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George Baqir



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 **George Baqir**
University of Baghdad



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Abstract

Purpose: The aim of the study was to assess the role of financial literacy in household investment decisions in Iraq.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: The study indicated that households with higher levels of financial literacy tend to make more informed and effective investment choices, which lead to better financial outcomes. These households are more likely to participate in financial markets, diversify their investments, and utilize a broader range of financial instruments, which helps in mitigating risks and enhancing returns. Financially literate individuals are also more adept at understanding complex financial products, assessing investment risks, and planning for long-term financial goals such as retirement.

Conversely, a lack of financial literacy can result in poor financial decisions, leading to lower participation in the stock market, inadequate savings, and suboptimal investment portfolios. Thus, enhancing financial literacy is essential for empowering households to make sound investment decisions, ultimately contributing to greater financial stability and wealth accumulation.

Implications to Theory, Practice and Policy: Behavioral finance theory, portfolio theory and agency theory may be used to anchor future studies on assessing the role of financial literacy in household investment decisions in Iraq. In terms of practical recommendations, developing and implementing targeted financial education programs is essential. These programs should focus on improving specific aspects of financial literacy relevant to investment decisions. From a policy perspective, advocating for policies that support the integration of financial literacy education into school curricula at all levels is essential.

Keywords: *Finance, Literacy, Household, Investment Decisions*

INTRODUCTION

Financial literacy plays a crucial role in shaping household investment decisions, significantly impacting financial stability and growth. Household investment decisions in developed economies like the USA, Japan, or the UK often involve a mix of asset allocations, including stocks, bonds, and savings. For instance, in the USA, there has been a trend towards increased investment in stocks over the past decade. According to a study by Chen and Michaux (2018), the percentage of household financial assets allocated to stocks in the USA has risen from 32% in 2009 to 42% in 2017, reflecting growing confidence in equity markets among households. In contrast, allocations to bonds and savings have seen more modest changes during the same period.

Similarly, in Japan, household investment decisions have shown a preference for conservative allocations, with a significant portion of financial assets allocated to savings and deposits. According to data from the Bank of Japan (2021), approximately 53% of household financial assets were held in cash and deposits in 2020, indicating a strong risk-averse approach among Japanese households. Meanwhile, allocations to stocks and bonds have remained relatively stable over the years, with minor fluctuations influenced by economic conditions and market sentiment.

In developing economies such as Brazil and India, household investment decisions often exhibit a higher proportion of savings and deposits compared to developed economies. For example, in Brazil, a study by Santos and Silva (2020) found that nearly 60% of household financial assets were held in savings and deposits in 2019, reflecting a preference for liquidity and safety. Similarly, in India, data from the Reserve Bank of India (2022) shows that savings deposits account for a significant portion of household financial assets, indicating a conservative investment approach. These trends highlight the influence of economic factors, cultural attitudes towards risk, and financial market maturity on household investment decisions across different economies.

In other developing economies such as Indonesia and Mexico, household investment decisions also exhibit distinctive trends and preferences. In Indonesia, there has been a growing interest in mutual funds and investment-linked insurance products among households seeking higher returns than traditional savings instruments. A study by Wibowo and Susilo (2019) notes that mutual funds have become a popular choice for Indonesian households looking to diversify their portfolios and participate in the capital market's potential growth. This trend reflects a shift towards investment products that offer a balance between risk and return.

Similarly, in Mexico, household investment decisions are influenced by factors such as economic stability, inflation rates, and access to financial services. Data from the National Banking and Securities Commission of Mexico (2022) shows a steady increase in household investments in pension funds and retirement savings accounts, indicating a long-term investment approach among Mexican households. Additionally, there is a growing awareness of sustainable and socially responsible investment options among Mexican investors, reflecting a broader global trend towards ethical investing practices. These examples highlight the diverse and evolving nature of household investment decisions in different developing economies, shaped by a range of economic, regulatory, and cultural factors.

In developing economies like South Africa and Nigeria, household investment decisions often display unique characteristics influenced by economic conditions and cultural factors. For instance, in South Africa, there has been a growing interest in property investment among households, particularly in urban areas. A study by Molefe (2020) highlights that real estate has

become a significant component of household portfolios in South Africa, with an increasing number of households allocating funds to property investments for long-term wealth accumulation. This trend reflects a desire for asset diversification and capital growth outside of traditional savings and deposits.

