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The Influence of Financial Literacy on Investment Decision-Making Among Generation Z

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ABSTRACT

The low level of financial literacy among Generation Z has the potential to lead to irrational investment decisions and increase the risk of being involved in illegal investments. This study aims to analyze the effect of financial literacy and financial knowledge on investment decisions, with financial behavior as a mediating variable. The research sample consisted of 160 Generation Z respondents aged 18–28 years who had an interest in or experience with stock investment. The sampling technique used was purposive sampling. Data were analyzed using path analysis and the Sobel test. The results indicate that financial literacy and financial knowledge have a positive and significant effect on both financial behavior and investment decisions. Furthermore, financial behavior significantly mediates the relationship between financial literacy, financial knowledge, and investment decisions.

Keywords
Financial Literacy, Financial Knowledge, Financial Behavior, Investment Decisions, Generation Z

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INTRODUCTION

Indonesian investment has surged in recent years due to finance sector digital transformation. Rapid technological advancement and social media use have made financial products and services, including investment instruments, more accessible to the public. This makes the financial landscape more inclusive and no longer exclusive. Basic financial knowledge has not kept pace with this growth. Financial inclusion access and participation in financial services and financial literacy the ability to understand, analyse, and make educated financial decisions remain far apart in Indonesia. In the 2022 National Survey on Financial Literacy and Inclusion by the Financial Services Authority (OJK), 85.10% of Indonesians used financial services, showing that most people do. However, financial literacy was 49.68%, indicating that over half of financial product users lack adequate knowledge of its benefits, hazards, and methods. Lack of financial awareness might lead to risky financial decisions (OJK, 2022).

The literacy-inclusion gap is a social and economic issue with real effects. Fraudulent investment schemes in Indonesia are a worrying sign of insufficient financial awareness. Public losses from unlawful investments topped IDR 117 trillion during the past decade, according to OJK Investment Alert Task Force (SWI) reports (OJK, 2023). Millions have been scammed by binary options, unregulated trading robots, and crypto-based investments. Digital platforms and social media channels are used to defraud consumers by offering unrealistic profits and relying on their financial ignorance. Rising public interest in investing exposes many to harm due to the incapacity to assess risk and verify financial instruments' legality.

Daily money management methods show low financial literacy's far-reaching effects. According to a 2023 Bank Indonesia survey, 45% of Indonesians struggle to manage income and savings, and 30% rely too much on consumptive debt. Such unhealthy financial behaviour shows deficiencies in long-term financial planning, including inefficient investment allocation. When people lack the knowledge and discipline to budget, save, and assess risk, their investing decisions are irrational, speculative, or affected by trends or peer pressure. Poor financial literacy and behaviour hinder rational investment decision-making, exposing investors to financial instability and fraud.

Given this, knowing how financial literacy affects investment decisions is crucial. Since ignorant investments generally lose money, rational decision-making is essential. As OJK monitors the growing number of retail investors, the issue arises whether this is due to actual awareness and financial capabilities or capital market herd mentality. Knowledge of financial principles helps people, especially young people, make logical investment decisions. However, a lack of understanding might lead to dangerous and speculative behaviour.

Financial literacy is a collection of knowledge, skills, and confidence that influences financial resource management attitudes and behaviours to improve decision-making and long-term well-being (OJK, 2022). Financial illiteracy makes people more inclined to invest in risky instruments, trust incorrect information, or fall for deceptive marketing. Youth, who often lack clear, user-friendly educational tools, are especially affected. Thus, research on financial literacy and investment decision-making is important and necessary to demonstrate how literacy empowers rational and responsible investing behaviour. Financial literacy and investing decisions have been extensively examined in this field. Moin used financial conduct as a mediating factor, while Pinca and Mokkarala (2023) used financial literacy as an independent variable. Ery et al. (2023) added financial technology and age, but Seraj et al. (2022) said

overconfidence moderated. Sinnewe and Nicholson (2023) studied financial management, while Iram et al. (2023) examined literacy and behavioural biases. Literacy influences behaviour, decision-making, and psychological biases, according to these research.

Previous research participants were diverse. Moin and Seraj (2022) analysed Saudi investors, while Pinca et al. (2024) studied Filipino accountants. In 2023, Mokkarala et al. researched Indian female IT and education workers and Ery et al. studied Indonesian entrepreneurs. Sinnewe and Nicholson studied Australian youth in 2023, while Iram et al. studied Pakistani women SMEs. Prospect Theory, Classical Portfolio Theory, the Life Cycle Hypothesis, the Technology Acceptance Model, Financial Literacy Theory, and Heuristic Behavioural Theory were theoretical perspectives. These models combine psychological, social, and economic elements to illustrate financial literacy involves knowledge, risk management, and cognitive biases.

