

THE INFLUENCE OF EDUCATIONAL LEVEL AND FINANCIAL KNOWLEDGE ON INVESTMENT DECISIONS MEDIATED BY FINANCIAL LITERACY IN GENERATION Z AND MILLENNIALS

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Abstract

The study attempts to explore the factors affecting investment decisions amongst Generation Z and Millennials in the fast-evolving digital financial environment. Particularly, the study aims at determining the effects of education levels and financial knowledge on investment decision-making processes as well as the possibility of financial literacy acting as a mediator. An explanatory quantitative research design was employed in this investigation in order to collect information from a target group of young people who invested their funds using Structural Equation Modeling in SmartPLS. The findings demonstrate that education level does not have any effect on investment decision-making but it enhances financial literacy. In addition, although financial knowledge has a significant effect on making investment decisions, it is not associated with financial literacy. Importantly, the results indicate that financial literacy is the strongest predictor of investments as well as the best full mediator of the education-investment relationship. This finding provides a practical perspective for financial organizations as well as designers of digital platforms aiming at enhancing youth market penetration by constructing a proper educational structure instead of just imparting information

1. INTRODUCTION

Integration of digital technology into global financial systems has revolutionized the process through which retail investors can access markets. Digital investment platforms for Generation Z and Millennials have made barrier costs much lower. They give easy access to capital markets, mutual funds, and cryptocurrencies. However, the low barrier costs make young people prone to systemic risks and volatile market dynamics, hence the need to understand their behavioral pattern in investing to secure the economy in the future. While the access level is similar for all generations, different demographic groups have diverse involvement in and efficiency at investment decisions.

Prior literature highlights disparate views on the factors driving retail investor behavior. Economic theory postulates that proper education and knowledge are essential elements forming the basis of sensible financial behavior. Nevertheless, modern literature reveals incongruence in such beliefs. Whereas some studies indicate high levels of education as an automatic factor that leads to better asset allocation, other scholars argue that merely being educated is not sufficient for engaging in advanced financial management practices. The existing research gap pertains to understanding precisely how academic experience and locally acquired financial information influence investing behavior.

The purpose of this research is to clear up such contradictory theories by creating an overarching structure. In doing so, this research seeks to consider financial literacy as not only an independent entity but also as a mediating variable that acts as a bridge between raw demographic and cognitive inputs and real financial practice. Through changing the approach from individualized variables to mediation, this research will help move forward the field of business and economic research. This will better understand whether young people's finances are influenced by degrees, information, or literacy.

2. LITERATURE REVIEW

2.1. Theoretical Framework

The present study is based on Behavioral Finance Architecture, which recognizes the role of cognitive features and socio-demographic attributes as important determinants in individual stock-market decisions. In contrast to classical economic theory, which presupposes that investors always act rationally, behavioral theories hold that aspects such as education and local knowledge affect an individual's ability and willingness to take risks.

2.2. Educational Level, Financial Literacy, and Investment Decisions

It is postulated that formal education helps in enhancing mental ability that can help the individual in analyzing the intricate economic environment. Advanced academic performances help people learn analysis, which eventually helps in shaping their financial outlook without direct participation. Formal education, however, fails to include financial management programs. This implies that although education does not compel someone to trade stocks, it offers the mental framework necessary for understanding financial concepts.

- H₁: Education level directly and positively influences financial literacy.
- H₂: Education level directly and positively influences investment decisions.

2.3. Financial Knowledge, Financial Literacy, and Investment Decisions

Financial literacy can be described as the understanding one has regarding certain concepts about finances, instruments used, interest rates, and financial diversifications. This means that when someone has financial literacy, he/she does not succumb to cognitive biases or fears about entering the market place. One who knows finance is supposed to invest with confidence. There is need to distinguish between knowing finances and being literate financially.

- H₃: Financial knowledge directly and positively influences financial literacy.
- H₄: Financial knowledge directly and positively influences investment decisions.

