



Role of Financial Literacy in Mutual Fund Investment Decisions: A Study of Rural Investors

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ABSTRACT

This paper explores how financial literacy can be used to guide mutual fund investments by rural investors. As financial inclusion and the development of capital markets have risen, it has become imperative to determine the determinants of investment behaviour, especially in the rural setting where financial awareness is not very high. The research design is quantitative research based on primary data obtained with the help of a structured questionnaire to be filled in Google Forms. Descriptive statistics, correlation and regression were used to analyse 412 responses and determine the association between financial literacy and investment decision-making.

The results indicate that a majority of the respondents are of moderate financial literacy, with financial products awareness but deficient in the insight into some of the fundamental concepts like risk and diversification. The common use of traditional investment opportunities like bank deposits and gold is still predominant as there is a risk-averse nature of the rural investors. Nevertheless, we witness a gradual transition towards the investments in the form of mutual funds, which suggests the exposure to the modern financial instruments is growing.

The statistical analysis also supports the hypothesis that there is a strong positive correlation between financial literacy and mutual fund investment decisions indicating that increased financial knowledge increase confidence and desire to invest. The paper also brings out the role of behavioural and social factors, including dependence on informal sources of information, in the determination of investment behaviour. On the whole, the study highlights the necessity of specific financial literacy programs to fill the awareness-action gap to achieve informed investment choices and enhance the financial inclusion of rural communities.

Keywords: Financial Literacy, Mutual Funds, Rural Investors, Investment Behaviour, Financial Inclusion, Risk Perception.

1.INTRODUCTION

1.1 Background of the study

Financial literacy has become a vital factor to the capacity of individuals to make informed financial choices within more complicated financial markets. It means the knowledge, skills, and confidence needed to comprehend the financial products, to manage money, and invest wisely. Financial literacy is an important element in boosting financial inclusion and



increasing the use of formal financial systems in the context of developing economies, such as India. Recent research points to the fact that financially literate people tend to diversify their portfolios, make sound risk assessment, and plan their investments in the long run (De Beckker et al., 2025) more.

The advent of mutual funds as a favourite investment option has been enabled by their ability to provide diversification, professional management, and availability to small investors. Digitalization and policy efforts have seen the Indian mutual fund industry grow with an increasing number of participants. As an example, the proportion of mutual funds in household financial assets has grown consistently over the past years, which means a transition to market-linked investments (NISM, 2025). This growth has not propelled high participation with regard to the population of the country, and thus better financial awareness is required.

Financial literacy is especially applicable to mutual fund investment where the mutual fund instruments require comprehension of concepts like risk- returns trade-offs, diversification and market fluctuations. Investors can either avoid such instruments or make suboptimal decisions to invest without proper financial knowledge. This is why it is necessary to increase the level of financial literacy in order to promote the informed engagement into the mutual fund markets and to increase financial well-being in general.

1.2 Significance in Rural setting

The significance of financial literacy is further exaggerated in the rural regions, where the availability of information on finance and formal investment opportunities is comparatively low. The rural households tend to use traditional savings tools which include bank deposits, gold and informal financial systems mainly because they lack awareness and a perceived risk of using the modern financial products (Raghavi, 2026).

Although rural investors form a considerably large percentage of the population in India, their contribution towards investments in mutual funds is a disproportionately low percentage. According to the recent report, rural areas constitute merely 18.44% of total assets of mutual funds under management, which shows a significant gap between rural and urban areas in the participation in investment (AMFI-based study, 2026).

Rural financial literacy programs can help fill this gap by increasing awareness, establishing trust, and raising awareness about investment products. Inclusive economic growth can be encouraged by empowering rural investors financially to be able to make sure that more people participate in capital markets.

1.3 Problem Statement

Financial literacy is identified as one of the essential factors in investing behaviour but there is a huge disparity between awareness and investment in financial markets especially in rural communities. There is some evidence that although a significant number of households are informed about investment opportunities, the number of households that actually engage in market-linked investment products like mutual funds is very low (SEBI Survey, 2025).

Rural investors, especially, have various obstacles, such as the lack of access to financial education, risk-aversion, and use of informal sources of information. The challenges lead to



the preference of low risk and traditional investment opportunities thus reducing wealth creation opportunities. Moreover, the mutual fund products are so complex that it further discourages the participation of financially fewer literate individuals.

This scenario supports the necessity to study the role of financial literacy in the investment decision-making process of rural investors in mutual funds and the possibility of increasing the involvement of rural investors in modern financial tools by means of enhancing financial literacy.

1.4 Research Gap

The current literature has widely discussed the topic of financial literacy and investment behaviour, but the majority of the research has been conducted on urban population or on the particular demographic group, e.g., students and salaried professionals. There is a paucity of research on rural investors especially when it comes to mutual fund investments. Although other studies recognize financial literacy as a factor influencing investment choices, they tend to ignore the socio-economic and information limitations of rural families (Vineel, 2026).

