



## Development of a Model of Financial Literacy Impacting the Decisions, Behaviors, and Financial Well-being of Capital Market Investors

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### ABSTRACT

The present study aims to develop a comprehensive model of financial literacy and to examine its associations with financial decisions, financial behavior, and financial well-being among investors in Iran's capital market. Considering the unprecedented growth in public participation in the capital market in recent years and the challenges arising from market volatility and instability, gaining a deeper understanding of the mechanisms related to financial literacy has become increasingly important. For this purpose, this study is applied in nature and employs a descriptive-analytical research design. In the first stage, a meta-synthesis approach was used to identify key components related to financial literacy among capital market investors, including (a) education, skills, and personal development; (b) social, psychological, and cultural factors; (c) environmental, demographic, and economic conditions; (d) laws, regulations, and government policies; and (e) access to informational resources. These components informed the development of a questionnaire to measure financial literacy. Financial decisions, financial behavior, and financial well-being were measured via a researcher-developed questionnaire based on a five-point Likert scale, which was administered electronically and manually to a sample of 384 capital market experts. The reliability of the instrument was confirmed with Cronbach's alpha values exceeding 0.70, and content and construct validity were also established. The data were analyzed via structural equation modeling (SEM) with Smart-PLS software. The findings indicate strong and positive associations between financial literacy and financial decisions, financial behavior, and financial well-being. These findings should be interpreted as associational rather than causal, given the cross-sectional design. The study contributes by providing a mechanism-based explanation of financial literacy in an emerging market context. Given the cross-sectional nature of the data, these results should be interpreted as relational rather than strictly causal, highlighting robust linkages rather than definitive causal pathways. Within this interpretive context, the proposed model provides a conceptual framework that may inform policymakers, capital market regulators, and educational planners in designing initiatives aimed at supporting investors' financial outcomes.

**Keywords:** Financial literacy; Financial decision-making; Financial behavior; Financial well-being.



## 1. Introduction

In recent decades, financial markets have played an important role in the macroeconomy, influencing not only the mobilization of savings into investment but also economic growth, resource allocation, and the decision-making of firms and households. Since the 1970s, the financial sector has grown faster than other sectors, and its share of gross domestic product, employment, and asset volume has increased (Bidegeli Eslami & Karimkhani, 2016). This trend, known as "the financialization of the economy," with the development of modern financial instruments and the growing role of financial institutions, has accompanied economic decisions (Greenwood, 2013; Orhangazi, 2008). Investors, in this arena, face complex financial decisions. The variety of instruments, market volatility, and investment opportunities have increased individual responsibility in saving, investing, and financing. Therefore, financial literacy—the ability to understand financial concepts, make informed judgments, and make effective decisions in managing monetary resources—plays a key role (Lusardi & Oggero, 2017). Research shows that individuals with greater financial literacy make more rational decisions, exhibit more efficient financial behaviors, and experience greater financial well-being (Hastings & Mitchell, 2020). A lack of financial literacy is **associated** with poor decision-making, emotional behavior, and vulnerability to economic crises. The experience of Iran's capital market in 2019 and 2020 showed that low levels of financial literacy among retail investors resulted in extensive losses, reduced public confidence, and weakened social capital (Riahi & Hedayatzadeh, 2023). Despite the importance of financial literacy, in many countries, especially in developing economies, its level is low, and in Iran, there is a need for a comprehensive and native model to explain the dimensions and consequences of financial literacy (Hwang & Park, 2023; Shaheen et al, 2022). This research aims to develop a comprehensive model of financial literacy for individual investors in the capital market. The main objective is to examine the associations between financial literacy and financial decisions, financial behaviors, and financial well-being of investors and to explain the relationships among these variables within a conceptual model. Importantly, this study conceptualizes financial literacy as a functional capability operating through multiple interrelated mechanisms rather than a static

stock of knowledge. The objectives include identifying the factors associated with financial literacy, measuring and ranking them, and developing an explanatory model. The primary hypothesis of the study is that financial literacy is positively associated with financial decisions, financial behavior, and the financial well-being, and the secondary hypotheses indicate that environmental, demographic, and economic factors; access to financial resources and information; education, skills, and personal development; government regulations and policies; and social, psychological, and cultural factors may be associated with financial decisions, behaviors, and well-being. The importance of this research lies in the fact that its results can provide a suitable scientific basis for economic policy-makers, financial institutions, and capital market participants in designing educational programs and policies to enhance financial literacy. Improving investors' financial literacy is linked to better decision-making, reduced emotional behaviors, increased market efficiency, and strengthened financial stability as well as economic growth. This research fills the existing gap in the literature and offers a practical framework for developing financial literacy in Iran's capital market. This study contributes to the literature not by introducing entirely new relationships, but by reframing financial literacy as a mechanism-driven capability and examining its role within an emerging market context.

## 2. Literature Review

### 2.1. Financial literacy and its importance in the economic literature

In recent years, widespread changes in financial systems, the expansion of credit instruments, the increasing complexity of capital markets, and the rising economic responsibility of individuals have led to the emergence of financial literacy as one of the key concepts in the economic and social literature. Financial literacy plays an important role in empowering individuals to manage financial resources, reduce economic vulnerability, and improve quality of life (Board, 2008). Research shows that individuals with lower levels of financial literacy are more exposed than others are to poor financial decisions, heavy debt, and economic instability (Lusardi & Mitchell, 2007). The importance of financial literacy

has increased even more, especially in situations where individuals must make complex decisions regarding areas such as investment, financing, insurance, and retirement planning. In such a context, a lack of financial knowledge and skills can have widespread individual and social consequences, including increasing economic inequality, reducing household financial security, and putting pressure on government support systems (Ferguson, 2002).

## **2.2. Definitions of financial literacy**

Financial literacy is widely recognized as a multidimensional construct encompassing individuals' knowledge, skills, attitudes, and behaviors related to financial decision-making. Rather than being confined to theoretical awareness, it reflects the capacity to apply financial understanding in real-world contexts such as budgeting, saving, investing, debt management, and risk diversification (Ochuba et al., 2024; Udeh et al., 2024). From a conceptual standpoint, financial literacy includes both cognitive and operational dimensions. At the cognitive level, it involves understanding fundamental financial concepts such as interest rates, inflation, and portfolio diversification. At the operational level, it refers to the effective application of this knowledge in making informed financial choices (Fraczek & Klimontowicz, 2015). Institutional perspectives further expand this definition. The Organization for Economic Co-operation and Development (OECD, 2023) conceptualizes financial literacy as a combination of awareness, knowledge, skills, attitudes, and behaviors necessary for sound financial decision-making and the achievement of financial well-being. This broader view situates financial literacy not only as individual competence but also as a functional capability that supports economic resilience and long-term stability. More recent studies emphasize the managerial and contextual dimensions of financial literacy. For example, Mohammadi et al. (2025) highlight its role in organizational performance, underscoring that financial literacy operates as a capability influencing strategic and economic outcomes. Collectively, these perspectives suggest that financial literacy should be understood as an integrated capability that links cognition, behavior, and economic well-being rather than as a static accumulation of financial knowledge.

## **2.3. Dimensions of financial literacy**

Digital financial literacy comprises financial technologies, formal financial education, financial socialization, and financial experience, which collectively contribute to empowering individuals in the digital economy (Afshari et al., 2020). A significant portion of studies consider financial literacy as a multidimensional concept, with its most important dimensions being financial knowledge, financial attitudes, and financial behavior (Kirsch et al., 2001). Financial knowledge refers to the cognitive aspect of financial literacy and includes understanding concepts such as interest rates, inflation, risk, diversification, and debt management (Udeh et al., 2024). Financial attitudes encompass an individual's beliefs and values regarding money, consumption, savings, and the financial future, and they can play a decisive role in shaping financial behaviors (Atobatele & Mouboua, 2024). Financial behavior refers to the actual actions of individuals in managing financial resources and includes budgeting, saving, investing, and using credit instruments (Ochuba et al., 2024).

