

Behavioural Finance: How Emotions Influence Financial Decisions: For Youth

Tanmay Jain

Abstract

This paper explores how behavioural finance offers a more accurate explanation of financial decision-making than traditional models, with particular attention to the experiences of today's youth. Classical finance assumes rational, utility-maximising investors and informationally efficient markets, yet persistent anomalies, such as excess volatility, momentum, bubbles, and the disposition effect, demonstrate that real behaviour often departs from these assumptions. Behavioural finance addresses these gaps by incorporating bounded rationality, heuristics, emotions, and social influences that shape individual choices and market outcomes. Contemporary research highlights two central mechanisms: psychology-driven biases such as overconfidence, loss aversion, anchoring, and representativeness; and limits to arbitrage, which restrict the ability of rational traders to immediately correct mispricing. Together, these factors explain why sentiment, attention, and narratives increasingly move markets. The paper links these theoretical foundations to the evolving financial behaviour of young people. Adolescents and young adults are entering financial markets earlier, supported by digital payment systems, mobile investing platforms, and social-media financial content. Yet global and national assessments show that youth financial literacy remains uneven, with many struggling with numeracy, budgeting, and risk evaluation. Digital access provides opportunities for saving, participation, and entrepreneurship, but also heightens exposure to impulsive trading, crypto speculation, FOMO, and influencer-driven decisions. By connecting behavioural finance insights with contemporary youth financial trends, this paper underscores the need for strong early-stage financial capability. Evidence-based education and responsible digital-finance design are essential for improving decision-making, strengthening resilience, and supporting long-term financial well-being and economic participation.

Keywords: behavioural finance, financial decision-making, youth financial behaviour, heuristics and biases, financial literacy, digital investing, investor psychology

1. Introduction

Behavioural finance, a subfield of behavioural economics, proposes that psychological influences and biases affect the financial behaviours of investors and financial practitioners. Moreover, influences and biases can explain all types of market anomalies, including those in the stock market, such as severe rises or falls in stock price.

It sheds light on the quirks and biases that often lead individuals and markets to deviate from purely rational behaviour. In this blog, we'll explore the broad scope of behavioural finance, highlighting its key characteristics and applications. (Adam Hayes, 2025)

Traditional finance is based on three central pillars: (1) rational, utility-maximising investors with fixed preferences; (2) rational expectations regarding the future; and (3) informationally efficient markets (EMH), in which prices fully and instantaneously adjust to available information. Under this setup, any

persistent mispricing is driven out by arbitrage, and asset prices predominantly move with risk and cash-flow news. Current summaries continue to describe behavioural finance as an add-on, or correction, to this classical foundation, rather than a complete replacement. Agudelo Aguirre & Agudelo Aguirre (2024) highlight that behavioural finance came into being specifically to account for deviations from classical predictions in recognizing the persistent use of core finance instruments.

behavioural finance substitutes perfect rationality with bounded rationality: investors use heuristics, exhibit systematic biases (e.g., overconfidence, loss aversion, and disposition effect), and are subject to emotions and social interactions.

Experimental and bibliometric syntheses indicate these patterns are strong across settings and methodologies. Valcanover, Sonza & Vieira da Silva's (2020) systematic review of experiments in behavioural finance records frequent deviations from expected-utility/rational-expectations benchmarks and plots the field's primary bias clusters, proof that the anomalies are not one-off curiosities. A second crisp difference relates to arbitrage. Standard models often presume "smart money" can rid mispricing at no cost. behavioural finance, in contrast, emphasises "limits to arbitrage", capital, risk, and institutional imperfections that inhibit correction, permitting biases to affect prices for extended periods. Zaremba & Szczygielski (2019) demonstrate, in government bond markets abroad, that when arbitrage is restricted and sentiment is high, prominent factor returns (e.g., momentum) decline or reverse, specifically attributing mispricing to real-world frictions rather than risk exclusively.

Third, the two approaches disagree on what each regards as "first-order" explanations of return predictability and volatility. Traditional finance identifies time-varying risk premia and information shocks; behavioural finance also emphasises investor sentiment and attention. With contemporary U.S. data, Akin (2024) links sentiment-driven anomalies to market volatility patterns that uncomfortably sit outside a strictly EMH-based explanation, further supporting the necessity of modelling psychology along with information and risk.

Lastly, their methodological hubs of focus also part ways. Classical finance relies on rational-agent equilibrium models; behavioural finance combines psychology, experiments, field data, and empirics driven by anomalies, and then uses these lessons to inform asset-pricing and corporate-finance models. Modern studies contend the productive approach is syncretic: retain the discipline and parsimony of classical models, but add realistic preferences, beliefs, and frictions where the evidence calls for them

Young people's financial behaviour is a determining predictor of adulthood wellbeing and macro-level access. With pooled PISA financial literacy data, Oberrauch, Kaiser, and Lusardi (2024) demonstrate that the money skills of 15-year-olds are strongly related to higher saving behaviours and planning dispositions, suggesting early acquisition leads to behaviour that stimulates later independence. Latest PISA 2022 data for 20 systems reinforce extensive scatter in student financial literacy and record that most adolescents struggle with simple percentage computation and reading of statements, advantages that threaten to set back independence in an ever-more complicated market.

Another vector is the digitalisation of investing. A FINRA Investor Education Foundation and CFA Institute cross-national study (2023) finds that most U.S. Gen Z (56%) already hold investments, frequently beginning under 18 years old, as low-friction apps and fractional shares reduce entry costs; however, crypto visibility and social-media streams of info increase exposure to volatility, FOMO, and promo incentives. These trends illustrate digital rails have the power to catalyze asset-market engagement yet intensify risk without corresponding literacy. Digitally enabled inclusion counts in work and entrepreneurship as well. In the MENA region, Elmasmari and Amaghous (2024) conclude that

possession of formal accounts, mobile money, savings, and digital transactions significantly raises youth labor-force participation, highlighting a channel from access to finance to economic opportunity. Complementary cross-country evidence connects fintech growth to overall gains in digital financial inclusion, adding power to the employment channel.

Consumerism rounds out the tale. A systematic review published in 2025 (Barrueta-Pinto et al.) distills evidence that social-media influencers mold young consumers with credibility cues, social comparison, and perceived authenticity. Mechanisms that can induce conspicuous consumption and debt-habits if untrammelled by literacy and safeguards. Such pressures are compounded with the early-investing environment: the same feeds that instruct investing also promote high-salience goods and risky assets.

Together, the literature conveys three policy-relevant implications. First, insert age-appropriate, evidence-informed financial education prior to late adolescence to plant early-independence-supporting habits.

Second, combine digital-investing access with strong disclosures and guardrails (e.g., influencer disclosure, risk labeling) to prevent FOMO-induced errors. Third, extend inclusive digital finance, accounts, payments, and savings rails, since access in itself elevates youth economic engagement, yet also protect against over-consumption and mis-selling. Briefly, enhancing youth financial capability in a digitally intermediary marketplace is a private benefit (preceding resilience and autonomy) and a public good (increased labor-force participation and secure involvement in capital markets). The aim of this paper is to see how financial decision-making is evolving and why it is important, particularly for younger generations. Finance has traditionally been described by classic theories based on the idea that humans are rational and markets tend to adjust efficiently. In the real world, though, emotions, habits, and social factors tend to have a much larger influence. Compared to conventional finance, this paper is intended to demonstrate how human psychology actually determines financial results in a manner that theory alone cannot.

Meanwhile, the report examines young people's financial habits in the world today, where early autonomy, mobile investing platforms, and increased consumer pressure are a normal part of life. Young adults are coming into financial markets sooner than ever before, but not necessarily with the proper knowledge or preparation. Reading these trends is crucial not only for their individual stability but for the well-being of the overall financial system.

In plain English, this paper attempts to bridge theory and practice. It describes the evolution from traditional to behavioural finance and then takes that insight and applies it to examine how young people make money choices in the present day. The end goal is to underscore why enhancing financial literacy and awareness early on is crucial for creating stronger individuals and a more robust economy.

2. Foundations of Behavioural Finance

2.1. Historical context and emergence of the field

behavioural finance grew out of a tension between elegant theories and messy realities in financial markets. Through the late twentieth century, mainstream finance emphasized rational, utility-maximizing investors and informationally efficient markets; yet recurring anomalies, excess volatility, momentum and reversal patterns, bubbles, and the disposition effect, persisted across data sets and decades. Over the past nine years, a new wave of surveys and bibliometric maps has consolidated how the field emerged to explain these facts by relaxing strict rationality and incorporating psychologically realistic assumptions about beliefs, preferences, and attention. A comprehensive review by Barberis (2018) summarizes the core modeling turn: extrapolation from recent returns, overconfidence about private signals, and gain–loss

utility inspired by prospect theory together reproduce price patterns and trading volume dynamics that standard models struggled to match.

Historical evidence in recent syntheses records a second pillar: "limits to arbitrage". Even if conventional reasoning would have sophisticated traders immediately correct mispricing, the evidence compiled in recent syntheses reveals that funding risk, career considerations, and implementation frictions typically prevent timely correction, enabling biases to influence prices in the long term and occasionally to drive bubbles. Recent syntheses and pedagogy surveys resonate with this mechanism being central to the development of the field, to complement psychology-based preference and belief change as the twin drivers of behavioural finance.

The development of the field is also manifested in its institutional footprint. Bibliometric studies in the 2010s and 2020s evidence hastening expansion into specialist journals, special issues, and cross-field citations linking finance and psychology as well as decision sciences. A 2024 keyword-mapping study traces the evolution from early themes (overreaction, underreaction) to more advanced themes of attention, sentiment, narratives, and fintech-mediated behaviour, evidence that behavioural finance has evolved from anomaly listing to theory-driven, policy-driven research.

Lastly, new domain applications confirmed the paradigm. Post-crisis and pandemic-era studies adapted behavioural explanations to volatility spikes, waves of retail investors, and platform-trading, phenomena that were in alignment with the psychology-and-limits paradigm and solidified the discipline further into mainstream ideology. Current analyses relate sentiment and attention to market action, solidifying the rationale why behavioural processes must be complemented with risk and information in contemporary asset-pricing accounts. In brief, the path of history, documented in recent overviews, is from enigmas under the previous paradigm, to psychologically grounded models and limits-to-arbitrage, to a mature research program with growing empirical scope and institutional depth. This trajectory provides an account of how behavioural finance evolved from criticism to complement, with a realistic description of how human psychology and frictions shape prices, participation, and policy.

2.2. Major Contributors

behavioural finance is best understood as a cumulative project: a set of conceptual breakthroughs, empirical findings, and methodological innovations contributed by a relatively small group of scholars whose ideas reoriented how economists think about choice, markets, and institutions. At the intellectual foundation sit pioneers who introduced the psychological building blocks , prospect theory, heuristics, and mental accounting , which replaced the assumption of perfectly rational, expected-utility maximizers with richer descriptions of real decision processes. The cognitive framework these pioneers developed explains many classic market puzzles (e.g., excess volatility, disposition effects, and persistent mispricing) and remains central to modern modeling.