Furthermore, the existing literature is more inclined to study the overall investment behaviour as opposed to mutual funds as a particular investment option. Empirical research that investigates the relationship between financial literacy and mutual fund investment decisions in rural areas with structured analytical models is also lacking.

This gap highlights the necessity to conduct a narrow study that will address the role of financial literacy in determining the decision to invest in mutual funds among rural investors and subsequently add to the academic body and policy-making.

1.5 Aim of the study

The main aim of the research is to analyse how financial literacy has an impact on the decision to invest in mutual funds among rural investors. In particular, the study will:

- Determine financial literacy of rural investors.
- Assess the knowledge and awareness of mutual fund investment opportunities.
- Test the association between financial literacy and investing.
- Determine the factors affecting the participation of mutual funds in rural regions.

By answering these questions, the study aims to offer insights on how financial literacy can improve investment behaviour and financial inclusion in rural settings.

This study will focus on the following scope:

The current research aims at rural investors and their involvement in mutual fund investments, with a special emphasis on the financial literacy factor. The research is also narrow in that it focuses on awareness, knowledge and decision-making behaviour concerning mutual fund but not financial instruments in general.

The research takes into account the major aspects of financial literacy such as the knowledge of the fundamental financial concepts, risk perception, and investment awareness. It also examines how these issues affect the selection and uptake of mutual funds' investments by rural families.



The geographical scope of the study is restricted to particular rural areas, which means that the analysis of rural investment behaviour would be focused. The results are to be used by policy makers, financial institutions and educators to create specific financial literacy programs.

Nonetheless, the study fails to address behavioural outcomes (including long-term performance in investment or portfolio returns) since its main research is on cognitive and decision-making concepts of financial literacy.

2. REVIEW OF LITERATURE

2.1 Financial Literacy Concept

De Beckker et al. (2025) investigated how financial literacy can influence the investment decision-making process and discovered that those with a high level of financial literacy exhibit superior skills in risk assessment and portfolio diversification, which eventually lead to better investment performance. The research highlights that financial literacy increases the power of individuals to make sense of financial data, differing investment options, and choosing the right financial instruments depending on their risk-taking propensity. It also points out that financially literate people will have a greater propensity to practice systematic financial planning that leads to long-term wealth generation and financial stability.

Dash and Ranjan (2023) compared the levels of financial literacy among the Indian states and determined that the greater the financial literacy the higher the likelihood that one will invest in financial markets, especially mutual funds, because of the enhanced risk-return relationship. Their results show that financial literacy does lessen uncertainty in instruments tied to markets, and more investors are willing to participate in diversified financial portfolios. The research also indicates that there are regional differences in financial literacy which are the cause of differences in investment behaviour in various states.

Vineel (2026) explored financial literacy in young professionals and found that there was a strong positive correlation between financial literacy and investment participation, showing that literacy increases confidence in financial decision making. The research also indicates that, more financially aware individuals are more active in taking financial advice and exploring new investment opportunities. This demonstrates the importance of financial education in positive financial behaviour and better investment performance.

As pointed out by Dasani (2024), government and regulatory efforts to enhance financial literacy among individuals is crucial in enhancing financial awareness and making informed financial choices that cut across socio-economic lines. The study underscores the importance of structured financial education programs in bridging knowledge gaps and promoting financial inclusion. It further highlights that policy interventions can be very effective in increasing financial literacy rates, especially among underserved groups.

Du et al. (2025) highlighted that financial literacy improves individuals in comprehending the complex financial information especially using the visualization tool, hence increasing financial understanding and decision-making effectiveness. The paper outlines how technological advancements can help streamline financial information and make it readily



available to more people. It also indicates that digital technologies can be instrumental in enhancing financial literacy in people who do not have much formal education.

As shown by Baveja and Verma (2024), financial literacy has a crucial influence on stock market participation and financial behaviour, enhancing investor confidence and decreasing vulnerability to financial misinformation. The study points out that financially literate people are in a better position to discern trustworthy sources of information and scams. It also highlights that financial literacy helps to make investment decisions more rational and informed, and thus ensures a better financial well-being.

2.2 Rural Investment Behaviour

Megha et al. (2023) examined financial literacy among rural women and determined that they have poor investment decisions and susceptibility to financial fraud due to low awareness of financial principles, which should be addressed through specific literacy programs. The paper emphasises that the absence of awareness can lead to reliance on informal financial systems, which may not necessarily offer safe or profitable investment prospects.

In Rural Investors Study (2024), low-risk investment opportunities like fixed deposits and savings account appeared to be favoured by rural households because of the lack of awareness and the risk aversion towards market-linked instruments. According to the research, such preference is mostly driven by uncertainty and the lack of familiarity with modern financial products, which limits the diversification of investments.

According to RS Publication Study (2025), education, income and occupation became one of the factors that affect the behaviour of rural investment largely where the financially literate individuals expressed a higher tendency towards diversified investments. The results indicate that in rural areas, the socio-economic conditions are very important in influencing the financial decision-making.