## **2.4. Financial literacy and financial decisions**

Financial decisions involve the allocation of financial resources among alternative investment options with the objective of optimizing risk and return (Lamusu et al., 2024; Dinarjito, 2023). These decisions require risk assessment, evaluation of expected returns, information processing, and strategic resource allocation. As a multidimensional construct, financial decisions encompass future orientation, capital growth considerations, information-based evaluation, risk management preferences, and experiential learning (Rehmat et al., 2023). From a theoretical perspective, dual-processing models suggest that investment choices result from the interaction between intuitive and analytical cognitive systems. Financial literacy strengthens analytical reasoning and numerical competence, thereby reducing reliance on emotionally or heuristically driven judgments (Rehman & Mia, 2024). Empirical research generally reports a positive association between financial literacy and investment decision quality (Kurniadi et al., 2022; Baihaqqy et al., 2020; Alaaraj & Bakri, 2020), although some studies find nonsignificant effects (Budiarto, 2017; Pradikasari & Isbanah, 2018; Putra et al., 2016). Overall, prior

evidence suggests that financial literacy contributes to more structured and informed investment decisions, particularly in complex or volatile market environments.

### **2.5. Financial literacy and financial behavior**

Financial behavior refers to the observable actions individuals undertake in managing financial resources, including saving, budgeting, debt management, portfolio diversification, and investment selection (Janor et al., 2016; Savaliya, 2024). Within behavioral finance, financial behavior reflects the interaction between cognitive abilities, emotional responses, and psychological biases that influence economic decision-making (Maqsoudi & Nazari, 2023). Theoretically, financial behavior functions as a mediating mechanism linking financial literacy to financial outcomes. Financial knowledge enhances self-regulation, long-term orientation, and disciplined financial practices, thereby reducing impulsive trading and short-term bias (Lusardi, 2019).

Empirical studies consistently indicate that higher levels of financial literacy are associated with healthier and more rational financial behaviors, including systematic savings, long-term planning, and diversified investment strategies (Van Rooij et al., 2011; Ahmad & Shah, 2022; Khurshid et al., 2021). These associations appear particularly salient in environments characterized by economic uncertainty, where informed judgment and behavioral discipline become increasingly important.

### **2.6. Financial literacy and well-being**

Financial well-being is a concept that goes beyond income levels and refers to a sense of economic security, the ability to manage expenses, and preparedness to face financial shocks. Research shows that individuals with greater financial literacy experience greater financial well-being and lower financial stress (Camilla et al., 2017). Moreover, financial well-being also refers to an individual's ability to manage current financial responsibilities and ensure long-term financial security (Munisamy & Sahid, 2022). Financial literacy plays an important role in enhancing financial well-being by increasing the ability to plan finances, control debt, and make informed decisions (Peiris, 2021). Numerous studies

have confirmed the positive relationship between financial literacy and financial well-being; in other words, improving the level of financial literacy can promote the development of a country's financial system and the well-being of society (Lusardi, 2019; Zulbetti et al., 2019). Research by Son and Park (2019) and Khan and Al-Harby (2022) also emphasized that financial education can increase household financial well-being through better decision-making, risk management, and sustainable investing. Sconti (2024) also examined the role of financial literacy in Italian households' ability to effectively manage financial obligations. Other studies have confirmed a positive relationship between financial literacy and financial well-being (Cheah et al., 2015; Grohmann, 2018; Shen et al., 2016).

### **2.7. Theoretical Frameworks Related to Financial literacy**

To explain the role of financial literacy, various theories have been proposed in the literature. The theory of planned behavior states that attitudes, subjective norms, and perceived behavioral control shape individuals' financial behavior (Ajzen, 1991). Life cycle theory indicates that financial literacy is essential for planning consumption and savings at different stages of life (Rahman & Mia, 2024). Portfolio theory also states that individuals with greater financial literacy make better decisions in terms of asset diversification and take on less risk. Social learning theory states that individuals learn financial behaviors through observation, interaction, and experience. The family, education system, media, and financial institutions are considered some of the most important sources of financial learning (Sharifi & Naghavi, 2020). Despite their valuable contributions, existing theoretical frameworks provide limited guidance on the specific mechanisms through which financial literacy is associated with financial decisions, behaviors, and financial well-being. Although prior studies consistently document positive associations between financial literacy, financial behavior, and financial well-being (Lusardi & Mitchell, 2014; Grohmann, 2018; Hwang & Park, 2023), relatively few studies explicitly theorize the processes by which financial literacy is translated into improved financial outcomes. Building on behavioral life-cycle theory (Thaler & Shefrin, 1981), bounded rationality (Simon,

1955; Kahneman, 2011), and financial capability frameworks (Sherraden, 2013; OECD, 2023). To strengthen the explanatory logic of the model, it is important to articulate how financial literacy is expected to influence financial decision making, financial behavior, and ultimately financial well being. Building on behavioral life cycle theory and financial capability frameworks, we conceptualize three complementary transmission mechanisms. First, the cognitive mechanism suggests that financial literacy enhances individuals' ability to process information, evaluate alternatives, and make higher quality financial decisions. (Simon, 1955; Kahneman, 2011; Van Rooij et al, 2011) Second, the behavioral self regulation mechanism proposes that financial literacy supports greater discipline, planning, and long term orientation, which translate into more consistent financial behaviors. (Thaler & Shefrin, 1981; Ajzen, 1991; Lusardi, 2019) Third, the institutional navigation mechanism posits that financially literate individuals are better equipped to engage with financial products, understand market rules, and avoid costly mistakes. (Sherraden, 2013; OECD, 2023). These mechanisms provide a coherent theoretical basis for the hypothesized relationships in the structural model. These theoretical perspectives are not treated as independent explanations but as complementary components of a unified framework. Specifically:

- bounded rationality → cognitive mechanism
- TPB → behavioral mechanism
- financial capability → institutional mechanism

## 2.8. Research Background

Previous research in the field of financial literacy has been as follows:

Domestic research on financial literacy has progressively evolved from examining simple demographic correlates to exploring behavioral and decision-making mechanisms. Early Iranian studies emphasized primarily demographic and structural determinants. Research by Mohagheh Kia et al. (2021), Heratian and Piri (2020), and Asgarzadeh and Ghane (2020) demonstrated that financial literacy is significantly associated with financial behavior, financial attitudes, and demographic indicators. Zandi (2020) further confirmed that financial literacy is positively linked to portfolio returns through market-accounting and economic literacy dimensions. These findings collectively positioned financial literacy as a

capacity shaped by individual background characteristics and the economic context.

More recent domestic studies have expanded this perspective by incorporating behavioral and cognitive dimensions. Delili Ardakani (2022) highlighted the role of awareness of stock market fundamentals in reducing undesirable financial behaviors. Mohammadi et al. (2023) showed that self-control enhances financial well-being through the reinforcing role of financial literacy. Similarly, Tarazodar et al. (2023) emphasized strategic decision-making improvements through knowledge development and diversification practices. Zandi (2023) reported strong path coefficients between financial literacy, financial capacity, and savings behavior, indicating that literacy functions not only as knowledge but also as an enabling mechanism for financial capability.

The latest wave of Iranian research (Fathi et al., 2025; Afshari et al., 2025; Mohammadi et al., 2025; Yousefnejad & Malekian Kalehbasti, 2025) has increasingly focused on prioritizing influencing factors via advanced analytical techniques such as BMA, FANP, SEM, and meta-synthesis. These studies emphasize educational methods, financial technologies, organizational competencies, and individual-social factors as key drivers of financial literacy and financial behavior. Overall, domestic research reveals a gradual conceptual shift from treating financial literacy as a static demographic outcome toward understanding it as a strategic capability influencing decision-making and organizational performance. However, despite methodological sophistication, the integration of structural determinants and behavioral mechanisms remains limited. International research has demonstrated a similar but more accelerated conceptual progression. The most recent studies increasingly position financial literacy as a mediating and moderating variable within behavioral finance frameworks. Hoang and Le (2025) demonstrated that digital financial literacy mediates the relationship between behavioral biases and investment decisions. Mensah et al. (2025) and Koirala and Niraula (2025) reported that financial literacy reduces herd behavior and strengthens rational decision-making. Gupta et al. (2025), Shaji (2025), and Desda et al. (2025) integrated financial literacy with self-efficacy, risk perception, and overconfidence, highlighting its role as a behavioral amplifier.

Technological integration represents another contemporary extension of this stream. Gunawan et al. (2025) and Shoaib et al. (2025) emphasized the synergy between financial technology and financial literacy in promoting risk management and rational investment. Ogunola and Dugbartey (2024) and Rahman et al. (2024) demonstrated that AI-based advisory tools enhance financial literacy and decision-making quality among novice investors. These findings suggest that financial literacy increasingly operates within digital ecosystems, shifting from a purely individual competence to a hybrid human-technology capability.

