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Decoding Financial Behavior: Investigating The Power Of Knowledge And Psychological Control In The Presence Of Risk Appetite

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Abstract
This study investigates the antecedents of financial management behavior (FMB) among young adults, emphasizing the moderating role of financial risk tolerance. It examines how financial knowledge, financial attitude, and internal locus of control influence FMB and whether financial risk tolerance moderates these relationships. Using a causal-comparative research design and primary data, the study found that all three predictor's financial knowledge, financial attitude, and internal locus of control significantly and positively influence FMB. Furthermore, financial risk tolerance significantly moderates the relationship between financial knowledge and FMB, suggesting that those with higher risk tolerance and strong financial knowledge manage finances more effectively. However, moderation effects for financial attitude and internal locus of control were not statistically significant. These findings underscore the importance of financial literacy, attitude, and psychological control beliefs in shaping young adults' financial behavior. The study recommends tailored financial education programs, psychological empowerment strategies, and risk-awareness initiatives to foster responsible financial practices among Nepalese youth.
Keywords: *Financial management behavior, financial knowledge, financial attitude, internal locus of control, financial risk tolerance, financial literacy.*

1. INTRODUCTION

Financial literacy plays a pivotal role in shaping individual investment behavior by moderating the relationship between psychological traits and risk-taking tendencies. Research suggests that even individuals who are typically risk-averse may engage in higher-risk investments when they possess strong financial knowledge, as it enables them to assess and manage risks more effectively (Tahir et al., 2023). Financial literacy thus empowers individuals to make informed financial decisions, reducing their reliance on external borrowing and fostering greater financial independence (Mohta & Shunmugasundaram, 2024). Another key psychological factor influencing financial behavior is the locus of control (LOC), which reflects individuals' beliefs regarding the extent to which they control life outcomes. Those with an internal LOC believe they can influence their own financial success through effort and decisions and are therefore more likely to take financial risks. Conversely, individuals with an external LOC attribute outcomes to fate or luck and tend to avoid risky financial ventures (Singh et al., 2023). LOC is, therefore, a significant predictor of perceived financial risk and investment decisions. This study contributes to the understanding of financial management behavior, particularly among young adults in developing countries. While existing literature predominantly focuses on developed economies, limited studies explore the financial behavior of young people in emerging economies such as India and Nepal. This research aims to address this gap by examining the role of financial literacy, financial attitude, and internal LOC in shaping financial behavior, while also considering the moderating effect of financial risk tolerance (FRT) (Alsemgeest, 2015; Reyers, 2019). Moreover, this study builds on the financial management model, adapted from Deacon and Firebaugh (1988), which incorporates inputs, personal subsystems, and managerial subsystems. It also uses the validated financial management behavior scale developed by Dew and Xiao (2011), which comprehensively measures behaviors related to saving, investing, credit, and cash management. Additionally, previous research has examined risk tolerance primarily through demographic

and attitudinal factors (Grable, 2009). This study extends that approach by exploring FRT as a moderating variable alongside core antecedents, including financial knowledge, financial attitude, and internal LOC, within the context of young adults in Nepal.

This study seeks to explore how financial knowledge, financial attitude, and internal locus of control influence financial management behavior among young adults, with financial risk tolerance as a moderating factor. The key research problems are:

- Does financial knowledge influence financial management behavior among young adults?
- Does financial attitude affect financial management behavior among young adults?
- To what extent does internal locus of control influence financial management behavior among young adults?
- Does financial risk tolerance moderate the relationship between financial knowledge, financial attitude, internal locus of control, and financial management behavior?

2. Research Hypotheses

H1: Financial knowledge positively influences financial management behavior among young adults.

Existing literature emphasizes the significance of financial knowledge in shaping behavior, leading to better financial outcomes such as effective credit use, long-term savings, and investment decisions (Allgood & Walstad, 2013; Parker et al., 2012). Empirical evidence supports the view that increased financial understanding enhances individuals' capacity to make informed financial choices (Tokar, 2015).

H2: Financial attitude positively influences financial management behavior among young adults.

Studies suggest that financial attitudes—such as beliefs about savings, debt, and spending—affect financial decisions (Tsui-Yii & Sheng-Chen, 2014). Financial attitudes are shaped by socialization and emotional responses, which in turn predict behaviors like budgeting and debt management (Gudmunson & Danes, 2011; Jorgensen et al., 2017).