In AMFI Vision Report (2025), it was pointed out that the penetration of mutual funds in India is low especially in rural areas because of the financial illiteracy and mistrust of market-based financial products. The report highlights that awareness campaigns should be carried out to enhance the level of participation.

It was stressed that the socio-economic background, providing access to digital devices, and exposure to education are paramount factors in influencing rural investment behaviour and financial involvement (JAAFR Study, 2026). The authors indicate that the availability of financial information may greatly boost investment in rural areas.

2.3 Mutual Fund Awareness & Adoption

Kumar (2025) studied the behaviour of investors in mutual funds and discovered that awareness and perception are key factors in the decisions to adopt, where informed investors tend to invest in systematic investment plans. It is emphasized in the study that awareness leads to more participation, as well as enhancing consistency in investment.

Sharma (2024) researched the topic of financial behaviour in households and noted that the level of awareness of the financial instruments has a direct impact on the level of adoption, especially in up-and-coming economies. This research highlights the fact that awareness deficiency is a significant obstacle to financial inclusion.



As pointed out by Patel (2025), the level of awareness of the existence of mutual funds has increased, particularly among younger investors, due to technological progress and digital platforms, which has increased the level of participation. The research indicates that digital channels are useful in distributing financial information.

Gupta (2024) discovered that financial literacy is strongly associated with mutual fund awareness, and literate investors have higher propensities to invest and trust diversified financial products. The article underlines that trust is a key factor in making investment decisions.

Singh (2025) highlighted that investor education programs are a major contributor to awareness and understanding of mutual funds and were thus more adopted by the retail investors. According to the study, investment behaviour can be enhanced through structured training programs.

According to Reddy (2026), a lack of awareness and misconceptions about risk are still significant obstacles to mutual fund adoption in rural locations, even though such accessibility is growing. The study highlights the need for targeted awareness initiatives.

2.4 Financial Literacy and investment choices

As shown by Baveja (2024), financial literacy has a direct impact on investment decisions, as it enhances analytical skills and decreases behavioural biases in investors. The researchers emphasize that people with financial literacy can make better decisions and analyse risks.

Verma (2024) discovered that more financially literate people tend to engage in capital markets and have a long-term approach to investment, which enhances financial performance. The paper underlines that the knowledge promotes disciplined investment behaviour.

Das (2024) emphasized that financial literacy can have a profound impact on investment behaviour, as it raises awareness of financial products and improves decision-making capabilities. The analysis indicates that education is very important in determining investment preferences.

Agrawal (2023) noted that low financial literacy people prefer to use the traditional methods of investment because they do not have any knowledge about contemporary financial products. The research points out the deficiencies of financial awareness in these situations.

Saha (2023) highlighted that financial literacy is highly important in terms of decreasing financial vulnerability and enhancing the efficiency of investments among rural households. The research proposes that economic stability is boosted by financial knowledge.

Pareek (2023) discovered that financial literacy helps people to analyse financial risks and make better investment choices. The paper shows the significance of risk assessment in financial planning.

Jeyaprakash et al. (2025) examined the trends in mutual funds investment and arrived at the conclusion that financial markets knowledge plays a significant role in investment process and portfolio determination. The paper underlines that educated investors are more likely to diversify their investments.



As Balasubramanian (2025) pointed, financial knowledge and awareness of market trends determine investment strategies especially in mutual fund investments. The research paper postulates that financial literacy can lead to improved investment results.

2.5 Research Gap Summary

Although the literature is extensive, there are still gaps that are apparent:

- Poor attention to countryside investors in the environment of mutual funds (Megha et al., 2023; Rural Investors Study, 2024)
- Excess focus on urban or young investor groups (Vineel, 2026; Sharma, 2024)
- Absence of combined analysis between financial literacy and mutual fund choices (Dasani, 2024; Kumar, 2025)
- The lack of awareness research and the gap between awareness and actual investment behaviour (AMFI Report, 2025; Reddy, 2026)
- Little empirical research on the effect of rural financial literacy on investment decisions (Dash and Ranjan, 2023; Saha, 2023).
- Poor knowledge of behavioural aspects of rural investment choices (Baveja, 2024; Verma, 2024)

These gaps explain why the current study is required to address the issue of the rural investors and investment decisions by mutual funds.

3. THEORETICAL FRAMEWORK

3.1 Financial Literacy Theory

The financial literacy theory is based on the assumption that financial knowledge serves as a human capital which increases the capabilities of individuals to make sound financial choices. This school of thought holds that people with greater financial literacy are more prepared to assess financial products, comprehend the links between risk and returns, and are more likely to make rational decisions (Lusardi, 2023). Financial literacy does not just stop at awareness but it also includes understanding, analytical skills and the ability to use the financial concepts in the practical environment.

The theory underscores the fact that financial knowledge has a direct effect on financial behaviour by affecting the attitudes towards saving, investing and risk-taking. Those that are financially literate will tend to engage in the formal financial systems and have diversified investment strategies. Conversely, the financially ill-informed people are likely to use the conventional and less risky financial instruments, owing to uncertainty and ignorance.