2.4. The Mediating Role of Financial Literacy

The notion of financial literacy embodies a process whereby an individual becomes aware of his or her ability to make financial decisions. In this case, this concept is considered the engine behind the whole idea of financial decision making. Educational background (X₁) and information resources (X₂) are the starting point inputs that need to be transformed via functional literacy (Z) into actual investments (Y).

- H₅: Financial literacy directly and positively influences investment decisions.
- H₆: Financial literacy significantly mediates the influence of education level on investment decisions.
- H₇: Financial literacy significantly mediates the influence of financial knowledge on investment decisions.

3. RESEARCH METHODOLOGY

In order to explain the structural relationships between factors that influence youth investment behavior, the current research adopts an explanatory quantitative research design. The survey data collection stage was conducted through the distribution of the questionnaire developed on a digital platform among a target population of Generation Z and Millennials retail investors. The questionnaire questions were based on financial behavioral measures and scales from previously established indexes and assessed using the 5-point Likert scale.

The statistical analysis will be conducted through the Partial Least Squares Structural Equation Modeling (PLS-SEM). The choice of PLS-SEM method was dictated by its high predictive accuracy and appropriate use for mediation models including demographic and cognitive latent constructs. The testing process consists of two steps, namely outer measurement model validation and bootstrapping procedure implementation.

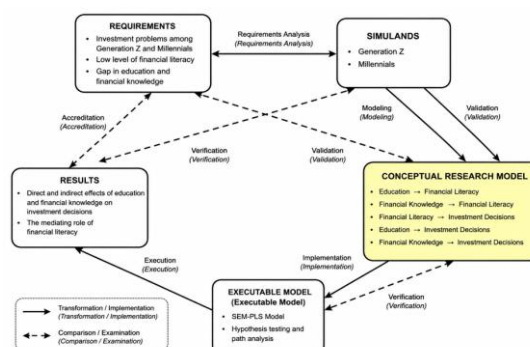


Figure 1. Conceptual Model of the Study

Source: Authors (2026)

4. RESULT AND DISCUSSION

4.1. Evaluation of The Measurement Model (Outer Model)

Internal consistency, convergent validity, and discriminant validity were assessed to evaluate the measurement model. These parameters of assessment obtained after running through SmartPLS analysis are outlined in the following table (Table 1):

Table 1. Reliability and Convergent Validity Metrics

Construct	Cronbach's Alpha	Composite Reliability (ρ_c)	Average Variance Extracted (AVE)
X ₁ (Education Level)	0.720	0.838	0.636
X ₂ (Financial Knowledge)	0.736	0.833	0.556
Y (Investment Decision)	0.848	0.891	0.622
Z (Financial Literacy)	0.721	0.824	0.541

Source: Authors (2026)

The findings in Table 1 indicate that the criteria for the constructs have exceeded the threshold levels. The values for the Cronbach's alpha scale range between 0.720 and 0.848; hence, this level is higher than the minimum requirement level of 0.70. The Composite Reliability values (ρ_c) are also higher than 0.80, thus indicating strong internal consistency. On top of that, the Average Variance Extracted (AVE) values for all latent variables are higher than 0.50 (between 0.541 and 0.636), which confirms good convergent validity. The discriminant validity will be confirmed using the Fornell-Larcker test criteria outlined below (Table 2):

Table 2. Discriminant Validity Matrix (Fornell-Larcker)

Construct	X ₁	X ₂	Y	Z
X ₁ (Education Level)	0.798			
X ₂ (Financial Knowledge)	0.334	0.745		
Y (Investment Decision)	0.258	0.401	0.788	
Z (Financial Literacy)	0.452	0.297	0.543	0.736

Source: Authors (2026)

The bold-faced values along the diagonal represent the square root of the individual Average Variance Extracted (AVE) of each variable. As all values along the diagonal are greater than their corresponding correlation coefficients outside the diagonal, there is empirical distinction among the variables. The level of collinearity was assessed using the Variance Inflation Factor (VIF). The lowest VIF value is 1.220 (X₁), while the highest VIF value is 2.202 (Y₃). The presence of multicollinearity can be ruled out since all individual VIFs are still very low at less than 5.0.