H3: Internal locus of control positively influences financial management behavior among young adults.

Individuals with an internal LOC are more likely to engage in responsible financial behavior, believing that outcomes are determined by their actions (Susanti, 2016; Perry & Morris, 2005). Internal LOC is associated with higher academic, professional, and financial performance (Judge & Bono, 2001; Ida & Dwinta, 2010).

H4: Financial risk tolerance moderates the relationship between financial knowledge, financial attitude, internal locus of control, and financial management behavior.

Risk tolerance reflects an individual's willingness to accept uncertainty in financial decisions. Research shows that demographic, psychological, and educational factors shape risk tolerance, which in turn influences financial behavior (Grable, 2000; Carlsson & Nilsson, 2017). As a moderator, financial risk tolerance may strengthen or weaken the impact of knowledge, attitude, and LOC on behavior.

2.1 Theoretical Review

The relationship between financial behavior and its underlying determinants can be comprehensively understood through the lens of several foundational theories in behavioral economics and psychology. These theories provide a framework for exploring the cognitive, psychological, and behavioral mechanisms that shape how individuals—particularly young adults—manage their finances.

2.1.1 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), is one of the most widely applied frameworks in predicting human behavior. According to TPB, behavioral intention is the most immediate predictor of actual behavior and is influenced by three factors: attitude toward the behavior, subjective norms, and perceived behavioral control.

In the context of financial behavior, financial attitude aligns with an individual's overall evaluation of financial management (positive or negative), subjective norms refer to perceived social pressure to engage in responsible financial conduct, and perceived behavioral control corresponds to one's confidence in their ability to perform financial tasks, closely linked to financial literacy and internal locus of control. Studies applying TPB have consistently found it effective in explaining a wide range of financial behaviors, such as budgeting, saving, and investing (Xiao et al., 2011; Shim et al., 2009).

2.1.2 Locus of Control Theory

Locus of Control Theory, originally introduced by Rotter (1966), posits that individuals attribute outcomes either to their own control (internal) or to external factors such as fate, luck, or other people (external). This theory has been pivotal in understanding financial behavior, as individuals with an internal locus of control are more likely to believe that their financial decisions and actions determine outcomes such as wealth accumulation or debt management.

Internal locus of control is associated with higher levels of financial literacy, self-regulation, and proactive financial behavior, while external locus of control often correlates with financial passivity and risk-averse or avoidant behavior (Perry & Morris, 2005; Sholihin & Pike, 2009).

2.1.3 Behavioral Life-Cycle Theory

The Behavioral Life-Cycle Theory (Shefrin & Thaler, 1988) extends traditional life-cycle hypotheses by incorporating behavioral biases into individuals' saving and consumption decisions. Unlike the rational agent in classical economics, this theory assumes that individuals exhibit mental accounting, self-control, and framing effects, which influence how they manage financial resources over their lifetime.

In this model, individuals compartmentalize their wealth into current income, current assets, and future income. They display reluctance to reduce assets or borrow against future income, even when such actions might be economically justified. This theoretical perspective helps explain why individuals may fail to save adequately for future needs despite sufficient income, and why young adults—often in the early stage of their financial life cycle—may show inconsistencies in financial planning and saving behavior.

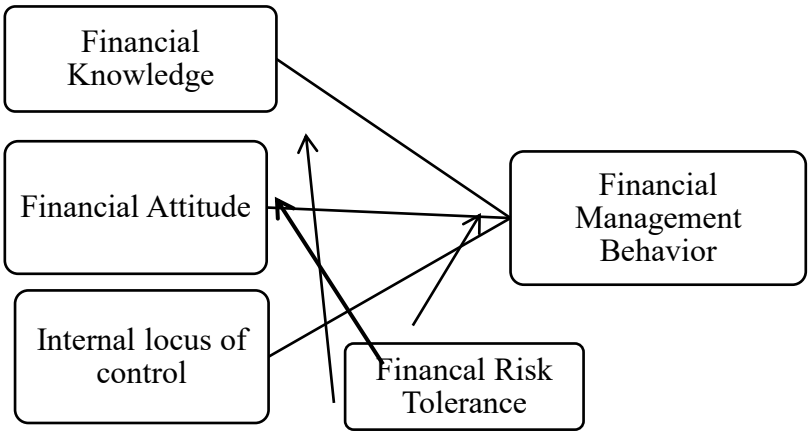
2.1.4 Prospect Theory

Prospect Theory, developed by Kahneman and Tversky (1979), challenges the assumptions of expected utility theory by emphasizing how people perceive gains and losses. A central concept of the theory is loss aversion—the idea that individuals experience the pain of loss more intensely than the pleasure of an equivalent gain.

