



**IMPACT OF FINANCIAL LITERACY ON INVESTORS'
DECISION MAKING
WITH SPECIAL REFERENCE TO COLOMBO STOCK
EXCHANGE**

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ABSTRACT

The role of the investors is imperative to the development of an economy. According to literature, Colombo Stock Exchange (CSE) has failed to attract sufficient number of investors due to its inherent weaknesses. Further, there is relatively a few number of articles and journals published about the financial literacy and it has not yet been covered the impact of financial literacy on investor decision making in Sri Lankan context. Hence, intention of this paper is to fill the gap in the literature by examining the impact of financial literacy on investor decision making, ascertaining the relationship between financial literacy and decision making and identifying the most affecting factor to investor decision making. In this study, financial literacy is conceptualized as multidimensional construct which depends on three dimensions such as financial knowledge, attitude and behavior. Primary data were gathered through distributing a self-administrative questionnaire and 100 investors were selected systematically. Descriptive statistics, Correlation coefficient analysis and Regression analysis were used for the purpose of data analysis. The research findings revealed that there is a strong positive correlation between financial knowledge and decision making while other two dimensions have a weak positive correlation. Further, financial knowledge was identified as highly affected factors to the investors' decision making. Accordingly, to develop CSE, policy makers can implement policies to increase the financial knowledge of both local and foreign investors. Moreover, policies can be implemented to improve the financial literacy of the investors through the education system of the economy.

Keywords: Colombo Stock Exchange, Financial Literacy, Investors' Decision Making.