



# Financial Literacy, Financial Behavior, and Risk Tolerance: A Conceptual Review Based on Literature

Annisa Rahma Dianti<sup>1</sup>

<sup>1</sup> Universitas Diponegoro, Semarang, Indonesia

---

## Abstract

---

### Article history:

Received: July 8, 2023

Revised: August 27, 2023

Accepted: October 12, 2023

Published: December 30, 2023

---

### Keywords:

Demographics,  
Financial Behavior,  
Financial Education,  
Financial Literacy,  
Risk Tolerance.

---

### Identifier:

Zera Open

Page: 91-108

<https://zeraopen.com/journal/rmi>

This study aims to analyze the relationship between financial literacy, financial behavior, financial education, and risk tolerance using a literature review approach. The study was conducted on a number of Google Scholar-indexed scientific articles published in the last five years. The results of the analysis show that financial literacy has a significant influence on financial behavior and the level of risk tolerance of individuals. Individuals with a high level of financial literacy tend to make more rational financial decisions, are able to manage risks wisely, and have more stable and sustainable economic welfare. In addition, demographic factors such as age, gender, education level, and financial experience were shown to moderate the relationship between research variables. Formal and informal financial education plays an important role in strengthening understanding, forming a positive attitude towards money management, and increasing people's financial awareness. Overall, this study emphasizes that increasing financial literacy is a fundamental strategy to build healthy financial behavior, strengthen economic resilience, and encourage financial independence in the dynamic modern economic era.

---



## **1. Introduction**

In the era of an increasingly complex digital economy, financial literacy is one of the essential basic skills for individuals to make wise financial decisions. Financial literacy is no longer seen as just the ability to understand financial concepts, but also includes the ability to manage risk, regulate financial behavior, and form sustainable financial attitudes and habits (Kaiser et al., 2022). Recent research shows that increasing financial literacy has a direct impact on individuals' ability to manage income, save, invest, and achieve long-term financial well-being. In addition, the development of financial technology (fintech) has significantly changed people's financial decision-making behaviors and patterns. With the increasing ease of access to digital financial services, people are faced with a variety of investment options accompanied by varying levels of risk.

This condition requires an adequate level of financial literacy so that individuals can assess risks and potential profits more rationally (Anshik & Singla, 2022). In this context, risk tolerance is one of the important elements that mediates the relationship between financial knowledge and one's financial behavior. Individuals who have high financial literacy tend to show greater risk tolerance, as they understand the mechanisms of risk and have confidence in making financial decisions that have the potential to yield long-term profits (Mishra, 2018). Theoretically, the relationship between financial literacy, financial behavior, and risk tolerance can be explained through the Theory of Planned Behavior (Ajzen, 2020), which asserts that an individual's financial behavior is influenced by attitudes, subjective norms, and perceptions of control over behavior.

In the context of finance, a positive financial attitude and adequate knowledge will encourage more planned money management behaviors, resulting in more rational investment decisions. The results of the study show that formal and informal financial education play an important role in shaping attitudes and increasing a person's confidence in financial decisions made (Chen et al., 2022). This theoretical framework emphasizes that behavior is not merely a spontaneous action, but rather a result of deliberate thought and understanding. Therefore, the higher an individual's financial literacy, the more capable they are of assessing potential risks and benefits before making financial decisions. Financial literacy also provides individuals with the ability to manage emotional factors, such as fear and overconfidence, which often influence investment behavior. In this sense, attitudes act as an internal guide, while perceived behavioral control represents a person's confidence in their ability to manage financial challenges effectively.

Furthermore, demographic factors such as age, gender, education level, and income also affect the relationship between financial literacy and risk tolerance. Study by Garg and Singh (2018) revealed that young individuals tend to have lower levels of financial literacy than older individuals, while the study Chen et al. (2022) found that women tend to have lower risk tolerance than men. This suggests that financial education approaches need to consider demographic characteristics to create more effective and inclusive literacy strategies. By tailoring education to demographic variations, financial programs can be more impactful in promoting balanced risk-taking and responsible financial behavior across diverse populations.

Empirically, financial literacy has been proven to not only affect financial behavior, but also have a significant impact on individual financial well-being. Individuals with good financial literacy tend to be able to balance consumption and savings, as well as manage debt more carefully. In the long run, this contributes to increasing household economic stability and financial resilience. Research by Permanasari et al. (2020) also shows that financial literacy and its antecedents, such as financial education, attitudes, and behaviors, have a positive effect on risk tolerance.