Many of these research used advanced statistical methods to capture complex interactions. Moin, Pinca, Mokkarala, and Iram used SEM extensively. Ery et al. (2023) employed PLS, while Seraj et al. (2022) used PLS-SEM. Sinnewe and Nicholson (2023) used grounded theory to gain qualitative financial management insights. These studies show a favourable correlation between financial literacy and rational investment decision-making, regardless of technique or sample.

The literature, especially for Generation Z, is lacking. Most research focused on entrepreneurs, professionals, or older people, under-representing youthful investors. However, Generation Z is closely connected to digital technology, consumes financial information mostly via social media, and adopts rapid, trend-driven tactics. OJK's 2024 release states that young people's inability to recognise risks and plan financially leads them to illicit ventures. McKinsey & Company (2023) highlighted that Gen Z prefers quick, practical answers and is sensitive to peer pressure and online trends.

Empirical facts show this demographic's vulnerability. In 2018–2022, millennials and Gen Z were 30–40% of fraudulent investment victims, losing around IDR 126 trillion (Validnews.id, 2024; Fajar.co.id, 2024). FOMO, impulsivity, and financial product ignorance increase this exposure (Suara.com, 2024; Dewiku.com, 2024). Only 37% of Gen Z respondents understood their investment risks, according to a Katadata Insight Centre and OJK (2023) survey. Stocks are very relevant here. The Indonesia Stock Exchange (IDX, 2024) claims that Gen Z prefers equities, which have large rewards but high hazards if mismanaged. This segment also likes cryptocurrencies and FX trading (Crypto

Market Report, 2024), but this study focusses on stocks because they are legal, regulated, and capital market authority-supervised.

Given these concerns, studying Generation Z's financial literacy and investment decision-making is crucial. This research aims to inform policy design and financial education initiatives suited to this group. The study examines how financial literacy and knowledge affect investment decisions and financial behaviour, as well as how behaviour mediates these effects. The findings should help academics, policymakers, and practitioners improve financial education techniques to help young people make rational, informed, and sustainable investing decisions.

RESEARCH METHODE

Data and Type of Research

This quantitative causal study uses path analysis to examine direct and indirect effects of variables. Financial behaviour is used as a mediator to evaluate causal links between independent variables and the dependent variable. Path analysis, an extension of multiple linear regression, is used to analyse complicated causal relationships, including direct and mediated influences. This research uses primary sources, specifically a structured Google Forms questionnaire distributed to respondents who satisfy preset criteria. Using a closed-ended questionnaire ensures consistency and dependability in obtaining respondents' viewpoints while conforming with research variable operational definitions. Each instrument item was constructed and altered from proven research instruments to fit the study's conceptual framework. The model includes financial literacy (X1), knowledge (X2), investment decision-making (Y), and financial behaviour (Z) as the mediating element. A five-point Likert scale measures attitudes and agreement, with values ranging from 1 (strongly disagree) to 5 (strongly agree). A score of 1 means “strongly disagree” (STS), 2 means “disagree” (TS), 3 means “neutral” or “fairly agree” (CS), 4 means “agree” (S), and 5 means “strongly agree” (SS). Nuanced data from this technique can be used to test literacy, knowledge, behaviour, and investment decisions.

Population and Sample

This study's population is a generalisation region of things or persons with the researcher's chosen traits (Sugiyono, 2011). In this perspective, Generation Z—born 1997–2012—is the population. Purposive sampling is used to select respondents based on research aims. Individuals between 18 and 28 years old, those with investment experience or an intention to invest in stock instruments, and those actively using digital platforms or social media for investment and

financial literacy information are eligible. Hair et al. (2019)'s formula for sample size is used in investigations where the whole population is unknown, especially in multiple regression analysis with mediating variables. This formula multiplies the number of indicators by 10 to calculate sample size. This survey needs 160 respondents for statistical analysis because the instrument has 16 indicators.

Operational Definition of Variables

This study's operational definition of variables is the specific people, thing, or action features the researcher analyses to completely understand the phenomenon (Nasution, 2017). Investment decision-making—investing money in one or more assets for returns—is the dependent variable. Spending later to secure future financial gains makes investment decisions long-term (Otoritas Jasa Keuangan, 2020; Aini et al., 2016). Sudana emphasises choosing the finest investment from multiple. Tandelilin (2010) suggests analysing investment decisions using predicted rate of return, risk, and risk-return relationship. In equity investment, uncertainty and opportunity affect financial decision-making rationality and quality. This study examines financial literacy and knowledge as independent and dependent variables. Financial literacy prevents investing blunders and improves financial decisions (Jain & Roy, 2020).

