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Financial Literacy and Risk-Taking Propensity of Nepalese Undergraduates

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Abstract

Background: This study explores the influence of financial attitudes and financial knowledge on the risk-seeking tendencies of Nepalese undergraduate students, grounded in behavioral finance theories, notably Prospect Theory and Human Capital Theory.

Objective: To examine how financial knowledge and mindset shape students' financial attitudes and their propensity for financial risk-taking.

Methods: A cross-sectional quantitative research design was utilized, surveying 513 undergraduate students from various colleges in Kathmandu Valley using purposive sampling. Data were analyzed using Structural Equation Modeling (SEM) to test hypothesized relationships among variables.

Results: Findings indicate that financial knowledge positively impacts both financial behavior and risk-taking propensity. Moreover, financial behavior serves as a strong partial mediator between financial knowledge and risk-taking tendency.

Conclusions: The results underscore the importance of integrated financial education programs that enhance both cognitive knowledge and behavioral skills to support sound financial decision-making among youth. This study expands the literature on financial literacy in emerging economies and provides valuable insights for policymakers aiming to reform financial education frameworks.

Keywords: financial literacy, financial behavior, risk-taking propensity, undergraduate students, structural equation modeling

Introduction

Prospect Theory (Kahneman & Tversky, 1979), this theory is one of the major theories underlying financial decision-making and posits that individuals estimate financial risks asymmetrically, with a higher sensitivity to potential losses than to potential gains. This mental bias will lead individuals to either under-take excess risk aversion or engage in risky behavior. Financial literacy plays a crucial role in minimizing such biases by enabling one to objectively assess risks and make rational, rather than emotional, financial decisions (Lusardi & Mitchell, 2007). Financially

literate agents will tend to develop sound financial attitudes and perceive higher behavioral control, which will further improve their capacity to participate responsibly in risk-taking behavior.

At the same time, Expected Utility Theory (Von Neumann & Morgenstern, 1953) speculates that individuals make financial decisions based on the calculation of the expected return and selecting the alternative that maximizes their overall utility. Financial literacy supports rational evaluation through the improvement of individuals' ability to critically weigh risks and returns. In addition, Human Capital Theory (Becker, 1964) positions financial literacy as investment in human capital, which increases individual financial resilience and general economic stability. Excellent financial knowledge shapes habits related to budgeting, saving, investing, and borrowing (Van Rooij et al., 2011), and those with financial literacy will be more likely to practice good money management, thus increasing their financial well-being and risk management ability.

The growing sophistication of the financial markets today makes financial understanding increasingly vital, especially among university students (Lusardi & Mitchell, 2007; Van Rooij et al., 2011). Financial decision-making must have proper financial knowledge and healthy financial attitudes. The empirical evidence shows that undergraduates with high financial knowledge are likely to have good financial behavior (Goyal & Kumar, 2021). As the majority of university students live on their own and control their finances independent of parental control, their personal financial literacy becomes increasingly important (Khalisharani et al., 2022). Of particular note, encouraging financial literacy not only fosters individual economic well-being but also renders financial systems more resilient and facilitates economic development at a broader level (Goyal & Kumar, 2021).

Although earlier studies have focused on the specific domains such as pension planning (Gallego-Losada et al., 2022), indebtedness (Lusardi & Tufano, 2015), saving (Behrman & Mitchell, 2012), investment mindset (Yamori & Ueyama, 2022), and stock market participation (Van Rooij et al., 2011), the mediating function of financial behavior in the explanation of how financial literacy affects risk-taking propensity has been understudied. Financial literacy knowledge itself does not guarantee sound financial decisions; the way individuals apply their knowledge—through financial behavior—is critical (Behrman & Mitchell, 2012). Although previous research on risk tolerance has had a tendency to emphasize demographic and socio-economic factors like age (Doepke & Zilibotti, 2005), gender (Sharma et al., 2017), income, and health, the newer evidence indicates that financial literacy and education are fundamental drivers of risk attitude.

