like saving, budgeting, investment, risk diversification, inflation, interest rates and financial planning and enables individuals to compare financial alternatives, evaluate risks and rewards associated with different investment opportunities and choose investment decision in a manner consistent with personal financial goals. As financial markets continue to expand in access and complexity, financial literacy has become increasingly important to individual well-being and to participation in financial investment markets.

Investment decision-making is the process through which individuals invest financial resources into various financial opportunities with the objective of obtaining optimal returns and minimizing risks. In effective investment decision making, individuals compare, analyze, and assess investment alternatives before making selection of the best investment alternatives. It involves use of knowledge on various investment alternatives, comparison of various financial characteristics of these investment alternatives and selection of the most appropriate investment alternative based on the investor's specific investment needs. Financial literacy has become an important component of making optimal investment decisions as it facilitates informed assessment of financial markets and evaluation of available opportunities, thereby improving investment behaviour.

The relationship between financial literacy and investment decision making has been consistently established in literature. Studies generally reveal that financial literacy exerts positive effects on investment decision-making behaviour. Financial literacy helps individuals to feel confident in managing finances, assessing investment risks, selecting appropriate investments, Reducing information asymmetry and uncertainty. As a result, financially literate investors make investment decisions based on analyses of investments rather than impulsively or under influence of external factors.

The empirical finding supports these arguments. The study of Awais *et al.* (2016) indicates that financial literacy makes an investor better at analyzing investment choices. Similarly, Baihaqqy *et al.* (2020), Kumari (2020), Utami and Sitanggang (2021) confirm that financial literacy positively impacts investment behaviour by enhancing financial knowledge, confidence, and understanding on investment markets and products.

Financial literacy has greater importance in emerging markets where broadening of financial services and investment opportunities compels individuals to be increasingly complex financial decisions makers. The studies on student and young adult investment behaviour indicate a positive association between financial literacy and investment participation. Some empirical studies suggest that financial knowledge alone does not determine investment behaviour as other factors like availability of resources and tolerance to risks are important, however financial literacy provides basic knowledge required to identify suitable investment opportunities.

Based on theoretical argument and empirical evidences presented, we assume that financial literacy influences investment decisions of university students in Nepal in positive and significant manner. A higher level of financial literacy of students would equip them with better understanding on availability investment alternatives and evaluation of their respective risk and reward, which then leads to improved investment decisions.

2.2 Income and Investment Decision

The income is one of the most significant economic determinants of financial behaviours and investment decisions. Income is defined as amount of money that can be attained by individual (salary, profits, allowance, etc). Income determines purchasing power, capability of saving and allocating financial resources into investment activities. Thus, income represents one factor for personal financial decisions on resources used for consumption, saving and investment.

To invest means that an individual allocates certain portion of the available financial resources with an intention to get future return. Financial knowledge aids people to determine investment opportunities and the risks involved but it might not be applied if the individual does not have enough resources to invest. A wealthy individual can continuously save money, invest them across different assets, diversify investments and is able to do various types of investments. But the poor individuals usually are struggling with investing funds for their goals after meeting needs of daily consumption, therefore there is an increasing disparity between intention of investing and the actual investment activities.

The role of income to investment decision making behaviour can be considered as the effect on individual financial capacity. Financial capacity is described as ability of individual to procure and employ financial resources for investing purpose. The individual who possesses greater financial capacity usually tends to tolerate with risks and able to invest in long term financial goals while people with lower financial capacity prioritized investment on necessary needs instead. As the result, it is inferred that the effect of income on investment behaviour is more than just on investment opportunities but also on the extent of participation in investments.

This study is supported by existing empirical findings showing positive relation between income and investment behaviour. Arianti (2018) found that there is a significant effect of income on investment decisions and a person with high income will more likely to invest because he has sufficient financial capability to invest. Prior research have also demonstrated that the high-income earner are more prone to invest because they has adequate finances and financial capacities for savings and investments. It means income play significant part in investment behaviour decision making.