A second set of contributors focused on market-level implications: why biases sometimes matter for prices. Their work on limits to arbitrage showed that rational traders are not always able to undo mispricing because of funding risk, institutional constraints, and career concerns; this strand tied individual psychology to asset-price dynamics and helped legitimize behavioural explanations for persistent anomalies. Over the last decade, surveys and reviews have emphasized that combining psychological mechanisms with arbitrage constraints produces the most empirically successful narratives in asset pricing. Methodologically, experimentalists and field researchers have expanded the evidence base. Laboratory work clarified basic biases and preference patterns, while large-scale bibliometric and keyword studies from recent years document the field's shift from anomaly cataloging toward themes such as attention,

sentiment, narratives, and fintech-mediated behaviour. This methodological pluralism, mixing experiments, field data, archival market tests, and formal models, has been a defining force behind behavioural finance's maturation.

Together these contributions, psychological theory, arbitrage-focused market analysis, and diverse empirical methods, converted behavioural ideas from critiques of classical theory into a productive, policy-relevant research program. The names most often associated with these moves are the originators of the core psychological concepts, the researchers who formalized limits to arbitrage, and the experimentalists who tested predictions; collectively, their work now informs everything from individual financial education to market regulation and fintech design.

2.3. Key Concepts

2.3.1 Heuristics (mental shortcuts)

Heuristics are mental shortcuts that help investors make quick decisions but often lead to systematic errors. Recent research highlights four common heuristics that strongly affect financial behaviour: **availability, representativeness, anchoring, and overconfidence.**

Availability leads investors to rely on recent or vivid information, exaggerating risks or opportunities. Representativeness makes them assume that past patterns will continue, causing over-optimistic forecasts. Anchoring ties judgments to an initial value, such as the purchase price of a stock, even when new data suggests otherwise. Overconfidence leads individuals to overrate their own knowledge, trade excessively, and ignore warning signals.

Studies from emerging markets show that these biases are widespread and not limited to developed economies. Evidence from Nepal and Tanzania demonstrates that individual investors regularly fall back on heuristics when making trading choices. At the same time, financial literacy has been found to reduce reliance on such shortcuts, suggesting that education can help individuals recognize and counteract these tendencies.

Overall, heuristics illustrate how human psychology shapes investment decisions. While they simplify complex judgments, they also increase the likelihood of errors that can undermine financial outcomes.

3. Emotions and Financial Decisions

3.1. How emotions like fear, excitement, regret, and overconfidence shape decisions

Emotions play a significant role in economic choices; they shape expectations, risk appetite, timing, and learning in financial decisions. Recent research shows that specific emotions, such as fear, excitement, and regret, and biases like overconfidence guide investors in predictable ways by changing their probability estimates, valuations, and thresholds for action. These emotional influences work through both quick, instinctive responses and slower, more thoughtful evaluations, leading to noticeable effects on trading volume, portfolio risk, and asset prices

Fear usually leads to caution and early selling. Experimental studies reveal that strong fear makes people avoid risks and sell their investments sooner than neutral situations would suggest. This behaviour stems from altered expectations of success and increased awareness of potential losses: fearful investors tend to focus more on negative outcomes and adjust their beliefs more quickly after unfavorable news. This can heighten market volatility during crises, as many investors simultaneously pull back their investments. Additionally, fear can create information cascades during downturns, causing sell-offs to intensify beyond what fundamentals would indicate.

Excitement, which includes feelings of anticipation and social enthusiasm, encourages risk-taking and more frequent trading. Research on social trading platforms and experimental markets indicates that excitement, along with behaviours like “fear of missing out” (FOMO), makes investors more responsive to peer actions. This responsiveness leads to greater herding and an increased willingness to hold or buy risky assets. Excitement boosts perceived potential gains while reducing focus on possible losses, contributing to higher trading volumes and playing a crucial role in the formation of financial bubbles when coupled with social amplification .

Regret aversion leads to unique, time-dependent distortions. Investors who fear future regret are likely to avoid choices that might later seem poor, even if taking action would yield better expected value. Studies in real markets and controlled experiments show that regret-averse individuals tend to trade less after gains, wanting to avoid missing out on past successes, and often hold onto losing investments too long to dodge the pain of realizing losses. This behaviour raises transaction costs and lowers returns (Khalid & Rashid, 2021). Regret can also amplify conformity during uncertain times, as the wish to sidestep regrettable choices grows stronger .

Overconfidence is a well-documented emotional and cognitive bias that affects financial results. Reviews and meta-analyses demonstrate that overconfident investors tend to trade more, take on larger positions, and underestimate potential losses, which usually leads to a decrease in net performance after expenses. This bias fuels excessive short-term thinking, lack of diversification, and mispricing, especially when many investors share an unwarranted optimism about their personal insights or skills . Notably, the effects of overconfidence vary based on experience, market conditions, and institutional factors; the worst outcomes occur when overconfidence pairs with high leverage or low financial literacy

This understanding has practical and policy implications: recognizing emotional factors points to interventions beyond just providing information. Strategies such as structured choice options, confidence training, and measures that lessen social influence can help reduce detrimental emotion-driven behaviours. For researchers, combining neurobiological measures of arousal with large-scale field data offers a promising direction to evaluate how temporary emotions versus lasting biases shape market trends

3.2. Role of impulsivity and risk tolerance in youth behaviour

Youth behaviour is strongly affected by impulsivity and risk tolerance. These traits are connected to developmental, familial, neurocognitive, and environmental factors. Impulsivity means acting without thinking ahead or controlling impulses, while risk tolerance refers to the willingness to take actions that might be harmful in exchange for perceived rewards. Together, these traits influence various outcomes in adolescents, such as substance use, delinquent behaviour, non-suicidal self-injury, and problematic digital engagement. Recent research shows that both impulsivity and risk tolerance increase the chances of harmful behaviours in youth. It also examines how these traits develop over time and under what conditions they have the strongest effects.

Research on adolescent development reveals a clear trend: risk-taking usually increases from early to mid-adolescence, while certain types of impulsivity, especially those linked to response inhibition, improve with age. For example, studies following pre-adolescents with and without family histories of substance use have found that impulsive behaviours, like delay discounting, are initially higher in youth from families with substance use issues. However, these differences decrease as adolescents grow older, even as risk-taking behaviour itself continues to rise. This suggests that while neurocognitive control improves with age, the socioemotional systems that drive sensation-seeking remain active, encouraging risk-taking during adolescence.

Cross-sectional studies among adolescents also reveal strong links between impulsivity and risk-taking. A recent large survey of school-going adolescents showed that higher impulsivity was associated with increased involvement in risky activities. Notably, female students scored higher on both impulsivity and risk-taking compared to males. Students from government schools and heavy internet users also displayed higher levels of both traits. These findings suggest that demographic and environmental factors, such as the type of school and digital exposure, significantly interact with impulsive tendencies.

Impulsivity is a strong predictor of specific problem behaviours in youth. For instance, data tracking urban male adolescents showed that those with consistently high impulsivity in early and late adolescence were much more likely to develop at-risk or problem gambling behaviours. Impulsivity also plays a key role in the rise of behavioural addictions like internet gaming disorder. In these cases, risk tolerance seems to influence how impulsivity affects behaviour, individuals with both high impulsivity and high risk tolerance are much more likely to develop addictive or risky behaviours.

It's important to note that impulsivity and risk tolerance are not fixed traits. Developmental changes happen as the brain's prefrontal regions, responsible for planning, inhibiting actions, and self-regulation, mature into early adulthood. While control over impulses and decision-making generally improves over time, sensitivity to rewards and delay discounting often stay high throughout adolescence. This imbalance helps explain why adolescents, even when aware of risks, still engage in risky but rewarding behaviours. Several contextual and individual factors influence how impulsivity and risk tolerance affect youth behaviour. Family background, socioeconomic status, peer norms, and digital media exposure all play significant roles. For example, youth with a family history of substance use disorders show higher levels of impulsivity and a greater likelihood of risk-taking. Similarly, adolescents with high engagement online may develop greater risk tolerance due to repeated exposure to instant-reward systems on digital platforms. Understanding these dynamics offers valuable insights for educators, parents, and policymakers aiming to create interventions that boost impulse control, improve risk awareness, and encourage safer decision-making among youth.

3.3. Impact of stress and peer pressure

Adolescence is a critical developmental stage marked by heightened sensitivity to social and environmental influences. Two of the most prominent factors shaping youth behaviour during this period are stress and peer pressure. While moderate stress can enhance motivation and adaptive coping, chronic or excessive stress can lead to maladaptive behaviours such as aggression, anxiety, substance abuse, or withdrawal. Similarly, peer pressure, both positive and negative, plays a major role in determining behavioural choices, academic performance, and psychosocial adjustment among adolescents. Recent research has highlighted the complex interplay between stress, peer influence, and the developing adolescent brain, which together contribute significantly to risk-taking and emotional regulation patterns in youth.

Stress in adolescents often arises from multiple domains, including academic competition, family conflict, social expectations, and uncertainty about the future. Neurobiological evidence suggests that adolescents exhibit heightened stress reactivity due to ongoing maturation of the hypothalamic–pituitary–adrenal (HPA) axis and limbic systems. This makes them more vulnerable to the effects of chronic stress compared to adults. Prolonged exposure to stress hormones such as cortisol has been associated with emotional dysregulation, increased impulsivity, and vulnerability to depression and anxiety. Studies indicate that adolescents under sustained academic or social stress display poorer self-control, greater irritability, and

increased likelihood of engaging in unhealthy coping behaviours such as excessive screen use, overeating, or substance use.

Peer pressure interacts strongly with stress, often intensifying its behavioural outcomes. Adolescents are highly attuned to social cues and acceptance; peer evaluation activates brain regions linked to reward processing and social cognition. This neurological sensitivity can make young people more susceptible to adopting risky behaviours when influenced by peers. Empirical studies show that adolescents are significantly more likely to take risks in the presence of peers than when alone, even when they are fully aware of the potential dangers. Positive peer pressure, however, can encourage prosocial actions such as academic engagement, sports participation, or community involvement, demonstrating that peer influence itself is not inherently harmful but context-dependent.

The relationship between stress and peer pressure is also reciprocal: stress can heighten conformity to peer norms as a coping mechanism, while peer rejection or negative peer evaluation can increase perceived stress. Research conducted during and after the COVID-19 pandemic further revealed that social isolation and the sudden loss of peer interaction contributed to elevated psychological distress and reduced emotional well-being among youth. Conversely, supportive peer networks buffered stress and improved resilience, emphasizing the protective role of healthy social relationships.

Individual differences such as emotional intelligence, self-esteem, and coping style moderate how adolescents respond to stress and peer influence. Those with higher emotional regulation skills are better able to resist negative peer pressure and manage stress constructively. On the other hand, adolescents with low self-efficacy or poor coping mechanisms are more likely to resort to avoidance or maladaptive behaviours under combined social and emotional strain. Gender differences have also been observed, with females often reporting greater perceived stress and males demonstrating more externalizing responses, such as aggression or risk-taking.

Intervention strategies aimed at reducing stress and mitigating negative peer influence focus on enhancing coping skills, building social support systems, and promoting positive peer engagement. School-based programs that teach stress management, mindfulness, and emotional regulation have shown measurable improvements in adolescent mental health outcomes. Encouraging youth-led peer support groups can also transform peer pressure into a positive force that promotes resilience and collective growth.

3.4. Influence of social media and financial influencers

In the past decade, social media has become one of the strongest forces shaping how young people see themselves and act. Its impact goes beyond entertainment and communication. It now plays a key role in shaping financial awareness, consumer choices, and lifestyle goals. The rise of financial influencers, or “finfluencers,” has created a new way for peers and celebrities to influence youth. Young audiences consume financial advice and economic opinions through short, easy-to-digest, and often emotionally convincing content. Recent research highlights both the opportunities and dangers of these digital influences, especially regarding financial literacy, impulsive choices, and the normalization of risky financial behaviours among young people.

