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RESEARCH ARTICLE

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AN EXPLORATORY STUDY OF PSYCHOLOGICAL DETERMINANTS OF CONSUMER FINANCIAL DECISION-MAKING

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ABSTRACT

In today's environment of abundant financial options, individuals are constantly compelled to make decisions that shape both their immediate and long-term financial futures. However, these choices are often driven more by psychological influences than by purely rational thinking. Emotions such as anxiety, stress, and impulsivity, along with cognitive biases like mental accounting, loss aversion, and overconfidence, can lead to suboptimal decisions. Behavioral finance has long recognized that such psychological factors distort rational judgment. This exploratory study examines the influence of psychological factors on consumer financial decision-making and investigates how financial literacy can mitigate the adverse effects of psychological biases. In an era of expanding financial options, decisions are often shaped more by emotions—such as anxiety, stress, and impulsivity—and cognitive biases, including mental accounting, loss aversion, and overconfidence, than by rational analysis. These influences, long recognized in behavioral finance, can lead to suboptimal financial outcomes. By understanding the role of attitudes, motivations, and perceptions, market analysts can develop more effective strategies and anticipate consumer behavior more accurately. The study adopts a cross-sectional design using both qualitative and quantitative methods. Primary data were collected through online surveys measuring financial literacy levels and in-depth interviews exploring participants' experiences, while secondary data were drawn from existing psychological and financial literature. Findings aim to provide actionable insights for enhancing financial decision-making, reducing bias, and supporting wealth-building strategies.

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INTRODUCTION

A person is compelled to make choices that will affect both his and her immediate and long-term financial destiny in the current climate, where there are an increasing number of financial options. However psychological elements that influence behaviour often dictate these decisions rather than rational ones. Decision-making in many personal financial scenarios is influenced by emotions such as anxiety, stress, and impulsivity, as well as biases such mental accounting, loss aversion, and overconfidence, which can lead to less-than-ideal choices. It has long been recognized in behavioural finance that these psychological elements skew rational decision-making. Customers' attitudes, motives, and perceptions are all influenced by psychological elements, which have a big impact on their behaviour. Through comprehension of these elements, market analysts acquire important knowledge to enhance their tactics. Additionally, analysing the attitudes and beliefs of customer's aids in spotting possible obstacles and modifying communications to successfully counter them. Market analysts can make more educated marketing decisions by taking psychological aspects into account, which helps them better understand and forecast. The financial decision-making process can be greatly impacted by the feelings and

mental states of the important decision-makers. Prejudice and illogical decision-making might result from confirmation bias or emotional commitment to a specific investment. However, feelings like stress and anxiety can also impair judgment, leading to poor financial choices. By using financial advice services, you can find actionable insights from the available data to make wise investment decisions and automate and outsource time-consuming and repetitive chores.

REVIEW OF LITERATURE

- Sandhu, N., & El-Gohary, H. (2022) concluded in their study that several theory-driven models, such as those pertaining to psychological behaviour (such as the theory of planned behaviour), are used to understand the elements influencing creative financial decision-making. This research supports a notion that theoretical framework that uses both qualitative and quantitative methods to describe creative financial decision-making by expanding the traditional financing model (TFM) and behavioural financial decision (BFD). The results, which were obtained from a sample of 140 small tourism organisations using structural equation modelling, highlight the significance of the

behavioural approach for creative financial decision-making in small tourism enterprises. In addition to making a valuable contribution to the field, the findings provide empirical support for the notion of planned behavior's adaptation in emerging nations.