Moving slightly backward, studies from South Asia and East Asia (Balagobei & Prashanthan, 2021; Susanti, 2021; Priyadarshani & Kumari, 2021) confirmed that demographic and educational factors act as foundational determinants influencing financial attitudes and savings behavior. Earlier global research (Younas et al., 2019; Vig, 2017; Bhushan & Medury, 2013) focused primarily on the role of education, financial experience, and socioeconomic background in shaping financial literacy.

Overall, international studies reveal more integrated theoretical development than domestic studies do, particularly in modeling mediating effects and technological interactions. Nevertheless, a comprehensive framework that simultaneously connects structural determinants, behavioral mechanisms, and technological extensions remains underdeveloped, especially within emerging market contexts.

Collectively, prior studies converge on the existence of positive associations between financial literacy and financial outcomes. However, much of this literature treats financial literacy as a monolithic construct and rarely specifies the mechanisms through which these associations operate. Although empirical findings consistently document positive relationships among financial literacy, financial behavior, and financial well-being, the underlying transmission processes are often implicitly assumed rather than theoretically articulated. As a result, the existing body of research remains largely aggregative, emphasizing statistical correlations without clearly identifying the processes that connect financial literacy to observable financial outcomes. To address this theoretical gap, the present study conceptualizes financial literacy as an enabling and multidimensional capability operating

through three analytically distinct yet interrelated mechanisms: (1) cognitive-processing, (2) behavioral self-regulation, and (3) the institutional financial capability mechanism. Collectively, these mechanisms provide a coherent theoretical explanation of how financial literacy is associated with financial decisions, financial behavior, and financial well-being within the proposed structural framework. On this basis, the study hypothesizes that financial literacy is positively associated with financial decisions, financial behavior, and financial well-being.

### **1. Cognitive-Processing Mechanism**

Grounded in bounded rationality theory (Simon, 1955) and dual-process models of cognition (Kahneman, 2011), the cognitive-processing mechanism posits that financial literacy enhances individuals' capacity to interpret and evaluate complex financial information. Financial decision-making occurs under conditions of uncertainty, incomplete information, and cognitive constraints. These challenges are particularly salient in emerging markets, where volatility, informational asymmetries, and rapid structural changes intensify decision complexity.

Under such conditions, individuals with limited financial knowledge may rely disproportionately on heuristics, social imitation, rumor-driven signals, or short-term price fluctuations. Financial literacy mitigates these tendencies by strengthening analytical reasoning, numerical competence, risk assessment skills, and probabilistic judgment. It thereby facilitates a more structured evaluation of expected returns, diversification strategies, and intertemporal trade-offs. Through this mechanism, financial literacy is theoretically associated with improved financial decision quality, as it enhances the ability to distinguish between transitory market noise and underlying economic fundamentals. Hypothesis 1 is derived from this cognitive-processing channel.

### **2. Behavioral Self-Regulatory Mechanism**

Building on behavioral life-cycle theory (Thaler & Shefrin, 1981) and the theory of planned behavior (Ajzen, 1991), the behavioral self-regulatory mechanism emphasizes that financial knowledge must be translated into disciplined action to be associated with meaningful outcomes. Financial literacy does not merely expand informational awareness; rather, it contributes to the formation of goal-oriented, forward-looking, and self-controlled financial conduct.

Financially literate individuals are more likely to engage in systematic budgeting, planned savings, portfolio diversification, and risk management practices. These behaviors reflect the capacity to delay gratification, resist impulsive trading, and align short-term financial actions with long-term objectives. In this sense, financial literacy functions as a regulatory resource that reduces behavioral biases and emotional reactions often observed in volatile market environments.

Accordingly, the positive association between financial literacy and structured financial behavior (Hypothesis 2) can be understood as operating through enhanced behavioral self-regulation and intertemporal consistency.

### **3. Institutional Financial Capability Mechanism**

In addition to individual cognition and self-regulation, financial literacy facilitates more effective interaction with institutional and regulatory systems. Financial capability frameworks (Sherraden, 2013; OECD, 2023) emphasize that economic well-being depends not only on knowledge but also on the ability to access, interpret, and utilize formal financial infrastructures.

In emerging capital markets such as Iran, institutional complexity, regulatory shifts, and limited access to professional advisory services heighten the importance of institutional navigation skills. Investors must interpret corporate disclosures, macroeconomic indicators, policy announcements, and regulatory communications to make informed strategic decisions. Financial literacy enhances this interpretive capacity and supports more effective engagement with financial institutions and formal market mechanisms.

Through this institutional-navigation mechanism, financial literacy is associated with greater financial resilience, improved strategic positioning within the market environment, and greater perceived financial well-being. Hypothesis 3 reflects this institutional capability channel.

These three mechanisms position financial literacy as a multidimensional capability rather than a static accumulation of knowledge. It simultaneously enhances cognitive evaluation, strengthens behavioral discipline, and improves institutional interaction. The structural relationships specified in the proposed model are theoretically grounded in these complementary channels.

Importantly, given the cross-sectional design of the study, these mechanisms are conceptualized as theoretically consistent explanatory pathways rather than empirically verified causal processes. The empirical analysis evaluates whether the observed associations are congruent with this mechanism-based conceptualization, while acknowledging that alternative directional explanations cannot be fully excluded.

### **3. Methodology**

The research method is survey-based and descriptive-analytical. The present study is applied in nature as it seeks to increase investors' financial literacy. In the theoretical section, the information required for the research was collected by referring to books, journals, and online databases. In the fieldwork section, data were collected via a questionnaire as the measurement tool. In the first step, via a meta-synthesis method, the factors associated with financial literacy were identified for investors in the capital market, including: (a) education, skills, and personal development; (b) social, psychological, and cultural factors; (c) environment, demographics, and economic status; (d) laws, regulations, and government policies; and (e) access to information resources. These factors formed the basis for developing a questionnaire to measure the variable "financial literacy," and researcher-made questionnaires were used to assess the variables of financial decisions, behaviors, and well-being, which employed a 5-point Likert scale and were distributed either electronically or manually among 384 capital market experts. The reliability of the instrument was confirmed with a Cronbach's alpha greater than 0.70, and its validity was confirmed through content and construct validity. To test the research conceptual model, SEM was performed with Smart-PLS software. In this study, the first model is the measurement model, which examines the validity and reliability of the questionnaire. The second model is the structural model, which indicates the relationships between the latent variables of the research; thus, when the outer model is used, the research hypotheses can be evaluated. Given the cross-sectional nature of the data, the model does not permit causal inference. The relationships should be interpreted as theory-consistent associations rather than causal effects.

### 3.1. Research Hypotheses

#### Main hypothesis:

- 1) Primary Hypothesis: Financial literacy is positively and significantly associated with financial decisions
- 2) Primary Hypothesis: Financial literacy is positively and significantly associated with financial behavior
- 3) Primary Hypothesis: Financial literacy is positively and significantly associated with financial well-being

#### Secondary Hypotheses:

- 1) Secondary Hypothesis: Environment, demographics, and economic status are significantly associated with financial decisions.
- 2) Secondary Hypothesis: Access to informational resources is significantly associated with financial decisions
- 3) Secondary Hypothesis: Education, skills, and personal development are significantly associated with financial decisions.
- 4) Secondary Hypothesis: Laws, regulations, and government policies are significantly associated with financial decisions.
- 5) Secondary Hypothesis: Social, psychological, and cultural factors are significantly associated with financial decisions
- 6) Secondary Hypothesis: Environment, demographics, and economic status are

significantly associated with financial behavior.

- 7) Secondary Hypothesis: Access to informational resources is significantly associated with financial behavior.
- 8) Secondary Hypothesis: Education, skills, and personal development are significantly associated with financial behavior.
- 9) Secondary Hypothesis: Laws, regulations, and government policies are significantly associated with financial behavior.
- 10) Secondary Hypothesis: Social, psychological, and cultural factors are significantly associated with financial behavior.
- 11) Secondary Hypothesis: Environment, demographics, and economic status are significantly associated with financial well-being.
- 12) Secondary Hypothesis: Access to information resources is significantly associated with financial well-being.
- 13) Secondary Hypothesis: Education, skills, and personal development are significantly associated with financial well-being.
- 14) Secondary Hypothesis: Laws, regulations, and government policies are significantly associated with financial well-being.
- 15) Secondary Hypothesis: Social, psychological, and cultural factors are significantly associated with financial well-being.