Social media platforms like Instagram, YouTube, and TikTok are essential to the daily lives of Generation Z and young adults. Studies show that social media use greatly affects how youth view financial success, risk, and spending habits. Exposure to idealized lifestyles and displays of wealth often increases social comparison, financial anxiety, and the desire for instant gratification. This can lead to impulsive financial actions like overspending, speculative investing, or adopting “get-rich-quick” attitudes. However, when used wisely, social media can improve financial literacy by making complex ideas simpler and more

accessible for investment education. The challenge is to tell credible financial advice apart from misinformation and hype.

Financial influencers, those who share personal finance, investment, or economic content online, have become important figures in this landscape. Their influence comes from being relatable, appearing authentic, and offering advice that seems easier to understand than that from traditional financial institutions. Studies suggest that many young people trust influencers more than banks or official sources, as influencer messages feel more personal and transparent. However, the unregulated nature of influencer content brings significant risks. Many “finfluencers” do not have formal training and may promote high-risk investments, cryptocurrency trading, or unverified financial products for sponsorship payments. This can lead to misinformation spreading quickly, causing vulnerable audiences to make poor financial decisions.

Recent evidence shows that parasocial relationships, the emotional connections followers develop with influencers, strengthen their persuasive abilities. When audiences feel trust or a friendship with an influencer, they are more likely to follow advice without checking it. This trend relates to herd investing behaviour, as seen during the 2021 cryptocurrency surge, when social media sentiment motivated many young investors to jump into speculative markets without grasping the risks involved. In contrast, credible financial educators using social media responsibly have been found to boost youth financial confidence and budgeting skills, especially when they blend entertainment with educational storytelling.

Social media algorithms further increase the impact of financial content by promoting emotionally charged posts instead of accurate or balanced ones. Sensational videos that promise high returns, luxury lives, or quick profits tend to get more views, reinforcing unrealistic expectations and short-term thinking. This cycle contributes to impulsive actions and weakens long-term financial planning among young people. Regulatory bodies in several countries have started to introduce guidelines to oversee financial advertising and influencer disclosures. This marks the need for ethical responsibility in online financial communication.

Ultimately, social media and financial influencers have a mixed influence on youth. They make financial education more available but also expose users to misinformation, peer pressure, and emotional manipulation. It is vital to promote digital literacy, critical thinking, and fact-checking among young audiences to ensure they consume financial information carefully. Collaboration between regulators, educators, and platforms can help create a safer and better-informed digital financial world for the next generation.

4. Common Cognitive Biases in Youth Financial behaviour

4.1. Overconfidence bias (e.g., in trading/investing)

Cognitive biases are systematic errors in judgment that affect how people see, assess, and respond to financial information. Among these biases, overconfidence is particularly influential in shaping the financial behaviour of young people, especially in trading and investing contexts. Overconfidence means that individuals tend to overestimate their knowledge, skills, and ability to predict outcomes. For young investors, especially those using online trading platforms and social media-driven investment groups, this bias often leads to taking excessive risks, trading frequently, and ignoring expert advice or long-term financial plans.

Overconfidence appears in two main forms: overestimation, which is when someone believes their knowledge or ability is greater than it really is, and overprecision, which is having unwarranted certainty

in one's predictions. In financial markets, these tendencies make individuals think they can consistently outperform the market or find short-term profit opportunities better than others. Research shows that young investors, especially those new to trading, display higher levels of overconfidence than older, more experienced investors. This could come from a mix of digital exposure, social approval from peers, and the gamification of trading through apps like Zerodha, Groww, and Robinhood. The easy access to trading platforms and a false sense of control give young people the feeling of empowerment, making them more likely to overestimate their skills.

Multiple studies have pointed out the connection between overconfidence and excessive trading behaviour. Young traders who believe they have superior market insight are more likely to buy and sell frequently, leading to higher transaction costs and lower overall returns. Overconfident investors also tend to underestimate potential losses, which can result in poor diversification and an inflated sense of risk tolerance. Social media and online communities worsen this effect by creating echo chambers. Within these spaces, success stories and wins are highlighted, while losses are often ignored. This selective exposure reinforces the illusion of skill and encourages herd-like, speculative behaviour.

Psychologically, overconfidence is supported by confirmation bias, which is the tendency to seek out information that confirms existing beliefs while ignoring contradictory evidence. Young investors often trust anecdotal success stories, influencer opinions, or limited personal experiences instead of relying on objective data. This leads to unrealistic expectations and a dismissal of traditional financial advice, such as the need for diversification or long-term growth. Furthermore, research suggests that emotions like excitement and ego play a significant role in keeping overconfidence alive. Individuals often tie financial success to personal ability rather than external factors like market conditions.

Interestingly, overconfidence isn't entirely harmful. A moderate level of confidence can inspire individuals to engage with financial markets, learn new skills, and improve their investment understanding. However, when unchecked, it can lead to cognitive distortions that impair judgment and increase the risk of financial losses. Educators and policymakers emphasize the need to incorporate behavioural finance education into school and college programs. This can help young people recognize and deal with such biases. Tools like simulated trading environments, case studies, and reflective learning can assist students in understanding the difference between perceived and actual performance.

The growing impact of online investment culture, driven by financial influencers and meme stocks, makes overconfidence bias even more relevant today. Many young people enter trading with little financial knowledge but a lot of enthusiasm, mistaking luck or short-term gains for skill. This has been particularly clear in speculative trends like cryptocurrency trading and short-term stock speculation during the pandemic. Tackling overconfidence requires a balanced approach combining financial education, emotional control, and careful evaluation of information sources. Encouraging youth to keep trading journals, track their decisions, and review their performance over time can help them recognize cognitive patterns and develop humility in financial decision-making.

In conclusion, overconfidence bias is a major psychological barrier to rational financial behaviour among young people. Its impact on trading, investing, and risk-taking highlights the need for behavioural awareness and structured financial education. Identifying and addressing overconfidence can help young individuals make more informed, balanced, and sustainable financial choices in an increasingly complex and digital world.

4.2. Herd behaviour (influenced by peers or trends)

Herd behaviour is an important idea in behavioural finance. It describes how people tend to copy the fina-

ncial actions of others instead of making their own independent decisions. This tendency is especially common among young people, as social influence, online connections, and peer approval strongly shape their views and actions. In finance, herd behaviour shows up when young investors follow market trends, peer suggestions, or the words of influencers without fully understanding the basic facts. The rise of online trading platforms and investment communities on social media has made this issue even more pronounced. As a result, herd behaviour has become a key feature of how young people make financial choices today. At its base, herd behaviour stems from social conformity and information cascades. These occur when individuals believe others have better knowledge, prompting them to imitate those actions. For young investors, a lack of financial knowledge and the fear of missing out often add to this behaviour. When many people seem to profit from a particular stock, cryptocurrency, or investment trend, others join in, not because they have analyzed the situation, but because they see it as a safe choice. The digital space boosts this tendency with viral posts, popular hashtags, and ongoing discussions that heighten market feelings. Communities like Reddit's WallStreetBets, finance groups on Twitter, and investment chats on Telegram show how collective enthusiasm can cause significant short-term price changes, often unrelated to real value.

Research indicates that herd behaviour is especially strong among novice and young investors who heavily rely on social cues and peer advice. This effect grows with the emotional aspects of social validation. Success stories, profit screenshots, and influencer support create pressure to get involved. This behaviour aligns with the wider trend of herd investing, where people mimic the majority to avoid feeling excluded. The 2021 surges of GameStop and Dogecoin highlight how young-driven herd behaviour can greatly influence market fluctuations, largely fueled by social media chatter and group excitement rather than solid financial fundamentals.

The thinking processes behind herd behaviour also include anchoring and availability bias. This means that recent, memorable success stories can skew how risks are seen. Young investors often give too much weight to easily found information, like viral trends, while overlooking important data such as financial reports or risk ratios. This creates a cycle where emotional enthusiasm trumps logical assessment. Furthermore, herd behaviour can lead to market bubbles and rapid crashes, as inflated optimism collapses into panic when trends shift. These cycles can result in major financial losses, particularly for inexperienced young investors who join markets during peak excitement.

However, not every angle of herd behaviour is harmful. From a psychological view, social learning can expose inexperienced investors to financial ideas and markets they might otherwise miss. Joining peer groups or online investment communities can provide a sense of belonging and initial support. The main challenge is to differentiate between helpful herding, based on real shared insights, and unhelpful herding driven by emotions or false information. Promoting critical thinking, checking financial information, and encouraging a long-term perspective can help young people lessen the negative impacts of herd bias.

Educators and policymakers are starting to see the need to tackle herd behaviour through teaching about behavioural finance and improving digital literacy. By showing young investors how social influence affects their judgments, they can be empowered to make more independent and well-informed choices. Financial institutions and regulators are also looking for ethical ways to guide young investors away from speculative trends and towards more informed investment habits. As social media continues to shape how groups think about finance, being aware of herd behaviour is vital for building resilience and sound judgment in the upcoming generation of investors.

4.3. Anchoring (basing decisions on irrelevant reference points)

Anchoring bias is a common cognitive distortion that affects how people make decisions, especially regarding finances. It describes how individuals often depend too much on an initial piece of information, the "anchor", when forming later judgments or choices. For young investors and consumers, anchoring often shows up when they base financial decisions on arbitrary or irrelevant reference points, like past prices, peer standards, or initial details given during investment choices. This bias can subtly shape how young people view value, risk, and opportunity, frequently resulting in poor financial outcomes.

In financial behaviour, anchoring influences various areas, including stock trading, budgeting, and shopping. For example, when assessing a stock, a young investor may focus on its past high price as an anchor, believing it will reach that level again, even if market conditions have shifted. When a product is marketed with an initial "original price" followed by a lower price, consumers see the discount as a better deal because of the anchor, no matter the actual value of the product. This reliance on initial information clouds rational judgment and drives emotional decision-making.

Research shows that anchoring bias is especially strong among young and inexperienced investors. Their limited exposure to long-term market trends and their use of quick decision-making shortcuts make them more likely to create anchors from recent or noticeable information. For instance, cryptocurrency investors may base their expectations on all-time-high prices, keeping unrealistic return hopes even in falling markets. This pattern became clear during the 2021–2022 crypto market correction when many young traders held onto assets far longer than logical analysis would suggest, anticipating a return to previous highs. Such behaviour shows how anchoring bias can delay essential corrective actions, leading to greater financial losses.

Psychologically, anchoring happens because initial information sets up a cognitive reference point that shapes later evaluations. Once an anchor is in place, people adjust too little from it, even when new, contradicting evidence comes up. For example, if a young investor hears that a stock is "cheap" at ₹500, they might still see it as undervalued at ₹700, even though updated financial information indicates otherwise. Similarly, a person might set spending limits based on an old income or allowance, not adjusting to new financial realities. This rigidity is often worsened by confirmation bias, where people only look for evidence that supports their anchored belief.

Anchoring bias is also strengthened by marketing tactics and social influences. Online trading platforms and digital ads often use visual anchors, like "strike-through" prices or comparison charts, to shape consumer perceptions. Social media influencers and financial commentators can also unintentionally set anchors by endorsing specific price targets or investment stories. Young audiences, influenced by these repeated cues, internalize these reference points and use them as foundations for future financial decisions, often without checking the underlying facts or market context.

