

Intrusion of behavioural biases: a moderator on relationship between financial literacy and decision outcome

By

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DEDICATION

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Abstract

This study is conducted to assess the relationship between financial literacy and decision outcome. Many of the studies have already established this relationship whereas others disregarded this relationship. So this study is conducted to assess the relationship between financial literacy and decision outcome in Islamabad the capital of Pakistan, and also to assess the effect of behavioral biases; overconfidence, illusion of control, conservatism, availability, representativeness and framing bias on this relationship. Primary data was collected through questionnaire from 216 employees of banking sector of Islamabad. Different statistical tests i.e. reliability test, Independent T test, correlation, regression and Andrew F Hayes test were applied to check the reliability of questionnaire, the relationship between variables and the moderating effect of biases respectively. The findings and results of the study confirmed that there is significant relationship between financial literacy and decision outcome, whereas behavioral biases have significant to mild effect on this relationship. Overconfidence, illusion of control and framing bias has significant adverse effect on relationship between financial literacy and decision outcome, whereas, availability and representativeness bias has mild adverse effect on the aforementioned relationship. Conservatism bias has mild positive effect on the relationship.

Keywords: Financial literacy, behavioural biases, decision outcome, overconfidence, illusion of control, conservatism, availability, representativeness, framing bias, moderator, regression, correlation, Andrew F. Hayes test from moderator