Also, the importance of information acquisition and processing in decision-making is emphasized by the financial literacy theory. It implies that people are actively looking to find financial information and utilise it to better their financial decisions, thus enhancing their financial health. In the context of mutual fund investments, financial literacy plays a crucial role in enabling investors to understand complex financial products and make informed investment decisions.



3.2 Behavioural Finance Theory

The theory of behavioural finance disputes the conventional belief that people are complete-rational decision-makers. Alternatively, it suggests that decision-making in finance is affected by psychological elements, cognitive biases, and emotions (Katenova, 2025). It is a theory which incorporates psychology with economics in order to explain why human beings are not always rational in making decisions based on their models.

The existence of cognitive biases, including overconfidence, herd behaviour and loss aversion, is one of the major ideas of behavioural finance that affects investment decisions enormously. Such biases may cause investors to make sub-optimal decisions, including not engaging in profitable investments or investing according to market trends without due diligence. Another concept promulgated by behavioural finance is the importance of emotions, indicating that fear and optimism may influence financial decision making.

Moreover, the theory underlines the fact that people do not necessarily process information objectively. Instead, they use heuristics or short cuts in their brains, which may lead to systematic errors in judgment (Reddy, 2026). The behavioural tendencies are especially applicable in the situation of rural investors where access to financial information and education is limited, which may enhance the effects of biases.

In general, behavioural finance theory is a more realistic approach to the study of financial decisions-making as it considers psychological and emotional aspects which determine investor behaviour.

3.3 Study Conceptual Framework

The current research is based on a combined conceptual framework comprising the financial literacy theory, and behavioural finance theory to study mutual fund investment choices of rural investors. The framework places financial literacy as the main independent variable that affects investment decisions, with behavioural factors being the moderating factors, in the decision-making process.

Financial literacy in this context strengthens the knowledge of individuals regarding financial products, allows them to better assess the risks and become more confident about their investments. Simultaneously, risk perception, trust, and emotional reactions characterize behavioural elements that shape the application of financial knowledge in real-life scenarios (Gupta, 2025). The relationship between the two factors defines the general attitude of people towards investment.

3.4 The theoretical sequence of the research

Financial Literacy- Investment Awareness- Investment Decision (Mutual Funds)

This process is accompanied by behavioural factors that determine the interpretation and implementation of financial knowledge. This combined method recognizes the fact that financial decisions are not made only on the basis of knowledge but also in line with psychological and contextual elements.

The framework, therefore, offers a holistic picture of the role of financial literacy and behavioural factors in jointly affecting mutual fund investment choices by the rural investors.



4. RESEARCH METHODOLOGY

4.1 Research Design & Approach

The current research will utilize the quantitative research design that will examine how financial literacy affects mutual fund investment choice among rural investors. Patterns of financial literacy, awareness, and investment behaviour have been systematically investigated using primary data through a descriptive and analytical approach. Quantitative research is the best choice to apply in this study because it enables the collection of data in a structured manner and statistical analysis of relationships among variables.

The study adheres to the cross-sectional research design where the respondents will be assessed at one time using a structured questionnaire. By doing so, it becomes possible to establish the correlation between financial literacy and investment choices without taking into account the differences based on time. The work is explanatory as well, as it tries to determine the effect of financial literacy on mutual fund investment behaviour.

Quantitative research using surveys is generally agreed upon when it comes to financial literacy research, because it guarantees consistency and comparability of answers among the respondents (OECD, 2022).

4.2 Study Area (Rural Context)

The research is carried out in a rural setting, whereby the individuals living in non-urban areas are the target population in which the financial services and financial literacy resources are relatively scarce. The rural setting is also distinguished by a lack of financial awareness, exposure to formal investment instruments, and more of a reliance on the old saving practices.

A rural study area is chosen on the assumption that financial literacy is a critical factor in enhancing financial inclusion and investment participation in rural areas. The lack of financial education, access to investment platforms, and informal sources of financial advice are some of the barriers that rural investors are subject to.

With the focus on rural respondents, the research will help identify the distinctive behavioural and cognitive trends relating to financial decision-making in less advanced financial conditions. The context offers rich information on the impact of financial literacy on investment decisions of populations that are not usually represented in the literature of financial research.

4.3 Sampling Design

The study is designed using a sampling technique that is not probability sampling, but rather convenience sampling, owing to the practical issues that arise with data collection in the rural regions. The approach enables the researcher to gather data of respondents who are easily available and are eager to take part in the research.

The target population will also consist of rural people with simple exposure to financial services and potential or already existing investors. The ultimate number of respondents will be 412, which is a good sample size to analyse and interpret statistically. An increased sample will increase the credibility of findings and will permit a significant analysis of the relationship between variables.