While anchoring can sometimes offer mental stability in uncertain situations, its effects are mostly negative when it blocks flexible decision-making. Understanding this bias is key to helping young people develop sound financial reasoning. Programs such as behavioural finance education, hands-on learning, and reflection exercises can guide young investors to challenge their assumptions and identify anchors affecting their thinking. Promoting data-driven decision-making, through independent research, varied information sources, and scenario analysis, can help reduce the anchoring effect.

In summary, anchoring bias quietly yet significantly influences the financial choices of young individuals, tying their judgments to random reference points. In an era filled with quick digital information and persuasive online narratives, recognizing and countering this bias is vital for encouraging sound, evidence-

based financial behaviour. Providing young people with awareness and analytical tools can empower them to move past anchors and make more informed and adaptable financial decisions in changing markets.

4.4. Mental accounting (treating money differently based on its source)

Mental accounting is the tendency to mentally categorize money into different “accounts” based on its source or intended use. This often leads people to view money differently instead of considering it all the same. Among young people, this bias affects their spending, saving, and overall perception of resources, which can result in inconsistent financial choices. Recent studies have improved our understanding of how mental accounting influences youth behaviour, revealing both its negative impacts and factors that might mitigate those effects.

Research indicates that mental accounting significantly impacts how young people consume. For instance, a study on Generation Z “Mobile Legends” players in Bandung City, Indonesia, found that mental accounting, along with financial literacy, affects spending behaviour in measurable but non-negative ways. In this case, mental accounting did not have a strictly negative impact on consumption, suggesting that it can sometimes exist alongside responsible spending rather than solely encouraging overspending.

Another study of Generation Z coffee-shop visitors in Surabaya looked into the role of mental accounting as well as self-control, lifestyle, e-wallet use, peer influence, and financial literacy. It concluded that mental accounting was a key predictor of spending behaviour. Young people treated “extra money,” like disposable income or e-wallet balances, differently, often spending it more freely when hanging out with friends. Peer influence and lifestyle choices supported this behaviour.

Investor behaviour research has also linked mental accounting to impulsivity and gender among emerging economies. A 2024 study from India found that different types of impulsivity, attentional, motor, and non-planning, relate to mental accounting. Young people with high non-planning impulsivity displayed lower prudence in mental accounting. Additionally, gender influenced how attentional and motor impulsivity related to mental accounting behaviour, indicating that this bias affects youth differently.

There is growing evidence that mental accounting impacts financial stress and overall financial well-being among young adults. A 2024 book chapter examined how biases in mental accounting lead to poor financial decision-making among young people, which can heighten financial stress. It also proposed potential ways to use mental accounting positively when paired with awareness and self-control.

Cultural and social factors also play a role in shaping how mental accounting works. A study in Tibet revealed that within ET households, mental accounting, where different income sources are treated separately, helped prevent defaulting on informal loans. Social connections and religious norms influenced how money from various sources was managed. Although this behaviour isn’t limited to youth, it shows how social context can affect mental accounting.

For young people, mental accounting can help with budgeting by allowing them to create separate accounts for their goals. However, it can also hinder financial growth if they spend “windfalls” or “bonus money” impulsively while saving or underusing more “serious” income. Interventions could focus on helping young people recognize when they treat money differently without a valid reason, improving their self-control, and building their financial literacy so that all income is included in long-term planning.

4.5. Status quo bias (sticking to defaults or inaction)

Status quo bias is the tendency of individuals to prefer the current state of affairs and resist change, even when other options may be better. In finance, this shows up as inertia, where people stick to default investment options, services they haven’t unsubscribed from, old savings accounts, or put off rebalancing

their portfolios. This bias is particularly noticeable among young adults, who often depend on defaults set by employers, financial platforms, or institutions. It can lead to poor financial decisions.

Recent research has looked into how status quo bias affects investment choices in various situations. A 2023 study by Mengran Xiang found that in stock investment scenarios, people show status quo bias influenced by both personal factors (like preferences and emotions) and external factors (like the market environment and default options). Xiang discovered that investment inertia is stronger when the costs of switching, whether real or perceived, are higher, and when the existing option is presented in a familiar or simple manner.

Another study, titled "Effects of Status Quo Bias, Financial Experience, and Income Level on Retirement Planning Decisions" (2024), surveyed working adults aged 25 to 55. It found that status quo bias significantly limited proactive retirement planning. Those with lower financial experience and lower income showed greater inertia. This indicates that younger or less experienced individuals might be especially at risk, as they usually have less financial knowledge and fewer resources.

Attention and the visibility of the default option are key factors in this behaviour. A 2023 study called "The Role of Attention in Status Quo Bias," which included approximately 6,800 participants across various decision-making scenarios, showed that the visibility of the status quo option increases its selection rate. When alternatives to the status quo are more prominently displayed, participants are more likely to choose them instead. This suggests that young people using financial apps or platforms may stick with defaults simply because those options are more visible or come up first.

In terms of spending and ongoing financial management, a 2023 paper titled "Rational Choice with Status Quo Bias" showed that individuals often prefer not to change their regular investment or savings plans, even when performance declines, due to inertia and comfort with their current choices.

Though there is limited direct research on adolescents or late teens, findings from studies on young adults likely relate to younger individuals. Many young people enter systems (such as pensions, investment apps, and default bank savings plans) that use built-in defaults. They might lack the knowledge and motivation to make changes. Factors such as default options, the effort perceived in switching, uncertainty about other choices, a fear of loss, and low financial literacy all contribute to making status quo bias a powerful influence.

Implications for youth financial behaviour include: 1. Young people may not review or adjust investment allocations even when market conditions or personal situations change, like shifts in income or expenses. 2. They might continue using underperforming financial products simply because they are familiar or because changing seems too much work. 3. They may miss out on better opportunities, like improved returns or savings rates, due to inaction.

Research suggests several interventions:

- Design platforms to encourage active choice rather than sticking with defaults, such as by highlighting non-default options more visibly.
- Use goal-setting and periodic reminders to encourage reviews of financial decisions.
- Provide financial education that helps youth understand the costs of inertia and the benefits of change.
- Simplify the process of switching options to reduce friction and perceived risks.

In summary, status quo bias significantly influences financial behaviour, especially among young and less experienced individuals. While more research specifically targeting youth would deepen our understanding, existing studies show that defaults, visibility, perceived effort, and lack of financial

experience contribute to inaction. Recognizing these factors and implementing design and educational strategies can help young people overcome inertia and make better financial choices.

5. Key Financial Contexts Where Biases Show Up

5.1. Spending & saving habits (e.g., instant gratification vs delayed saving)

Spending and saving habits are clear areas where biases affect financial behaviour in young people. The tendency to favor immediate rewards over saving for the future, known as present bias, influences how young individuals handle disposable income and long-term goals. A recent study in India found that people with present bias were much less likely to save and more likely to borrow, as the immediate joy of spending seemed to outweigh future benefits (Present bias and its influence on financial behaviours amongst Indians, 2024).

Comparative studies between Generation Z and Millennials show distinct differences in their financial behaviours. Generation Z generally spends more and saves less than older generations. This trend is mainly driven by lifestyle expectations and exposure to digital platforms. Financial literacy greatly impacts saving behaviour, explaining nearly 80% of the differences in financial outcomes (Parichita et al., 2022). These findings indicate that younger consumers are more prone to impulsive spending because of lower financial awareness and a stronger focus on short-term rewards.

Experimental studies have also shown the tension between wanting instant rewards and the desire to save. In one study with young adults, participants were asked to divide their income between short-term spending and long-term savings. Most participants initially leaned towards immediate purchases, but small changes, like reminders about future security, significantly shifted their choices towards saving (Kicia, 2023). This suggests that how choices are presented influences how young people balance spending and saving.

Cross-sectional studies of young people's financial behaviour in India suggest that peer influence, lifestyle aspirations, and easy access to digital payments drive up discretionary spending. Many young individuals struggle to save consistently, often citing low income, social comparison, and the simplicity of online spending as major obstacles (Narayanaswamy et al., 2022). This trend appears globally, as instant digital payment systems make short-term spending more convenient and emotionally satisfying.

Finally, longitudinal studies reveal the real cost of delaying savings. A 2025 study looked at individuals who started saving in their late twenties compared to those who saved earlier. It showed that waiting just a few years to start saving leads to significant losses in long-term wealth because of missed compounding opportunities (The Opportunity Cost of Early Saving, 2025). These findings highlight how biases like present bias and short-term thinking shape the spending and saving choices of young people.

5.2. Budgeting and financial planning

Budgeting and financial planning are key parts of managing personal finances. However, various cognitive and emotional biases often impact individuals, particularly the youth, leading to poor decision-making. In the last decade, researchers have looked closely at how behavioural tendencies, such as optimism bias, mental accounting, overconfidence, and planning fallacy, disrupt rational financial planning. These biases influence not only how individuals allocate their income but also how they view their long-term financial security.

Optimism bias refers to the tendency to overestimate positive outcomes and underestimate risks. This has been linked to inaccuracy in budgeting. Rahman and Singh (2023) found that young earners, especially those just starting their careers, hold unrealistic expectations about managing spending and saving

effectively. This type of bias causes them to establish overly ambitious budgets that often fail within the first few months. Their research on Indian youth revealed that nearly 68% of participants believed they could cut unnecessary spending “next month,” despite a history of overspending. Such optimism leads to repeated budget shortfalls and results in a cycle of temporary guilt followed by unrealistic financial goals. A similar cognitive pattern, mental accounting, also significantly affects budgeting behaviour. Rashmi and Dsouza (2022) found that young adults often categorize their money into separate mental groups, like salaries, bonuses, or gifts, and treat each category differently. For example, they might budget salary income carefully for necessities while spending unexpected windfalls or gifts on leisure or spontaneous purchases. This inconsistent treatment of money weakens overall financial planning and leads to fragmented control. The study indicated that university students were much more likely to spend “bonus” money impulsively instead of saving it, showing how psychological framing influences spending decisions even when total income is unchanged.

Overconfidence bias, another common issue, can cause individuals to overrate their financial knowledge and control over results. Gupta and Arora (2021) found that urban Indian millennials frequently created budgets without accounting for irregular or unexpected costs, mistakenly believing they understood their financial situation better than they did. This overconfidence led to underestimating expenses related to entertainment, travel, and lifestyle improvements. The study showed that even after frequent budget failures, individuals seldom amended their plans, which suggests a strong reluctance to recognize mistakes, a behaviour that aligns with cognitive dissonance and self-justification theories.

Additionally, the planning fallacy, the habit of underestimating the time, effort, and resources needed for future tasks, complicates financial planning even further. Jain and Mehta (2020) conducted a longitudinal study revealing that people who only created short-term, monthly budgets often experienced greater financial stress and inconsistent savings. Their findings imply that youth tend to approach budgeting with an overly optimistic outlook on future income or self-discipline, resulting in budgeting errors and impulsive spending at the end of each month. The researchers noted that this short-term mindset is worsened by social and environmental factors like peer influence and lifestyle aspirations driven by social media.

Technological advancements have brought new tools to help with budgeting, but these do not always reduce behavioural biases. A 2024 study by Kumar, Kaur, and Bhatnagar looked into how mobile budgeting apps affect budgeting consistency. While digital tools raised awareness of spending habits, they did not completely remove the effects of biases such as inertia and the desire to maintain the current state. Many users stopped using apps after an initial burst of enthusiasm or ignored alerts about overspending. This shows how resistance to changing behaviour can persist even when people receive real-time feedback and enjoy technological conveniences.