- S. Dibb, A. Merendino, H. Aslam, L. Appleyard, W. Brambley (2020) explained in their study that Since the Global Financial Crisis of 2008, individual consumers' financial stability has been seen as essential to maintaining economic stability. Developing financial literacy has been a priority for policymakers in order to guarantee that the general population has the financial capacity to support "good" financial decisions and prevent financial vulnerability. Nonetheless, this method has been challenged for failing to adequately account for the behavioural aspects that affect how customers handle their finances. A qualitative investigation of consumer financial decision-making provides us with more empirical understanding of the context, emotions, and other behavioural elements that influence financial behaviour.
- Uguala, N., Animashaun, A. T., & Ramos, V. M. (2023).explained thatFinancial decision-making has its roots in psychology, and there are a number of theories that examine why people choose to make specific choices. According to behavioural finance theory, clients' and investors' decisions frequently reflect their emotions more so than their logical reasoning. This theory challenges the belief in the basic economic principle that people always make choices that will benefit their finances.
- Kahneman and Tversky's (1979) support Prospect Theory, which explains the skewed perception of profits and losses drivers that lead people to be risk averse in gains and risk seeking in losses.
- E. Bourova, M. Anderson, I. Ramsay, P(2018)studied thatLow financial literacy among the populace has been linked to a number of debt-related issues in Australia. However, little study has been done on the connection between financial hardship—a situation in which a customer assumes payment obligations under a contract but is unable to fulfill them when they become due—and inadequate financial literacy. This article investigates how financial knowledge and confidence in daily expenditure management affect the degree of financial difficulty, based on a poll of Australians who recently had debt issues. The article also looks at how confidence levels and financial literacy affect the methods used to make ends meet while in debt.

Objectives of the study

- To explore how psychological factors play a major role in financial decision-making.
- To explore how psychological biases adversely affect financial decisions and how financial literacy reduces their effects.

RESEARCH METHODOLOGY

Primary and secondary sources were used in the data collection process. Online surveys and interviews were used to get primary data, and pre-existing psychological and financial research was used to gather secondary data. This research study is cross-sectional; it uses both qualitative and quantitative research methods. In quantitative research Participants' financial literacy levels were measured through surveys to determine how this affected their capacity to make sound financial decisions and build wealth and in qualitative research selected participants were interviewed in-depth to learn more about their viewpoints and experiences with financial literacy and decision-making. The above demographic profile of the respondents shows diverse representation across age, income, and education levels. In terms of age, the largest group falls between 31–50 years with 35 respondents, followed by 51 and above with 25 respondents, and the 20–30 age group with 20 respondents. Regarding income, 35 respondents belong to the middle-income category earning between ₹31,000–₹75,000, while both the low-income group (below ₹30,000) and the high-income group (₹75,001 and above) have 20 and 25 respondents, respectively. In terms of education, the majority are

graduates (45 respondents), followed by undergraduates (20 respondents) and highly educated individuals such as postgraduates or above (15 respondents). This distribution reflects a balanced mix of participants, enabling a well-rounded understanding of perspectives across different socio-economic and educational backgrounds.

Table 1. Demographic category

Demographic Category	Respondents
Age group: 20-30 years	20
31-50 years	35
51 and above	25
Income level :low income below 30,000	20
Middle income 31,000-75,000	35
High income :75001 and above	25
Education: undergraduate	20
Graduate	45
Highly educated	15

Source: As per primary data

ANALYSIS AND DISCUSSION

Psychological Factors Influencing Financial Behavior: This study points out that emotions and cognitive biases have a significant impact on individual financial decisions. People frequently act negatively towards the economy or in ways that are worse for them as a result of these psychological issues.

- **Emotional factors:** People clearly employ their emotions, particularly fear and hope, when making decisions. Therefore, understanding these emotions is crucial for creating effective tools that alter emotional financial decision-making. There's clear evidence that people use emotions, especially fear and optimism, in making the decisions
- **Cognitive Biases:** Cognitive bias is the term used to describe certain innate thought patterns that cause mistakes in reasoning. These have an impact on our actions and choices. In life, there are many circumstances where we must make decisions based on partial knowledge and unwittingly fall victim to prejudices.

When it comes to financial decisions, overconfidence, and anchoring biases are powerful and significant biases.

Cognitive Biases and Financial Choices: Different from biases based on culture or personality, cognitive biases are distinguished by their influence on judgment and decision-making. As a result, they are known to routinely obstruct financial decisions in ways that are not consistent with norms or reason. A list of some cognitive biases and their underlying causes can be shown in next slide.