These results reinforce the view that financial literacy is a key variable that not only affects financial management behavior but also individual readiness to face economic uncertainty. Thus, this study seeks to comprehensively examine the relationship between financial literacy, financial behavior, financial education, and risk tolerance in the general context of modern society without focusing on a specific area. This research is expected to enrich the academic literature on the multidimensional relationship between financial literacy and risk tolerance, as well as contribute to strategies to strengthen financial education that are adaptive to demographic differences and socioeconomic dynamics of the global community.

## **2. Literature Review**

### **2.1. Financial Literacy and Its Antecedents**

Financial literacy reflects an individual's ability to understand, assess, and apply financial knowledge in daily life. According to Dewi et al. (2020), financial literacy consists of three main dimensions, namely financial knowledge, financial

attitudes, and financial behavior. Financial knowledge includes an understanding of basic concepts such as interest, inflation, and risk diversification. Financial attitudes are related to value orientation and belief in money management, while financial behavior describes a person's real actions in managing financial resources. The antecedent of financial literacy is explained through formal and non-formal financial education that affects the formation of a financial mindset. A study by Amari et al. (2020) found that financial education provided from a young age increases awareness of risk management and encourages saving and investing behavior.

Similarly, Kaur et al. (2022) emphasizes that financial literacy plays a role as the foundation of individual economic well-being, because individuals with good financial understanding tend to have high confidence in dealing with uncertain economic situations. This relationship indicates that literacy is not limited to knowledge acquisition, but extends to the ability to translate financial understanding into consistent and responsible actions. Financial literacy equips individuals to plan, monitor, and adjust their financial strategies according to changing economic conditions.

Therefore, financial literacy is not just a cognitive ability, but the result of the interaction between education, experience, and socio-economic factors that shape rational financial behavior. A good level of literacy allows individuals to optimize financial resources, avoid debt traps, and make investment decisions that are appropriate to an acceptable level of risk. In a broader sense, financial literacy contributes to personal empowerment by fostering independence, discipline, and

accountability in managing money, which ultimately supports sustainable financial stability at both the individual and societal levels.

## **2.2. Risk Tolerance and Financial Behavior**

Risk tolerance is defined as the extent to which an individual is willing to accept the uncertainty of financial outcomes in investment decision-making. According to Hermansson and Jonsson (2021), risk tolerance is not only determined by an individual's preference for risk, but also by financial literacy, investment experience, and confidence level. Individuals with high levels of financial literacy tend to have a higher risk tolerance because they understand the potential returns of the risks taken. Harahap et al. (2022) study found that risk tolerance acts as a mediating variable between financial knowledge and financial behaviour. This means that the higher a person's financial literacy, the greater their ability to assess risks and act rationally in managing a financial portfolio.

In addition, Bunyamin and Wahab (2021) highlights demographic factors such as age, gender, and income that also influence differences in risk tolerance levels. These demographic aspects explain why financial decision-making is not uniform across populations. For example, younger individuals might display a higher willingness to take risks due to their longer investment horizons, while older individuals tend to prefer stability and lower-risk instruments. Meanwhile, financial behavior reflects the implementation of financial knowledge and attitudes in real decisions, such as saving, borrowing, and investing.

According to The Impact of Harahap et al. (2022), high financial literacy contributes to healthier and longer-oriented financial behaviors. Individuals with

better literacy are more likely to develop saving habits, diversify investments, and control unnecessary expenses. Thus, financial literacy and risk tolerance play a key role in creating wise financial behavior and supporting the economic well-being of individuals and communities. A balance between knowledge and risk awareness ensures that financial decisions are both growth-oriented and sustainable, fostering long-term resilience in a dynamic economic environment.

### **3. Method**

This study uses a library research method with a descriptive-analytical approach to examine the relationship between financial literacy, financial education, financial behavior, and risk tolerance based on various previous research results published in the last five years. This approach was chosen because it allows researchers to synthesize various relevant scientific sources, both in the form of reputable international journals, reports of financial institutions, and the results of global surveys on people's financial behavior and literacy.

The first step in the implementation of this research is to collect academic literature that is relevant to the topic of study. The search was conducted through indexed databases of Google Scholar, ResearchGate, and Elsevier, with the keywords "financial literacy", "financial behavior", "risk tolerance", "financial education", and "demographic factors". The inclusion criteria include articles published between the last five years, in English or Indonesian, and are directly related to the main construct of the research. Articles that have no empirical basis or are outside the specified time span are excluded from the analysis. The next stage

is the analysis and categorization of the content of the literature based on the main themes, namely: (1) financial literacy and its antecedents, (2) risk tolerance and financial behavior, and (3) the role of demographic factors as variables that moderate the relationship between constructs. This process is carried out by critically reading each article to identify similarities and differences in research results, conceptual models used, and gaps (research gaps) that are still open.