The relevance of the income variable for university students is high, considering their financial resources come from parents (allowances and pocket money), scholarships and part-time jobs. Even if they have financial knowledge and information, students may be unable to invest if their available disposable income is too low to meet basic needs and other life costs. In other words, university students with high income level are more expected to be able to make investments compare to those with lower income level.

In the recent trends, it becomes easy to access to financial markets and to do the investments with digital investing application have been increases the financial awareness of youth toward the investments; however the actual investment will depend on the existence of financial resources. Financial knowledge is essential for decision making while the income is required to put those decisions into action. Therefore income is also expected to play the vital role on investment behaviour decision making among university students.

2.3 Theoretical Framework

The chapter describes the theoretical ground to be followed in finding out the relation of financial literacy and income to investment decision. In this study, the theory followed is theory of Planned Behaviour and Behavioural Finance Theory. Theory of Planned Behaviour can be defined as 'understanding behaviour through the concept of perceived knowledge, perceived control and behavioural intentions'. It also explains that decision making is based upon two primary factors: the individual's thoughts and feelings about the behaviour (attitude) and the perceived expectations of significant others (social norms). Behavioural Finance Theory is an approach that is driven by how finance is actually influenced by economic and behavioural factors.

2.3.1 Theory of Planned Behaviour (TPB)

The theory of Planned Behaviour, developed by Ajzen (1991), is a widely applied psychological theory that measures various factors as contributors to human behaviour and decisions. This theory states that behaviours are motivated by behavioural intentions, the motivation behind an action. Behavioural intentions are formed by attitude toward the behaviour, subjective norms and perceived behavioural control. When an individual thinks that the behaviour will likely lead to favorable outcomes and that socially significant others think they should perform the behaviour, and they can execute it with confidence, it is likely that they will want to perform that behaviour.

In case of investment behaviour, financial literacy might have impact on perception of control towards making investment decisions by increasing the knowledge of financial concepts, products, and services, and their risks. Knowing the options that one has and understanding risks associated can lead to greater perception and greater intention to participate in investment activities. So TPB helps to establish the relationship of financial literacy and investment behaviour by suggesting that financially educated people are likely to invest.

2.3.2 Behavioural Finance Theory

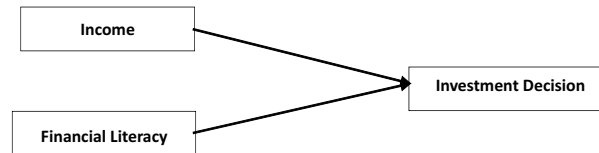
Behavioural Finance Theory is the alternative to the rational behaviour in finance which argues that there are factors other than rational analysis of financial decisions. Behavioural finance studies why individuals, instead of

the theoretically presumed rational investors, invest in the ways they do. This means the way in which individuals take financial decisions are influenced by economic and psychological forces which is applicable under uncertainty and resource constraints.

In this aspect financial capacity of individual plays a role in investment decision behaviour. Although, having proper financial knowledge is an aspect for investing, having financial capacity in hand influences on investment decisions. Income provides financial capacity for an individual to invest; it determines the ability of one to save and invest. In case of students, those with higher income have a higher tendency to invest compared to students with lower income. Thus, behavioural finance theory forms the base of the relationship of income and investment decisions.

2.3.3 Conceptual Framework

The concept used for finding the relationship between the variables (Financial Literacy, Income and Investment decision) based on the review of literature and above theoretical framework are represented in a diagram. The framework below represents that both financial literacy and income affect investment decision of students. Here, financial literacy and income are the independent variables and investment decision is the dependent variable.



3. Research Methodology

3.1 Research Design

In this research a quantitative approach was used to analyze the influence of financial literacy and income on investment decisions of university students in Nepal. The study opted for the quantitative approach because it enabled measurements of the relations between variables and testing of hypotheses. The study incorporated both descriptive and explanatory approaches. Descriptive approach was employed to describe the respondents, whereas explanatory approach was employed to examine the relations between financial literacy, income and investment decision.

Primary data were gathered through a closed-ended questionnaire so that hypotheses of the study could be tested.