4.2. Structural Model Assessment (Inner Model)

- Exploratory Power (R²): In the structural equation model, the R² value of Investment Decisions (Y) is 0.360, implying that education, knowledge, and literacy together determine 36.0% of the variability in youth investment choices. On the other hand, financial literacy (Z) shows an R² value of 0.228, which means that 22.8% of its variability is influenced by upstream determinants (X₁ and X₂).
- Fit Indicators of Model: In terms of model fit, the Standardized Root Mean Square Residual (SRMR) value obtained from the structural analysis is 0.106 for both saturated and estimated models, which is within structural acceptability. The chi-square value is 137.120 while the normed fit index (NFI) is 0.611.

Hypothesis testing was executed utilizing the bootstrapping function to determine path coefficient significance, as displayed in Table 3:

Table 3. Path Coefficients and Hypothesis Testing

Structural Path	Original Sample (O)	T-Statistics	P-Values	Result
H ₁ : X ₁ → Z	0.397	3.241	0.001	Supported
H ₂ : X ₁ → Y	-0.053	0.342	0.732	Rejected
H ₃ : X ₂ → Z	0.164	1.038	0.299	Rejected
H ₄ : X ₂ → Y	0.275	2.378	0.017	Supported
H ₅ : Z → Y	0.485	3.340	0.001	Supported

Source: Authors (2026)

4.3. Discussion and Mediation Analysis

The results obtained on structural outputs are very interesting in relation to decisions made by youths in terms of investment. The direct impact from Education Level to Investment Decisions (X₁ → Y) is insignificant ($\beta = -0.053$, $p = 0.732$). This means that being educated through higher institutions does not ensure that an individual will become an active participant in the market investment process. Nevertheless, Education Level has a very significant positive influence upon Financial Literacy (X₁ → Z: $\beta = 0.397$, $p = 0.001$). This suggests that education systems successfully foster the development of cognitive intelligence to facilitate financial literacy.

On the other hand, Financial Knowledge operates on another plane. There is a direct and significant impact of Financial Knowledge to Investment Decisions ($X_2 \rightarrow Y$: $\beta = 0.275$, $p = 0.017$). This shows that individuals develop technical knowledge related to finance and investments which triggers investments immediately. However, its impact towards financial literacy ($X_2 \rightarrow Z$) is statistically insignificant ($\beta = 0.164$, $p = 0.299$). This indicates a peculiar behavior in relation to Generation Z and Millennials: youths acquire various financial details without applying them to build up financial literacy.

Thirdly, Financial Literacy (Z) is the most absolute predictor of Investment Decisions ($\beta = 0.485$, $p = 0.001$). From the analysis of the indirect effects paths, we find that there exist two unique cases:

- 1) **Full Mediation** ($X_1 \rightarrow Z \rightarrow Y$): Since the direct link $X_1 \rightarrow Y$ is totally invalid but the indirect effect paths are highly significant; in this case, Financial Literacy is a total mediator. The academic knowledge of an individual cannot lead to investment decision-making unless it passes through and translates to financial literacy.

No Mediation ($X_2 \rightarrow Z \rightarrow Y$): In cases where the indirect effect path of Financial Knowledge to Financial Literacy ($X_2 \rightarrow Z$) is totally invalid, then Financial Literacy is not a mediator of this link. Financial knowledge has an independent impact on investment decisions.

5. CONCLUSION AND RECOMMENDATIONS

The paper finds that the youth's investment decision-making process is characterized by structural and information-based approaches. Level of education does not motivate any form of investments in markets; rather, it establishes the necessary base of cognitive reasoning that can be used to develop financial literacy. On the other hand, financial information inspires the actual decision to invest in the market without naturally developing financial literacy. Financial literacy, on the other hand, becomes the key motivator.

Recommendations for Future Research

Though the study has shed light on some structural mechanisms, it is constrained by its generalized demographic factors. Further research needs to widen its geographical range and cover areas outside the metropolitan areas to have different socio-economic demographics. Moreover, future researchers need to include behavioral control factors such as risk tolerance, trust in financial technologies, or parental background in investments in order to better explain the unexplained variance in youth asset allocations.

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