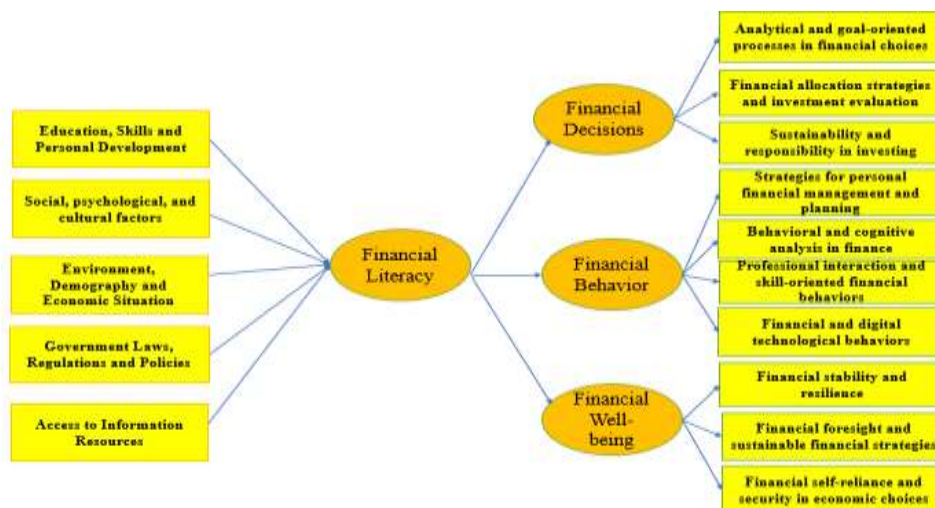


Figure 1. The conceptual model for developing a financial literacy model is associated with investors' decisions, behaviors, and financial well-being. "Source" (Asi et al, 2020; Kurniadi et al, 2023; Quang & Anh, 2019; Riaz Ahmed, 2021)

## 4. Results

On the basis of the information from the first section of the questionnaire; namely, the general and demographic information section, to understand the studied community, the distribution of the statistical sample, including the frequency and percentage frequency of demographic characteristics of the community such as gender, age group, education level, field of study, experience, and institutional affiliation of the participants, was examined. The information related to the demographic characteristics of the studied population is described below.

### Measurement Model

The measurement model is a part of the overall SEM that shows how a latent variable is measured through observed indicators (items); in Smart PLS software, this part corresponds to the outer model and is responsible for assessing the validity and reliability of the constructs.

**Factor Loadings:** Factor loading indicates the degree of contribution of each item in explaining the related construct. According to the proposed criteria, the acceptable factor loading for each item should be greater than 0.5 (Haji Karimi & Gholami, 2022). In this study, all the items had factor loadings above 0.5, indicating a strong correlation between the indicators and latent constructs, and confirming the validity of the questionnaire.

**Cronbach's alpha** is considered a classic criterion for evaluating internal reliability. Internal reliability indicates the level of consistency between a construct and its related indicators. A high variance between the construct and its indicators relative to the measurement error of the indicators indicates high internal reliability. A Cronbach's alpha value above 0.7 indicates acceptable reliability. Since the Cronbach's alpha in the present study is above 0.7 (according to Table 3), this criterion demonstrates favorable conditions.

**Composite Reliability:** As a modern and more precise indicator than Cronbach's alpha, it calculates the internal reliability of constructs on the basis of the actual factor loadings of each indicator. This index is widely used and recommended in structural equation modeling with the partial least squares approach (Davari & Rezazadeh, 2014). In this study, the CR value for all the constructs is reported to be greater

than 0.7 (according to Table 3), indicating the satisfactory reliability of the measurement tool. The construct "Access to Information Resources" was operationalized as a single-item measure. Given its concrete and narrowly defined nature, a single-item operationalization was deemed appropriate. In PLS-SEM, single-item constructs are permissible when the concept is unambiguous and directly observable. Consequently, internal consistency measures such as Cronbach's alpha and composite reliability are equal to 1 by definition.

**Convergent Validity:** This index examines the extent of correlation of each construct with its own variables (indicators). The AVE criterion calculated by the Smart-PLS software is used for this purpose. A suitable value for the AVE is above 0.5. In the present study, according to Table 3, the AVEs of the research variables are above 0.5, confirming convergent validity.

**Divergent Validity:** Fornell and Larcker (1981) proposed a matrix to examine divergent validity, which is similar to a correlation matrix except that the main diagonal of this matrix contains the square roots of the AVE values of the latent constructs. The results of the Fornell and Larcker matrix are used to examine the divergent validity of the study model below.

As the study relies on self-reported survey data collected through a single instrument, common method variance (CMV) remains a potential concern. Although the measurement model demonstrates acceptable reliability and validity, PLS-SEM does not eliminate shared method bias. To address this limitation, additional diagnostics or steps could be incorporated in future work, such as temporal separation of measurements, multi-source data collection, or the use of marker variable techniques. Therefore, the findings should be interpreted as indicative patterns rather than definitive causal mechanisms, and reverse causality cannot be ruled out.

According to Table 4, the square root of the AVE of the latent variables in the present study, which are placed in the cells on the main diagonal of the matrix, is greater than the correlation values between them, which are arranged in the cells below the main diagonal. Therefore, in the present study, the constructs (latent variables) in the model interact more with their own indicators than with other constructs. In other words, the divergent validity of the model is at a desirable level.

**Table 1: Descriptive Statistics of Demographic Variables**

| Variable                             | Variable Levels                      | Frequency | Percentage Frequency |
|--------------------------------------|--------------------------------------|-----------|----------------------|
| Sex                                  | Female                               | 134       | 9.34                 |
|                                      | Male                                 | 250       | 1.65                 |
| Age                                  | 35 - 25                              | 70        | 2.18                 |
|                                      | 45 - 36                              | 120       | 3.31                 |
|                                      | 55 - 46                              | 150       | 39                   |
|                                      | 65 - 56                              | 44        | 5.11                 |
| Educational background               | BA or lower                          | 70        | 2.18                 |
|                                      | MA                                   | 114       | 7.29                 |
|                                      | Ph.D                                 | 200       | 1.52                 |
| Activity history in the stock market | Less than 5 years                    | 50        | 13                   |
|                                      | 5 to 10 years                        | 70        | 2.18                 |
|                                      | 11 to 15 years                       | 120       | 2.31                 |
|                                      | More than 15 years                   | 144       | 6.37                 |
| Major                                | Accounting or Finance                | 180       | 9.46                 |
|                                      | Management                           | 120       | 2.31                 |
|                                      | Economics and Industrial Engineering | 84        | 9.21                 |
| Affiliation                          | Brokerage                            | 150       | 39                   |
|                                      | Investment Banking Company           | 70        | 2.18                 |
|                                      | Investment Advisory Companies        | 64        | 7.16                 |
|                                      | Investment Companies                 | 100       | 1.26                 |

**Table 2: Results of Confirmatory Factor Analysis for Research Components**

| Variable                                    | Subscale  | Load factor |
|---|---|-------------|
| Education, Skills and Personal Development  | Education and Development of Financial Skills                   | 737.0       |
|   | Personal Economic and Financial Skills                          | 690.0       |
|   | National and Organizational Training Program                    | 690.0       |
|   | Utilization of Advanced Technologies in the Financial Industry  | 717.0       |
|   | Creating Social Networks and Group Learning                     | 679.0       |
| Social, psychological, and cultural factors | Social and Cultural Components                                  | 756.0       |
|   | Financial Attitudes and Beliefs                                 | 777.0       |
|   | Psychological and Cognitive Components                          | 759.0       |
| Environment, Demography and Economic status | Environmental and Demographic Characteristics                   | 792.0       |
|   | Current Economic Situation and Financial Markets                | 801.0       |
|   | Economic and Financial Components of Market Companies           | 812.0       |
| Laws, regulations, and government policies  | Support Programs and Government Policies                        | 669.0       |
|   | Facilitating Laws and Regulations                               | 713.0       |
|   | Government Laws and Regulations                                 | 834.0       |
| Access to Information Resources             | Access to Reliable Information Resources and Market Analysis    | 1           |
| Financial Decisions                         | Analytical and goal-oriented processes in financial choices     | 721.0       |
|   | Financial allocation strategies and investment evaluation       | 824.0       |
|   | Sustainability and responsibility in investing                  | 775.0       |
| Financial Behavior                          | Strategies for personal financial management and planning       | 883.0       |
|   | Behavioral and cognitive analysis in finance                    | 776.0       |
|   | Professional interaction and skill-oriented financial behaviors | 672.0       |
|   | Financial and digital technological behaviors                   | 703.0       |
| Financial Well-being                        | Financial stability and resilience                              | 789.0       |

| Variable | Subscale   | Load factor |
|----------|--|-------------|
|          | Financial foresight and sustainable financial strategies | 720.0       |
|          | Financial self-reliance and security in economic choices | 747.0       |