3.2 Population and Sample

The sample population was university students studying in Kathmandu valley. Students were considered because students are being exposed to many financial principles, investment opportunities and decisions made and the future financial future may be affected due to decisions made during this period.

Because of time and resource constraints, the sample was drawn from the 122 students and their responses were analyzed. These students come from varied backgrounds of education which could be one way to look at their decisions regarding investment.

3-3 Sampling Technique

Convenience sampling was used for data collection of university students in Kathmandu valley. Data was collected by approaching the respondents through academic networking and media such as Facebook. This technique makes data collection easier and student research often takes this course of action. In terms of limitation the generalizability is reduced to very low but it shows students view regarding the investment decision.

3-4 Nature and Sources of data

The data used was primary in nature that were collected using closed-ended questionnaire. The researcher used primary data because these data directly relate to the questions asked in the study, and variables that the researcher was interested in examining.

The questionnaire comprised of two section; one regarding information on the respondents such as sex, age, year, income and the second part regarding financial literacy, income and investment decisions by using five point Likert scale varying from 1 (strongly disagree) to 5 (strongly agree).

3-5 Measurements of Variables

The study examines effects of financial literacy and income (independent variables) on investment decision (dependent variable).

1. Investment decision: this refers to an individual readiness, confidence, ability to assess and commit the investment behaviour. This is measure by three items focusing on confidence level of the respondent towards the investment decision and their inclination to make such decisions by using 5-point scale.
2. Financial literacy: refers to individuals' understanding of concepts about money, such as managing resources, handling finances and financial decision-making skills. It was measured by 3 items using a 5 point scale.
3. Income: is a measure of individuals earning capacity and how many resources they can put on investment. This is measure by 3 items based on respondents' perceived financial capacity to make investment with reference to their income by using 5-point scale.

3-6 Methods of Analysis

Collected data were coded and analyzed with the help of JAMOV. Both descriptive and inferential statistics were used to analyze the relationships between financial literacy, income and investment decision.

3.6.1 Descriptive Statistics

Descriptive statistics which comprise of frequency, percentage, mean and standard deviation was used in order to describe respondents' characteristics, respondents' answer to the research variable. Standard deviation describes the dispersion about the mean, and the mean represents the average level of the respondent's agreement about a particular question.

3.6.2 Correlation Analysis

Pearson correlation analysis was employed to examine the degree to which financial literacy, income and investment decision are linearly related. The Pearson correlation coefficient value (r) varies between -1 to 1. The positive value of r indicates a positive relationship between two variables whereas a negative value signifies a negative relationship.

The Pearson correlation coefficient is calculated using the following formula:

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where,

r = Pearson correlation coefficient

x = independent variables

y = dependent variable

n = number of observations

3.6.3 Multiple Regression Analysis

Multiple regression analysis was used to test the effect of financial literacy and income on investment decisions and the independent contribution of each of the predictor variables. Regression was useful to know how well the set of predictor variables is related with investment decisions and their respective importance to investment decisions of university students; hence, it also helps to test the hypotheses framed for the study. The analysis identified if financial literacy or financial capacity had more influence in investment decision of the students.

The regression equation of this study is presented as below:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where,

Y = Investment decision

a = Intercept

b_1, b_2 = Coefficients for each independent variable

X_1 = Financial Literacy

X_2 = Financial Behaviour

e = Error term

Statistical significance of regression coefficients was tested at 5% significance level, and the overall fit of the regression model was assessed by the Coefficient of Determination (R), explaining variation in investment decisions attributed to financial literacy and income.

4. Results and Discussion

This chapter shows the analysis of the collected data and discusses the results of the study against the study objectives. The data has been drawn from 122 university students in Kathmandu Valley. Inferential and descriptive statistical methods were used to study the effect of financial literacy and income on investment decision. The chapter begins with a description of the demographic profile of the respondents and then followed by the descriptive statistics, correlation analysis, regression analysis, and discussion of findings. The results are interpreted in relation to the study objectives, theories, and literature of previous studies.