Data analysis was carried out qualitatively using narrative synthesis techniques. This approach aims to integrate various empirical findings into a complete understanding of the patterns of relationships between research variables. The results of the synthesis were then used to develop a conceptual framework that explains the relationship between financial literacy, financial education, financial behavior, and risk tolerance, taking into account the influence of individual demographic characteristics. This literature study method was chosen because it is relevant to explore socio-economic phenomena that are multidimensional without requiring primary data collection. Through a comprehensive literature analysis, this research is expected to provide an in-depth understanding of the role of financial literacy in shaping behavior and attitudes towards risk, as well as become a conceptual basis for future empirical research that assesses the effectiveness of financial literacy programs in the context of modern society.

#### **4. Results**

The results of this literature review show that financial literacy has a close and significant relationship with financial behavior and individual risk tolerance. In

general, financial literacy includes the ability to understand, evaluate, and apply basic financial concepts in daily decision-making, such as managing income, expenses, savings, investments, and future planning. Individuals who have a high level of financial literacy tend to be able to assess risks rationally, choose financial instruments according to their profile, and avoid excessive speculative or consumptive financial behavior. These findings are in line with the results of research by Kaiser et al. (2020), which affirm that financial literacy plays a role as a foundation in shaping responsible and long-term oriented economic behavior.

Financial literacy not only includes aspects of knowledge, but also financial attitudes and behaviors that arise from financial learning and experience. The study Kaur et al. (2022) emphasizes that individuals with good financial understanding are more likely to have high economic well-being because they are able to balance consumption and savings, avoid unproductive debt, and plan financially for the future. With adequate literacy, one can not only understand economic concepts such as compound interest rates and inflation, but also be able to anticipate risks and prepare mitigation strategies against economic uncertainty.

In an increasingly digitized global context, the ability to understand financial risks is becoming increasingly important. Research by Anshika and Singla (2022) shows that financial literacy is positively related to financial confidence, which then affects the level of risk tolerance of individuals. People who understand how financial markets work are better prepared to make investment decisions, including in high-risk assets, because they have an analytical basis in assessing potential gains

and risks. In contrast, individuals with low literacy tend to avoid investing and prefer low-risk instruments, such as savings or deposits.

Harahap et al. (2022) reinforces these findings by stating that risk tolerance is an important mediating variable between financial literacy and financial behavior. Individuals with high levels of financial literacy are able to interpret risk not as a threat, but rather as a manageable opportunity. They tend to invest in moderate to high-risk instruments, as long as they understand the potential returns that can be obtained. This approach allows them to diversify assets and strengthen long-term financial stability. Similar findings were put forward by Mishra (2018), who stated that financial literacy contributes directly to increased participation in the capital market. In this context, individuals with a good financial understanding find it easier to understand portfolio diversification, read economic trends, and assess the risk profile of each investment instrument. This suggests that effective financial education plays a role in changing conservative behavior to be more proactive towards economic opportunities.

On the other hand, healthy financial behavior is also a reflection of good financial literacy. Positive financial behavior includes efficient income management, long-term financial planning, and consistent saving habits. Highly literate individuals are able to refrain from impulsive spending and prioritize the allocation of funds to productive assets. The results of the Financial Safryani et al. (2020) research also support this, emphasizing that financial literacy encourages more responsible financial behavior through increased awareness of the importance of risk management and financial planning.

In addition to cognitive factors, demographic characteristics have been shown to play an important role in shaping the relationship between financial literacy and risk tolerance. Garg and Singh (2018) found that age, education, and social status affect a person's ability to understand financial concepts. Younger generations, for example, often have low financial literacy due to a lack of practical experience, even though they are more familiar with digital financial technologies. However, with increased access to online information sources and financial applications, this gap is slowly shrinking. Gender differences are also an important factor in risk tolerance research. Bunyamin and Wahab (2021) shows that men tend to have a higher risk tolerance than women. This is associated with a level of confidence in decision-making and perception of risk. However, the research Lone and Bhat (2022) confirms that these differences can be narrowed through inclusive financial education. When women receive equal training and access to information, they show a similar level of risk tolerance as men.