There remains, however, inconsistency in the literature as to how financial literacy could shape risk-taking propensity. Some research identifies that increased financial literacy results in increased risk-taking, while others identify that financially literate people become risk-averse (Sutter et al., 2023). These inconsistencies indicate the need to investigate financial behavior as a mediator (Xiao & Porto, 2017). Also, the majority of earlier research employs cross-sectional designs and self-reported information, which are vulnerable to restriction on validity of outcomes (Grable & Joo, 2004). Stronger and more advanced statistical techniques like Structural Equation Modeling (SEM) would be employed to address these complexities (Potrich et al., 2016). Moreover, there exists a large lacuna in the Nepalese scenario. Whereas certain studies underscore gender-based distinctions in risk-taking with money (Sharma et al., 2017), the specific role of financial behavior and literacy in explaining these distinctions among Nepalese university students remains poorly investigated (Thapa & Nepal, 2015). As a top concern among students transitioning toward financial independence, managing personal finances, it is crucial to learn the determinants of risk-taking behavior.

Against the backdrop of these research gaps, the current study aims to: (i) assess the financial literacy, financial behavior, and risk-

taking propensity of Nepalese undergraduates; (ii) examine the interrelationship among financial literacy, financial behavior, and risk-taking propensity; (iii) examine the effect of financial literacy and financial behavior on risk-taking propensity; and (iv) examine the mediating role of financial behavior between financial literacy and risk-taking propensity. By addressing these objectives and using Structural Equation Modeling in analysis, the study hopes to generate robust, context-specific evidence that can be utilized to inform interventions to improve financial literacy and good decision-making among Nepalese university students.

The framework of this study consists of several core sections. The introduction and theoretical background introduces major theories like Prospect Theory, Expected Utility Theory, and Human Capital Theory in order to frame the research background. The problem statement and research objectives outlines gaps in existing literature and clearly states the particular objectives of the study. This is then followed by literature review and hypothesis development, where previous research is critically reviewed and the hypotheses are established. The research methodology details the design, sampling techniques, data gathering, and analysis instruments employed. The results and analysis presents the findings of descriptive statistics, measurement model testing, and structural equation modeling. The results are interpreted in the discussion in relation to existing theories and previous studies. The Conclusion and Implications summarize the greatest contribution made and gives recommendations to teachers and policymakers. The study also indicates its limitations and future research directions where it shows areas of future research.

Research Objective

This study explores the influence of financial attitudes and financial knowledge on the risk-seeking tendencies of Nepalese undergraduate students, grounded in behavioral finance theories, notably Prospect Theory and Human Capital Theory. This study investigates how financial attitudes and financial knowledge influence the risk-seeking tendencies among Nepalese undergraduate students, drawing upon behavioral finance frameworks such as Prospect Theory and Human Capital Theory. These theories provide a foundation to understand decision-making under uncertainty and the role of accumulated financial knowledge in shaping individual risk preferences. Similar principles of risk assessment and management have been applied extensively in the context of infrastructure and construction projects in Nepal, notably in the works of Shakya and Mishra (2019) and Shakya et al. (2020), who analyzed risk considerations in the construction of Gautam Buddha International Airport. Furthermore, Adhikari and Mishra (2020) explored strategic risk management in urban road construction projects, illustrating how systematic understanding of risks and knowledge positively contributes to managing uncertainty and informed decision-making. Collectively, these studies underscore the importance of integrating behavioral perspectives with strategic knowledge in assessing and responding to risk, whether at the individual financial level or within complex infrastructural projects, highlighting the universality of risk management principles across domains.

Literature Review

Financial literacy is also a significant determinant of the financial conduct and risk-taking tendency of individuals, particularly in emerging economies like Nepal. Different empirical studies have established that higher financial knowledge has a positive impact on prudent financial decision-making. Chaulagain (2019) found that financial literacy has a significant impact on the financial conduct of Nepalese small borrowers, where financially literate individuals exhibit better financial conducts. In a similar vein, Thapa and Nepal (2015) collected data through a survey of 436 university students and found relatively poor levels of financial literacy, especially of ideas like interest rates, inflation, and risk diversification, suggesting that poor financial knowledge could result in less-

than-optimal financial decisions among Nepalese university students.