4.1 Demographic Profile of Respondents

The demographic profile of respondents presents important basic information regarding the respondents and describes the composition of sample in terms of certain characteristics. A demographic profile of respondents may aid in interpreting the results and understanding representativeness of the study respondents. The selected demographic factors under consideration are gender, age, academic year, and income. A total of 122 valid responses are accounted for under study.

4.1.1 Demographic Profile of Respondents

The demographic analysis was conducted to understand the background characteristics of the respondents participating in the study. The respondents consisted of bachelor-level management students from colleges within Kathmandu Valley, Nepal. Variables such as gender and age group were analyzed using descriptive statistics to provide an overview of respondent characteristics. Understanding demographic distribution is important because financial knowledge, Income and investment tendencies may vary across different respondent groups.

Table-1: Demographic Profile of the Respondents

Variables	Category	Frequency	Percentage
Gender	Male	61	50.0
	Female	61	50.0
Age	Group Below 20 years	15	12.3
	20-25 years	80	65.6
	Above 25 years	27	22.1

The demographic findings indicate that the respondents were equally distributed across gender categories, providing balanced representation

within the study. The majority of respondents belonged to the 20-25 years age group, indicating that most participants were young adults actively transitioning toward financial independence and investment awareness. The respondent profile supports the relevance of the study in examining investment decision-making behaviour among university students in Nepal.

4.1.2 Academic year of Respondents

Table-2: Academic Qualification of the Respondents

Year of study	Frequency	Percent	Cumulative %
1 st year	24	19.70	19.70
2 nd year	23	18.90	38.50
3 rd year	26	21.30	59.80
4 th year	49	40.20	100.00
Total	122	100	

The above table shows the distribution of respondents by academic year. Fourth-year students form the largest group of respondents accounting for 40.2% of all respondents. Third-year students are the second largest group accounting for 21.3% while first and second year students are for 19.7% and 18.9% respectively. It is understandable that older students (seniors) should have more access to information relating to investment concepts, information concerning investment and to more practical experiences in financial matters than younger students (freshmen).

4.1.3 Income of the Respondents

Table-3: Monthly Income Level of the Respondents

Monthly Income Level (Rs.)	Frequency	Percentage	Cumulative %
Less than 5000	51	41.80	41.80
5000-10000	29	23.80	65.60
Above than 10000	42	34.40	100.00
Total	122	100.00	

Distribution of respondent by monthly income was shown as 51(41.8%) respondent had less than Rs. 5,000, 29 (23.8%) of them had income ranging from Rs. 5,000 to 10,000 and 42 (34.4%) had more than 10,000. These statistics shows that many of the respondents had a relatively low income and thus had limited capacity to engage in investment activities. On the other hand, there were respondent belonging to higher income group enabling a comparison across various levels of financial capacity.

A survey of the demographic profile also showed that most of the respondents had relatively close gender distribution and also that most respondent had a certain age range (Mostly between 20 and 25) and year of

study (fourth year students constituting the majority of sample). Also that many respondent earned less than Rs. 5,000, shows a restriction on the capacity of student to engage in investment activities.

4.2 Descriptive Statistics

Descriptive statistics were also calculated to review average responses as well as the variation among variables in the study. This description indicates respondents' perceptions about their own financial literacy, financial security, and the decision to invest. Central tendencies were presented as mean values, while measures of dispersion around the mean were presented as standard deviations. The findings are presented in

Table-4: Descriptive Statistics for all Samples

Variables	Mean	Standard Deviation
Financial Literacy	2.96	0.925
Income	2.97	0.807
Investment Decision	3.07	0.845

As observed from the table above, descriptive statistics shows that the average value of financial literacy is 2.96, which has a standard deviation of 0.925. This indicates that most respondents have moderate level of financial knowledge about investment-related concepts, risk-return assessment, and about the influence of economic variables like inflation and interest rates in the decision-making on investments. In addition, the larger standard deviation indicates there are variations in respondents' level of financial literacy.

Similarly, the average value of income is 2.97 and a standard deviation of 0.807. This suggests that the respondents have a moderate level of financial capability for carrying out investments activities although variation is exist among respondents.