From a contextual perspective, Permanasari et al. (2020) research reinforces that financial literacy has a significant effect on risk tolerance through its antecedents, namely financial attitudes and behaviors. Formal financial education enhances an individual's understanding of investment risks and strengthens psychological readiness to deal with economic uncertainty. This finding is in line with Lusardi (2019), who stated that financial literacy is a form of economic resilience because it equips individuals with the ability to plan, assess, and adapt to global economic fluctuations. Psychological aspects such as financial self-efficacy are also important variables in strengthening the relationship between financial literacy

and financial behavior. Research Lone and Bhat (2022) shows that confidence in managing finances mediates the influence of literacy on financial behavior. Individuals who believe in their ability to manage finances are more courageous to take investment risks because they have a well-planned mitigation strategy.

The results of the literature also affirm the important role of financial education as an external factor that is able to increase public literacy. Dewi et al. (2020), stated that direct experience-based training programs, such as investment simulations or financial coaching, are more effective in changing financial behavior than theoretical learning methods. Meanwhile, Safryani et al. (2020) reveals that the social environment, including family and community, plays a major role in shaping financial habits. Individuals who grow up in families with a strong financial planning orientation are more likely to have positive financial behaviors, such as saving and investing regularly.

Thus, the results of a synthesis of various studies show a consistent pattern of relationships: financial literacy improves an individual's ability to understand risks, forms rational financial behavior, and strengthens financial well-being. This relationship is multidimensional, involving cognitive (knowledge), affective (attitude and self-confidence), and socio-demographic (age, gender, and education) factors. People with high levels of financial literacy are not only better prepared to face financial risks, but also have better adaptive abilities to global economic changes. These findings confirm that improving financial literacy through continuous and practical experience-based education is an effective strategy to strengthen the economic resilience of individuals and communities. Good financial literacy allows

individuals to make measurable financial decisions, increase risk tolerance, and create more productive and sustainable financial behaviors in the face of modern economic challenges.

## 5. Discussion

The results of the study show that financial literacy has a central role in shaping financial behavior and the level of risk tolerance of individuals. High financial literacy encourages more rational decision-making, increases confidence in managing assets, and strengthens long-term economic well-being. This is in line with the Theory of Planned Behavior put forward by Ajzen (2020), where knowledge, attitudes, and perceptions of control over behavior affect a person's actions in the financial context. Thus, increasing financial literacy not only has an impact on cognitive aspects, but also on the affective and behavioral dimensions of individuals.

The findings of this study support the results of the study of Lusardi (2019), which confirm that financial education has a long-term impact on changes in financial behavior. A comprehensive educational program allows individuals to understand the relationship between risk, benefit, and personal financial management in more depth. Through increased financial knowledge, individuals are able to develop analytical skills in assessing investments and managing debt, as well as building resilience to economic fluctuations.

Furthermore, financial literacy has also been proven to increase risk tolerance through increased financial confidence and investment experience. Individuals with high levels of literacy have a more open view of risk because they understand the

mechanisms and potential outcomes of the financial decisions taken. Research by Hermansson and Jonsson (2021) shows that financial literacy contributes to the courage to take higher investment risks without sacrificing financial prudence. This shows a balance between courage and rational calculation that comes from a deep understanding of economic conditions and financial instruments.

In addition, the role of demographic factors is also an important concern. Bunyamin and Wahab (2021) show that age, gender, and education level affect variations in literacy levels and courage in taking financial risks. Young individuals who are exposed to financial education early tend to be more adaptive in dealing with risk, while groups with minimal financial experience often show conservative tendencies. Thus, efforts to improve financial literacy should be adjusted to demographic characteristics to be more effective and contextual.

Research by Fan et al. (2022) provides additional evidence that formal financial education strengthens the relationship between financial literacy and risk tolerance. Education plays a role as a moderator variable that expands the influence of literacy on financial behavior. This means that the higher a person's level of financial education, the stronger the influence of financial literacy on the courage to take calculated risks. In this context, financial literacy is not just static knowledge, but adaptive skills that develop along with experience and learning.

The results of this synthesis also have policy implications. Governments and financial institutions can develop demographic-based literacy programs with practical and interactive approaches, such as digital finance simulations, micro-investment training, and financial awareness campaigns on social media.

Technology-based financial education can reach young people and vulnerable groups more effectively, given the shift in people's behavior towards the digital economy. Thus, this study confirms that financial literacy is a fundamental determinant in creating healthy and sustainable financial behavior. Increasing literacy must be a cross-sectoral strategic agenda because it has direct implications for people's ability to face risks, maintain household economic stability, and improve overall social welfare.