In financial decision-making, this theory explains why individuals often make irrational investment or spending choices, such as holding on to losing investments too long or avoiding risk even when the potential reward is high. Young adults may demonstrate such biases when faced with investment options, credit usage, or saving decisions, thereby highlighting the behavioral influences on financial management practices.

2.2 Conceptual Framework

The conceptual framework of this study illustrates the intricate interplay between psychological and cognitive variables influencing financial management behavior. Drawing upon behavioral finance theory and supported by extensive literature, the framework identifies financial knowledge, financial attitude, and internal locus of control as the primary independent variables that influence the dependent variable—financial management behavior. This framework serves as both a theoretical and analytical tool, offering a structured lens through which to explore how individual-level differences shape financial decision-making and behaviors. It facilitates an integrated understanding of the psychological and behavioral underpinnings of effective financial management, particularly relevant in the context of personal financial planning and responsible economic behavior.



Financial Knowledge

Financial knowledge encompasses an individual's understanding of financial concepts, instruments, and decision-making processes. It serves as a foundational element in guiding effective financial behaviors. Fletschner and Mesbah (2011) identified a gender disparity in financial literacy, noting that men generally display higher financial competence. Conversely, Swamy (2014) emphasized that women's active involvement in financial decision-making significantly enhances household income contributions, indicating that empowerment and participation can compensate for initial knowledge gaps. These findings suggest that financial knowledge—while essential—may interact with other sociocultural factors to influence financial management behavior.

Financial Attitude

Financial attitude refers to a psychological tendency expressed by evaluating financial matters with some degree of favor or disfavor. It reflects one's predisposition toward personal finance, influencing motivation and decision-making (Parrotta & Johnson, 1998). Aydin and Sycuk (2019) defined financial attitude as individual preferences or orientations regarding financial decisions, including saving, spending, and budgeting. A positive financial attitude is consistently associated with responsible financial behavior and long-term planning. As such, financial attitude functions as a critical affective component within the behavioral finance framework.

Internal Locus of Control

Locus of control refers to an individual's belief system regarding the causes of personal outcomes. An internal locus of control implies that individuals perceive outcomes as contingent on their own actions and efforts. Perry and Morris (2005) argued that internal locus of control acts as a key antecedent of financial management behavior, where individuals with a strong sense of personal control are more likely to engage in proactive and responsible financial actions. Grable et al. (2009) further noted that an internal locus is positively associated with goal-driven financial behaviors, such as saving and budgeting, and is influenced by cultural and psychosocial dynamics.

Financial Management Behavior

Financial management behavior refers to the patterns and practices individuals adopt in managing their financial resources, including budgeting, saving, investing, and responsible debt management. The increasing complexity of financial products and instances of financial misselling have drawn attention to the need for better financial behavior among consumers (Agarwalla et al., 2015). Lusardi et al. (2010) further emphasized that rising consumer debt underscores the necessity for prudent financial decisions, especially among vulnerable groups such as students and early-career individuals. The challenge is exacerbated by the erosion of traditional pension systems, increasing the need for personal financial planning and literacy. Hence, understanding financial management behavior is crucial in the context of financial well-being and long-term security.

Financial Risk Tolerance

Financial risk tolerance refers to an individual's willingness to engage in financial activities that involve uncertainty or potential loss. Given the inherently uncertain nature of the financial services industry, examining financial risk tolerance is essential for understanding behavioral responses to investment and credit decisions (Carlsson & Nilsson, 2017). Previous studies, such as those by Gurhan-Canli and Batra (2004), have conceptualized risk tolerance as a moderator in various behavioral models, particularly in decision-making and satisfaction contexts. Worthy et al. (2010) demonstrated a clear link between financial risk tolerance and financial management behavior, particularly concerning credit card use and debt. In the current study, it is hypothesized that individuals with higher financial risk tolerance may engage in financial behaviors differently than those with lower tolerance levels, thus moderating the effect of independent variables on financial management behavior.