Another important finding from recent studies is that emotional factors, like stress, guilt, and temporary satisfaction, interact with cognitive biases to influence budgeting results. The emotional relief that comes from making a “financial plan” often replaces true discipline in execution, a situation researchers call “planning illusion”. In this framework, individuals feel financially responsible simply by creating a plan, regardless of whether they stick to it. The illusion of control serves as both a motivator and a barrier in effective financial planning.

Moreover, the socio-economic environment intensifies these biases among young adults who are navigating transitional life stages, such as moving from education to employment, managing independence, and facing social comparison pressures. In cultures dominated by consumerism and

lifestyle branding, budgeting becomes more than just a financial task; it also becomes a psychological one. People often adjust their budgets not to maximize savings but to uphold a social image or avoid feelings of deprivation, as noted by Rahman and Singh (2023).

In conclusion, budgeting and financial planning among youth are heavily influenced by cognitive and emotional biases. These biases create a divide between financial intentions and results, where optimism, overconfidence, and mental compartmentalization hinder sensible control over spending. Even with accessible digital tools and improved financial awareness, the persistence of these biases underscores the need for behavioural interventions that target not only financial literacy but also emotional self-management and realistic goal setting. Recent research (2016–2025) shows that successful budgeting requires more than just financial knowledge; it also necessitates an understanding of psychological tendencies and ongoing efforts to address them.

5.3. Investing (stocks, crypto, mutual funds)

Investment choices, especially for young adults, are largely influenced by psychological biases and emotions rather than pure logic. In the past decade, the rise of digital trading platforms and financial influencers has led to more young people participating in investment markets, particularly in stocks, mutual funds, and cryptocurrencies. However, this increase has also uncovered a common pattern of cognitive distortions, such as overconfidence, herd behaviour, risk-seeking tendencies, and the illusion of control. These biases have significant effects on investment outcomes.

A key feature of youth investment behaviour is overconfidence. Many young investors overrate their knowledge or ability to predict market trends. According to Sharma and Rao (2021), they often think they can beat the market through intuition or quick trades, even if they lack analytical skills. Social media narratives and influencer culture amplify this bias by promoting success stories and downplaying failures. A 2021 study of millennial investors in India found that almost 72% believed they could outperform professional fund managers, yet 80% did not succeed in beating benchmark indices. This misplaced confidence leads to frequent portfolio changes, speculative trading, and taking on too much risk.

Herd behaviour also significantly impacts youth investment decisions, especially in volatile assets like cryptocurrencies. Raut and Das (2023) discovered that social validation and peer influence strongly affect choices among those aged 18 to 30. Their research found that during bullish market periods, investors were more inclined to buy assets simply because others were, rather than based on independent analysis. This tendency is reinforced by online forums and communities that foster a sense of belonging. The fear of missing out (FOMO) further fuels herd behaviour, prompting irrational buying during price surges and panic selling during downturns.

Cryptocurrency markets are particularly prone to impulsive and emotion-driven investments. Kapoor and Sethi (2022) studied behaviour among first-time crypto investors and found that novelty-seeking and risk tolerance strongly predicted trading frequency and portfolio volatility. Many participants saw crypto investments as chances for quick wealth, often with little knowledge of the underlying assets or risks involved. The study showed that emotional excitement and online hype often outweighed rational risk assessment, leading to significant losses during market corrections.

In contrast, mutual fund investment decisions, which ideally need patience and a long-term view, also display cognitive distortions. A 2020 study by Deshmukh and Patel revealed that biases such as anchoring and mental accounting lead investors to stick with their initial fund selections, even as market conditions change. Young investors often focus on their purchase price or initial returns and hesitate to reassess their performance objectively. This behaviour aligns with the status quo bias, where individuals prefer not to

act rather than make complex or uncertain decisions. Even with access to data-driven platforms, many investors do not adequately diversify or rebalance their portfolios at the right intervals.

Another emerging factor in modern investment behaviour is information overload, stemming from constant access to digital content and algorithmic suggestions. Singh and Mehta (2024) found that too much information does not always lead to better decisions; it can instead cause analysis paralysis and emotional fatigue. Investors overwhelmed by conflicting advice or fluctuating market data often rely on simple rules of thumb rather than thorough analysis. This is especially true for social media-driven investors who depend largely on influencer opinions or trending news rather than formal research.

Moreover, loss aversion is a central bias affecting investment persistence. Behavioural finance research suggests that people feel the pain of losses about twice as intensely as the joy from equivalent gains. A 2019 study by Chatterjee and Thomas found that young investors often sell winning stocks too early to secure profits while holding onto losing ones in hopes they will bounce back. This behaviour leads to poor long-term portfolio performance and a missed opportunity to benefit from compounding.

The mix of emotional impulsiveness and financial technology has further heightened these behavioural distortions. Easy access to zero-commission trading apps and gamified experiences has blurred the line between investing and entertainment. Gupta et al. (2023) noted that young investors often engage in “micro-trading”, doing frequent small trades for the thrill of participating rather than focusing on strategic results. Such impulsive engagement fits with short-term gratification bias, which undermines long-term wealth building.

Finally, cross-sectional studies show that financial literacy alone does not fully counteract these biases. Rahman and Bhatia (2022) noted that even financially savvy young people displayed strong tendencies like overconfidence and herding when faced with emotionally charged situations or market fluctuations. This highlights the need for psychological training and emotional regulation, which are just as important as knowledge sharing for promoting wise investment practices among young adults.

In summary, young investors in stocks, mutual funds, and cryptocurrencies display a mix of cognitive shortcuts and emotional motives. Overconfidence leads to excessive trading, herd behaviour and FOMO heighten volatility, loss aversion delays rational exit decisions, and anchoring keeps investors stuck in poor choices. While digital platforms have made financial markets more accessible, they have also made young people more vulnerable to psychological biases. Recent studies consistently show that effective investing requires not only analytical skills but also an awareness of how emotions, peer influence, and biases shape financial decisions.

5.4. Digital finance behaviour (UPI, BNPL, online shopping)

The rapid growth of digital finance among young people has changed how they manage, spend, and think about money. Platforms like Unified Payments Interface (UPI), Buy Now Pay Later (BNPL) schemes, and online shopping have created new consumption habits that combine convenience with psychological influences. Over the last ten years, many studies have looked at how these technologies influence financial decision-making, especially among younger consumers who are more active online and sensitive to marketing signals.

Research on UPI systems shows that shifting from cash to cashless transactions has significantly changed spending habits. A 2024 study called “From Cash to Cashless: UPI’s Impact on Spending behaviour Among Indian Users” found that most participants reported spending more after they began using UPI. The study links this increase to a reduced psychological “pain of paying” when using cashless methods, as money feels less real. The ease of instant digital transactions also promotes spontaneous spending

among younger people who see UPI as a normal part of their daily lives. Another 2024 study in the Indian Journal of Finance highlighted that perceived ease of use, trust in technology, and social pressure are key reasons why young people adopt UPI. These factors turn digital payment systems into social and emotional experiences that change how they view money.

The BNPL model has further fueled these changes by offering credit without the usual approval hurdles. A 2023 study by Biradar and Reddy titled “Impact of Buy Now, Pay Later Services on Young Generation’s Spending Habits” showed that BNPL users often display more impulsiveness in their buying choices. The delayed payment option creates a false sense of affordability, leading young people to purchase items they cannot immediately afford. This aligns with findings from a 2024 review on BNPL factors, which found that no upfront cost and easy installment plans encourage impulsive buying. Young users, often lacking financial knowledge, may overlook future repayment obligations, risking debt and stress. The design of BNPL platforms takes advantage of present bias, the tendency to favor immediate rewards over long-term financial health.

In online shopping, impulsivity and emotional responses are crucial in shaping youth behaviour. A 2024 study published in the International Journal of Internet Marketing and Advertising examined e-shopping habits among female Generation Z members in India. The study found that frequent interaction with online retailers builds trust, increasing the likelihood of impulsive purchases. The appeal of online ads, personalized suggestions, and limited-time offers strengthens this trend. Research in the Journal of Informatics Education and Research (2024) also found strong connections between social media addiction, smartphone use, fear of missing out (FOMO), and compulsive online buying. The study concluded that digital exposure heightens psychological susceptibility to unplanned spending, with users often responding emotionally rather than logically to online prompts.

Support for these findings comes from Tomar et al. (2023) in the Indian Journal of Marketing, where they discovered that impulsive buying is a significant part of compulsive buying among young adults. They noted that external factors like ads, influencer promotions, and peer recommendations have a more powerful impact on purchasing decisions than internal emotional conditions. This implies that online shopping sites and social media together create an environment where young consumers are often pushed to spend without carefully considering the long-term financial effects.

In all three areas, UPI, BNPL, and online shopping, one clear trend is evident: digital convenience lowers the mental barrier to spending. Unlike traditional payment methods, where cash transactions create a physical sense of loss, digital platforms make spending feel easy and abstract. This psychological separation leads to a gradual loss of spending control. Moreover, merging financial technology with entertainment and social media has blurred the lines between leisure and finance. When financial choices are part of digital systems designed for engagement and instant gratification, the difference between necessary and impulsive spending becomes less distinct.

A recurring theme in recent studies is the role of financial literacy. Various studies suggest that understanding digital payment systems can help curb impulsive or risky spending. Young people with better financial knowledge tend to use UPI and BNPL more responsibly, while those who lack awareness often overspend or fall into debt. However, even those who are financially literate face emotional and cognitive biases due to the inherently appealing design of digital interfaces that focus on convenience and immediate rewards.

Overall, research from the past nine years indicates that digital finance platforms have reshaped how young people handle money, not just through technology but through psychological influences. While these tools

improve access and inclusion, they also take advantage of behavioural weaknesses like impulsiveness, overconfidence, and a desire for short-term rewards. The simplicity of digital payments, deferred credit options, and online shopping algorithms combine to create an environment where financial decisions are increasingly shaped by emotions, habits, and social pressure rather than logical economic reasoning.

6. Youth-Specific Financial Challenges and Vulnerabilities

6.1. Lack of formal financial education

In recent years, the lack of organized financial education has become a major factor affecting the financial habits and decision-making skills of young people. As the global economy grows more digital and complicated, youth face financial choices earlier in life, often without the necessary knowledge to handle them responsibly. Research shows that not having enough financial education leads to risky behaviours, poor budgeting, impulsive spending, and low savings among young consumers.

Formal financial education gives people a basic understanding of money management, budgeting, credit, investments, and financial planning. However, many studies indicate that schools and universities in developing countries, including India, have yet to include financial literacy in their main coursework. A 2024 study in the *Journal of Economic Behaviour and Organization* found that students who did not have access to structured financial courses showed lower confidence and made poorer decisions compared to those who took even short financial training modules. The lack of formal education forces young people to rely on informal sources, like friends, family, or social media, which often provide incomplete or misleading information.

A study in the *International Journal of Bank Marketing* (2023) looked at youth financial literacy across 12 countries and found that most young adults only have a basic understanding of important financial concepts like interest rates, inflation, and risk diversification. This lack of knowledge not only limits their ability to assess financial products, but also makes them more vulnerable to overspending, predatory lending, and impulsive borrowing through credit cards or Buy Now Pay Later (BNPL) schemes. Similarly, a 2022 study by the OECD found that nearly 67% of young people worldwide could not correctly answer basic questions about financial literacy, highlighting a consistent gap between financial exposure and understanding.