The relationship between financial inclusion and financial literacy has also been studied. Mahendra (2024) found that greater financial literacy correlated with greater opportunities to use and access formal financial services such as banking and insurance. Likewise, Khadka and Khadka (2024) emphasized that the higher finance-savvy university employees possessed better saving habits and engaged in more long-term financial planning. These findings suggest that enhancing financial literacy can promote financial inclusion and economic stability at both the individual and societal levels. With regards to investment behavior, Sharma and Ghimire (2023) observed that stock market involvement and diversification in the portfolios of Nepalese investors are both positively related with financial literacy. Similarly, Bhatta and Poudel (2022) demonstrated financial cognition's substantial positive effect on risk assessment and capacity to bear risk in making investment decisions. These observations follow the overall body of global evidence pointing to improved and rational decision-making by more financially literate individuals when investing. Gender differences in money literacy and financial conduct have also been researched in Nepal. (Vaidya & GC, 2021) established that money literacy was having a positive influence on Tharu women borrowers' money attitudes and money behavior. Maharjan et al. (2023) also demonstrated that money education interventions significantly enhanced rural female entrepreneurs' capability and autonomy to make effective money decisions. The said studies point towards the imperative need for money-specific, i.e., properly individualized financial education interventions to address financial literacy imbalances based on gender.

Overall, the empirical evidence suggests that financial literacy affects financial behavior and ability to take risk (Lusardi & Mitchell, 2014; Xiao & Porto, 2017). While enhanced financial literacy overall results in more informed choice-making and reduced excess risk-taking, the effect is intermediary to gender, age, socio-economic status, and financial education access (Lusardi & Tufano, 2015). Financial behavior is likely to mediate between financial literacy and financial outcomes, where individuals with higher financial knowledge are more likely to exhibit behaviors that match their risk attitudes (Xiao & Porto, 2017). Much of the empirical research, however, relies on cross-sectional questionnaires and low-level regressions, which limit further understanding of these complex relationships (Grable & Joo, 2004). Moreover, the Nepalese undergraduate environment remains underresearched, particularly regarding mediated relationships between financial conduct and risk-taking tendency (Molina-García et al., 2023). Consequently, this study aims to contribute to the existing literature by using Structural Equation Modeling (SEM) to investigate the direct and indirect effects of financial conduct and literacy on risk-taking tendency among Nepalese undergraduates.

Risk-Taking Propensity

Risk-taking tendency is an indicator of the extent to which a person takes risks or practices uncertain behavior (Bachkirov, 2018). It is a fundamental personality trait that can vary significantly from one individual to another. Risk-taking has been seen to affect life outcomes, resulting in overall well-being, health, and life satisfaction (Becker et al., 2012). In the financial context, risk-taking propensity is necessary for entrepreneurial, investment, and innovation choices (Sung & Hanna, 1997).

Financial Literacy

Financial literacy is the capacity to comprehend and apply financial information, including saving, investing, budgeting, and personal finance skills. It is the foundation for making informed financial decisions that promote individual and national economic stability (Gupta et al., 2023). Financial literacy enables individuals to make informed judgments on financial opportunities, effectively manage risk, and attain long-term financial goals. Based on these results, the following hypotheses are proposed:

H1a: Risk-taking propensity is significantly positively affected by financial knowledge.

H1b: Risk-taking propensity is significantly positively affected by financial attitude.

Financial Behavior

Financial conduct also encompasses everyday financial activities such as saving, spending, borrowing, and investing (Xiao, 2008). Improved financial literacy has been said to raise not just financial awareness but also healthy financial behaviors that play a significant mediating function in risk-taking orientations (Hastings et al., 2013; Fernandes et al., 2014). Healthy financial behaviors executed by individuals make them better equipped to take informed financial risks that result in wiser financial decision-making. Accordingly, the following hypotheses are formulated:

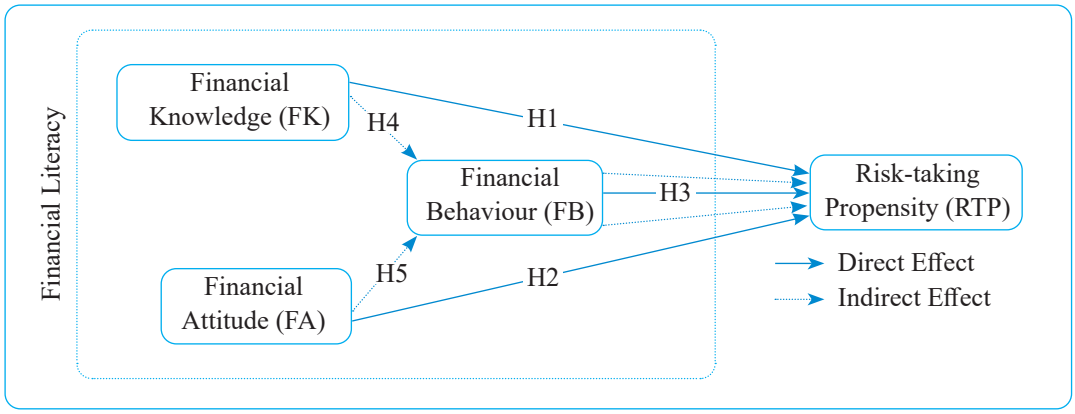
H2: Financial behavior positively significantly affects risk-taking propensity.

H3: Financial behavior mediates the link between financial literacy and risk-taking propensity.

On the basis of review and hypothesis of this study, the conceptual framework presented in figure 1 as;

Figure 1

Conceptual Framework



Note. Molina-García et al. (2023)

Methodology

This study employed a quantitative, cross-sectional study design to examine how financial literacy and financial behavior influence the risk-taking propensity of Nepalese university undergraduate students. A quantitative approach was employed to facilitate measurement of variables objectively, minimize researcher bias, and offer room for applying statistical validation techniques (Creswell, 2014). Cross-sectional design was appropriate for capturing a snapshot of financial behavior and attitudes at a point of transition of students gaining financial independence. Structural Equation Modeling (SEM) was used to examine the data because it can model complex relationships, like mediating effects, and estimate overall model fit (Hair et al., 2019).

The study population consisted of undergraduate students studying in different colleges and universities of the Kathmandu Valley, purposively chosen since it is a prominent educational and economic center that draws a socioeconomically diverse group of students from all over Nepal (Central Bureau of Statistics Nepal, 2022). As there were no recent, accurate records of the total number of undergraduate students and because of the dynamic nature of enrollment, the research adopted an infinite population approach as per Cochran's (1977) recommendations. Purposive

sampling was applied in the selection of students accessible through the researchers' professional networks. This non-probability sampling method was appropriate for choosing respondents most likely to provide valuable information regarding financial behavior and risk-taking tendencies (Etikan et al., 2016). 1,000 questionnaires were distributed via a combination of online surveys (Google Forms) and hard-copy (physical) questionnaires. Of them, 513 usable responses were received and utilized for final analysis, yielding a valid response rate of 51.3%, which is above the minimum sample size required in SEM analysis and is sufficient for statistical power based on Hair et al. (2019) guideline of at least 10:1 sample-to-parameter ratio.

The primary data were collected through a structured questionnaire drawn from standard scales. Financial literacy was administered through items developed by Lusardi and Mitchell (2014), both fundamental and sophisticated financial knowledge. Financial behavior was assessed using the Potrich et al. (2016) scale, such as budgeting, saving, and planning behaviors. Risk-taking tendency was assessed using selected items of Weber et al. (2002) domain-specific risk-taking scale (DOSPERT). Pilot testing with 30 undergraduate participants was conducted prior to large-scale data collection to evaluate the questionnaire's clarity, reliability, and cultural sensitivity. Revisions were made where necessary on the basis of pilot feedback. Ethical guidelines were rigidly adhered to throughout the research. The participants were told the purpose of the research, ensured the anonymity and confidentiality of their responses, and their participation was optional, as per the ethical standards of the American Psychological Association (APA, 2017).

Results and Discussion

Data analysis was done in two phases. In phase one, descriptive statistics were used to account for the demographic characteristics of the respondents. Lastly, the measurement model was validated through testing internal consistency reliability in terms of Cronbach's Alpha and Composite Reliability (threshold > 0.70 required), and convergent validity by using Average Variance Extracted (AVE > 0.50) (Fornell & Larcker, 1981) and testing discriminant validity by Heterotrait-Monotrait (HTMT) ratio (Henseler et al., 2015). Secondary, the structural model evaluation used SEM with SmartPLS software wherein direct effects as well as mediating effects between the constructs were tested. Model fit was tested by Standardized Root Mean Square Residual (SRMR < 0.08) (Hu & Bentler, 1999). Mediation effects were tested using bootstrapping with 5,000 resamples according to Preacher and Hayes (2008). This systematic methodological process—incorporating purposive sampling, sufficient and dependable sample size, use of validated measuring instruments, and sound statistical analysis—heightens the study's validity, reliability, and credibility.