**Table 3: Results of the three criteria: Cronbach's alpha, composite reliability, and convergent validity**

| Variables                                      | (Alpha>0.7) | (Cr>0.7) | (AVE>0.5) |
|--|-------------|----------|-----------|
| Education, skills, and personal development    | 0.744       | 0.744    | 0.501     |
| Social, psychological, and cultural factors    | 0.714       | 0.808    | 0.584     |
| Environment, demographics, and economic status | 0.724       | 0.844    | 0.643     |
| Laws, regulations, and government policies     | 0.701       | 0.818    | 0.601     |
| Access to information resources                | ∧           | ∧        | ∧         |
| Financial decisions                            | 0.72        | 0.817    | 0.6       |
| Financial behavior                             | 0.731       | 0.802    | 0.504     |
| Financial well-being                           | 0.705       | 0.796    | 0.566     |

**Table 4: Fornell and Larcker matrix for examining divergent validity**

| Variables                                      | ∧    | ∫    | ∫    | ε    | ο    | ∫    | ∫    | ∧    |
|--|------|------|------|------|------|------|------|------|
| Education, skills, and personal development    | 0.75 |      |      |      |      |      |      |      |
| Social, psychological, and cultural factors    | 0.67 | 0.76 |      |      |      |      |      |      |
| Environment, demographics, and economic status | 0.71 | 0.66 | 0.8  |      |      |      |      |      |
| Laws, regulations, and government policies     | 0.69 | 0.67 | 0.68 | 0.84 |      |      |      |      |
| Access to information resources                | 0.51 | 0.45 | 0.43 | 0.49 | ∧    |      |      |      |
| Financial decisions                            | 0.74 | 0.68 | 0.68 | 0.69 | 0.27 | 0.77 |      |      |
| Financial behavior                             | 0.75 | 0.71 | 0.7  | 0.83 | 0.53 | 0.77 | 0.81 |      |
| Financial well-being                           | 0.74 | 0.69 | 0.73 | 0.82 | 0.52 | 0.69 | 0.8  | 0.75 |

**Table 5: VIF Values**

| VIF  | Financial Behavior | Financial Decisions | Financial Well-being |
|--|--------------------|---------------------|----------------------|
| Access to resources                            | 1.440              | 1.440               | 1.440                |
| Education, skills, and personal development    | 2.696              | 2.696               | 2.696                |
| Environment, demographics, and economic status | 2.527              | 2.527               | 2.527                |
| Laws, regulations, and government policies     | 2.525              | 2.525               | 2.525                |
| Social, psychological, and cultural factors    | 2.275              | 2.275               | 2.275                |

**Coefficient of determination (R<sup>2</sup>)**

A criterion for assessing the fit of the structural model in a study is the R<sup>2</sup> coefficient related to the endogenous (dependent) variables of the model. R<sup>2</sup> is a measure that indicates the effect of an exogenous variable on an endogenous variable. Notably, this coefficient is not calculated for exogenous variables. According to the Smart PLS software output (Figure 1), the coefficients for the dependent variables' financial decisions, financial behavior, and financial well-being are estimated at 0.658, 0.767, and 0.761, respectively, indicating an appropriate fit of the structural model.

**Goodness of fit (GOF)**

The overall model fit is assessed via the goodness of fit (GOF) index, which indicates the concordance between the quality of the structural model and the measured model. It is the main model fitting index in PLS and can be calculated via the following formula:

$$\text{Equation (A.1): } GOF = \sqrt{\text{Communalities}} * R^2$$

The value *Communalities* is obtained from the average of the shared variances of the latent variables (AVE). These values for the first-order latent variables of the model are reported in Table 3. As a result, this index is calculated to be 0.624. On the other hand, the average coefficient of determination is 0.728; therefore, the GOF index, according to the above

formula, is calculated to be 0.674. Considering the values 0.01, 0.25, and 0.36 as weak, medium, and strong, respectively, for the GOF (Mohsenin & Esfidani, 2014), a value of 0.674 indicates a strong overall fit of the model in the present study. Although the global goodness-of-fit (GOF) index has been debated in recent PLS-SEM studies, it is reported here for descriptive completeness rather than as a definitive model fit criterion.

**Model of Structural Equations**

According to the aforementioned criteria in the previous section, the model of structural equations has a good fit, and to establish the relationship between the independent and dependent variables, report path coefficients, and assess the significance of the relationships between them, we can utilize the model of structural equations. Figures 2 and 3 show the standardized path coefficients between the independent and dependent variables, factor loadings,

and significance coefficients for the main and secondary variables. Although the coefficients are statistically significant, their magnitude should be interpreted with caution due to contextual and methodological factors.

Considering that in Smart PLS software, the t-statistic (or p-value) is used to examine the significance of coefficients, and this value is 1.96 for a 5% error rate, the significance is assessed by comparing the t-statistic of the relationships with this specified number. If the t-statistic is greater than 1.96, the relationship shown is significant. The second method to assess the significance of path coefficients is to use the significance level (sig) or p-value, such that if the p-value is less than the test error level (usually 0.05), the path coefficients are significant. Therefore, considering Figure 3 and the results of Table 5, it can be inferred that all the relationships of the model with the secondary variables are significant.

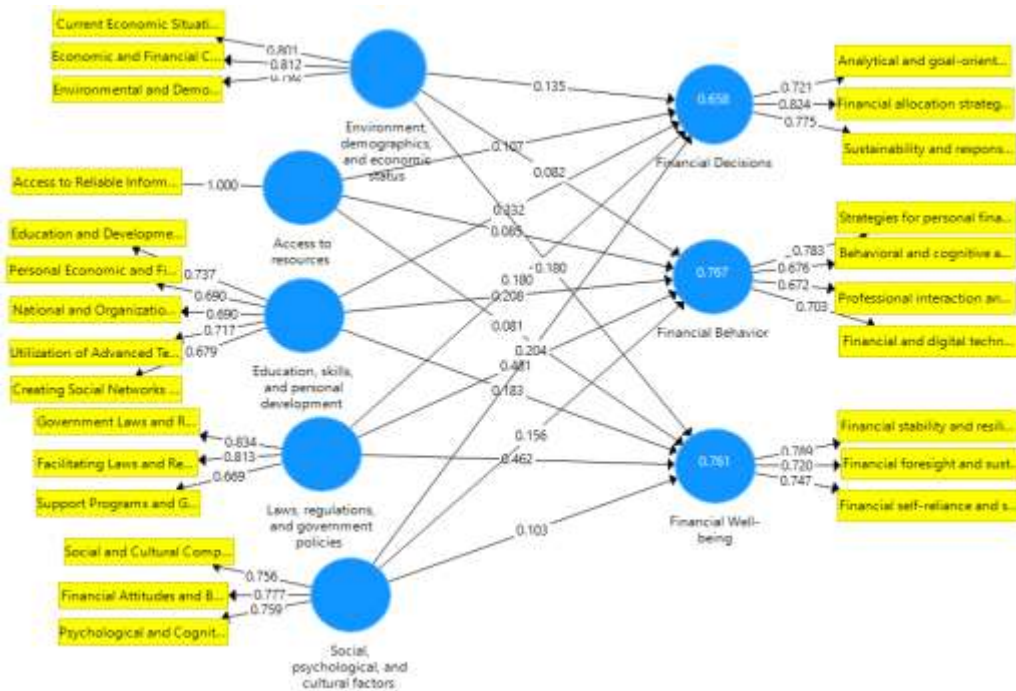


Figure 2. Path coefficients of secondary variables.