In India, several studies have shown similar results. Research published in the *Indian Journal of Economics and Development* (2023) found that financial literacy among Indian youth remains low, even with high smartphone use and better access to digital banking. The study revealed that while students feel confident using online payment platforms like UPI or mobile wallets, they often do not understand interest calculation, savings methods, or responsible credit use. This gap between technological familiarity and conceptual knowledge creates a false sense of financial competence; young people seem financially active but often do not recognize the risks tied to their actions.

The lack of financial education also affects long-term attitudes toward saving and investing. A 2021 study in the *Journal of Behavioural and Experimental Finance* showed that individuals who did not receive financial training in school are much less likely to plan for retirement or invest systematically later in life. This early educational gap carries into adulthood, leaving individuals unprepared for financial emergencies or building wealth. The same research indicated that financial literacy gained through formal education has a stronger link to responsible financial behaviour than self-taught methods.

Moreover, the emotional and psychological impacts of financial illiteracy are significant. Studies suggest that young adults without formal financial guidance often deal with anxiety, guilt, or stress regarding

money management. A 2023 paper in the Journal of Youth Studies found that financial anxiety among university students is closely related to lack of structured financial education and a sense of not being in control of their expenses. This emotional strain can lead to unhealthy behaviours, such as avoiding financial planning, making impulsive choices, or becoming overly reliant on short-term credit.

The increasing role of digital financial services has heightened the need for structured education. With the rise of online banking, investment apps, and BNPL systems, making financial decisions has become easier but also riskier. Studies from the Journal of Financial Counseling and Planning (2024) show that digital natives, those born after 2000, are overconfident in managing finances due to their tech skills but often misjudge the financial consequences. Researchers stress that educational efforts must now include traditional concepts like saving and budgeting, along with digital financial literacy covering cybersecurity, privacy, and responsible tech use.

Several experts have called for integrating financial education into high school and college curricula. A 2020 study in the International Review of Economics Education showed that students who received structured financial education in school showed lasting improvements in saving discipline, spending awareness, and risk assessment even years after the course ended. This supports the idea that financial literacy should be seen as a basic life skill instead of an optional subject. In countries like India, where youth make up over 65% of the population, the lack of formal financial education not only affects individual stability but also limits national economic resilience by reducing financial inclusion and responsible consumer participation.

In conclusion, research from the past decade shows that not having formal financial education among youth leads to a cycle of low awareness, impulsive decisions, and economic vulnerability. While digital tools have increased access to finance, they also raise the risks of uninformed participation. Closing this gap through early, structured, and relevant financial education is vital to prepare young people to handle the increasingly complex financial world.

6.2. Exposure to online financial risks/scams

The rapid digitalization of finance has made financial services more accessible and instantaneous, but it has also exposed users, especially young people, to various online financial risks and scams. As digital natives, young individuals quickly adopt online banking, Unified Payments Interface (UPI), e-commerce, and mobile wallets. However, their high engagement often coincides with low awareness of cybersecurity threats, weak risk perception, and limited experience in preventing fraud. Research over the past decade shows that this group is particularly vulnerable to phishing attacks, identity theft, financial fraud, and misleading investment schemes due to overconfidence, impulsivity, and a lack of financial literacy.

Studies consistently show that young people's comfort with digital platforms leads them to overestimate their ability to spot fraud. Research published in the Journal of Financial Crime (2023) found that younger adults are quite confident in their online security practices, but they perform poorly when tested on fraud detection skills. The overconfidence bias creates a gap between how they view their ability to manage online risks and their actual skills, making young consumers easy targets for digital scammers who take advantage of emotional and cognitive weaknesses such as curiosity, urgency, or social pressure.

Evidence from India and other developing economies highlights that young people increasingly face phishing and identity theft through mobile payment platforms. A 2024 study in the Indian Journal of Finance and Banking discovered that UPI-related scams, OTP phishing, and fake customer support calls were the most common types of fraud affecting users aged 18 to 30. Many scams succeeded because users shared personal information, misled by trust in digital interfaces or official-looking logos. Another study

from 2023 in the Journal of Cybersecurity Education, Research, and Practice noted that emotional manipulation, like urgency cues (“your account will be blocked”), was particularly effective among younger users, who tend to react quickly without verifying authenticity.

Research in various global contexts supports these findings. The Computers in Human behaviour Reports (2022) examined how different age groups respond to scams. It found that teenagers and young adults are more likely to impulsively click on links and fall for phishing attempts than older people. The study attributed this to frequent multitasking, shorter attention spans, and greater trust in online communications. Additionally, the Journal of Information Security and Applications (2024) pointed out that while digital trust is important for fintech adoption, it can ironically increase risks when not supported by adequate cybersecurity knowledge. Young people often mistake the convenience and modern design of platforms for security, assuming there's regulatory oversight without checking authenticity.

Social media has also increased online financial risks. A 2023 study in the Journal of behavioural and Experimental Finance revealed that young users often fall victim to fraudulent investment ads on platforms like Instagram, Telegram, and YouTube. These scams frequently promise unrealistically high returns and use social proof, such as testimonials, influencer endorsements, or fake reviews, to gain legitimacy. Young individuals rely heavily on social media for financial advice and product recommendations, making them more likely to trust deceptive sources without verification. The same study found that exposure to scams increases with time spent on social media and decreases with formal financial education, highlighting the protective role of structured financial knowledge.

Research indicates a rising incidence of online shopping fraud and unauthorized digital transactions. The International Journal of Bank Marketing (2024) examined post-pandemic e-commerce behaviour and found that nearly one in four young consumers in India reported experiencing at least one instance of payment fraud, fake website purchases, or refund scams. Common behavioural factors included impulsive buying, failure to verify sellers, and saving card details on unsecured sites. The findings suggest that an online consumer culture encourages convenience-seeking behaviour that undermines security vigilance.

Another troubling trend is the vulnerability of young people to cryptocurrency and trading scams. A 2023 study in the Journal of Economic behaviour and Organization found that over 60% of young crypto investors surveyed faced deceptive or manipulated investment schemes online, including pump-and-dump tokens, fake exchange websites, or fraudulent giveaways. These results underscore that young people's fascination with emerging financial technologies often outstrips their understanding of associated risks. A high risk tolerance, combined with the allure of quick wealth, drives engagement in unregulated or deceptive financial activities.

Emotional and cognitive factors worsen these vulnerabilities. Studies indicate that feelings of anxiety, excitement, or greed can cloud rational risk evaluation when presented with attractive online offers. A 2021 study in the Journal of Risk Research showed that individuals experiencing emotional arousal are much more likely to ignore fraud warning signs. Young people, whose decision-making is often influenced by heightened emotions, become easy targets for online scammers who craft messages to trigger urgency and the promise of rewards.

Many researchers argue that digital literacy alone isn't enough; financial cybersecurity education is also needed. This includes teaching users how to verify links, recognize scams, and critically evaluate online communications. A 2024 article in the Journal of Financial Counseling and Planning found that incorporating cybersecurity modules into financial education programs at schools and colleges can

significantly lower scam susceptibility. Participants who received training on phishing and data protection were 35% less likely to share personal information online or fall for fake offers.

In conclusion, young people's exposure to online financial risks and scams arises from a mix of psychological vulnerabilities, limited financial education, and overconfidence in digital systems. Although they are the most active users of online financial tools, many young individuals lack the experience and caution necessary to identify fraudulent practices. The increasing sophistication of cybercrime, spanning social engineering to AI-generated scams, complicates this issue further. Strengthening both financial and digital literacy, raising awareness through education, and implementing stronger consumer protection policies are essential to shield young people from online financial exploitation in today's digital economy.

6.3. Emotional decision-making during financial instability or crises

Financial instability or crises often provoke strong emotional reactions like fear, anxiety, and uncertainty. These emotions significantly affect how individuals, especially young people, make decisions. During economic downturns, inflation, or personal financial stress, young people tend to lean more on feelings than on rational thinking when making financial choices. This emotional decision-making can lead to impulsive actions, such as panic selling, excessive borrowing, or risky investments, worsening financial instability and long-term insecurity.

Research from the past decade shows that emotions strongly influence financial behaviour. According to behavioural finance theory, emotions like fear and greed can often sidetrack logical thinking, especially during uncertain times. The Journal of Behavioural Decision Making (2023) noted that people experiencing economic anxiety show lower risk tolerance and often think short-term. For young adults, who might not have much financial experience, emotional responses to market volatility can lead to poor decisions, like pulling out investments too early or taking on debt to maintain their lifestyle.

During financial crises, such as the COVID-19 pandemic or market crashes, young people typically respond with two key emotions: fear-driven avoidance and overconfidence-driven speculation. A 2022 study in the Journal of Economic Psychology found that young investors reacted to uncertainty by either completely avoiding investment platforms or engaging in risky short-term trading based on social media hype. Both responses were driven by emotions rather than careful analysis. Avoidance reflected fears about losses and uncertainty, while speculative trading was rooted in an unrealistic sense of optimism.

Financial instability also increases stress and mental overload, making it harder for individuals to process complex information. Research in Frontiers in Psychology (2024) showed that people under financial stress have reduced working memory and are less consistent in their decisions. This leads them to rely on heuristics, mental shortcuts that can result in poor financial choices. For example, during times of inflation, young people may continue spending on unnecessary items because of a habit of comfort spending, which is influenced more by emotions than by what they can afford.

Another important aspect of emotional decision-making during crises is the impact of social influence. The Journal of Behavioural and Experimental Finance (2023) found that during financial instability, young people are strongly swayed by their peers and online groups. Emotional contagion, the spread of emotions through social networks, can heighten panic or encourage herd behaviour. Examples include mass withdrawals from mutual funds, quick investments in volatile assets like cryptocurrency, or jumping into “get-rich-quick” schemes. Emotional conformity takes the place of logical evaluation, especially when young people believe “everyone is doing it.” This pattern is reinforced by social media algorithms showcasing emotionally charged financial content.

A 2021 study in the Journal of Financial Counseling and Planning pointed out that young people with better emotional regulation skills are more capable of handling financial stress without making hasty decisions. Emotional intelligence, defined as the ability to recognize, understand, and manage one's emotions, was identified as a strong predictor of financial resilience. Those who could identify their emotional triggers during economic downturns were less likely to engage in choices that could harm their long-term financial well-being.

Additionally, financial crises often create a feeling of losing control, leading to compensatory behaviours like impulsive spending or taking risks. The International Review of Financial Analysis (2024) found that young consumers under stress are more likely to engage in "revenge spending" or overspending to feel a sense of independence. Similarly, when income is uncertain, many resort to high-interest credit products or Buy Now Pay Later (BNPL) options to maintain short-term financial stability. While these actions may provide temporary relief, they often result in greater financial strain over time.

The psychological concept known as the "affect heuristic" explains why emotions often take precedence over rational thinking in financial situations. According to this model, individuals tend to base their decisions on emotional impressions like fear or optimism instead of objective risk assessments. For instance, a young person might avoid investing in stocks after a market drop due to negative feelings from past experiences, despite data suggesting a recovery might be likely. Conversely, during periods of speculative excitement, they might overestimate potential gains based on feelings of happiness or success. Neuroscientific studies support this connection between emotions and behaviour. Research using brain imaging, such as a study in the Journal of Neuroscience and Economics (2023), found that financial stress activates the amygdala, the brain's emotion center, while reducing activity in the prefrontal cortex, which is responsible for rational thought. This shift makes emotions more dominant in decision-making, increasing the risk of irrational financial behaviour. Young people, due to their developmental stage, often show heightened reactivity in the amygdala and less control from the prefrontal cortex, making them more emotionally vulnerable during financial crises.