Financial literacy improves market risk and opportunity prediction (Hanifah et al., 2022) and money management and long-term financial well-being (Natalia, 2019). OJK defines financial literacy as the knowledge, skills, and confidence that shape financial decision-making and management habits for success. According to Chen and Volpe, this study measures financial literacy using four indicators: general personal finance knowledge, savings and borrowing, insurance, and investing. Financial knowledge and idea mastery are complementary (Kholilah & Iramani, 2013). School and family teach kids financial skills, including saving (Chowa et al., 2012). As indicated in Fadilla and Mohammad (2019), Chen and Volpe suggest assessing financial knowledge in five areas: basic personal finance, money management, credit and debt management, savings and investment, and risk management.

This study's mediating variable is financial behavior—money management practices and actions. Financial behaviour demonstrates financial aptitude and psychological capacity to allocate and use financial resources for daily needs and long-term planning, according to Suryanto (2018). Pankow (2003) defines financial behaviour as attitudes and acts based on thinking, perception, and judgement. This variable illustrates how knowledge and literacy are utilised, vital to logical investment decisions. Financial behaviour indicators suggested by Nababan et al. (2012) include budgeting, tracking

spending daily, weekly, or otherwise, saving, and planning for unforeseen expenses. These behavioural variables reflect how disciplined and foresighted people are with their money, reducing investing risks and maximising returns. Investment decisions, financial literacy, financial knowledge, and financial behaviour are analysed together to identify how cognitive and behavioural aspects affect Generation Z's investment choices.

Data Analysis Methods

This study begins with descriptive statistics to provide a comprehensive overview of the data without making generalisations (Sugiyono, 2017). Descriptive statistics employ measures such as mean, standard deviation, variance, maximum and minimum values, total sum, range, and distribution indicators including kurtosis and skewness to represent patterns and tendencies within a dataset (Ghozali, 2016). Following data collection, responses related to financial literacy (X1), financial knowledge (X2), financial behaviour (Z), and investment decision-making (Y) are compiled and analysed to determine average scores. Sudjana (2020) presented the formula P = Range/Number of Classes, employing five classes to categorise data into intervals for analysis. In this approach, the class interval is calculated as P = (5–1)/5 = 0.80, which classifies mean scores into the following categories: very poor (1.00–1.79), poor (1.80–2.59), fair (2.60–3.39), good (3.40–4.19), and very good (4.20–5.00). Purposive sampling, which selects respondents based on research objectives (Sugiyono, 2017), was employed to determine the sample size for this study utilising Hair et al. (2019) at a 5% margin of error.

Instrument Testing and Classical Assumption Testing

This study uses validity and reliability tests to assure measuring tool accuracy and consistency. The validity test determines if questionnaire items can measure intended constructs. A questionnaire is legitimate if its items accurately reflect the variables. This is examined using bivariate correlation, where item scores are associated with construct scores. The decision criterion compares the estimated correlation coefficient (r-count) to the critical value (r-table) based on the degree of freedom (df = n – 2), where *n* is the sample size (Ghozali, 2016). Valid items have r-count greater than r-table, but invalid ones do not. The reliability test evaluates instrument consistency by examining item stability over multiple trials. A Cronbach's Alpha coefficient above 0.6 implies good dependability (Ghozali, 2016). This study uses SPSS statistical software to calculate reliability precisely.

Classical assumption tests determine the regression model's suitability for analysis. Tests include normalcy, heteroskedasticity, and multicollinearity. The one-sample Kolmogorov-Smirnov test determines residual normality. A

significance value larger than 0.05 implies normally distributed residuals, ensuring reliable regression results (Sulistyo, 2010). The Glejser method tests heteroskedasticity, with significant values below 0.05 indicating variance inconsistency and above 0.05 indicating residual homogeneity. Tolerance and Variance Inflation Factor estimates multicollinearity, which investigates independent variable correlations. When VIF exceeds 10 and tolerance is below 0.10, multicollinearity is troublesome; VIF values below 10 and tolerance over 0.10 indicate low predictor correlation. These processes verify that the model fits basic statistical assumptions, boosting study validity and dependability.