Among the variables included in the analysis, investment decision has the highest mean value of 3.07 and standard deviation of 0.845. This implies moderate degree of propensity to participate in investments, to be able to assess the investment risk and return, confidence of in investment decision, and the tendency to invest.

Overall, the descriptive statistics indicates a moderate level of financial literacy, income, and investment decision among the respondents. From these results, it is hypothesized that since financial literacy and income both have comparable mean values, they are likely to have impact on investment decision. However, only a simple descriptive analysis cannot determine the relationship whether positive and/or negative and also significance of it. Thus, to investigate the influence of financial literacy and income on the investment decisions of the Nepalese university students, correlation and regression analyses were employed.

4.3 Correlation Analysis

Correlation analysis was done to investigate the association of financial literacy with income and investment decisions of university students in Nepal. The strength and direction of relationships among the variables of this study was assessed using Pearson's correlation coefficient. The correlation coefficients lie within the range of -1 to +1, in which a value of +1 or a close value indicates a strong positive relationship, while a value of -1 or a close value indicates a strong negative relationship, and a value of 0 indicates no relationship.

Table-5: Integrated Correlation between Variables

Variables	Financial Literacy	Income	Investment Decision
Financial Literacy	1	0.122	0.254**
Income	0.122	1	0.431**
Investment Decision	0.254**	0.431**	1

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

As seen from the table above, financial literacy was found to be significantly positively correlated with investment decision ($r = 0.254$, $p = 0.005$). This implies that students who score higher in financial literacy tend to have better investment decision behaviour. The correlation coefficient shows weak positive relation between financial literacy and investment decision.

Similarly, income was significantly positively correlated with investment decision ($r = 0.431$, $p < 0.001$). It can be observed that the correlation coefficient implies that there is a moderate positive relation between income and investment decision. Students with higher financial resources can be seen engaging in investment related activities more and making investment decision accordingly. Income had a stronger correlation relation with investment decision compared to financial literacy.

Moreover, the study shows that there is positive but insignificant correlation between financial literacy and income ($r = 0.122$, $p = 0.179$). This implies that there is not strong correlation between financial literacy and income of the respondent. Hence financial literacy can be treated as an independent predictor variable separately from income in the regression analysis.

To sum up, financial literacy and income were both positively correlated with investment decision. It can be inferred that among the Nepalese university students the financial capacity is greater factor influencing investment decision compared to financial literacy. Further examination and testing of the hypotheses was done using regression analysis in the next section.

4.4 Regression Analysis

Multiple Regression Analysis of factors affecting investment decision-making on Nepalese university students: Financial literacy and income were considered as two independent variables that affect investment decisions among Nepalese university students. Multiple regression analysis was done to assess the explanatory power of the variables and which independent variable have stronger effects on the investment decision. Result of multiple regression analysis is displayed below:

Table-6: Model Summary

Model	R	R ²
1	0.476	0.227

The model summary indicates an R value of 0.476 and an R² value of 0.227. The coefficient of determination (R²) shows that financial literacy and income jointly explain 22.7 percent of the variation in investment decisions among university students. This implies that while the independent variables contribute significantly to investment decisions, other factors not included in the model may also influence investment behaviour.

Table-7: Regression Coefficient

Predictor	Estimate ()	SE	t-value	-value
Constant	1.254	0.321	3.91	<0.001
Financial Literacy	0.187	0.074	2.51	0.013
Income	0.425	0.085	5.00	<0.001

The regression results reveal that financial literacy exerts a statistically significant positive impact on investment decisions ($\beta = 0.187$, $p = 0.013$). This leads to infer that a student who is knowledgeable in financial concepts and in investment opportunities, risks and rewards is more likely to make an investment decision. Hence hypothesis 1 (H₁), that financial literacy has a positive impact on investment decisions, is accepted.

Likewise income exerts a statistically significant positive impact on investment decisions ($\beta = 0.425$, $p < 0.001$). The results demonstrate that a student with higher level of financial ability is likely to take part in investment activities and thus makes investment decision. The larger coefficient for income than for financial literacy suggests that financial ability affects investment decision relatively more than financial literacy. Thus Hypothesis 2 (H₂) stating that income has a positive impact on investment decisions is accepted.