It's also crucial to recognize that the impacts of emotional financial decisions can last a long time. Impulsive debt, stopping long-term savings, or losses from risky trading can affect credit scores, financial confidence, and future investment choices. A 2024 study in the Journal of Economic behaviour and Organization noted that young people who faced financial losses during a crisis often developed a lasting fear of investing, opting to keep cash or invest in low-yield assets even after the economy had improved. Such avoidance behaviours can hinder their ability to build wealth and achieve financial independence.

To help reduce emotional decision-making during financial stress, researchers recommend incorporating emotional intelligence training and behavioural finance education into schools and colleges. The Journal of Financial Therapy (2023) stressed that building self-awareness, managing stress, and encouraging reflective thinking can empower young people to make better financial decisions, even in challenging situations. Additionally, promoting financial mindfulness, being aware of spending and investment habits, can help curb impulsive actions and support long-term planning.

In conclusion, emotional decision-making during financial instability or crises presents a serious challenge for young people. Emotional responses like fear, anxiety, or greed can easily overshadow rational thought, leading to decisions that worsen financial troubles. Improving emotional intelligence, enhancing financial literacy, and encouraging thoughtful decision-making are vital strategies to help young individuals better navigate financial crises in the future.

7. Strategies to Improve Financial Decision-Making in Youth

7.1. Role of financial literacy and education programs

Financial literacy has become an essential skill for young people as they navigate a rapidly changing and complex financial environment. Current research shows that financial literacy includes not only basic understanding of financial terms and concepts like interest, budgeting, and investment, but also the confidence and skills to engage in financial activities and manage money wisely. Studies reveal that many young people are skilled at using digital payment tools and online financial services, yet they often lack a solid grasp of fundamental financial concepts and the discipline needed for long-term financial health.

The literature highlights that several factors shape financial literacy among youth. These include formal education, family environment, exposure to digital technology, personal income, and work experience. For example, formal education, especially courses in commerce or economics, improves financial knowledge more than many other academic fields. Students who receive parental guidance and discuss financial issues at home tend to develop better money management skills. In contrast, young people from households where finances are not discussed may struggle to make independent financial decisions. Socioeconomic status and parental behaviour also play significant roles in shaping attitudes and actions related to saving, spending, and investing.

The impact of digital technology on young people's financial behaviour is significant. Payment apps and investment platforms make financial transactions quick and easy, but this convenience can sometimes lead to hasty or uninformed choices. Research indicates that while digital exposure can improve access to financial resources, it can also expose young people to misinformation, risky trends, and scams if they lack proper financial education. As young people increasingly use online financial services, the need for digital financial literacy becomes crucial.

Empirical studies also look into the behavioural and psychological aspects of youth financial decision-making. Assessments of financial literacy involve knowledge tests, behavioural observations, and attitudinal surveys. These methods show that financially literate youths are more likely to save, invest, and avoid excessive debt. On the other hand, low financial knowledge is linked to poor money habits, such as overspending, little saving, and vulnerability to scams.

There are still gaps in the coverage and effectiveness of financial education programs for youth, especially among underrepresented or rural groups and regarding digital finance. Although young people clearly want structured financial education, not all school systems have adopted comprehensive financial literacy programs. There is an increasing demand for more widespread, research-based financial education across different demographic groups, taught in schools, homes, and online, to address current knowledge and behaviour gaps.

Recent research emphasizes that providing young people with solid, relevant financial literacy is essential for their financial independence, resilience, and ability to make informed choices throughout their lives.

7.2. Gamified learning tools and simulations

The financial landscape for today's youth is extremely complex. Digital payment systems, cryptocurrency, and advanced credit products are now common. This environment requires financial skills that traditional classroom education has not effectively provided. Such education often struggles to turn abstract concepts into useful decision-making abilities (Urban et al., 2020). In response, teaching methods have shifted to be more interactive and engaging. Gamified learning tools and simulations have shown to be powerful interventions. They use game mechanics and hands-on learning to directly improve the financial judgment

and behaviour of young people. These approaches recognize that financial literacy is not just knowledge. It involves behaviours and skills best learned through practice and immediate feedback.

The success of gamification in financial education relies on established psychological theories of motivation, especially Self-Determination Theory (SDT). SDT suggests that intrinsic motivation comes from fulfilling three main psychological needs: autonomy, competence, and relatedness (Ryan & Deci, 2017). Gamified financial platforms are carefully designed to meet these needs. They offer autonomy by letting users make their own choices, like managing a virtual budget or selecting investments. They build competence through step-by-step challenges and clear, immediate feedback on performance, often shown through progress bars or increasing scores. Finally, they encourage relatedness through social features like leaderboards, team challenges, or the option to share achievements, which creates a sense of community. For example, a simulation that requires a user to manage a virtual business allows for independent decision-making, provides profit-and-loss statements for building understanding, and can create teamwork if played in groups. This motivational setup is much more effective at fostering deep involvement and behaviour change than the passive learning typical of traditional methods.

Research over the past nine years offers strong evidence of the impact of these tools on both thinking and behaviour. A thorough systematic review by van Roy and Zaman (2019) found that while the success of individual game elements can differ, well-designed gamified environments generally lead to better learning outcomes and increased user motivation. The review noted that features like progress tracking and meaningful story contexts were particularly effective for keeping people engaged over the long term. Importantly, the benefits go beyond simply gaining knowledge. A study on a gamified mobile app aimed at teaching budgeting and saving showed that users had a significant increase in financial knowledge and reported a greater intention to practice positive financial behaviours, such as saving money and keeping track of expenses, in their everyday lives (Sánchez et al., 2020). This change in intended behaviour is crucial, as it addresses the well-known gap between knowing what is financially wise and actually putting it into action. The simulated experience of effectively managing finances creates a mental framework and builds the self-confidence needed for real-world applications.

Creating these gamified tools is not as simple as just adding points and badges; specific strategies are essential for their success. Research shows that the most effective simulations focus on clear cause-and-effect relationships, ensuring users see a direct link between their decisions and the results. For instance, if a user opts for a high-interest payday loan in a simulation, the game should clearly illustrate how rapidly the compounding interest increases the total debt, delivering a strong, memorable lesson (Kazanova & Shikov, 2022). Another important strategy is scaffolded complexity, where the game starts with simple decisions before introducing more complicated financial tools and scenarios. This method helps avoid overwhelming users and gradually builds their confidence and skills. Additionally, integrating financial lessons within an engaging narrative, such as following a character through important life events like college, their first job, and buying a car, greatly boosts engagement. It makes the financial lessons more relatable and memorable than abstract concepts (Brewer et al., 2019). Modern tools are also beginning to adopt insights from behavioural economics, explicitly teaching users about cognitive biases, like present bias or the default effect, by allowing them to experience the consequences of these biases within the safe environment of the simulation.

7.3. behavioural nudges and digital reminders

The challenge of improving financial skills among youth often isn't due to a lack of knowledge, but rather the gap between wanting to act and actually acting. behavioural economics helps us understand this gap

by showing how cognitive biases, like present bias, procrastination, and inertia, can undermine even the best financial plans. Strategies that use behavioural nudges and digital reminders are becoming more popular. These tools shift from simply providing education to guiding young people's choices automatically and easily towards better financial results. By using technology and insights from psychology, these gentle prompts can significantly affect saving, spending, and managing debt.

behavioural nudges are elements of choice architecture that change people's behaviour in predictable ways without limiting options or greatly altering their economic incentives (Thaler & Sunstein, 2008). Their effectiveness stems from addressing specific behavioural challenges. For young people, whose prefrontal cortex, responsible for functions like planning and self-control, is still maturing, these challenges are particularly clear. One main concern is present bias, which leads to overvaluing immediate rewards at the expense of future benefits. Digital reminders can help counter this bias by making future consequences more noticeable. For example, a text message reminding someone of their long-term goal to buy a car can highlight the delayed reward of saving, making it less tempting to make impulsive purchases (Karlan et al., 2016). Another important challenge is inertia. Nudges that change the default choice, such as automatically enrolling young employees in retirement savings plans with the option to opt out, significantly boost participation rates by taking advantage of their tendency to remain inactive (Beshears et al., 2018).

Digital reminders, often sent through SMS or mobile app notifications, offer a direct and scalable way to use nudges. Their strength lies in providing timely, useful information that breaks through the noise of daily life. Research on saving habits shows these reminders work well. In a study where individuals received regular text message reminders to save, participants saw a noticeable rise in their savings, especially among those who were least attentive financially at the start (Karlan et al., 2016). For digital natives, this method is particularly fitting. These reminders serve several important functions: they act as prompts to take action, they keep financial goals prominent in people's minds, a concept called salience, and they can simplify complex tasks. A reminder that says, "Transfer \$10 to your savings account now with one tap," lowers the mental effort needed to take a positive action, making it more likely to happen. The design and wording of these nudges are crucial for their success. Research shows that the content and timing of a message can greatly affect its effectiveness. For instance, a study on credit card payments found that reminders that framed the message around social norms (like "90% of people in your area pay their bills on time") or emphasized a goal (such as "Pay your bill on time to avoid fees and save for your future") were more successful than generic reminders (Cadena & Schoar, 2019). Additionally, prompts that encourage users to create specific "if-then" plans (for example, "If I get my paycheck on Friday, then I will transfer \$50 to my savings") have proven to be very effective. These prompts bridge the gap between intention and action by linking a specific future situation to a desired behaviour, making the action feel more automatic (Rogers & Bazerman, 2020). The timing of digital reminders is also essential; a notification sent just before payday or when someone is about to make spending decisions can have a much stronger effect than one sent randomly.

While nudges and reminders are powerful tools, they also raise important ethical questions about freedom of choice and paternalism. Critics argue that changing choice architecture for positive outcomes can feel manipulative. However, supporters argue that because some form of choice architecture is unavoidable, whether done thoughtfully or carelessly, it is better to create environments that guide people toward decisions that match their long-term goals. Being transparent is important; telling users about the purpose of these nudges can lessen concerns. For a generation dealing with significant financial pressure and

complex products, these tools can provide essential support, helping them navigate their cognitive limitations to achieve financial stability.

7.4. Building emotional intelligence and self-control

While financial literacy provides the knowledge needed for good decision-making, it often falls short when faced with strong psychological and emotional influences. The ability to manage emotions and exercise self-control is increasingly seen as a key factor in financial well-being, especially for young people forming habits that will last a lifetime. Financial decisions are rarely based solely on logic; they are often swayed by stress, excitement, social pressure, and impulsiveness. Thus, efforts to build emotional intelligence (EI), the ability to recognize, use, understand, and manage emotions, along with self-control, are not just additions. They are essential for improving financial outcomes. These skills help young people deal with the emotional challenges in finance, from the lure of impulsive buying to the stress of market fluctuations. This, in turn, connects financial knowledge with better financial health.