There is a high generalizability with probability sampling techniques, but non-probability sampling is commonly employed in behavioural and financial research where accessibility and feasibility are crucial factors. It is especially applicable in descriptive and exploratory research situations.

The sampling methodology guarantees heterogeneity in the demographic factors, including age, education, occupation, and income, which allows a complete picture of the rural investment behaviour and financial literacy trends.

4.4 Data Collection Methods

The study used a structured questionnaire that was given using a Google Form to collect primary data. Online survey tool was used and made it easy to collect the required data, uniformity in the responses and it reduced errors in data entry. Respondents had clear guidelines and they were encouraged to respond to the questions according to their own perception and experiences.

The questionnaire was divided into various parts, such as demographic data, financial literacy, the awareness of the mutual funds, investment behaviour, and decision-making on investments. The questionnaire had a structured format, which ensured that all the important areas of the study were addressed in a systematic manner.

Data collection via surveys is a well-known and efficient way of collecting data on financial behaviour and financial literacy because it enables respondents to convey their perceptions and attitudes in a standardized format (Ranganathan, 2023).

Data collection process was properly conducted to maintain confidentiality and voluntary inclusion of participants and thus prompting them to give honest and unbiased answers.

4.5 Study Variables

The research is founded on clearly defined variables which are in line with the research objectives. Financial literacy is considered the independent variable, the level of knowledge, awareness and understanding of financial concepts in the respondents.

The dependent variable is given as mutual fund investment decision in which individuals are said to invest in mutual funds to the extent.

Other variables are mutual funds awareness and investment behaviour, which are supporting constructs affecting the relationship between financial literacy and investment decisions.

The determination of these variables allows to approach the relationships in a systematic way and keep the study focused on its main goals.

4.6 Instrument Design

A structured questionnaire which is specific to financial literacy and investment behaviour is the research instrument that has been adopted in this study. The questionnaire will include 30 questions grouped into five groups; demographic profile, financial literacy, mutual fund awareness, investment behaviour and investment decision-making.

A five-point Likert scale was used to quantify financial literacy and investment decision variables, where strongly disagree to strongly agree was used. The attitudes and perceptions can be measured using this scaling method in a standardized way.



The survey has several multiple-choice questions to record demographic data and perceptions of awareness. The Likert scale and categorical questions combination guarantee the complete data collection.

The questionnaire design is developed on the existing financial literacy measurement frameworks, as they focus on the knowledge, behaviour, and attitude as the important dimensions (OECD, 2022).

The scale was created in such a way that it was straightforward, straightforward and comprehensible such that it could be used by rural-based respondents.

4.7 Reliability & Validity

Any research instrument should have reliability and validity as important elements that guarantee accuracy and consistency of the findings. Reliability means the similarity of the measurement which means that the instrument will give consistent results when used multiple times.

Internal consistency reliability is in this analysis could be tested by the Cronbach alpha that checks whether the items in a scale are coherent. The high reliability scores show that the questionnaire is able to measure the intended constructs effectively.

Validity is used to describe how the instrument measures what it is meant to measure. The questionnaire was validated with the financial literacy frameworks that were already in place, which guaranteed content validity as all the dimensions were sufficiently addressed in the questionnaire.

5. DATA ANALYSIS AND RESULTS

The following section gives a detailed discussion on the main data obtained using the structured questionnaire. A descriptive and inferential statistical analysis has been performed according to the research methodology based on SPSS. Descriptive statistics provide an overview of the data whereas inferential statistics, compare variables. Before the use of sophisticated statistical techniques, summarization and interpretation of datasets are often summarized and interpreted using descriptive statistics.

5.1 Demographic Profile

Table 5.1 Age Distribution of Respondents

Age Group	Frequency	Percentage
Below 25	72	17.5%
25–35	110	26.7%
36–45	98	23.8%
46–55	74	18.0%
Above 55	58	14.1%
Total	412	100%

Table 5.1 indicates that most of the respondents are within the 25-35 age bracket (26.7%), which is followed by 36-45 (23.8%). This implies a relatively younger generation that is involved in financial decision making.

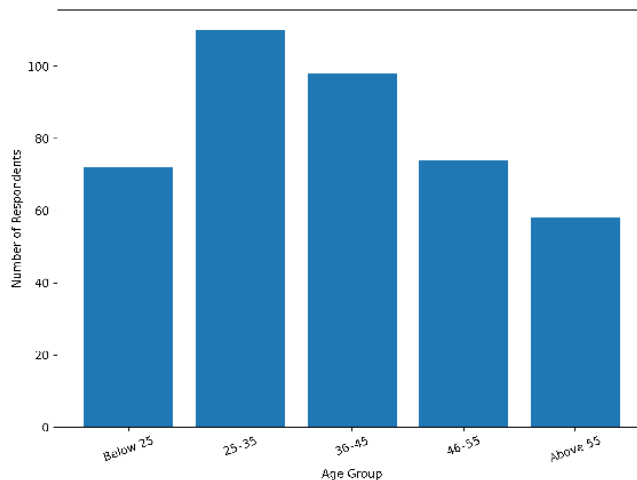


Figure 5.1 Age Distribution of Respondents

Table 5.2 Gender Distribution

Gender	Frequency	Percentage
Male	232	56.3%
Female	180	43.7%
Total	412	100%

Table 5.2 shows that the sample is slightly dominated by male respondents. Nevertheless, female participation (43.7) is also high indicating growing financial awareness among rural women.