Regression and Hypothesis Testing

This research uses statistical methods to examine the link between independent and dependent variables and mediating variables during regression and hypothesis testing. In the first phase, the coefficient of determination (R^2) quantifies how much the independent factors explain the variance in the dependent variable. R^2 values vary from 0 to 1, with higher values suggesting greater independent variable explanatory power and lower values indicating limited capacity (Ghozali, 2016). The F-test then assesses if all independent factors affect the dependent variable simultaneously and significantly. Decision criteria are based on comparing F-statistics to $\alpha = 0.05$ significance level. If significance probability exceeds 0.05 and F-count is less than F-table, the null hypothesis (H_0) is adopted, suggesting no simultaneous effect. The null hypothesis is rejected if the significance probability is below 0.05 and F-count is greater than F-table, indicating that all independent factors affect the dependent variable simultaneously (Ghozali, 2016). At the individual level, the t-test determines how each independent variable affects the dependent variable. At a significance level of 5%, an independent variable has a significant influence if its p-value is less than 0.05 and non-significant if it is more than 0.05 (Santoso, 2018).

This work uses regression testing and path analysis, an extension of multiple linear regression, to estimate causal links between variables, particularly mediating variables (Fridayana, 2019). Path analysis has direct and indirect consequences. For direct impacts, SPSS regression coefficients are used, while indirect effects are determined by multiplying route coefficients that link independent factors to the dependent variable through mediators (Surajiyo et al., 2021). Model structure for this research: In Path 1, $Z = \rho X_1 + \rho X_2 + e_1$, while in Path 2, $Y = \rho X_1 + \rho X_2 + \rho Z + e_2$, where X_1 and X_2 reflect financial literacy, knowledge, behaviour, and investment decisions, ρ indicates direct influence, and e represents mistake. The Sobel test determines if the mediating variable significantly transfers the independent variable's effect to the dependent

variable (Nur & Panggabean, 2018). Sobel test value above 1.96 at 5% significance shows that the mediating variable significantly mediates the independent-dependent connection. Together, these studies provide a comprehensive model evaluation of direct and indirect interactions.

RESULT AND DISCUSSION

Respondent Profile

Generation Z in Indonesia—18–28-year-olds interested in or invested in stocks—is the focus of this study. University students, early-career professionals, and young entrepreneurs make up Generation Z (born 1997–2012). Social media and digital technologies are common knowledge sources today. Despite their great digital literacy, many in this category invest based on trends or social media rather than financial acumen, exposing them to fraudulent or unlawful operations. Research on financial literacy and investment decision-making should target Gen Z.

Generation Z research is supported by 2024 OJK and IDX statistics. This generation accounts for 40% of new Indonesian capital market investors. Their low financial literacy raises concerns despite their potential engagement. Financial instrument and investing knowledge gaps can lead to irrational or speculative decisions. This shows the need to promote financial literacy in this generation to ensure that their greater capital market participation benefits individual financial well-being and market stability.

This survey includes 18–28-year-old Generation Z respondents who have stock market investment experience or an interest in it and use digital platforms for financial and investment information. These criteria ensure that the sample represents Generation Z most exposed to digital financial decision-making. This method captures a group facing real investment possibilities influenced by their life stage and technology, offering demographic representativeness and contextual relevance.

Describe respondent profiles to display demographics. Women aged 20–25 make up majority respondents. The transition from education to professional work for Generation Z involves financial independence and investment decisions. Most respondents were women, indicating that young women are becoming more financially savvy and investing. Mostly from Bandar Lampung, younger responders are urban. People aged 25–28 are more likely to reside outside the city, suggesting geography may affect financial literacy and investing prospects.

Comparing respondents by education and employment reveals more. Research shows that education rises with age. High school graduates dominate

the 18–20 age group, whereas 25–28 year olds hold bachelor's degrees. This natural educational development shows how higher education shapes financial understanding. Most younger respondents are students, whereas older respondents are private employees, civil servants, instructors, entrepreneurs, and freelancers. From education to job, financial responsibility and earning potential increase, affecting financial behaviour. Generation Z is an intriguing cohort for studying financial literacy and investment decision-making because their demographic and socioeconomic circumstances allow for the analysis of both opportunities and vulnerabilities in modern financial practices.

Descriptive Statistics

This study summarised and presented respondent data using descriptive statistical analysis. This method examines mean, standard deviation, minimum, and maximum values to summarise the dataset (Ghozali, 2018). Investment decision-making was the dependent variable, financial literacy and knowledge were independent variables, and financial behaviour was a mediating variable in SPSS version 25. The results are in Table 1.