The brain science behind this connection is tied to the development of the adolescent brain. The prefrontal cortex, responsible for executive functions like planning and impulse control, is one of the last areas to fully develop, usually not maturing until the mid-20s. In contrast, the limbic system, which handles emotions and rewards, is very active during the teenage years. This developmental mismatch leads to a tendency for emotion-driven and impulsive behaviour, especially regarding finances (Casey, 2015). A young person may grasp the ideas of compound interest and budgeting, but the immediate emotional pleasure of buying a desired item can easily override that understanding. Training in emotional intelligence and self-control helps strengthen the brain's ability to manage impulses, improving how the prefrontal cortex handles signals from the limbic system. This approach is not about pushing emotions aside but about combining emotional awareness with cognitive control to make more thoughtful decisions.

Emotional intelligence plays a crucial role in financial decision-making in several ways. First, the ability to distinguish and label specific emotions helps individuals recognize that the urge to make a spontaneous big purchase comes from feelings of social anxiety or a need for instant gratification, not from a logical necessity. This clear identification creates a gap between the impulse and the action, offering a valuable chance for self-regulation (Tamir et al., 2015). Second, strategies for managing emotions are essential for dealing with the stress and anxiety that often come with financial choices. A young investor who has learned techniques for managing stress may be less likely to panic and sell assets during a market drop, knowing that their fear is just a temporary feeling and not a reason for immediate action. Research shows that people with higher emotional intelligence are more patient in making choices between immediate and delayed rewards, which is a crucial aspect of sound financial planning (Białowolski, 2019).

The development of self-control, closely associated with EI, relates directly to the idea of delay discounting, the tendency to prioritize immediate rewards over larger future ones. High levels of delay discounting often lead to poor financial results, such as increased debt and lower savings. Programs aimed at improving self-control typically emphasize building "willpower as a muscle" through practice or cognitive strategies. One effective method is using implementation intentions, or "if-then" planning. For example, a young person might commit to: "If I feel the urge to buy something online that isn't in my budget, then I will wait 24 hours before buying." This straightforward plan shifts control to a pre-set rule, easing the burden on the mind and emotional conflict when facing temptation (Duckworth et al., 2018). Additionally, teaching mindfulness practices can enhance financial self-control. Mindfulness encourages awareness of present thoughts and feelings without judgment, helping young people observe financial

urges without immediately acting on them, thus reducing impulsive spending linked to negative emotions (Sohn et al., 2022).

Educational programs that include these skills are moving away from solely knowledge-based approaches to those that foster social-emotional skills. Such programs might involve scenario-based learning where students act out managing a sudden windfall of money while dealing with various emotions, or exercises that focus on practicing delayed gratification. By presenting self-control and emotional awareness as key financial skills, educators can provide young people with the tools they need to make solid financial judgments consistently. In a world filled with financial distractions and marketing aimed at promoting emotional spending, the ability to self-regulate and have clear emotional understanding may be the most valuable skills a young person can develop for their long-term financial health.

8. Conclusion

behavioural finance shows that young people's financial behaviour often strays from the “rational actor” ideal due to predictable psychological patterns, social influences, and changes in the financial environment. First, cognitive biases like overconfidence, present bias (the tendency to favor immediate rewards), loss aversion, mental accounting, and herd behaviour explain common actions among youth. These include overtrading, impulsive purchases, under-saving, and following popular trends (such as meme stocks and short-term cryptocurrency investments) instead of focusing on long-term plans. Research confirms that these biases strongly influence young investors' decisions and that financial literacy can moderate, but not eliminate, their effects.

Second, financial literacy among students varies widely across countries, revealing gaps in practical skills. International assessments, like PISA's financial literacy module, found that while many 15-year-olds reach basic competency, a significant number do not develop the higher-level skills needed for complex personal finance decisions. Socioeconomic background is a strong predictor of these outcomes. These limits in literacy make young people more vulnerable to behavioural pitfalls.

Third, the digitalization of finance has transformed both opportunities and risks. Global surveys indicate that account ownership and the use of digital payments among young adults have rapidly increased in the past decade. While digital access lowers transaction costs and enables savings for some, it also encourages impulsive spending and easy access to speculative products, such as apps and microtrading. The World Bank's Global Findex (2017 to 2021) highlights significant growth in account ownership and digital payments, changing how young people store, transfer, and spend their money.

Fourth, social media and fintech influencers intensify these behavioural effects. Recent studies reveal that social platforms speed up the spread of information, create herd-like effects, and promote short-term, trend-driven investing and spending among younger users. Exposure to influencer content and brief financial advice is linked to more active trading and risk-taking, especially where formal financial education is lacking.

Finally, evidence relevant to policy suggests ways to mitigate these issues. Targeted financial education, especially through hands-on and digitally integrated programs, nudges that change choice architecture (like automatic enrollment and default savings), and stricter regulations on high-risk digital financial marketing for youth can reduce harmful behaviours. Reviews of various interventions highlight the importance of parental involvement, experiential learning, and digital tools as effective elements.

In summary, behavioural finance does more than label the mistakes of youth. It explains why these mistakes occur, considering biases and context, and shows how new technologies amplify them. It also

points to research-based solutions, such as education, defaults, and regulation, that can help young people develop more resilient financial habits.

The importance of addressing emotional and cognitive aspects in financial education has gained recognition in recent years. Research shows that just having knowledge is not enough to change financial behaviour. Traditional financial education focuses on budgeting, saving, and investing. However, behavioural finance indicates that emotions, cognitive biases, and psychological factors greatly influence financial decisions. Many people, especially young adults, often make choices based on immediate gratification, social pressure, or emotions like fear, pride, and regret instead of rational thinking. Studies show that even when young people have financial knowledge, their ability to apply it effectively relies on emotional intelligence and self-control. For example, a 2023 study in *Frontiers in Psychology* found that students with higher emotional intelligence had more disciplined spending and saving habits because they could manage impulses and handle stress during financial decisions.

It is crucial to address cognitive and emotional factors for youth and emerging adults as they are forming lifelong money habits. Their cognitive skills, which involve planning, delaying gratification, and assessing risk, are still developing, while emotional and social influences are very strong. Peer comparison, social media trends, and the need for social validation often lead to impulsive financial behaviour. The OECD PISA 2018 Financial Literacy Report states that many young people show basic financial understanding but struggle to apply it consistently in real life. This gap indicates that effective financial education must include strategies for managing emotions and correcting cognitive biases like overconfidence, herd behaviour, and loss aversion. Such biases often result in overspending or poor investment decisions.

Integrating emotional and cognitive learning into financial education means teaching not just what to do with money but also how to think and feel about it. Skills like self-control, mental budgeting, and awareness of biases can be developed through hands-on learning, decision simulations, and reflective exercises. Training in emotional awareness can help students recognize and manage feelings that affect their financial choices, such as anxiety about loss or excitement about risky gains. A 2022 study in the *Journal of behavioural and Experimental Economics* found that participants who received emotion-based financial training made more consistent decisions and saved more in the long term. Additionally, addressing core money beliefs, like linking wealth with success or spending with happiness, can change the internal narratives that lead to impulsive or risky financial actions.

For educators and policymakers, including these elements means rethinking how financial education is designed. Programs should blend psychological insights with practical skills instead of focusing solely on financial facts and formulas. Role-plays, interactive games, and digital simulations can expose learners to real decision-making pressures, allowing them to practice emotional regulation and thinking skills in a safe space. Group discussions and peer-learning activities can also encourage students to reflect on social influences and learn about shared financial responsibility. The World Economic Forum (2024) noted that financial education that includes behavioural and emotional training produces better long-term financial well-being than purely theoretical approaches. By increasing awareness of biases and enhancing emotional regulation, learners are better prepared to avoid impulsive spending, manage credit wisely, and build resilience against financial stress.

In conclusion, addressing emotional and cognitive aspects in financial education is essential for creating financially capable and psychologically resilient individuals. Knowledge without emotional regulation and cognitive awareness often does not lead to good financial behaviour, especially in a time of digital consumerism and constant social comparison. Research over the past decade consistently shows that

emotional intelligence, self-control, and cognitive reflection are critical to real financial outcomes. Therefore, modern financial education must evolve into a comprehensive approach that combines psychological understanding with practical money management. This prepares young people not only to know about finance but also to handle it wisely and sustainably.

The need for youth-focused programs to foster resilient financial behaviour is urgent. Rapid digitalization, rising consumerism, and increasing financial complexity play a significant role. Young people today encounter financial choices much earlier than past generations, including online payments, credit cards, investment apps, and digital lending platforms. However, many lack the experience, emotional maturity, and practical knowledge needed to handle these options responsibly. Consequently, financial vulnerability among youth is rising, marked by impulsive spending, accumulating debt, and short-term decision-making. Research indicates that while general financial literacy programs are helpful, those specifically designed for youth have a much greater effect. They target the formative years when attitudes and habits around money are still being formed (Juhro & Narayan, 2023). Building resilience through early, structured, and informed interventions helps young individuals not only understand financial concepts but also develop long-term, stable financial behaviours.

Youth-focused programs are crucial because financial resilience, the ability to bounce back from economic shocks and manage money well, does not come automatically from financial literacy alone. It is developed through continuous learning, emotional management, and adaptable behaviour. The OECD/INFE 2023 Global Financial Literacy Survey shows that young adults, despite their digital skills, often overestimate their financial knowledge and tend to feel financial stress. This overconfidence, along with limited real-world financial experience, makes them more vulnerable to scams, risky investments, and poor credit management. Programs that combine financial education with behavioural elements like goal setting, impulse control, and emotional intelligence training can improve long-term outcomes. For example, a 2022 study in the *Journal of behavioural and Experimental Economics* found that youth who took part in hands-on financial programs showed more consistent saving habits and lower chances of emotional spending triggers months after the training.

Additionally, youth interventions act as preventative measures against financial exclusion and inequality. In many developing countries, including India, a large percentage of young adults remain outside formal financial systems or only engage in basic digital transactions without developing saving or investing skills. A 2024 study in *Financial Innovation* reported a strong link between youth financial literacy, inclusion, improved well-being, and reduced vulnerability to debt traps. Programs aimed at school and college students, especially in low- and middle-income areas, can bridge this gap by providing the psychological and cognitive tools needed to make informed, resilient choices. These programs also tackle social and emotional factors, like peer pressure, social media influence, and aspirational spending, that often disrupt rational financial planning among youth.

To be effective, youth-focused programs must be engaging, technology-driven, and tailored to specific contexts. Traditional classroom-style lessons often fail to resonate with this age group since they do not connect with real-life decision-making. Instead, innovative methods like gamified financial learning, app-based saving challenges, mentorship initiatives, and behavioural prompts have shown success in keeping interest high and encouraging action. Evidence from a 2023 IZA Institute study on mobile app-based financial interventions revealed that young participants who engaged through gamified platforms retained concepts better and showed greater behavioural changes compared to those in traditional classes. Policymakers and educators should focus on interventions that replicate real financial experiences, teach

risk assessment, and encourage reflective thinking. By linking cognitive and emotional training with practical financial tasks, such programs help build confidence and adaptability, both essential for financial resilience.

In conclusion, youth-focused interventions are vital for promoting resilient financial behaviour in the next generation. They ensure that financial literacy leads to consistent, responsible actions and emotional stability amid uncertainty. Given the increasing influence of digital finance and the volatility of modern economies, resilience, not just knowledge, has become the key skill for financial well-being. Early interventions that combine behavioural insights, emotional management, and real-world application empower youth to make sound choices, steer clear of financial troubles, and support long-term economic stability. For a country like India, with its young population, these targeted initiatives represent not just an investment in individual futures but also a means to build a financially secure and inclusive society.

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