3.1 Research Design

A research design is the blueprint for conducting a study systematically and effectively. It includes the strategies, procedures, and tools that guide the collection and analysis of data. The research design plays a critical role in ensuring that the data collected are capable of addressing the research objectives and hypotheses with precision.

This study adopts a causal-comparative research design, which is appropriate for examining cause-effect relationships without manipulating the independent variables. The primary objective is to assess the influence of psychological and behavioral factors—such as financial attitude, financial knowledge, and internal locus of control—on financial management behavior, with financial risk tolerance acting as a moderating variable. This design allows the researcher to observe naturally occurring variations among the variables of interest using primary data.

4. Results

Table 1 Respondents profile

Demographic Variables		Frequency	Percent
Bank	Global IME Bank	77	20
	Kumari Bank	46	12
	Nabil Bank	54	14
	NIC Asia Bank	50	13
	NMB Bank	69	18
	Sanima Bank	88	23
Gender	Male	211	55
	Female	173	45
Age	18-21	10	5
	22-26	111	25
	27-31	207	52
	32-40	59	18
Marital Status	Single	223	58
	Married	161	42
Academic Qualification	Intermediate	8	2
	Bachelors	215	56
	Master	142	37
	M.Phil./PH	19	5

The demographic profile of the respondents from the banking sector included participants from six major joint venture banks in Nepal: Sanima Bank had the highest representation at 23%, followed by Global IME Bank (20%), NMB Bank (18%), Nabil Bank (14%), NIC Asia Bank (13%), and Kumari Bank (12%). Of the total 384 respondents, 55% were male and 45% were female, showing a relatively balanced gender distribution. The age distribution revealed that the majority (52%) were between 27 and 31 years old, 25% fell within the 22–26 age group, 18% were aged 32–40, and only 5% were between 18 and 21 years, indicating that most participants were young professionals in their early to mid-career stages. Regarding marital status, 58% were single and 42% were married. In terms of academic qualification, the largest group held a bachelor's degree (56%), followed by 37% with a master's degree, 5% with an M.Phil. or Ph.D., and only 2% with an intermediate level of education. These demographic distributions suggest that the study sample comprised well-educated and predominantly young professionals across multiple prominent banks, providing a reliable basis for assessing perceptions and behaviors relevant to the study.

Table 2: Reliability

Variable	Cronbach's Alpha	N of Items
Financial Management Behaviour	0.900	9
Finacial Knowledge	0.760	5
Financial Attitude	0.785	6

Internal Locus of Control	0.825	7
Financial Risk Tolerance	0.600	4

Source: Authors' Own Work

The results of the reliability analysis for the constructs used in the study are presented in Table 2. The financial management behavior scale demonstrated excellent reliability, with a Cronbach's alpha of 0.900 across nine items. This suggests that the items on the scale consistently measure financial management behavior. Financial attitude also exhibited strong reliability with an alpha of 0.785 across six items, while internal locus of control yielded a value of 0.825 based on seven items, indicating good internal consistency for both constructs. Financial knowledge, composed of five items, produced a Cronbach's alpha of 0.760, demonstrating acceptable reliability. Financial risk tolerance, which consisted of four items, returned an alpha of 0.600. Although this is lower than the other constructs, it still meets the minimum threshold for exploratory research, suggesting that the scale is sufficiently reliable for preliminary analysis.

Table 3: Correlation Coefficient

Constructs	FMB	FK	FA	ILC	FRT
FMB	1				
FK	.352**	1			
FA	.749**	.712**	1		
ILC	.612**	.643**	.670**	1	
FRT	. 721**	.527**	.601**	.476**	1

Source: Authors' Own Work

According to Pearson correlation, the analysis of the results has shown a very strong positive relationship between the variables involved. In particular, there is a statistically significant albeit small positive relationship between financial knowledge (FK) and financial management behavior (FMB) ($r = .352$, $p < .01$), i.e., the more a person has financial knowledge the better his/her financial behavior will be.