Table 1.
Results of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Financial Literacy	160	10.00	20.00	16.37	2.56
Financial Knowledge	160	12.00	25.00	20.75	3.01
Financial Behavior	160	11.00	20.00	16.57	1.99
Investment Decision	160	9.00	15.00	12.82	1.52

Financial literacy averaged 16.37 (SD = 2.56), financial knowledge 20.75 (SD = 3.01), financial behaviour 16.57 (SD = 1.99), and investment choice 12.82 (SD = 1.52). The substantially larger standard deviation values, notably for literacy and knowledge, suggest that Generation Z respondents' financial understanding and competence were heterogeneous, reflecting various knowledge and behaviour.

Description of Research Variables

This study's research variables are based on respondents' responses to each statement across all examined constructs on a five-point Likert scale from “Strongly Disagree” (score 1) to “Strongly Agree” (score 5). The mean values were derived by multiplying the number of respondents in each response category by the score, summing the results, and dividing by the total number of respondents. This procedure revealed respondents' main sentiments about each variable indicator. The Sudjana in Iskandar (2020) class interval formula was used to classify mean scores into five groups for interpretation. This strategy shows data trends more clearly while retaining methodological rigour.

Most respondents agreed or strongly agreed with all four financial literacy statements, with mean scores ranging from 4.06 to 4.15 and an overall mean of 4.11. It shows continuously strong financial literacy perception. Financial knowledge, tested by five items, likewise had dominant "agree" and "strongly agree" responses. The mean scores varied from 4.11 to 4.20, with an average of 4.14, indicating strong financial knowledge.

Financial Behaviour Variable Responses showed that respondents agreed or strongly agreed with all four items, with mean scores ranging from 3.95 to 4.43 and an average of 4.13. This shows that respondents valued positive financial behaviour and consistently practiced it. Finally, the investment decision-making variable had the highest average, 4.23–4.35, with a mean of 4.27. These results reflect strong and positive sentiments towards prudent investing decisions. The descriptive analysis shows that Generation Z respondents in this study have high financial literacy, solid financial knowledge, proactive financial behaviour, and a strong preference for rational investment decision-making, confirming their interconnectedness.

Research Instrument Test

To ensure questionnaire accuracy and consistency, research instrument testing included validity and reliability assessments. Validity was assessed using SPSS 25's corrected item-total correlation approach, comparing r-counts to the essential r-table value at df = (160-2) and α = 5% (0.1552). Data show that all items in financial literacy (X1.1–X1.4; r = 0.830–0.872), financial knowledge (X2.1–X2.5; r = 0.795–0.843), financial behaviour (Z1.1–Z1.4; r = 0.736–0.775), and investment decision-making (Y1.1–Y1.3) exceeded the r-table threshold, indicating validity. In reliability testing, Cronbach's Alpha was used, with α > 0.60 indicating instrument reliability (Pakkawaru, 2020). Table 4.14 indicates that all variables (financial literacy, knowledge, behaviour, and investment decision-making) exceeded the standard (α = 0.868, 0.875, 0.748, and 0.726). These findings show that the instruments are valid, reliable, and internally consistent across all constructs.

Classical Assumption Test

To validate regression model validity and compliance, classical assumption tests were performed. The Kolmogorov-Smirnov test and histogram analysis assessed normality (Ika et al., 2020). The first model examined how financial literacy and knowledge affect financial behaviour, while the second examined how they affect investment decisions. Both showed bell-shaped residual distributions, indicating normalcy. To test for multicollinearity, tolerance (>0.10) and VIF (<10) values were used (Gujarati, 2003; Ghozali, 2016). Both models showed no independent variable below the

threshold, indicating no multicollinearity. The Glejser test regressed independent variables against absolute residuals to determine heteroskedasticity. All variables in both models had significance levels over 0.05, demonstrating homoskedasticity. The findings show that both regression models meet normality, non-multicollinearity, and homoskedasticity assumptions, ensuring the validity and reliability of subsequent regression studies.

Hypothesis Test Results

The hypothesis testing examined the direct and indirect effects of financial literacy, knowledge, and behaviour on investment decision-making. Multiple regression was used for each path, and model accuracy was assessed using R^2, F-tests, and t-tests. In Table 2, the regression model examining the impact of financial literacy and knowledge on financial behaviour found a R^2 value of 0.390, indicating that these two factors explain 39% of fluctuations in financial behaviour. The second model, which combined financial behaviour, literacy, and knowledge to predict investment decisions, had a higher explaining power (R^2 = 0.604). Small R^2 and adjusted R^2 differences, together with acceptable prediction errors, indicate stable and valid models.