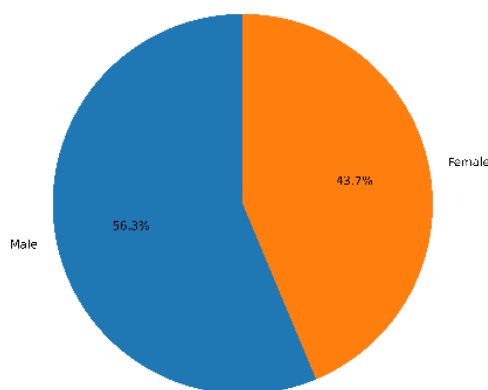


Figure 5.2 Gender Distribution

Table 5.3 Education Level

Education	Frequency	Percentage
Primary	84	20.4%
Secondary	118	28.6%
Graduate	142	34.5%

Postgraduate	68	16.5%
Total	412	100%

The findings indicate that most of the respondents have secondary education with graduates being the most significant (34.5%). Education is a very important aspect in the level of financial literacy.

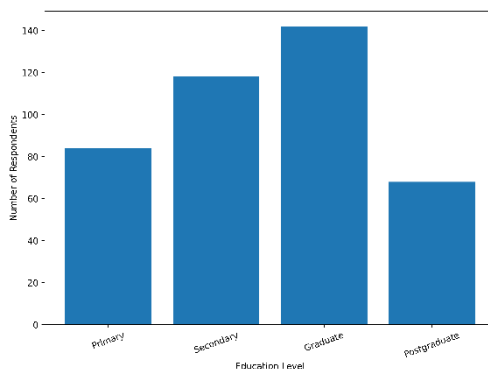


Figure 5.3 Education Distribution

5.2 Financial Literacy Levels

Table 5.4 Financial Literacy Score Distribution

Level	Frequency	Percentage
Low	98	23.8%
Moderate	182	44.2%
High	132	32.0%
Total	412	100%

The findings in Table 5.4 indicate that most respondents fall under moderate financial literacy (44.2%), followed by high literacy (32%). This suggests that while awareness exists, there is still scope for improvement.

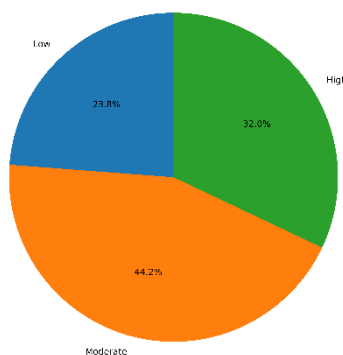


Figure 5.4 Financial Literacy Levels

Table 5.5 Mean Scores of Financial Literacy Statements

Statement	Mean	Std. Dev
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Understanding financial concepts	3.62	0.84
Awareness of investment options	3.74	0.79
Ability to calculate returns	3.41	0.92
Knowledge of diversification	3.55	0.88
Confidence in decisions	3.68	0.81

The respective means show that respondents mostly concur with the financial literacy statements, the highest level of awareness is in investment choices (Mean = 3.74). These results are consistent with theoretical approach that financial literacy can boost decision-making capacity with the help of increased knowledge and confidence.

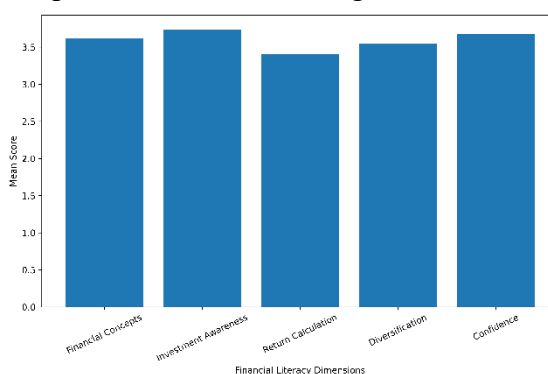


Figure 5.5 Financial Literacy Mean Scores

5.3 Mutual Fund Awareness

Table 5.6 Awareness of Mutual Funds

Response	Frequency	Percentage
Yes	296	71.8%
No	116	28.2%
Total	412	100%

As indicated in Table 5.6, most of the respondents (71.8) are familiar with mutual funds which means an increasing financial inclusion level.

Table 5.7 Source of Awareness

Source	Frequency	Percentage
TV/Newspaper	104	25.2%
Friends/Family	132	32.0%
Bank/Advisor	86	20.9%
Internet	90	21.9%

The informal networks in rural regions are pointed to as friends and family become the most important source of awareness (32%).