From the comparison of coefficients it is evident that income has a greater influence on investment decision than does financial literacy ($\beta = 0.425$ vs. $\beta = 0.187$). Financial literacy increases the likelihood of taking investment

decisions while financial ability has a larger role in determining the investment decisions for Nepalese college students.

4.4.1 Hierarchical Regression Analysis

An additional test was run to examine the relative impact of income and financial literacy in predicting investment choices: hierarchical regression analysis. Hierarchical regression allows testing of the additional variance in the dependent variable explained by one predictor over those variables already in the model. Financial literacy was added in the first model, and income in the second, to find out if income offers further explanatory value beyond financial literacy.

Table-8: Hierarchical Regression Model

Model	Predictors	R	R ²
Model 1	Financial Literacy	0.431	0.186
Model 2	Financial Literacy + Income	0.476	0.227

As can be seen in the table above, Model 1 that contained only financial literacy variables was able to account for 18.6 percent of the variability in investment decision-making ($R = 0.186$). Thus, financial literacy itself plays a significant role in accounting for university students' investment decision-making behaviour.

When income was added to the model as Model 2, 22.7 percent of the variability in investment decisions was explained ($R=0.227$). The higher R-squared indicates that income adds explanatory information over what is provided by financial literacy alone.

Table-9: Hierarchical Regression Model Comparison

Comparison	R ²	F	df1	df2	-value
Model 1 Model 2	0.041	6.32	1	119	0.013

From the model comparison, the analysis of the regression model with the inclusion of income proves to be of statistical significance as it showed a significant increase of $R=0.041$ with a statistic value of $F=6.32$ and $p=0.013$ in explaining for investment decision. In addition the income contributed an extra of 4.1 percent of variance explained of the investment decision, after considering financial literacy. Hence the significant increase in R assures the contribution of unique explanatory power of income beyond that of financial literacy. The result of hierarchical regression also supports the result from correlation and multiple regression. Financial literacy contributes significantly in explaining investment decision. Income also explains significantly the variance explained for the investment decision, enhancing the predictive strength of the model, which in turn proves that the financial capacity of university students do significantly play role in investment decision making process. Therefore, it is the financial capacity not the

financial literacy which determines the investment decision, the argument of the study, is supported by the result of hierarchical regression.

5. Discussion of Findings

This paper explores the extent to which income and financial literacy affect investment decisions among Nepalese university students, and compared the relative influence of the two variables. The paper found that income and financial literacy have positive and statistically significant effects on investment decisions; nevertheless, the extent of their influence was higher on income than on financial literacy through correlation, multiple regression, and hierarchical regression analysis. This implies that despite financial literacy of students in understanding investment opportunities, the influence of financial capacity appears stronger in deciding whether to actually invest or not.

5.1 Impact of Financial Literacy on Investment Decision

Based on the analysis, financial literacy has a significant and positive impact on investment decisions. Financially knowledgeable individuals tend to have better understanding regarding investment options, risks and benefits associated with them and thus make decisions relating to finance with better judgment. This result conforms to those obtained by Awais *et al.* (2016), Baihaqqy *et al.* (2020), Kumari (2020) and Utami & Sitanggang (2021), which demonstrated that financial literacy positively affects participation in investment decisions. The outcome is also in line with Theory of Planned behaviour which suggests that knowledge would enable individuals increase their perceived behavioural control thereby leading to the intended behaviour (investment).

5.2 Impact of Income on Investment Decision

The income has a significant and positive impact on the investment decisions. Students with higher levels of income are more likely to put their money to savings and investments compared to those with low financial resources who have limited opportunities to participate in investment decisions despite having sound knowledge about investments. The finding is consistent with that of Arianti (2018) and also confirms the principles of Behavioural Finance Theory which claims that individual behaviour is often determined by their circumstances.