Table 2.
Model Summary (R^2 Test)

Path	R	R^2	Adj. R^2	Std. Error	Predictors
1: Financial Literacy & Knowledge → Financial Behavior	0.624	0.390	0.382	1.564	Financial Literacy, Financial Knowledge
2: Financial Literacy, Knowledge & Behavior → Investment Decision	0.777	0.604	0.596	0.966	Financial Literacy, Financial Knowledge, Financial Behavior

Both models' F-test findings supported their robustness. A significant F-value of 50.110 ($p < 0.01$) indicates that financial literacy and knowledge together impact financial behaviour in the first path. Adding financial behaviour to the second path enhanced explanatory power (F-value = 79.317, $p < 0.01$). The models are validated since the independent factors significantly predict the dependent variables when analysed simultaneously (Table 3).

Table 3.
ANOVA (F-Test Results)

Path	Regression SS	Residual SS	F	Sig.
1: FL & FK → FB	245.170	384.073	50.110	0.000
2: FL, FK & FB → ID	222.122	145.622	79.317	0.000

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The t-test showed significant partial effects for each independent variable (Table 3). First, financial literacy (β = 0.386, t = 7.961, p < 0.01) and financial knowledge (β = 0.248, t = 6.032, p < 0.01) positively and significantly influenced financial behaviour, with literacy having a higher impact. The second path showed significant indicators of financial literacy (β = 0.202, t = 5.704, p < 0.01), financial knowledge (β = 0.186, t = 6.589, p < 0.01), and financial behaviour (β = 0.275, t = 5.571, p < 0.01). Financial behaviour was the strongest investment decision predictor, according to path coefficients. Error terms of 0.781 and 0.629 indicate that while the models explained a significant amount of variance, external factors outside financial literacy, knowledge, and behaviour also matter.

Table 3.
Coefficients (t-Test Results)

Path	Variable	B	Std. Error	Beta	t	Sig.
1: FL & FK → FB	Financial Literacy	0.386	0.048	0.496	7.961	0.000
	Financial Knowledge	0.248	0.041	0.376	6.032	0.000
2: FL, FK & FB → ID	Financial Literacy	0.202	0.035	0.340	5.704	0.000
	Financial Knowledge	0.186	0.028	0.368	6.589	0.000
	Financial Behavior	0.275	0.049	0.359	5.571	0.000

Path Analysis

This study examined the direct and indirect impacts of independent variables on the dependent variable using path analysis. The analytical model was built using regression coefficients from both path models' t-tests. Direct path coefficients were computed from unstandardised t-test table coefficients, whereas indirect effects were calculated by multiplying path coefficients connected through the mediating variable. The t-test findings show that each path diagram arrow represents a statistically validated association.

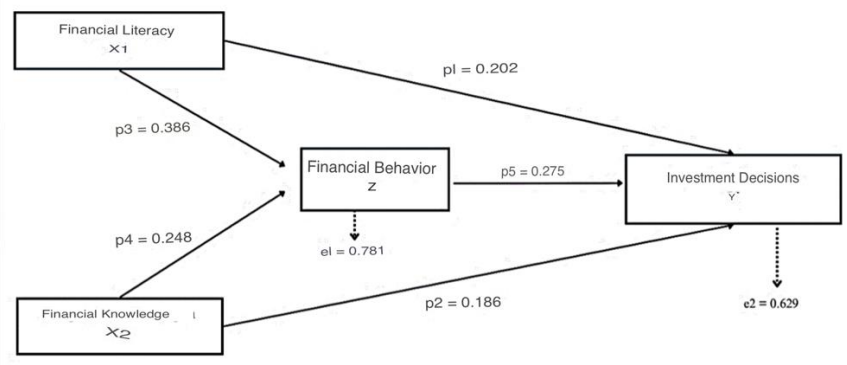

Figure 1. Path Analysis

Several key conclusions emerge from hypothesis testing. First, financial literacy positively and significantly affects investment decision-making (t-value significant at 1% confidence level). Since they comprehend financial concepts, investment tools, and risk management better, financially literate people can make rational and well-structured investment decisions. Financial knowledge positively and significantly affects investing decisions with the same certainty. Higher financial knowledge helps one analyse opportunities and risks, enabling more precise and targeted investment choices. These findings support H1 and H2, emphasising the importance of financial literacy and knowledge in decision-making.

The data also shows that financial literacy positively affects financial behaviour at the 1% confidence level. Financial literacy promotes disciplined and goal-oriented financial habits, highlighting its value beyond investing decisions. Financial knowledge also improves financial behaviour, suggesting that people with sufficient financial understanding can better manage income, expenses, savings, and investments. These findings complement H3 and H4, showing that literacy and knowledge foster long-term financial well-being through financial behaviour.