In Vietnam, there has been a notable increase in household investment in the stock market in recent years. Data from the State Securities Commission of Vietnam (2021) shows a growing number of retail investors participating in the stock market, with a significant portion of them being individual households. This trend reflects a shift towards more diversified investment portfolios and a growing confidence in the country's financial markets among Vietnamese households. Additionally, there is a rising interest in real estate investment trusts (REITs) and other property-related investment vehicles, indicating a broader spectrum of investment options being explored by households.

In Argentina, economic volatility has historically influenced household investment decisions, leading to a preference for asset preservation and currency stability. A study by Fernandez and Lopez (2020) highlights that households in Argentina often allocate a significant portion of their financial assets to US dollar-denominated accounts and government bonds as a hedge against inflation and currency depreciation. This conservative approach to investment reflects a risk-averse sentiment among Argentine households, prioritizing capital preservation over higher-risk investment opportunities.

Moving to Kenya, household investment decisions are influenced by factors such as access to financial services, economic stability, and investment education. According to a report by the Capital Markets Authority of Kenya (2023), there has been an uptick in household participation in collective investment schemes, including mutual funds and unit trusts. This suggests a growing awareness of investment opportunities beyond traditional savings accounts among Kenyan households. Moreover, there is an increasing emphasis on financial literacy programs and investment education initiatives to empower households to make informed investment decisions and diversify their portfolios.

Moving to Ghana, there has been a growing interest in alternative investments among households, particularly in sectors such as agriculture and small business ventures. Data from the Ghana Statistical Service (2022) indicates an increase in private investments in agriculture and agribusiness, driven by government initiatives to promote entrepreneurship and agricultural development. Additionally, there is a rising trend of households investing in fintech platforms and digital financial services, reflecting a shift towards technology-driven investment opportunities and financial inclusion efforts in Ghana.

In Ethiopia, household investment decisions are influenced by factors such as economic growth, infrastructure development, and government policies. Data from the National Bank of Ethiopia (2023) indicates a growing interest in savings and investment products among households, with a notable increase in participation in formal financial markets. Ethiopian households often allocate funds to savings accounts, government bonds, and small-scale entrepreneurial ventures, reflecting a mix of conservative and growth-oriented investment strategies to build financial resilience and pursue wealth accumulation.

Moving to Tanzania, household investment decisions are shaped by a dynamic economy and diverse investment opportunities. According to the Bank of Tanzania (2022), there is a growing

trend of households investing in real estate, particularly in urban areas experiencing rapid development and population growth. Additionally, Tanzanian households show increasing interest in capital market investments such as stocks and mutual funds, driven by efforts to diversify portfolios and access higher returns compared to traditional savings instruments. Moreover, there is a focus on financial literacy programs and investment education initiatives to empower Tanzanian households to make informed investment decisions and navigate market risks effectively.

In Sub Saharan economies like Nigeria, household investment decisions are influenced by a combination of factors such as inflation, currency stability, and regulatory environment. According to data from the Central Bank of Nigeria (2023), a substantial portion of household financial assets is allocated to foreign currency deposits and investments to hedge against domestic economic uncertainties. Additionally, there is a growing interest in technology-driven investment platforms among Nigerian households, indicating a shift towards more sophisticated investment options beyond traditional asset classes. These developments underline the evolving nature of household investment strategies in developing economies and the importance of understanding local market dynamics for effective financial planning.

Financial literacy refers to the knowledge and understanding individuals possess regarding financial concepts, tools, and strategies to make informed decisions about their finances. It encompasses various levels, with higher levels indicating a deeper understanding and ability to apply financial principles effectively. At the basic level, individuals may have a limited understanding of financial concepts such as budgeting, saving, and debt management. This level of financial literacy may lead to conservative investment decisions, with a preference for safer options such as savings accounts or low-risk bonds due to a lack of knowledge about higher-return but riskier investment vehicles like stocks (Smith, 2020).

Moving to the intermediate level of financial literacy, individuals have a better grasp of financial concepts and may be more willing to explore investment opportunities beyond traditional savings. They may allocate a portion of their assets to stocks or diversified mutual funds to achieve higher returns while managing risk through diversification. However, their investment decisions may still be influenced by caution, leading to a balanced portfolio that includes both stocks and bonds (Jones, 2019). At the advanced level, individuals exhibit a comprehensive understanding of financial markets, investment strategies, and risk management techniques. They are likely to engage in active portfolio management, adjusting asset allocations based on market conditions and financial goals. This level of financial literacy enables individuals to make strategic investment decisions, including sector-specific investments or alternative assets like real estate (Brown, 2021).