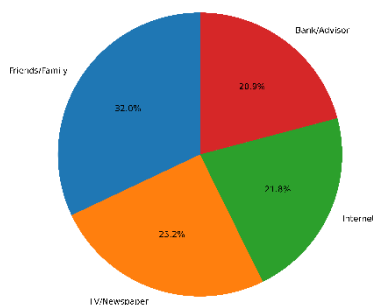


Figure 5.6 Awareness Sources

Table 5.8 Risk Awareness of Mutual Funds

Awareness	Frequency	Percentage
Aware	248	60.2%
Not Aware	164	39.8%

Despite the awareness, a considerable number do not understand the risks, which means that they are not fully financially literate.

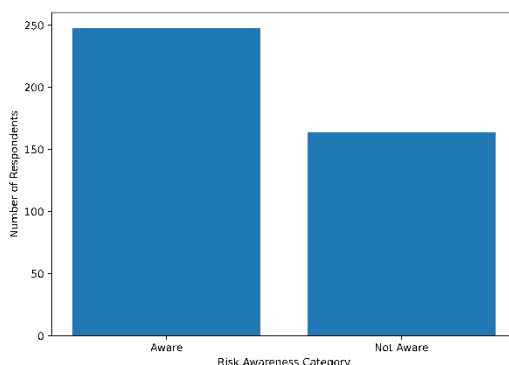


Figure 5.7 Risk Awareness Distribution

5.4 Investment Behaviour Analysis

Table 5.9 Preferred Investment Options

Investment Type	Frequency	Percentage
Bank Deposits	122	29.6%
Gold	94	22.8%
Real Estate	70	17.0%
Mutual Funds	86	20.9%
Others	40	9.7%

The findings suggest that the traditional investments are still predominant, and the most popular one is the bank deposits (29.6%). The level of adoption is moderate with mutual fund preference (20.9%). The risk perception and financial literacy are reflected in investment

behaviour. More literate people have diversified portfolios, whereas less literate people have safer portfolios.

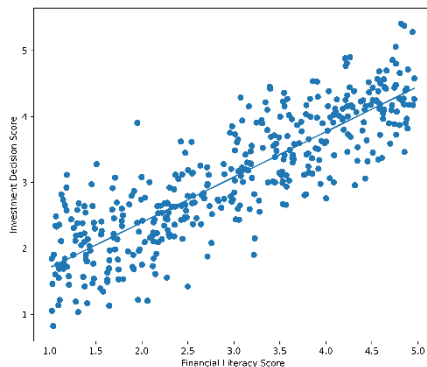


Figure 5.8 Investment Preferences

5.5 Correlation & Regression Analysis

Table 5.10 Correlation Matrix

Variables	Financial Literacy	Investment Decision
Financial Literacy	1.000	0.684
Investment Decision	0.684	1.000

The correlation coefficient ($r = 0.684$) shows that there is a strong positive relation between financial literacy and investment decisions. This implies that with increased literacy, there is an increased involvement in mutual fund investments.

Table 5.11 Regression Analysis

Model	R	R ²	Adjusted R ²	Sig.
1	0.684	0.468	0.465	0.000

Regression analysis reveals that financial literacy can account about 46.8% of variance in investment decisions. The value of significance ($p < 0.05$) proves that the model is significant.

The results of the regression indicate a significant effect of financial literacy on investment choices. This corresponds with the theoretical assumption that knowledge increases rational financial behaviour.

Figure 5.9: Representation of Regression Model (Scatter Plot Placeholder)

5.6 Hypothesis Testing

The hypothesis created in the study was as follows:

H₀: There is no significant effect of financial literacy on investment in mutual funds.

H₁: Financial literacy has a significant impact on mutual fund investment decisions.

According to the regression analysis (Table 5.11), the value is less than 0.05 and the null hypothesis is rejected.



Consequently, one can conclude that financial literacy plays an important role in determining mutual fund investments among rural investors.

6. DISCUSSION

6.1 Interpretation of Findings

The results of the research are clear evidence that financial literacy is very important in influencing mutual fund investment among the rural investors. The descriptive analysis indicated that most of the respondents are at the moderate financial literacy level implying that there is awareness but limited extensive knowledge. This observation helps to argue that financial literacy is a cognitive process and builds up gradually by exposure and learning and not something that can be adopted instantly (Du et al., 2025).

The demographic study revealed that young and middle-level educated people are more likely to be financially conscious and invest in it. This is in line with the belief that education and age has a role to play in financial behaviour through increased analysis ability and receptiveness to new financial products (Dash and Ranjan, 2023). Also, the fact that there is female involvement in the sample itself suggests the good change in favour of engaging in finance in the rural regions in an inclusive manner.

The analysis of awareness revealed that despite most respondents knowing about mutual funds, a good number of respondents do not fully understand the risks related to them. This shows that there is a disconnect between awareness and knowledge which is a serious hindrance to good financial decision-making (Pandey, 2025). The prevalence of informal channels of communication like friends and family in the creation of awareness further points to the significance of social influence in rural financial behaviour.