Finally, path analysis and Sobel testing validated financial behavior's mediating role. For H5, financial literacy had a 0.202 direct effect on investment decisions and a 0.106 indirect effect on financial behaviour, totalling 0.308. The Sobel test showed a substantial mediating effect with a Z-score of 5.00, exceeding 1.96. Financial knowledge had a direct effect of 0.186 and an indirect effect of 0.068 via financial behaviour for H6, totalling 0.254. The Sobel test confirmed mediation with a Z-score of 4.11, again exceeding the significance level. These findings show that financial behaviour mediates the effects of literacy and knowledge on investing decisions. To encourage logical, forward-thinking investing decisions in younger generations, financial education and literacy must be accompanied by healthy financial habits.

The Effect of Financial Literacy on Investment Decisions

Financial literacy positively affects investment decision-making, especially among Generation Z, the focus of this study. Higher financial literacy appears to lead to more sensible, reasonable, and well-planned investment decisions in this generation. Generation Z has grown up in a digital world with copious and frequently competing financial information, making it crucial to understand risk, return, compound interest, and investment instruments. Thus, financial literacy prepares them to evaluate investment offers, especially speculative ones that promise unrealistic short-term rewards. Strong financial knowledge prevents rash and uninformed judgements.

However, Generation Z is naturally inclined to invest from a young age. This zeal can leave individuals vulnerable to fraudulent or deceptive investment schemes without enough understanding. This research confirms that a solid understanding of financial principles allows them to be more cautious, as in Prospect Theory (Kahneman & Tversky, 1979), and to use diversification strategies from Classical Portfolio Theory. According to the Life Cycle Hypothesis (Modigliani & Brumberg, 1954), Generation Z, who are mostly starting their professions, needs help developing long-term investment habits that prioritise growth and stability. Thus, financial literacy is essential for raising a generation of young investors who are aware, resilient, and able to adjust to the increasingly complicated dynamics of global financial markets.

The Effect of Financial Knowledge on Investment Decisions

This study shows that financial education strongly influences Generation Z investment decisions. Stronger financial knowledge leads to more thoughtful, cautious, and logical investing decisions. Understanding basic finance concepts helps investors choose investments that match their financial goals and risk profiles. This shows that financial education helps Generation Z strategically respond to opportunities and threats. This understanding helps people sift reliable information, prevent impulsive decisions, and plan investments with confidence and forethought.

Financial knowledge is essential to making rational decisions, as supported by the Life Cycle Hypothesis, Prospect Theory, and Classical Portfolio Theory. This study also confirms Pinca et al. (2024) and Perwito et al. (2020) findings that higher financial knowledge is highly linked to rational, data-driven, long-term investment attitudes. Financial expertise is essential in the digital age, when speculative and high-risk investments are common. It emphasises the significance of financial education to help Generation Z become sensible, responsible, and forward-thinking investors.

The Effect of Financial Literacy on Financial Behavior

Financial literacy shapes Generation Z's positive financial behaviour, according to this study. Financially savvy people are more disciplined in budgeting, setting spending priorities, and saving. Such findings demonstrate that financial literacy is more than just theoretical knowledge; it guides daily financial decisions. For Generation Z, many of whom are students or young professionals just starting out financially, financial literacy is essential for responsible and long-term financial habits. Awareness of revenue management and expenditure control helps people make sustainable, future-oriented choices.

Prospect Theory, the Life Cycle Hypothesis, and Classical Portfolio Theory agree that financial understanding promotes rational, structured, and life-stage-appropriate financial behaviour. Financial literacy helps Generation Z create behaviours that meet current and future financial demands. These findings support Wahyuni and Nugroho (2021) and Kim and Chatterjee (2022) findings that financial literacy is linked to healthier financial behaviours like cash flow management, impulsive spending avoidance, and long-term goal awareness. Generation Z's financial literacy should be improved to create a financially resilient generation that can preserve personal economic security.

The Effect of Financial Knowledge on Financial Behavior

This study shows that financial education influences Generation Z's structured and healthier financial behaviour. Responsible financial habits need knowledge of budgeting, income management, debt reduction, and saves and investment. Financial literacy helps Generation Z, most of whom are students or young professionals, avoid financial mismanagement. This supports the Life Cycle Hypothesis (Modigliani & Brumberg, 1954), which states that people alter their financial behaviour during life. Financial literacy helps young people anticipate demands and make smart financial decisions. According to the Prospect Theory (Kahneman & Tversky, 1979), comprehending risk and financial outcomes makes daily decisions like spending, saving, and investing more cautious. According to Classical Portfolio Theory (Markowitz, 1952), knowledge is also needed to create long-term asset allocation behaviours that reduce personal financial management inefficiencies.