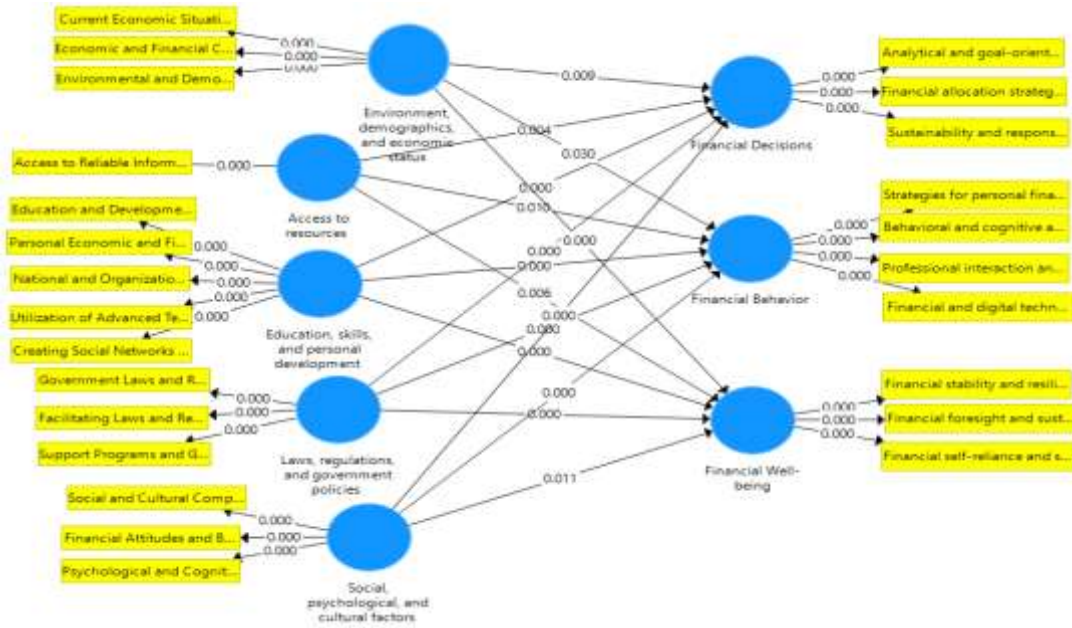


Figure 3. Significance coefficients of secondary variables.

Table 6: Results of the direct effects of secondary variables

| Path   | $\beta$           | SD    | t      | p-value                       |
|--|-------------------|-------|--------|-------------------------------|
| Environment, demographics, and economic status >> financial decisions  | 0.13 <sup>o</sup> | 0.049 | 2.744  | 0.00 <sup>q</sup>             |
| Access resources >> financial decision                                 | 0.107             | 0.036 | 3.001  | 0.00 <sup>ε</sup>             |
| Education, skills, and personal development >> financial decisions     | 0.332             | 0.049 | 6.729  | 0.000                         |
| Laws, regulations, and government policies >> financial decisions      | 0.18 <sup>•</sup> | 0.049 | 3.721  | 0.000                         |
| Social, psychological, and cultural factors >> financial decisions     | 0.204             | 0.044 | 4.671  | 0.000                         |
| Environment, demographics, and economic status >> financial behavior   | 0.082             | 0.039 | 2.18   | 0.03 <sup>•</sup>             |
| Access to resources >> financial behavior                              | 0.085             | 0.032 | 2.67   | 0.0 <sup>1</sup> <sup>•</sup> |
| Education, skills, and personal development >> financial behavior      | 0.208             | 0.044 | 4.688  | 0.000                         |
| Laws, regulations, and government policies >> financial behavior       | 0.481             | 0.042 | 11.479 | 0.000                         |
| Social, psychological, and cultural factors >> financial behavior      | 0.15 <sup>∧</sup> | 0.041 | 3.852  | 0.000                         |
| Environment, demographics, and economic status >> financial well-being | 0.18 <sup>•</sup> | 0.038 | 4.734  | 0.000                         |
| Access to resources >> financial well-being                            | 0.081             | 0.03  | 2.727  | 0.00 <sup>∧</sup>             |
| Education, skills, and personal development >> financial well-being    | 0.183             | 0.04  | 4.609  | 0.000                         |
| Laws, regulations, and government policies >> financial well-being     | 0.462             | 0.048 | 9.604  | 0.000                         |
| Social, psychological, and cultural factors >> financial well-being    | 0.103             | 0.039 | 2.262  | 0.0 <sup>∧</sup> <sup>∧</sup> |

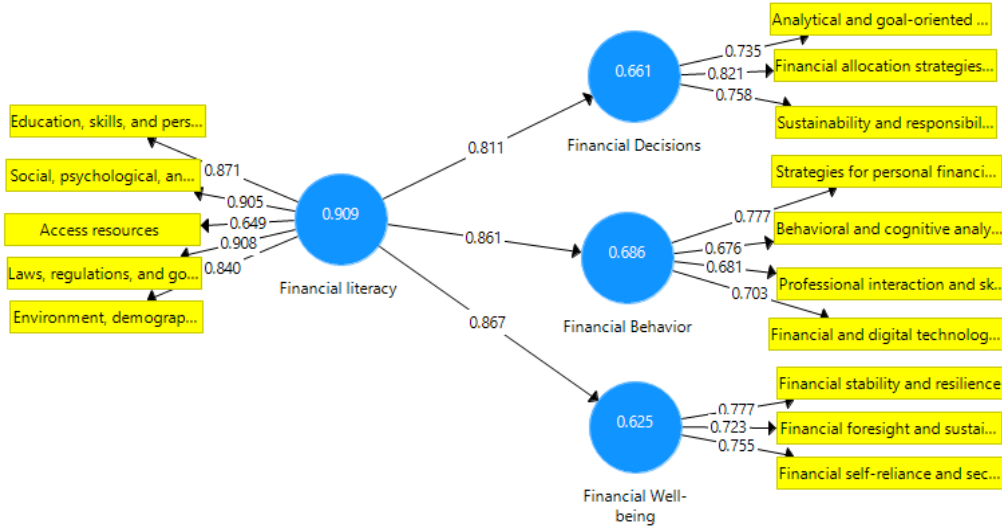


Figure 4. Path coefficients of the main variables.

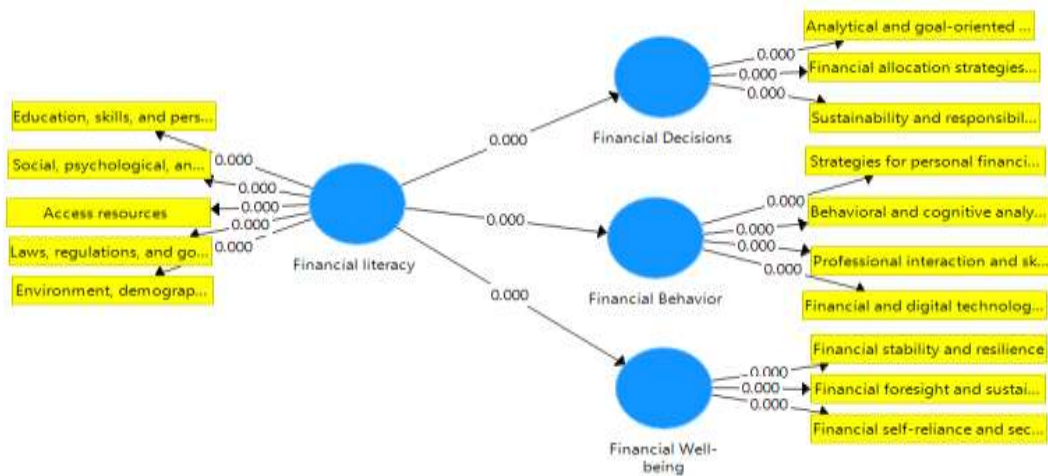


Figure 5. Significance coefficients of the main variables

Table 7: Results of the Direct Effects of the Main Variables

| Path                                       | $\beta$ | SD    | t     | p-value |
|--|---------|-------|-------|---------|
| Financial literacy >> financial decisions  | 0,811   | 0,116 | 6,909 | 0,000   |
| Financial literacy >> financial behavior   | 0,861   | 0,112 | 7,662 | 0,000   |
| Financial literacy >> financial well-being | 0,867   | 0,112 | 7,721 | 0,000   |

The information in Figure 5 and the corresponding Table V indicate that all t-values are greater than 1.96, and that the significance levels are also less than 0.05. Therefore, we can conclude that all relationships in the model with the main variables are significant. Although the model has substantial explanatory power, the relatively high path coefficients warrant cautious interpretation. Given that the study relies on cross-sectional, self-reported data, the observed associations may partly reflect common method variance. Consequently, the findings should be viewed as indicative of strong empirical relationships rather than conclusive evidence of causality.

