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Understanding the Impact of Financial Literacy on Investment Decision-Making: A Systematic Review of Behavioral and Demographic Influences

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Abstract: *This review paper explores the multidimensional relationship between financial literacy and investment decision-making, synthesizing findings from recent empirical and theoretical studies published between 2005 and 2025. Financial literacy—encompassing knowledge, skills, and attitudes toward money management—has emerged as a critical determinant of sound investment behavior, particularly in the face of rising market complexities and behavioral biases. Drawing upon a systematic literature review approach (SPAR-4-SLR and PRISMA frameworks), this study analyzes over a dozen peer-reviewed papers across diverse contexts including India, Saudi Arabia, Indonesia, and Pakistan. The findings highlight that higher financial literacy is consistently associated with improved investment decisions, reduced susceptibility to behavioral biases (e.g., herding, overconfidence, disposition effect), and enhanced risk assessment. Moreover, risk perception frequently serves as a mediating factor, while personal attributes such as religiosity, financial experience, and demographic factors further influence decision outcomes. Despite a growing body of literature, notable gaps remain—especially in underrepresented regions and populations, as well as in the application of standardized measurement tools. The review concludes by emphasizing the need for targeted financial education, behavioral finance interventions, and future research integrating emotional and psychological variables to further strengthen individual investment behavior.*

Keywords: Financial literacy, investment decision-making, behavioral finance, risk perception, religiosity, financial behavior, heuristic biases, overconfidence, herding, disposition effect, demographic factors, financial education, systematic literature review, SPAR-4-SLR, PRISMA framework