Empirical evidence supports the findings. Lusardi and Mitchell (2020) found that people with strong financial knowledge can manage risks and start saving early, while Nababan and Sadalia (2012) stressed that financial understanding drives students' financial behaviour. This study shows that financial knowledge is both conceptual and practical, influencing real-world financial behaviour, notably in money management. Knowledge helps Generation Z manage cash flow, avoid impulsive spending, and defend against financial threats. Enhancing financial education is a crucial step towards developing strong financial foundations and long-term stability for youth. Financial knowledge increases the chance of responsible and future-oriented financial behaviour in young people approaching economic independence.

The Effect of Financial Literacy on Investment Decisions with Financial Behavior as a Mediating Variable

Financial behaviour mediates the association between financial literacy and Generation Z investment decision-making, according to this study. Financial literacy alone cannot guarantee wise investing decisions without

healthy financial habits. Habits like saving, budgeting, and spending help turn knowledge into financial behaviours. This means that financial literacy influences investing decisions more when applied through disciplined financial behaviours in daily life. Financial literacy is a foundation, whereas financial behaviour ties conceptual understanding to investment outcomes. Financial literacy gains may remain theoretical without behavioural discipline.

These findings support Prospect Theory (Kahneman & Tversky, 1979) and the Life Cycle Hypothesis (Modigliani & Brumberg, 1954), which show that life-stage-aligned rational decision-making requires consistent financial behaviour. Classical Portfolio Theory (Markowitz, 1952) emphasises that good asset management practices come from applying financial knowledge. According to Mokkarala et al. (2023) and Perwito et al. (2020), financial literacy only has a substantial influence when combined with consistent financial behaviour. Financial literacy education should go beyond theoretical knowledge to teach applicable financial habits to create a generation that can make informed investment decisions. Generation Z learns finance principles and adopts ethical, future-oriented investment habits thanks to this dual focus.

The Effect of Financial Knowledge on Investment Decisions with Financial Behavior as a Mediating Variable

This study shows that financial behaviour mediates Generation Z's financial knowledge-investment decision-making link. Individuals may comprehend risk, inflation, and diversity, but this does not guarantee good investing choices. Budgeting, saving, and spending management are needed to make smart investment selections. These habits connect theoretical knowledge to financial behaviours. Financial knowledge has a greater impact on investment decision-making when accompanied by sound financial habits that promote discipline and consistency.

According to the Life Cycle Hypothesis (Modigliani & Brumberg, 1954), Prospect Theory (Kahneman & Tversky, 1979), and Classical Portfolio Theory (Markowitz, 1952), behavioural discipline is essential for rational and context-specific financial decisions throughout life. Generation Z, who are mostly young and economically independent, must establish good financial habits to maximise their financial knowledge. Lutfi (2020), Chen and Volpe (1998), and Joo and Grable (2004) also stressed the importance of good financial behaviour for financial literacy to lead to meaningful investment outcomes. Thus, measures to improve young generations' financial aptitude should prioritise theoretical understanding and practical financial practices to ensure more mature, sensible, and sustainable investment decisions.

CONCLUSION

This study examines how financial knowledge affects Generation Z investment decisions. The gap between rising investment interest and low financial knowledge risks irrational, impulsive, or dishonest financial decisions. This study examined how financial literacy affects Generation Z's investment decisions, helping them become informed, risk-aware, and financially resilient investors. Data from 160 respondents supports numerous possibilities. Financial literacy helps people assess risks and returns, making investing decisions more reasonable and less speculative. In addition, understanding inflation, diversification, and the time worth of money helps people make reasonable investment decisions and connect their investments with long-term goals. Third, financial literacy improves budgeting, saving, and impulse control. Fourth, financial knowledge influences financial behaviour; those who understand income management, expenses, and emergency money are more disciplined. Financial behaviour also mediates literacy and financial knowledge about investment decisions, showing that knowledge must be utilised daily to be effective.

We can make several recommendations from these findings. To improve representativeness, future research should examine social and cultural investment decision drivers and involve larger and more diverse samples. Through seminars, workshops, and online courses, society, especially Generation Z, must improve financial literacy and knowledge. People should use this knowledge to budget, save, and invest. This technique helps Generation Z develop financial discipline and long-term financial well-being.

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