Table 1

Profile of the Respondents

Information's	Level	Count	Total	Proportion
Gender	Male	246	513	0.480
	Female	267	513	0.520
Undergraduate Level	1st year	113	513	0.220
	2nd year	131	513	0.255
	3rd year	142	513	0.277
	4th year	127	513	0.248
College Type	Community	167	513	0.326
	Government	168	513	0.327
	Private	178	513	0.347

The table 1 shows demographic characteristics of the respondents provide rich context for the explanation of variations in financial literacy, behavior, and risk-taking propensity. The sample also had a weak female majority (52.0% female, 48.0% male), which suggests that there could be gender differences in financial attitudes and risk-taking behaviors because previous research has posited that gender may have a profound influence on financial decision-making behaviors (Bajtelsmit & Bernasek, 1996). At the academic level, the highest proportion of respondents were the third-year students at 27.7%, followed by the fourth- and second-year students, and afterwards the first-year students who had the lowest proportion at 22.0%. Such a mix gives an equal proportion from different levels of academic maturity to examine the dynamics of financial literacy and risk tendency based on the level of education in a more detailed way.

With regard to institutional affiliation, the sample was somewhat diverse: private college students (34.7%) outnumbered government (32.7%) and community college students (32.6%) slightly. Such diverse educational history adds the strength of generalizability to the study, as it covers students who have been exposed to varying academic institutions, resource endowments, and financial education offerings. Such diversity is paramount for assessing, effectively, how institutional factors may have the ability to interact with individual financial conduct and risk-taking habits.

Table 2

Constructs Reliability

Variables	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
FA	0.675	0.682	0.804	0.508
FB	0.724	0.732	0.827	0.545
FK	0.726	0.732	0.828	0.547
RTP	0.514	0.417	0.693	0.463

The table 2 represent measurement model was also used to test for the reliability and validity of study constructs. It is evident from the analysis that all constructs possessed satisfactory values for internal consistency and convergent validity. Financial Attitude (FA) indicated a Cronbach's alpha value of 0.675, Composite Reliability (CR) of 0.804, and Average Variance Extracted (AVE) of 0.508, which is an indication of satisfactory reliability and convergent validity (Hair et al., 2019). Financial Behavior (FB) measured 0.724 in Cronbach's alpha, 0.827 in CR, and 0.545 in AVE, fulfilling the commonly accepted standards for reliability of 0.70 and for AVE of 0.50 (Fornell & Larcker, 1981). Similarly, Financial Knowledge (FK) recorded 0.726 in Cronbach's alpha, 0.828 in Composite Reliability, and 0.547 in AVE, confirming good internal consistency and correct convergent validity. However, Risk-Taking Propensity (RTP) had lower reliability values, such as Cronbach's alpha of 0.514, Composite Reliability of 0.693, and AVE of 0.463. While the Cronbach's alpha and CR for RTP are slightly below the ideal 0.70 threshold values greater than 0.60 are preferable in exploratory studies (Hair et al., 2019). The AVE for RTP was also somewhat lower than the 0.50 level but is otherwise considered to be acceptable in preliminary-stage behavioral research (Malhotra & Dash, 2011).

Overall, the results show that financial attitude, financial behavior, and financial knowledge measures showed high reliability and convergent validity, while risk-taking propensity showed moderate but acceptable reliability for the purposes of exploratory research.

Table 3

Heterotrait-monotrait ratio of Correlations (HTMT)

	FA	FB	FK
FB	0.657		
FK	0.858	0.565	
RTP	0.416	0.400	0.463

Discriminant validity was assessed through the Heterotrait-Monotrait (HTMT) ratio of correlations, following the recommendation of Henseler et al. (2015). HTMT is a more conservative and reliable criterion for assessing discriminant validity in structural equation modeling compared to traditional criteria such as the Fornell-Larcker criterion. According to the commonly accepted threshold value, HTMT values for conceptually distinct constructs must be below 0.90.