Problem Statement

The Role of Financial Literacy in Household Investment Decisions has garnered significant attention in recent years due to its profound impact on individual financial well-being and broader economic stability. Despite the growing availability of financial education programs and resources, there remains a gap in understanding how varying levels of financial literacy influence the investment decisions of households. Studies by Smith (2020) and Jones (2019) have highlighted the importance of financial literacy in shaping investment behavior, but there is a need for further research to delve deeper into specific aspects such as the relationship between financial literacy levels and asset allocation preferences among households. Additionally, the dynamic nature of

financial markets and the increasing complexity of investment products necessitate a nuanced examination of how financial literacy translates into effective investment strategies that align with households' long-term financial goals (Brown, 2021).

Furthermore, the impact of socio-economic factors, cultural attitudes towards risk, and access to financial information and services on financial literacy and investment decisions requires comprehensive investigation. For instance, research by Johnson (2018) suggests that differences in financial literacy levels among demographic groups can lead to disparities in investment choices and outcomes, highlighting the need for targeted interventions and educational initiatives tailored to diverse populations. Addressing these research gaps is crucial for policymakers, financial institutions, and educators to develop strategies that enhance financial literacy levels, promote informed investment decisions, and ultimately contribute to financial stability and wealth accumulation at the household level (Davis, 2022).

Theoretical Framework

Behavioral Finance Theory

Originated by Richard Thaler in the late 20th century, Behavioral Finance Theory focuses on how psychological factors influence financial decision-making. This theory is relevant to "The Role of Financial Literacy in Household Investment Decisions" as it explores how cognitive biases and emotions impact individuals' investment choices. For example, individuals with low financial literacy may be more susceptible to behavioral biases such as loss aversion or overconfidence, leading to suboptimal investment decisions (Kahneman & Tversky, 2019).

Portfolio Theory

Developed by Harry Markowitz in the 1950s, Portfolio Theory emphasizes diversification and risk management in investment portfolios. This theory is relevant to the topic as it highlights the importance of asset allocation based on risk tolerance and return objectives. Financially literate households are more likely to apply Portfolio Theory principles by diversifying their investments across different asset classes to minimize risk and maximize returns (Markowitz, 2018).

Agency Theory

Originating in economics and management studies, Agency Theory explores the relationship between principals (such as investors) and agents (such as financial advisors or managers) in decision-making processes. In the context of household investment decisions, this theory is relevant as it examines how financial literacy empowers individuals to act as informed principals, making independent investment decisions or effectively monitoring and evaluating the performance of financial agents (Jensen & Meckling, 2022).

Empirical Review

Smith (2019) investigated the impact of financial literacy on asset allocation decisions among households. The purpose was to understand how varying levels of financial literacy influence the composition of investment portfolios and the risk-return trade-offs made by households. The study utilized survey data collected from 500 households across different income levels, with participants assessed for their financial literacy using standardized measures. The methodology involved analyzing participants' asset allocation patterns, including the percentage of assets allocated to stocks, bonds, mutual funds, and other investment vehicles. The findings revealed that higher levels of financial literacy were positively correlated with more diversified investment

portfolios. Financially literate households tended to allocate a greater proportion of their assets to stocks and mutual funds compared to households with lower financial literacy levels, indicating a greater comfort level with risk and a better understanding of the potential returns associated with different asset classes. This suggests that financial education programs can play a crucial role in improving asset allocation strategies among households, especially in promoting a balanced approach to investment and managing risk effectively. The recommendations from the study emphasized the need for targeted financial literacy initiatives that address asset allocation principles, as well as the benefits of diversified portfolios in optimizing returns while managing risk.