The moderate and statistically valid positive correlation between financial attitude (FA) and FMB ($r = .749$, $p < .01$) demonstrates that very much those with rather more positive financial attitudes will be substantially inclined to indulge in effective financial management behaviour. There are also positive and significant relationship of internal locus of control (ILC) with FMB ($r = .612$, $p < .01$) which means it is true that those who feel that they have control over their financial health end up having finances better handled. Regarding the correlation between the independent variables and financial risk tolerance (FRT), each stands at moderately strong positive correlations of FK ($r = .527$, $p < .01$), FA ($r = .601$, $p < .01$) and ILC ($r = .476$, $p < .01$). This implies that an increased financial knowledge, favourable financial attitudes, and a stronger internal locus of control, respectively are all correlated with an increased level of financial risk tolerance. Lastly, there is strong and significant positive relationship between financial risk tolerance (FRT) and financial management behavior (FMB) ($r = .721$, $p < .01$), which further implies that a person who has high risk tolerance to finances has a high likelihood of practicing better financial management behaviors.

4.2 Multiple Regression Analysis

Model		Unstandardized Coefficients			
		B	Std. Error	t	Sig.
1	(Constant)	.108	.176	.613	.540
	FK	. 194	. 025	7.760	.000
	FA	. 198	. 043	4.6047	.000
	ILC	. 680	. 055	12.364	.000

The first hypothesis (H_1) proposed that financial knowledge has a significant positive effect on financial management behavior. The analysis supports this hypothesis, with financial knowledge showing a positive and statistically significant impact on financial management behavior ($\beta = 0.194$, $t = 7.760$, $p < 0.01$).

This finding indicates that individuals with higher financial literacy are more likely to engage in effective financial management practices. Therefore, H_1 is accepted. Hypothesis (H2) suggested that financial attitude significantly and positively influences financial management behavior. The results confirm this, with financial attitude exerting a strong and significant positive effect ($\beta = 0.198$, $t = 4.6047$, $p < 0.01$). The high beta coefficient highlights financial attitude as a key predictor of sound financial management. Hence, H2 is supported, underscoring the importance of a positive mindset toward finances in promoting responsible financial behavior. The third hypothesis (H3) stated that internal locus of control significantly enhances financial management behavior. The results affirm this hypothesis, revealing that internal locus of control positively and significantly affects financial management behavior ($\beta = 0.680$, $t = 12.364$, $p < 0.01$). Thus, H3 is accepted, suggesting that individuals who believe they control their own financial outcomes tend to manage their finances more effectively.

4.3 Table Moderation Analysis

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	INT_FRT*FK	.124	.035	3.542	.001
	INT_FRT*FA	.041	.042	.976	.462
	INT_FRT*ILC	.027	.038	.711	.478

This interaction has a statistically significant positive effect on FMB ($B = 0.124$, $t = 3.542$, $p = 0.001 < 0.01$), indicating that financial knowledge strengthens the positive relationship between financial risk tolerance and financial behavior. In other words, investors with both high risk tolerance and strong financial knowledge are more likely to exhibit sound financial behaviors. This supports the moderation hypothesis for this pathway. This interaction is not statistically significant ($B = .041$, $p = 0.462$), suggesting that financial attitude does not significantly alter the effect of financial risk tolerance on financial behavior in this sample. It indicates that even if an individual has a positive financial attitude, it may not change how their risk tolerance influences their financial decisions.

Similarly, this interaction is also non-significant ($B = 0.027$, $p = 0.478 > 0.05$), implying that internal locus of control does not significantly moderate the relationship between financial risk tolerance and behavior. Thus, believing that outcomes are driven by one's own actions does not necessarily enhance or weaken the influence of risk tolerance on behavior.

Table 4.5: Summary of Hypothesis

S.N.	Hypothesis	Remarks
H1	There is a significant positive impact of Financial Knowledge on Financial management behavior among young adults.	Accepted
H2	There is a significant positive impact of Financial Attitude on Financial management behavior among young adults.	Accepted
H3	There is a significant positive impact of Internal locus of control on Financial management behavior among young adults.	Accepted
H4	The relation between financial knowledge and financial management behavior is moderated by financial risk tolerance.	Accepted
H5	The relation between financial attitude and financial management behavior is moderated by financial risk tolerance.	Rejected
H6	The relation between internal Locus of control and financial management behavior is moderated by financial risk tolerance.	Rejected