5.3 Financial Knowledge or Financial Capacity?

A major contribution of this study is that income has been found to have a stronger effect on the investment decisions compared to financial literacy. Students may gain knowledge on investments but have limited amount of funds to actually take part in investment. As confirmed from hierarchical regression results, the additional explanatory power provided by the

financial capacity proves it is more significant than knowledge on investment decisions.

6. Conclusion

In this study, it was intended to find out that either the financial knowledge or the financial capacity makes more effect on investment behaviour of university students in Kathmandu valley, Nepal. Data collected from 122 university students and analyzed by the correlation, multiple regression and hierarchical regression techniques revealed that financial literacy and financial capacity positively and significantly impact on the investment behaviour.

It was found that financially literate students make appropriate financial decision on investment opportunities and financial literacy helps to understand how investment would take place. Income was found to be more significant than financial literacy. In addition to it, financial capacity also added additional variance to investment behaviour other than financial literacy; the result of hierarchical regression showed that income had more significant role to make the investment decision a reality than financial literacy among university students of Kathmandu valley.

In sum, it can be concluded that both financial literacy and income were influential in determining student investment decisions, yet financial capacity plays a crucial role for university students in Nepal compared to financial knowledge. Financial literacy may play an essential role in decision making regarding investment opportunities, financial capacity plays significant role for investment as well to realize it.

6.1 Theoretical Implications

This study has added evidence to investment literature by providing the evidence about the comparative effect of financial literacy and financial capacity on the students' investment behaviour. This finding supports the Theory of Planned Behaviour where financial knowledge increase people's confidence and capability in the process of investment. Moreover, this study supports the Behavioural Finance Theory in which economic circumstance is considered the key in influencing on people's financial behaviour.

This research extends literature in that financial literacy and financial capacity are compared together in one analysis. While previous studies have usually assessed the impact of either of them, present study confirms the superiority of financial capacity in influencing the students' investment behaviour in Nepal.

6.2 Practical Implications

The implications from this study are for the policy makers, education providers, financial institutions as well as the students. Educational institutions should enhance their financial literacy program by adding the

financial literacy course, seminars and workshops to improve their students' financial knowledge and financial decision making skill. Policy makers should complement the financial literacy with financial capacity building initiative by introducing various saving incentive programs, financial assistance schemes for investment or income earning project.

Financial institutions should cater their products and services by considering students' characteristics, i.e. Lower income and less asset for investment. Students should strive to improve their financial literacy, financial capacity by practicing sound financial management, saving and by involving in investment-oriented activity in order to enhance the potential for investment participation for future.

6.3 Limitations of the Study

The objectives of the study were addressed but certain limitations are to be kept in mind when analyzing the data; these limitations also create some room for future study.

- The scope of the study was restricted to university students in Kathmandu Valley; as such, these results may not be generalized to students in other areas of Nepal, or to the non-student population in general.
- This research used a cross-sectional design which captured financial literacy, income and investment behaviour at only one point in time and did not observe variations in the same over a period of time.
- The research used self-administered questionnaire responses, which may be prone to response bias and personal perception.
- Financial literacy and income were considered as determinants of investment decisions; however, there are a lot more factors that may affect students' investment behaviour such as financial behaviour, risk tolerance, financial self-efficacy, social influences, psychological influences, etc., which are not included in this study.

7. Recommendations for Future Research

There are numerous ways that future research could build on this study: Incorporate a larger and a more diversified sample for better generalization of findings covering various regions and different kinds of educational institution of Nepal. Future research may focus on student and non-student comparative analysis in understanding investment decision-making behaviour. Future researches could consider adding other potential variables affecting investment decision-making behaviour like financial behaviour, risk tolerance, financial self-efficacy, social influence and psychological factors of students. A longitudinal design study should be employed to establish cause and effect relationships of the variables among the university students.

Future researchers may apply Structural Equation modeling (SEM), mediation and moderation analysis in a rigorous manner for finding the effect of variable and for obtaining more in-depth understanding. Finally, the effectiveness of financial literacy programs and student financial capacity enhancement initiatives may also be undertaken by the researchers in order to help policymakers and financial institutions contribute more effectively.

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