**1<sup>st</sup> Primary Hypothesis:** Financial literacy is positively and significantly associated with financial decisions.

According to Table 6, considering that the t-test statistic value of 50.959 is greater than the table's critical value of 1.96, and given the positive path coefficient of 0.811, it can be concluded with 95% confidence ( $p < 0.05$ ) that financial literacy is positively and significantly associated with financial decisions, and that the 1<sup>st</sup> primary hypothesis is accepted.

**2<sup>nd</sup> Primary Hypothesis:** Financial literacy is positively and significantly associated with financial behavior.

Table V indicates that the t-value (70.262) is greater than the critical value of 1.96, and considering the positive path coefficient (0.861), it can be inferred with 95% confidence ( $p < 0.05$ ) that financial literacy is positively and significantly associated with financial behavior, confirming following the hypothesis

**3<sup>rd</sup> Primary Hypothesis:** Financial literacy is positively and significantly associated with financial well-being

Table V indicates that the t-test statistic value of 71.221 is greater than 1.96, and given that the path coefficient (0.861) is positive, with 95% confidence ( $p < 0.05$ ), financial literacy is positively and significantly associated with financial well-being, and the hypothesis is acceptable.

**1<sup>st</sup> Secondary Hypothesis:** The environment, demographics, and economic status are significantly associated with financial decisions.

Considering that the t-test statistic value (2.744) is greater than the critical table value of 1.96, and that the positive path coefficient is 0.132, it can be concluded

with 95% confidence and ( $p < 0.05$ ) that the environment, demographics, and economic status are positively and significantly associated with financial decisions, the hypothesis is accepted.

**2<sup>nd</sup> Secondary Hypothesis:** Access to informational resources is significantly associated with financial decisions

The results of Table V show that the t-statistic (3.001) is greater than the value of 1.96, and on the other hand, considering the positive path coefficient of 0.107, it can be concluded at the 5% error level that access to information resources is positively and significantly associated with financial decisions ( $p < 0.05$ ), and the hypothesis is confirmed.

**3<sup>rd</sup> Secondary Hypothesis:** Education, skills, and personal development are significantly associated with financial decisions.

The findings of Table V indicate that the t-statistic (6.729) is greater than the table's critical value of 1.96, and considering the positive path coefficient (0.332), it can be inferred with a 95% confidence level ( $p < 0.05$ ) that training, skills, and personal development are positively and significantly associated with financial decisions, and the hypothesis is acceptable.

**4<sup>th</sup> Secondary Hypothesis:** Laws, regulations, and government policies are significantly associated with financial decisions

Table V indicates that the t-test statistic, 3.721, is greater than the critical value in the table, 1.96. On the other hand, given the positive path coefficient (0.180), it can be stated with 95% confidence ( $p < 0.05$ ) that government laws, regulations, and policies are positively and significantly associated with financial decisions, and the hypothesis is accepted.

**5<sup>th</sup> Secondary Hypothesis:** Social, psychological, and cultural factors are significantly associated with financial decisions

Table V indicates that the t-test statistic (4.671) is greater than 1.96. Moreover, given the positive path coefficient of 0.204, it can be concluded with 95% confidence ( $p < 0.05$ ) that social, psychological, and cultural factors are positively and significantly associated with financial decisions, and the hypothesis is confirmed.

**6<sup>th</sup> Secondary Hypothesis:** The environment, demographics, and economic status are significantly associated with financial behavior.

Table V shows that the value of the t-statistic (2.18) is greater than the value of the table (i.e. 1.96)

and according to the positive path coefficient (i.e., 0.082), at the confidence level of 95% ( $p < 0.05$ ), the environment and demographic and economic situations are positively and significantly associated with financial behavior, and the hypothesis is accepted.

**7<sup>th</sup> Secondary Hypothesis:** Access to informational resources is significantly associated with financial behavior.

The findings of Table 3, indicate that the t-statistic (2.67) is greater than the critical value of 1.96 and according to the positive path coefficient (i.e., 0.085), with 95% confidence ( $p < 0.05$ ), it can be inferred that access to information resources is positively and significantly associated with financial behavior, confirming the hypothesis

**8<sup>th</sup> Secondary Hypothesis:** Education, skills, and personal development are significantly associated with financial behavior.

Table 3 indicates that the t-test statistic of 4.688 is greater than 1.96, and considering the positive path coefficient (0.208), it can be stated with 95% confidence ( $p < 0.05$ ) that education, skills, and personal development are positively and significantly associated with financial behavior, and the hypothesis is accepted.

**9<sup>th</sup> Secondary Hypothesis:** Laws, regulations, and government policies are significantly associated with financial behavior.

From the information in Table 3, we find that the t-test statistic (11.479) is greater than the critical table value (1.96); however, considering the positive path coefficient (0.481), it can be concluded with 95% confidence ( $p < 0.05$ ) that government laws, regulations, and policies are positively and significantly associated with financial behavior, and the hypothesis is confirmed.

**10<sup>th</sup> Secondary Hypothesis:** Social, psychological, and cultural factors are significantly associated with financial behavior.

The information presented in Table 3 indicates that the t-statistic value (3.852) is greater than 1.96. Additionally, considering the positive path coefficient of 0.153, it can be stated with 95% confidence ( $p < 0.05$ ) that social, psychological, and cultural factors are positively and significantly associated with financial behavior, and the hypothesis is accepted.

**11<sup>th</sup> Secondary Hypothesis:** The environment, demographics, and economic status are significantly associated with financial well-being.

Table 3 shows that the t-value (4.734) is greater than the critical table value of 1.96. Additionally, given the positive path coefficient of 0.18, it can be concluded with 95% confidence ( $p < 0.05$ ) that environment, demographics, and economic status are positively and significantly associated with financial well-being, and the hypothesis is confirmed.

**12<sup>th</sup> Secondary Hypothesis:** Access to information resources is significantly associated with financial well-being.

Table 3 indicates that the t-statistic value of 2.727 is greater than the critical value of 1.96. Additionally, considering the positive path coefficient of 0.081, at the 95% confidence level ( $p < 0.05$ ), access to information resources is positively and significantly associated with financial well-being, and the hypothesis is confirmed.

**13<sup>th</sup> Secondary Hypothesis:** Education, skills, and personal development are significantly associated with financial well-being.

The information in Table 3, indicates that the t-test statistic value (4.603) is greater than the critical value of 1.96. On the other hand, considering the positive path coefficient (0.183), at the 95% confidence level ( $p < 0.05$ ), education, skills, and personal development are positively and significantly associated with financial well-being, and the hypothesis is accepted.

**14<sup>th</sup> Secondary Hypothesis:** Laws, regulations, and government policies are significantly associated with financial well-being.

Table 3 indicates that the t-statistic value (9.604) is greater than the critical value in Table (1.96), and considering the positive path coefficient (0.462), it can be inferred at a 95% confidence level ( $p < 0.05$ ) that government laws, regulations, and policies are positively and significantly associated with financial well-being, confirming the hypothesis

**15<sup>th</sup> Secondary Hypothesis:** Social, psychological, and cultural factors are significantly associated with financial well-being.

The information presented in Table 3 shows that the t-test statistic value of 2.262 is greater than the critical value for confirming (1.96), and considering the positive path coefficient (0.103), it can be claimed with a 95% confidence level ( $p < 0.05$ ) that social, psychological, and cultural factors are positively and

significantly associated with financial well-being, and the hypothesis is acceptable.

## **5. Discussion and Conclusion**

The present study examined the associations between financial literacy and financial outcomes within a mechanism-based framework. These relationships should be interpreted as associational rather than causal. In this context, the study identifies the main dimensions and components of financial literacy and examines how this multidimensional construct is associated with investors' financial decisions, financial behavior, and financial well-being. The findings suggest that financial literacy is a dynamic and multidimensional concept shaped through the interaction of individual, social, institutional, and environmental factors and is closely associated with the quality of financial decision-making and perceived economic well-being.