5.1 DISCUSSION

Understanding the determinants of financial management behavior among young adults is crucial for fostering responsible financial decision-making. This study examines three primary psychological and cognitive influences—financial knowledge, financial attitude, and internal locus of control—while also evaluating the moderating effect of financial risk tolerance. The findings align with existing behavioral finance literature, reinforcing the inter-connectedness of financial literacy, attitudes, and self-regulatory perceptions in shaping individual financial behaviors. Financial knowledge is widely recognized as a fundamental predictor of effective financial management. Prior research suggests that individuals with higher financial literacy exhibit stronger budgeting skills, informed investment decision-making, and overall financial discipline (Lusardi & Mitchell, 2014). The present study corroborates this perspective, demonstrating that financial knowledge fosters greater financial responsibility among young adults. This association is rooted in the ability of financially literate individuals to assess risk, compare financial products, and develop long-term financial strategies (Fernandes, Lynch, & Netemeyer, 2014). Enhancing financial knowledge through educational interventions and policy-driven financial literacy programs can significantly improve financial behaviors, particularly among younger demographics who may be navigating early career earnings and investments. Financial attitude, defined as an individual's perspective and confidence in managing financial resources, significantly influences financial behavior. Previous studies indicate that a positive financial attitude enhances financial planning, encourages disciplined saving habits, and promotes prudent investment decisions (Xiao, 2008). The present findings reinforce these assertions, illustrating that individuals who maintain optimistic and proactive financial attitudes are more likely to exhibit responsible financial behavior. This supports behavioral finance theories, such as the Theory of Planned Behavior (Ajzen, 1991), which suggests that attitudes directly shape intentions and actions. To cultivate positive financial attitudes, financial education should emphasize behavioral aspects of money management, helping individuals develop a constructive and strategic mindset toward financial decision-making. Locus of control refers to an individual's belief in their ability to influence personal outcomes, with an internal locus of control indicating a strong sense of self-efficacy in decision-making (Rotter, 1966). Research suggests that individuals with an internal locus of control are more likely to engage in proactive financial behaviors, such as saving and investing, rather than relying on external circumstances (Perry & Morris, 2005). The present study supports this argument, indicating that individuals who perceive financial outcomes as a result of their own actions exhibit stronger financial management tendencies. This finding suggests that financial interventions should not only focus on knowledge acquisition but also on fostering self-efficacy and personal accountability, enabling individuals to take ownership of their financial decisions. Risk tolerance plays a crucial role in financial decision-making, influencing individuals' willingness to engage in uncertain or high-risk investments. Prior studies indicate that while financial literacy improves financial behavior, excessive risk tolerance can sometimes counteract the benefits of knowledge-based financial planning (Grable & Joo, 2004). The findings of this study indicate that financial risk tolerance moderates the relationship between financial knowledge and financial behavior, suggesting that highly risk-tolerant individuals may rely more on instinct than on informed financial strategies. This aligns with behavioral finance perspectives, which highlight the potential for cognitive biases, such as overconfidence, to distort rational financial decision-making (Barber & Odean, 2001).

5.2 CONCLUSION

Young adults' financial management behavior is found to be significantly positively impacted by financial knowledge, according to the analysis. It would seem from this that people who are more financially literate tend to handle their money better and make wiser decisions. Improving young adults' financial behaviors is critical to their long-term financial well-being and can be achieved through raising their level of financial literacy. The results show that young adults' financial management behavior is strongly positively influenced by their financial attitude. This suggests that better financial practices and decision-making follow from having a positive financial attitude. Fostering a positive outlook on money can greatly improve young adults' capacity to handle their money sensibly and successfully.

The findings show that internal locus of control significantly improves young adults' financial management practices. This suggests that young adults who feel in control of their financial destiny are more likely to behave responsibly with money. Young adults can be empowered to take charge of their financial decisions and improve their financial management by cultivating an internal locus of control. The results of the study indicate that financial risk tolerance moderates the relationship between financial knowledge and financial management behavior. This suggests that a person's risk tolerance influences the influence that financial knowledge has on their financial behavior. By adjusting financial education programs to young adults' risk profiles, it is possible to promote more efficient money management by taking into account this moderation. The findings of the analysis suggest that there is no moderating effect of financial risk tolerance on the association between financial attitude and financial management behavior. This implies that regardless of a person's risk tolerance, the impact of financial attitude on financial behavior is constant. Consequently, risk tolerance does not have to be taken into consideration when implementing strategies aimed at improving financial attitudes. The relationship between internal locus of control and financial management behavior is not moderated by financial risk tolerance, according to the findings. It is implied by this that an internal locus of control has a constant impact on financial behavior, irrespective of an individual's risk tolerance level. Therefore, regardless of their inclination for taking risks, encouraging an internal locus of control can be advantageous for all young adults.

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