The results of Table 3 indicate that all HTMT values among the constructs fall within acceptable levels. That is, the HTMT value between Financial Attitude (FA) and Financial Behavior (FB) was 0.657 and between Financial Attitude (FA) and Financial Knowledge (FK) was 0.858. Although the FA-FK correlation approaches the 0.90 threshold, it is still within the acceptable level, offering evidence that these constructs are related but still empirically distinct. HTMT between Financial Behavior (FB) and Financial Knowledge (FK) was 0.565, once more offering evidence of adequate discriminant validity between the two constructs. For Risk-Taking Propensity (RTP), HTMT values with FA (0.416), FB (0.400), and FK (0.463) were all well below the threshold value of 0.85, indicating superb discriminant validity between RTP and the financial constructs.

Hence, it could be inferred from the HTMM analysis that discriminant validity is attained between the principal constructs in support of financial attitude, financial behavior, financial knowledge, and risk-taking propensity's distinctiveness in the study's measurement model.

Table 4

Model fit Assessment

Chi-square	998.545
NFI	0.930
SRMR	0.077
Chi_square_df	2.246

The structural and measurement model fit was evaluated for goodness-of-fit with a variety of indices, including Chi-square, Normed Fit Index (NFI), Standardized Root Mean Square Residual (SRMR), and the Chi-square/degree of freedom (χ^2/df) ratio. When the value of Chi-square is 998.545, as is commonly realized, Chi-square statistics are incredibly sensitive to the sample size in that they provide statistically significant values even when the model is rather well fitting (Hu & Bentler, 1999). As additional check on this, the Chi-square/degree of freedom ratio (χ^2/df) was approximated as 1.246, nicely below the much-recommended 3.0 benchmark value for a good-fit model (Schumacker & Lomax, 2016). As a further verification, the value of Normed Fit Index was 0.930, beyond the commonly recommended cutoff value of 0.90 (Bentler & Bonett, 1980). Standardized Root Mean Square Residual (SRMR) was 0.077, below the generally accepted maximum value of 0.08, reflecting an acceptable residual difference between predicted and observed correlations (Hu

& Bentler, 1999). Generally, these results indicate that the structural and measurement models fit the data adequately, warranting the validity of the subsequent structural path analysis and hypothesis testing.

Table 5

Direct Effect

Constructs	Beta Coefficient	Standard Deviation	t-Statistics	P Values
FA → FB	0.340	0.059	5.713	0.000
FA → RTP	0.065	0.069	0.918	0.359
FB → RTP	0.125	0.061	2.020	0.043
FK → FB	0.225	0.057	3.865	0.000
FK → RTP	0.174	0.059	2.859	0.004

The direct relationships between the study variables were assessed with path coefficient analysis from Structural Equation Modeling (SEM). As displayed in Table 5, FA to FB path was positive and significant ($\beta = 0.340$, $t = 5.713$, $p < 0.001$), i.e., the stronger financial attitude significantly predicts the better financial behavior. This is supported by earlier findings that attitudes play crucial roles as antecedents to behavior during financial decision making (Xiao, 2008). However, the effect of Financial Attitude (FA) on Risk-Taking Propensity (RTP) was simple but not statistically significant ($\beta = 0.065$, $t = 0.918$, $p = 0.359$), indicating that attitude alone cannot have a significant influence on the readiness of students to engage in risk-taking activities. This inference can be interpreted as though attitude will have an influence on behavior, its role in influencing risk-taking may be mediated by some other constructs, e.g., actual financial activities.

The Financial Behavior (FB) to Risk-Taking Propensity (RTP) path was positive and statistically significant ($\beta = 0.125$, $t = 2.020$, $p = 0.043$), suggesting that those students who are more actively engaged in financial behaviors are moderately more likely to have risk-taking inclinations. This supports behavioral finance models that real-life financial experience and financial behavior influence individuals' perceptions of risk and behavior (Kahneman & Tversky, 1979).