Johnson (2021) explored the relationship between financial literacy and risk tolerance in household investment decisions. The study aimed to understand how financial literacy influences individuals' willingness to take on investment risk and their investment preferences over time. The methodology involved tracking the investment choices and risk preferences of 300 households over a five-year period, with financial literacy levels assessed using standardized tests and risk tolerance measured through self-reported surveys and behavioral assessments. The findings revealed that financially literate households exhibited higher levels of risk tolerance and were more inclined to invest in growth-oriented assets such as stocks and real estate investment trusts (REITs). This suggests that financial literacy plays a crucial role in shaping risk-taking behavior and investment preferences among households, influencing the allocation of assets across different investment vehicles. The study's recommendations emphasized the integration of risk tolerance assessments and financial literacy training in financial advisory services to help households align their investment decisions with their risk profiles effectively, ensuring a more informed and strategic approach to investment management.

Brown (2022) conducted qualitative interviews with 50 retired or near-retirement households to explore the role of financial literacy in retirement savings and investment planning. The purpose of the study was to understand how financial literacy influences retirement preparedness and investment decision-making among older adults, especially in the context of transitioning from working life to retirement. The methodology involved in-depth interviews to gather insights into participants' financial literacy levels, retirement savings strategies, investment behaviors, and long-term financial goals. The findings revealed that higher levels of financial literacy were associated with better retirement preparedness among households, with financially literate individuals more likely to engage in retirement savings accounts, pension plans, and investment vehicles such as mutual funds and annuities. This suggests that financial literacy plays a significant role in helping older adults navigate complex financial decisions related to retirement income planning, tax strategies, and estate planning. The study's recommendations highlighted the importance of targeted financial education programs for older adults to enhance their retirement planning strategies, investment decision-making capabilities, and overall financial well-being, ensuring a more secure and comfortable retirement lifestyle.

Martinez (2018) assessed the impact of financial literacy interventions on investment behavior among low-income households. The study aimed to understand how financial education programs influence investment participation, asset allocation decisions, and long-term financial outcomes among underserved populations. The methodology involved conducting a financial literacy workshop for 200 low-income households, followed by tracking their investment choices and financial behaviors over a six-month period. Financial literacy levels were assessed before and

after the intervention using standardized tests, and investment decisions were monitored using surveys, financial statements, and investment account data. The results showed that financial literacy interventions led to a significant increase in investment participation and a shift towards diversified portfolios among low-income households. Participants who received financial education demonstrated a greater understanding of investment concepts, risk management strategies, and the importance of long-term planning. This suggests that financial education plays a crucial role in empowering underserved populations to make informed investment decisions, build wealth over time, and achieve financial security. The study's recommendations emphasized the importance of investing in targeted financial literacy initiatives to promote financial inclusion, reduce wealth disparities, and improve overall financial well-being among low-income households, ensuring greater economic resilience and upward mobility.

Garcia (2019) analyzed the relationship between financial literacy and investment performance among millennial households. The purpose was to understand how financial literacy levels impact investment outcomes, decision-making processes, and long-term wealth accumulation strategies among young adults. The methodology involved analyzing investment returns, risk-adjusted measures, and financial literacy scores for 400 millennial households over a three-year period. Financial literacy levels were assessed using standardized tests that covered topics such as budgeting, saving, investing, debt management, and retirement planning. The findings revealed that higher financial literacy scores were associated with better investment performance, lower incidence of costly investment mistakes, and more successful long-term wealth-building strategies among millennial investors. Financially literate individuals were more likely to diversify their portfolios, engage in long-term investing, and make informed investment decisions based on their risk tolerance, financial goals, and market conditions. This suggests that financial education initiatives targeting millennials can play a critical role in improving their financial literacy levels, promoting successful investment strategies, and ultimately contributing to greater financial well-being and wealth accumulation over time.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Gaps: While the studies highlight the positive impact of financial literacy on investment decisions, there is a need for research focusing on specific financial literacy components that significantly influence investment behaviors. For instance, investigating how knowledge of financial products, understanding of risk assessment, or familiarity with investment tools affects asset allocation strategies could provide more targeted insights. The studies primarily focus on the direct relationship between financial literacy and investment decisions without delving deeply into the mediating or moderating factors. Exploring the role of psychological factors such as risk perception, behavioral biases, or financial attitudes in mediating the relationship between financial literacy and investment choices could enrich the understanding of decision-making processes Martinez (2018).

Contextual Gaps: Most studies are conducted in developed economies, leading to a gap in understanding how cultural and socio-economic contexts influence the relationship between financial literacy and investment decisions, particularly in emerging or developing economies. Research in diverse cultural settings can shed light on contextual factors that shape financial behavior and investment preferences. The study by Smith (2019) primarily focus on individual-level financial literacy without considering broader contextual factors such as institutional frameworks, regulatory environments, or market conditions. Research exploring the interaction between individual financial literacy and macro-level factors can provide a more comprehensive understanding of how external factors impact investment decisions.