## **6. Conclusion**

This research confirms that financial literacy has a very important role in shaping healthy financial behavior and increasing individual risk tolerance. Good financial literacy allows a person to understand the relationship between income, consumption, savings, and investments in a balanced manner. With adequate knowledge, individuals are able to assess risks and make rational financial decisions, thus avoiding consumptive behavior and speculative decision-making. In addition to providing conceptual understanding, financial literacy also increases financial confidence and psychological readiness in the face of economic uncertainty. Individuals who have good financial knowledge tend to be more courageous in making measurable investment decisions because they understand the potential profits and risks that come with it. This shows that financial literacy not only impacts financial well-being, but also strengthens the economic resilience of individuals.

The findings of the study also highlight the importance of educational and demographic factors in shaping literacy levels and risk tolerance. Therefore, the

development of financial education programs must be adjusted to the social characteristics and age of participants in order to have an optimal impact. Practice-based and technology-based financial education needs to be expanded so that literacy can be accessed by all levels of society. Increasing financial literacy is an effective strategy to strengthen people's economic resilience, encourage wise financial management, and build sustainable financial behavior in the face of global economic dynamics.

## References

Ajzen, I. (2020). The theory of planned behavior: Frequently asked questions. *Human behavior and emerging technologies*, 2(4), 314-324.

Amari, M., Salhi, B., & Jarboui, A. (2020). Evaluating the effects of sociodemographic characteristics and financial education on saving behavior. *International Journal of Sociology and Social Policy*, 40(11/12), 1423-1438.

Anshika, & Singla, A. (2022). Financial literacy of entrepreneurs: a systematic review. *Managerial Finance*, 48(9-10), 1352-1371.

Bunyamin, M., & Wahab, N. A. (2021). Factors influencing financial risk tolerance: A review. *International Journal of Industrial Management*, 12(1), 296-305.

Chen, F., Lu, X., & Wang, W. (2022). Informal financial education and consumer financial capability: The mediating role of financial knowledge. *Frontiers in psychology*, 13, 1042085.

Dewi, V. I., Febrian, E., Effendi, N., Anwar, M., & Nidar, S. R. (2020). Financial literacy and its variables: The evidence from Indonesia. *Economics & Sociology*, 13(3), 133-154.

Fan, L., Lim, H., & Lee, J. M. (2022). Young adults' financial advice-seeking behavior: The roles of parental financial socialization. *Family Relations*, 71(3), 1226-1246.

Garg, N., & Singh, S. (2018). Financial literacy among youth. *International journal of social economics*, 45(1), 173-186.

Harahap, S., Thoyib, A., Sumiati, S., & Djazuli, A. (2022). The impact of financial literacy on retirement planning with serial mediation of financial risk tolerance and saving behavior: Evidence of medium entrepreneurs in Indonesia. *International Journal of Financial Studies*, 10(3), 66.

Hermansson, C., & Jonsson, S. (2021). The impact of financial literacy and financial interest on risk tolerance. *Journal of Behavioral and Experimental Finance*, 29, 100450.

Kaiser, T., Lusardi, A., Menkhoff, L., & Urban, C. (2022). Financial education affects financial knowledge and downstream behaviors. *Journal of Financial Economics*, 145(2), 255-272.

Kaur, G., Singh, M., & Gupta, S. (2022). Analysis of key factors influencing individual financial well-being using ISM and MICMAC approach. *Quality & Quantity*, 57(2), 1533.

Lone, U. M., & Bhat, S. A. (2022). Impact of financial literacy on financial well-being: a mediational role of financial self-efficacy. *Journal of Financial Services Marketing*, 1.

Lusardi, A. (2019). Financial literacy and the need for financial education: evidence and implications. *Swiss journal of economics and statistics*, 155(1), 1-8.

Mishra, R. (2018). Financial literacy, risk tolerance and stock market participation. *Asian Economic and Financial Review*, 8(12), 1457-1471.

Permanasari, F. M., Kuncara, H., & Warokka, A. (2020). Pengaruh literasi keuangan dan antecedennya terhadap toleransi risiko dengan moderasi faktor demografi pada pekerja muda di Indonesia. *JRMSI-Jurnal Riset Manajemen Sains Indonesia*, 11(2), 338-363.

Safryani, Ulfy, Alfida Aziz, and Nunuk Triwahyuningtyas. "Analisis literasi keuangan, perilaku keuangan, dan pendapatan terhadap keputusan investasi." *Jurnal Ilmiah Akuntansi Kesatuan* 8, no. 3 (2020): 319-332.