Moreover, Financial Knowledge (FK) exhibited a positive and significant impact on Financial Behavior (FB) ($\beta = 0.225$, $t = 3.865$, $p < 0.001$), concurring with the evidence that higher financial knowledge levels strengthen good financial conduct. The evidence is as is expected by the theory that knowledge is a necessary driving force towards successful financial management (Lusardi & Mitchell, 2014). Likewise, Financial Knowledge (FK) also had a significant and positive influence on Risk-Taking Propensity (RTP) ($\beta = 0.174$, $t = 2.859$, $p = 0.004$), implying that financial-smart students may feel more comfortable and willing to take financial risks. Overall, these direct effect results highlight the important roles of financial attitude, financial behavior, and financial knowledge in shaping undergraduates' styles of financial decision-making and risk-taking.

Table 6

Indirect Effect

Construct	Beta Coefficient	Standard Deviation	t-Statistics	P Values
FA → FB → RTP	0.043	0.023	1.822	0.068
FK → FB → RTP	0.028	0.015	1.762	0.078

Mediation analysis was employed to examine the indirect effect of financial knowledge (FK) and financial attitude (FA) on risk-taking propensity (RTP) through financial behavior (FB) using the bootstrapping method with 5,000 resamples as recommended by Preacher and Hayes (2008). As shown in Table 6, the indirect effect of Financial Attitude (FA) on Risk-Taking Propensity (RTP) through Financial Behavior (FB) was positive but statistically not significant ($\beta = 0.043$, $t = 1.822$, $p = 0.068$). Although the effect was nearly significant at the 10% level, it was below the conventional 5% significance level ($p < 0.05$). This means that while financial behavior to some extent reflects the effect of financial attitude to risk-taking tendency, the mediating influence is relatively weak and needs to be applied cautiously. Similarly, the indirect effect of Financial Knowledge (FK) on Risk-Taking Propensity (RTP) through Financial Behavior (FB) was positive but not statistically significant ($\beta = 0.028$, $t = 1.762$, $p = 0.078$). Again, although the p-value is slightly over the 0.05 threshold, the result indicates a partial and weak mediation function of financial behavior in the relationship between financial knowledge and risk-taking propensity.

These findings propose that, even if financial knowledge and attitude impact financial behavior and, in turn, risk-taking behavior, the strength of these indirect channels is constrained. Maybe psychological attributes, emotional bias, or economic environmental conditions also exercise powerful mediating or moderating roles in connecting financial literacy dimensions with risk-taking behavior (Kahneman & Tversky, 1979; Ricciardi & Simon, 2000). Thus, while financial behavior has a mediating function to perform, its indirect impacts on risk-taking propensity were statistically not powerful enough in this model to fully account for the effect of financial knowledge and attitude.

Discussion

This study investigates the influence of financial attitudes and financial knowledge on the risk-seeking tendencies of Nepalese undergraduate students, framed within the behavioral finance perspectives of Prospect Theory (Kahneman & Tversky, 1979) and Human Capital Theory (Becker, 1964). These theoretical underpinnings provide critical insight into decision-making processes under uncertainty and elucidate the role of accumulated financial knowledge in shaping individual risk preferences. Analogous principles of risk assessment and strategic management have been extensively applied in Nepal's infrastructural sectors, particularly in high-stakes projects such as the construction of Gautam Buddha International Airport (Shakya & Mishra, 2019; Shakya, Bajracharya, & Mishra, 2020), and urban road development (Adhikari & Mishra, 2020). Collectively, these studies emphasize the value of integrating behavioral insights with strategic knowledge to effectively navigate risk, whether at the micro-level of individual financial decisions or within complex project environments.

The empirical findings of this study bolster extant literature by confirming that financial literacy, particularly financial knowledge, exerts a positive influence on both financial behavior and risk-taking propensity among Nepalese undergraduates, consistent with prior research demonstrating that greater financial awareness facilitates more rational and informed financial choices (Lusardi & Mitchell, 2014; Sharma & Ghimire, 2023; Bhatta & Poudel, 2022). Additionally, while financial attitude positively impacts financial behavior, it does not directly affect risk-taking propensity, suggesting that the translation of attitudes into risk-related decisions may be mediated by actual behavioral enactments. This pattern aligns with the conceptual frameworks of Prospect Theory and Human Capital Theory, which posit that risk attitudes emerge in complex interaction with knowledge and behavioral patterns.