Geographical Gaps: There is a lack of geographical diversity in the studies, with a predominant focus on Western countries. Research conducted in regions with different financial systems, market structures, and regulatory landscapes can offer valuable insights into how varying financial environments influence the relationship between financial literacy and investment behaviors Brown (2022). The studies primarily target specific demographic groups such as millennials, retirees, or low-income households, leading to a gap in understanding how financial literacy impacts investment decisions across diverse demographic segments. Research encompassing a wider range of demographic profiles can provide nuanced insights into the differential effects of financial literacy on investment choices.

CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, the role of financial literacy in household investment decisions is undeniably crucial and multifaceted. Through various empirical studies, it has been established that higher levels of financial literacy are associated with more diversified investment portfolios, better risk management, and improved investment performance across different demographic groups. Financially literate individuals tend to make informed decisions, allocate their assets strategically, and exhibit greater confidence in navigating complex financial landscapes.

Moreover, financial literacy plays a significant role in retirement planning, wealth accumulation, and long-term financial well-being, particularly among older adults and low-income households. It empowers individuals to understand investment products, assess risk-reward trade-offs, and make prudent financial choices aligned with their goals and risk tolerance levels. Additionally, cultural and contextual factors influence the relationship between financial literacy and investment decisions, highlighting the need for tailored financial education programs that consider diverse backgrounds and economic environments.

However, despite the evident benefits of financial literacy, there remain research gaps in understanding specific components of financial literacy that impact investment decisions, mediating factors influencing decision-making processes, and the interaction between individual-level financial literacy and broader contextual or institutional factors. Future research should aim to address these gaps, particularly in diverse geographical regions and demographic segments, to enhance our understanding and improve financial literacy initiatives effectively. Ultimately, promoting financial literacy is essential for fostering informed decision-making, reducing financial vulnerabilities, and enhancing overall financial well-being at the household level. It is a critical tool for empowering individuals to navigate the complexities of modern financial markets, optimize investment opportunities, and secure their financial futures.

Recommendations

The following are the recommendations based on theory, practice and policy:

Theory

To enhance the role of financial literacy in household investment decisions from a theoretical perspective, further research is recommended. This research should focus on delving into specific components of financial literacy that have the most significant impact on investment decisions. For instance, investigating the effects of knowledge about financial products, risk assessment capabilities, or behavioral biases on investment choices can provide valuable insights. Additionally, exploring the mediating and moderating factors that influence the relationship between financial literacy and investment decisions is crucial. This can lead to a more nuanced understanding of decision-making processes and help identify key drivers of investment behavior. Encouraging interdisciplinary research that integrates insights from psychology, economics, and behavioral finance can also contribute to developing comprehensive theories that explain the role of financial literacy in shaping household investment decisions.

Practice

In terms of practical recommendations, developing and implementing targeted financial education programs is essential. These programs should focus on improving specific aspects of financial literacy relevant to investment decisions. They should also be accessible, interactive, and tailored to different demographic groups and levels of financial literacy. Additionally, promoting financial literacy initiatives that incorporate practical tools and resources, such as investment calculators, risk assessment tools, and investment simulations, can enhance individuals' confidence and competence in making informed investment choices. Collaboration between financial institutions, educational institutions, and community organizations is also crucial to deliver comprehensive financial literacy programs covering a wide range of topics, including investment principles, retirement planning, and risk management strategies.

Policy

From a policy perspective, advocating for policies that support the integration of financial literacy education into school curricula at all levels is essential. Early exposure to financial concepts can lay a strong foundation for sound financial decision-making later in life. Furthermore, encouraging employers to offer workplace-based financial education programs and resources can help employees improve their financial literacy and make informed investment decisions, particularly regarding retirement savings and investment options. Collaboration with regulatory bodies to develop consumer-friendly disclosure practices and transparency standards for financial products and services is also recommended. Clear and understandable information can empower individuals to make well-informed investment choices aligned with their financial goals and risk tolerance. Overall, implementing these recommendations can contribute significantly to advancing the role of financial literacy in household investment decisions, leading to more informed and empowered investors, improved financial outcomes, and greater financial well-being for individuals and households.

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