The results of the structural equation modeling analysis indicate that financial literacy is positively and significantly associated with financial decisions, financial behavior, and financial well-being. These associations suggest that higher levels of financial literacy tend to coincide with greater analytical capacity, more informed risk assessment, and more deliberate evaluation of financial options. Individuals with greater financial literacy are more likely to engage in informed and cost-benefit-oriented decision-making and less likely to rely on emotional reactions, behavioral biases, or social pressures when making financial choices. From this perspective, financial literacy emerges as an important correlate of effective personal and household financial management.

With respect to financial behavior, the findings indicate that financial literacy is closely linked to behavioral patterns related to saving, investing, debt management, and expenditure control. Greater financial literacy is associated with a greater tendency toward planned, disciplined, and long-term-oriented financial behaviors rather than short-term, impulsive, or emotionally driven actions. This relationship appears particularly salient under conditions of economic instability and financial market volatility, where informed judgment and behavioral self-regulation are critical.

The findings further suggest that financial well-being, as a key outcome related to financial literacy, is

strongly associated with individuals' levels of financial knowledge and capability. Higher financial literacy corresponds with indicators of more sustainable financial well-being, including more effective resource management, lower reliance on high-risk debt, greater perceived financial security, and a stronger sense of control over future financial conditions. These results underscore the relevance of financial literacy not only as an educational construct but also as a factor associated with broader economic quality of life.

The exceptionally strong associations observed between financial literacy and financial behavior and well-being may reflect structural characteristics of Iran's capital market. These characteristics include high market volatility, limited availability of professional advisory services for retail investors, and a heavy reliance on informal information channels. In such an environment, financial literacy functions not only as accumulated knowledge but also as a protective capability that may help mitigate emotional trading, rumor-driven behavior, and speculative herding. This contextual sensitivity suggests that the magnitude of financial literacy-related associations may be stronger in emerging or less institutionally developed markets than in advanced economies. In developed markets, where advisory systems are stronger, the relationship between financial literacy and financial outcomes is typically less pronounced. The relatively high path coefficients suggest a contextual amplification effect. In emerging markets, financial literacy functions as a substitute for missing institutional support.

Importantly, these empirical patterns can be interpreted through the theoretical mechanisms articulated in the conceptual framework of the study. At the cognitive level, greater financial literacy appears to be associated with increased capacity to process complex financial information, evaluate risks more analytically, and compare alternative financial options. At the behavioral level, financially literate individuals tend to exhibit greater self-regulation, planning ability, and long-term orientation, which are reflected in more disciplined and goal-oriented financial behaviors. At the level of institutional navigation, financial literacy is associated with more effective use of market information, regulatory frameworks, and advisory resources, particularly in volatile and uncertain market environments such as Iran's capital market. The magnitudes of the effect

sizes derived from our analysis offer significant insights into the economic relevance of financial literacy within the Iranian context. Notably, the stronger association observed between financial literacy and financial behavior, compared to its link with subjective well-being, underscores its potential to foster more disciplined financial decision-making. In Iran's capital market, characterized by high volatility and information asymmetry, financial literacy may serve as a crucial compensatory mechanism. When formal advisory services are less accessible, investors increasingly depend on their own capabilities. Consequently, variations in financial literacy are associated with more pronounced differences in investment behavior, risk assessment, and overall financial control. This heightened relevance of financial literacy, amplified by market conditions, suggests that targeted educational initiatives focusing on behavioral skills and financial knowledge are particularly valuable for improving investor outcomes and mitigating speculative tendencies.

The findings of the research's secondary hypotheses indicate that environmental and demographic factors, access to reliable information sources, education and personal skill development, government laws and policies, and social, psychological, and cultural factors are also significantly associated with financial decisions, financial behavior, and financial well-being. These results suggest that financial policies and financial literacy promotion programs should be designed in accordance with the demographic characteristics, economic conditions, cultural contexts, and institutional structures of each society. The results of this research are consistent with those of prior studies confirming positive associations between financial literacy and financial decisions, financial behavior, and financial well-being (Baihaqqy et al, 2020; Kumari, 2020; Alaaraj & Bakri, 2020; Rehmat et al, 2023; Lamusu et al, 2024; Kurniawan et al, 2023; Ramalho & Forte, 2019; Ahmed & Shah, 2022; Rahman et al, 2021; Arofah et al, 2018; Saputra et al, 2023; Savaliya, 2024).

Despite these contributions, this study's reliance on cross-sectional survey data limits our ability to draw definitive conclusions about causality and the directionality of relationships among financial literacy, financial behavior, and financial well-being. While the proposed structural model is theoretically sound, the

possibility of reverse causality remains plausible; that is, individuals with higher levels of financial well-being might possess greater opportunities and incentives to acquire financial knowledge and skills. Therefore, the results of this study should be considered as evidence of strong empirical associations, not as established causalities. Given that the data were collected via self-report measures, future research should explicitly investigate common method bias using rigorous statistical diagnostics.

Ultimately, due to the cross-sectional nature of this research, the findings merely indicate associations, not cause-and-effect. To establish causal relationships, future longitudinal or experimental studies are necessary.

## 5.1 Theoretical Contributions

This study contributes by offering a mechanism-based and context-sensitive explanation of financial literacy.

First, it advances the literature by moving beyond an aggregative and purely correlational perspective toward a mechanism-based explanation of financial literacy. Unlike prior studies that predominantly document statistical associations, this study explicitly integrates cognitive, behavioral, and institutional mechanisms into a unified structural explanation. By explicitly articulating cognitive-processing, behavioral self-regulation, and institutional capability channels, the study provides a structured theoretical account of how financial literacy relates to financial decisions, financial behavior, and financial well-being.

Second, the study reconceptualizes financial literacy as a multidimensional capability rather than as a static stock of knowledge. This capability-based perspective integrates cognitive, behavioral, and institutional dimensions within a unified structural framework.

Third, by situating the model within the institutional context of an emerging capital market, the study demonstrates how structural features such as market volatility, regulatory complexity, and informational asymmetry may intensify the functional role of financial literacy. This contextual embedding extends existing theory by highlighting the interaction between structural market characteristics and individual financial capability. Taken together, these contributions reposition the study from confirmatory replication to theoretically grounded explanation. While the empirical relationships align with prior

literature, the theoretical contribution lies in the explicit articulation of cognitive, behavioral, and institutional-navigation mechanisms within a unified structural model in an emerging market context.

## 5.2 Methodological considerations: Endogeneity and common method bias

Given the cross-sectional survey design, the relationships observed in this study should be interpreted as associative rather than strictly causal. Reverse causality remains a plausible alternative explanation. Reverse causality remains plausible, as financially successful individuals may acquire more financial knowledge. The use of cross-sectional perceptual data limits the ability to disentangle learning effects from outcome-driven reinforcement mechanisms. For example, individuals with higher levels of financial well-being may possess greater resources, motivation, or opportunities to acquire financial knowledge. Similarly, disciplined financial behavior may reinforce financial literacy over time through experiential learning. In addition to reverse causality, omitted variable bias may also be present. Unobserved factors such as innate cognitive ability, risk tolerance, socioeconomic background, or prior market experience may simultaneously influence both financial literacy and financial outcomes, thereby introducing potential endogeneity into the structural relationships.

Although the structural model is theoretically specified, the data do not permit definitive causal inference. Future research employing longitudinal designs, experimental interventions, or instrumental variable approaches would strengthen causal identification. In addition, reliance on self-reported measures introduces the potential for common method variance. The use of self-reported data introduces potential common method bias, which cannot be fully ruled out. While the measurement model demonstrated acceptable reliability and validity indicators, shared method effects cannot be entirely ruled out. The use of a single-item measure for access to information resources may limit the precision of reliability estimation. Future research may employ multi-item operationalizations to increase measurement robustness. Future studies may incorporate multisource data, behavioral transaction records, or objective

financial indicators to mitigate perceptual inflation and enhance empirical robustness.

Overall, this study advances the literature by theoretically articulating the underlying mechanisms and empirically contextualizing them within an emerging market setting. The proposed model can serve as a conceptual framework for future research and as a basis for designing policies and educational or intervention programs in the financial domain.

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