Factors of cognitive biases

Cognitive biases are regular thought processes that diverge from objective reasoning or logical decision-making. They frequently cause us to base our decisions and judgments more on feelings, mental shortcuts, or past experiences than on the truth. They arise because our brains are designed to analyze large volumes of information rapidly, depending on heuristics-mental guidelines that expedite our actions but may also skew our view. For instance, anchoring bias leads us to place an undue emphasis on the first piece of information we are given, whereas confirmation bias leads us to look for information that confirms our preexisting opinions. These biases frequently affect our daily judgments, how we remember data, and how we perceive events without our knowledge. Sometimes they can help speed up thinking, but if they are not checked, they can also result in mistakes, miscommunications, and poor decisions.

Table 2. Psychological Factors that Affects Financial Behavior

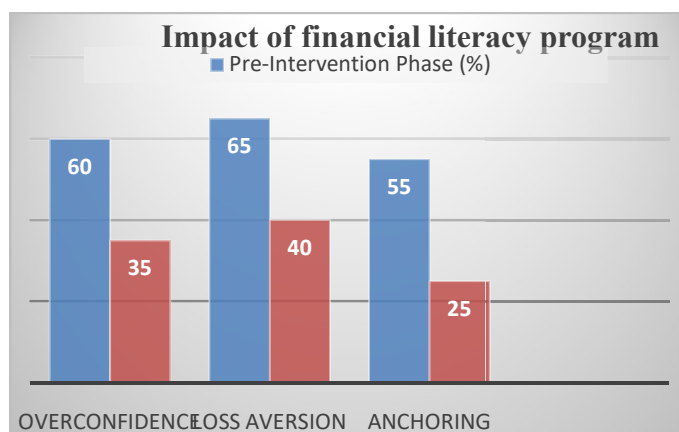
Psychological factors	Explanation	Effect on financial behavior
Anchoring Biases	Dependence on initial information (such as past pricing).	Causes poor investment choices to be made based on unrelated information.
overconfidence	Overestimation of one's experience and abilities in finance.	Often results in speculative trading or excessive risk-taking.
Fear and Optimism	Emotional reactions to financial changes	causes fluctuations in investments and conservatism, between high-risk

Financial Education Programs and Cognitive Bias Reduction: The education programs' primary goals are to improve participants' financial literacy and their ability to make decisions for themselves. These programs' frequently cover the various cognitive biases that underlie illogical financial behaviour and are fundamental to human thought and behaviour. Attending workshops on financial literacy has been shown to dramatically lower the prevalence of cognitive biases in people. According to a study, for instance, participants' overconfidence and loss aversion significantly decline after attending behavioral finance training.

Table 3. The Impact of Financial Literacy Programs on Cognitive Biases

Cognitive Bias	Pre-Intervention phase (%)	Post-Intervention phase(%)
Overconfidence	60	35
Loss aversion	65	40
Anchoring	55	25

The data shows that financial literacy programs significantly reduced cognitive biases among participants. Before the intervention, overconfidence was observed in 60% of individuals, but this dropped to 35% afterward, indicating improved self-awareness and realistic financial judgment. Similarly, loss aversion decreased from 65% to 40%, suggesting participants became more willing to take calculated risks instead of avoiding them due to fear of losses. Anchoring bias also saw a substantial decline from 55% to 25%, reflecting participants' enhanced ability to make decisions based on relevant information rather than relying on initial reference points.

**Graphical Figure 1.**

Overall, the program proved effective in improving decision-making by mitigating common Cognitive biases.

CONCLUSIONS

While emotions are a major influence on financial behaviour, research indicates that they don't always obstruct logical decision-making; in fact, they can occasionally strengthen it by drawing attention to possibilities or risks. In order for economic reasoning to more accurately represent decisions made in the real world, a new paradigm that incorporates psychological and cultural elements is required. This contradicts the conventional idea of solely rational economic players. With societal disparities in attitudes towards debt, risk, saving, and investment, cultural variances impact how cognitive and emotional biases appear. Emotions that are universal, including fear, optimism, pride, and trust, have a consistent but subtle impact on financial decisions, affecting preferences for lending, borrowing, saving, and investing. Financial institutions can create products that are in line with human behaviour, regulators may create consumer protections and disclosures that actually improve decision quality, and marketers can engage customers in an ethical manner by taking these dynamics into consideration. In the end, these studies' findings emphasize how crucial it is to incorporate behavioural and cultural aspects into financial systems in order to encourage wise, long-lasting, and context-sensitive financial decision-making.

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