Notably, the study reveals that financial behavior itself is a significant predictor of risk-seeking tendencies; individuals who actively manage their finances tend to engage in more calculated financial risk-taking. However, mediation analysis suggests that financial behavior only partially and marginally mediates

the relationship between financial literacy components (knowledge and attitude) and risk-seeking tendencies, indicating the presence of other influential factors. This nuance points to psychological and contextual determinants such as emotional heuristics, overconfidence, and economic uncertainty as additional drivers of risk attitudes (Ricciardi & Simon, 2000; Xiao & Porto, 2017). These findings resonate with international studies that link financial literacy not merely with prudent economic behavior but also with cautious risk management (Mahendra, 2024; Khadka & Khadka, 2024).

The Nepalese socio-economic and educational milieu—characterized by partial financial education coverage and socio-economic disparities—poses unique challenges that moderate these relationships, underscoring the need for financial education programs addressing both cognitive (knowledge-based) and behavioral skill development. The partial mediation effect identified highlights the importance of dual-focused literacy initiatives that promote not only understanding but also practical financial behavior among youth.

Several limitations of this research warrant attention. The cross-sectional design restricts causal interpretations between financial behavior, literacy, and risk-taking propensity, which longitudinal research could better elucidate (Grable & Joo, 2004). The reliance on self-reported data introduces potential biases including recall inaccuracies and social desirability effects (Xiao & Porto, 2017). Furthermore, the sample is geographically confined to the Kathmandu Valley university student population, limiting the generalizability of findings to broader youth demographics, particularly those outside formal higher education and in rural areas.

Future research should adopt longitudinal and experimental designs to assess the sustained impacts of financial literacy interventions. Investigations into additional mediators such as financial self-efficacy, emotional intelligence, and personality traits (e.g., risk tolerance, impulsivity) would enrich understanding of the mechanisms linking literacy and risk-taking outcomes. Moreover, the increasing prominence of digital financial services underscores the imperative to examine digital financial literacy's role among youth. Cross-regional and cross-national comparative studies could further illuminate cultural and contextual variables shaping financial attitudes, behaviors, and risk propensities.

Conclusion

This study conclusively demonstrates that financial literacy significantly shapes the financial behavior and risk-taking propensity of Nepalese undergraduate students. Importantly, financial behavior emerges as a substantial partial mediator between financial knowledge and risk-taking, highlighting that possessing financial knowledge alone is insufficient; the translation of this knowledge into constructive financial behavior is equally crucial. These findings underscore the pressing need for comprehensive financial education programs that integrate cognitive understanding with practical behavioral skills.

Improving financial literacy among young adults transcends individual benefits, representing a vital investment in the broader financial ecosystem. Well-informed, financially capable youth are more likely to engage in prudent financial decision-making, which fosters personal financial well-being and, at scale, enhances overall financial system stability and economic growth. By equipping students with the ability to navigate complex financial environments, the education system can directly contribute to the country's economic resilience and inclusive development.

From a practical perspective, this study highlights several specific implications for educational institutions, policymakers, and financial service providers. First, incorporating formal, structured financial education into university curricula is essential. Such programs should blend theoretical knowledge with experiential learning opportunities that build students' confidence and competence in managing finances responsibly. Second, addressing gender disparities and cultural nuances is critical—gender-responsive and culturally tailored financial literacy initiatives are

necessary to close gaps in financial capability and ensure that all students, regardless of background, can participate equitably in financial decision-making. Third, the rapid rise of digital financial services demands a focused emphasis on digital financial literacy. Students must be equipped with the skills to effectively and securely use digital platforms and tools, which are becoming central to modern financial transactions.

Collectively, these insights affirm that enhancing financial literacy is not merely an academic or isolated policy goal but a holistic strategy for empowering youth as financially responsible citizens. Such empowerment promotes not only individual financial health but also contributes to the stability and resilience of Nepal's financial system and economy. Therefore, coordinated efforts involving universities, government bodies, and financial institutions to develop innovative, inclusive, and adaptive financial literacy programs are indispensable for nurturing a generation prepared to thrive in an increasingly complex financial world.

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