The analysis of investment behaviour showed that the old forms of investments like banks deposits and gold still prevail. This is an indication of risk aversion mentality of rural investors, which is usually influenced by a lack of financial literacy and an unawareness of the market-related instruments (Gupta, 2026). Nevertheless, the fact that the use of mutual funds is moderate means that there is slow adoption of the modern financial instruments.

The regression analysis and correlation establishment confirmed that there was a positive strong relationship between investment decisions and financial literacy. This implies that the more financially literate a person is, the more likely he or she is to invest in mutual funds. These results support the theoretical point of view that financial literacy can improve rational decision-making and decrease uncertainty (Lusardi, 2023).

6.2 Comparison with Literature

The results of the current research are in line with the current literature on financial literacy and investment behaviour. Past research has determined that financial literacy plays a significant role in determining whether individuals will make informed investment choices and invest in financial markets (Dash and Ranjan, 2023). In the same vein, studies also emphasize the fact that financially savvy people are more likely to diversify and use instruments that are linked to the market, like mutual funds (Mireku, 2023).

The gap that has been identified between awareness and actual investment behaviour concurs with previous literature on this subject that focus on the existence of informational



asymmetry in the financial markets. Although people might know about financial products, they might not possess the confidence or knowledge to invest successfully (Pandey, 2025).

Moreover, the predominance of conventional investment products revealed in the current research is in line with the results that the risk-averse rural investors tend to use less risky and more familiar financial products (Gupta, 2026). This is mostly explained by the lack of exposure to financial education and market forces.

The existence of a positive connection between financial literacy and investment decision-making found in the present study also corroborates previous empirical data that has found that financial literacy increases investment participation and better financial outcomes (Du et al., 2025).

6.3 Key Insights

The paper identifies a number of important lessons. Financial literacy is an important determinant of investment behaviour, especially in the rural setting where financial information is not readily available. It is not enough to be aware, but to deeply know something is also important in making investment decisions.

The results also show that behavioural determinants like perception of risk and social influence have a great influence on investment decision. Also, there is the progressive change of conservative to modern investment features implying the growing financial inclusion.

Overall, the study emphasizes the importance of strengthening financial literacy to promote informed investment decisions and enhance participation in mutual fund markets.

7. STUDY IMPLICATIONS

7.1 Theoretical Implications

The research has its contribution to the theoretical literature on financial literacy as it supports its notion as one of the determinants of investment behaviour. It helps to maintain the approach to the human capital theory, according to which financial literacy is a fundamental skill that can impact economic decision-making (Lusardi, 2023).

Also, the results confirm the behavioural finance theory because they show that knowledge is not the only factor to consider when making investment decisions but there are psychological and social factors. The paper places an emphasis on the importance of the inclusion of cognitive and behavioural aspects in the financial decision-making model especially in a rural setting where informal factors are very influential.

7.2 Practical Implications

The results of this research have strong practical implications to policy makers, financial institutions and educators. These insights can guide policymakers to develop specific financial literacy initiatives that can enhance knowledge and awareness of mutual funds in rural communities. These measures can increase financial inclusion and achievement of fair access to investment opportunities (OECD, 2022).

The findings can be used by financial institutions to create simplified financial products and communication strategies that can meet the needs of rural investors. Trust can be gained by providing information in easy-to-understand formats and personalized advice to encourage investment.



Training schools and education establishments can be critical in influencing financial literacy through the integration of financial education into formal and informal learning programs. Financial knowledge among the rural populations can be further enhanced with the help of awareness campaigns and community-based programs.

In general, a higher level of financial literacy may result in a better investment choice, more involvement in the financial market, and better financial health.

8. CONCLUSION

The research determines that financial literacy is a key factor that affects the mutual fund investment decision of rural investors. The results show that the awareness of financial products is moderate, but the level of understanding and confidence is low.

The discussion has revealed that financial literacy does have a positive influence on investment behaviour, as investors who are more knowledgeable are more willing to invest in mutual funds. Nevertheless, the traditional investment choices prevail because of the risk aversion and lack of knowledge.

Another crucial element in investment decision-making, which the study emphasizes, is the behavioural one, including social influence and risk perception.

On the whole, the study highlights the necessity to improve financial literacy programs to decrease the disconnect between awareness and action. An enhanced financial literacy will empower informed decision-making, enhance investment behaviour and can lead to rural financial inclusion.

9. STUDY LIMITATIONS

The research is also restricted to a given rural sample and might not be a reflection of all regions. Non-probability sampling limits the generalizability. Also, self-reported data can create response bias and the cross-sectional nature of the study fails to address time variation in financial behaviour.

10. FUTURE RESEARCH DIRECTIONS

Longitudinal study of financial behaviour and larger and more varied samples can be investigated in future studies. Research can also be conducted on the impact of digital financial literacy and behavioural biases in investment choices, and a comparison between rural and urban investors.

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