

Analyzing the Effect of Education Level on Financial Decision-making from the Perspective of Behavioral Finance

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Abstract. Taking behavioral finance as a research perspective, this dissertation provides an in-depth discussion on the impact of investors' education level on their investment behavior. The results of the study show that investors with higher education levels perform better in information processing ability, cognitive bias identification, risk management and long-term investment concepts, and thus are able to make more rational investment decisions. In addition, the thesis puts forward recommendations for investor education, arguing that educational institutions, financial regulators and industry associations should strengthen cooperation to provide high-quality investor education in order to improve the quality of investors' investment decisions. These suggestions are important practical guidance for improving investors' literacy and their investment decisions. Through the research of this thesis, I can see that improving the education level of investors has important theoretical and practical value for promoting their rational investment behavior. Against the background of increasing complexity and uncertainty in the financial market, this research result provides stronger support for the necessity of investor education and provides a scientific basis for the formulation of relevant education policies.

Keywords: Education level, decision-making, behavioral finance.

1. Introduction

Behavioral finance has become a widely studied field in finance due to its focus on the irrational behavior of individuals in financial decision-making. This includes the impact of cognitive biases and mood swings on investment decisions. In recent years, behavioral finance research has gained attention. Evidence shows that individual differences, such as education level, gender, and age, significantly impact investment decisions. It is important to note that subjective evaluations should be excluded unless clearly marked as such.

Education level is often considered a reflection of an individual's cognitive ability and has been found to impact financial decision-making. Research suggests that individuals with higher levels of education are better equipped to understand and evaluate investment information, avoid cognitive biases, and make more rational investment decisions. However, despite the growing importance of education level, there is a dearth of studies that delve into the effects of education level on financial decision-making from the perspective of behavioral finance.

This study aims to investigate the influence of education level on financial decision-making from a behavioral finance perspective. The text begins by explaining how education level enhances investors' ability to process information, enabling them to make more informed investment decisions by comprehending investment-related information more deeply. Secondly, education level can help investors recognize their cognitive biases, enabling them to evaluate information objectively and make rational decisions. Additionally, higher education levels can enhance investors' risk awareness, leading to a greater inclination to diversify investments and reduce portfolio risk. Finally, education can improve investors' long-term investment concepts, helping them avoid short-term market speculation and speculative behavior, and pursue long-term stable investment returns.

This study aims to provide a theoretical basis for investor education and market regulation by examining the impact of education level on financial decision-making. Additionally, it will contribute to the field of behavioral finance research by enriching our understanding of how individual differences affect financial decisions.

2. Impact of Education Level

From the perspective of behavioral finance, an investor's level of education has a significant impact on his or her investment behavior. Better-educated investors are better able to understand and evaluate investment information, are more aware of and avoid cognitive biases, and make more rational investment decisions.

2.1. Improved Information Processing Ability

Investors with higher levels of education usually have better information processing ability, and they are better able to understand and analyze financial statements, market trends, macroeconomic indicators, etc. This helps them make more informed investment decisions. This helps them make more informed investment decisions and avoid blind following and over-trading [1].

From a behavioral finance perspective, individuals with higher levels of education may exhibit more cautious and rational investment behavior. This is because they are likely to be more aware of basic investment-related concepts and market laws, and therefore more capable of processing information and making rational decisions.

For instance, a highly educated investor may analyze a company's financial statements more thoroughly and comprehend the various indicators and data presented therein more effectively. In contrast, less educated investors may have a limited understanding of financial statement information and may be more susceptible to making unwise investment decisions based on superficial numerical performances.

In addition, well-educated investors tend to prioritize long-term investment strategies over over-trading or blindly chasing short-term gains. They possess a deeper understanding of how changes in market trends and macroeconomic indicators can impact their investment portfolios, making them more likely to create sound, long-term investment plans.

Thus, according to behavioral finance, differences in education levels may cause investors to display varying characteristics in information processing, decision-making, and investment behavior. These differences can ultimately impact their investment performance and risk tolerance.

2.2. Reducing Cognitive Biases

Investors with higher levels of education are better able to recognize the existence of cognitive biases, such as overconfidence, loss aversion, and the herd effect [2]. They are better able to assess information objectively and reduce irrational decision-making, thus improving the quality of investment decisions.

From a behavioral finance perspective, investors with higher levels of education may have greater self-awareness and alertness to cognitive biases. They may gain more knowledge and skills through education and be better able to recognize their possible investment biases and take appropriate measures to counter them.

For instance, a more educated investor may be more aware of the effects of overconfidence and know that they may overestimate their ability and accuracy in predicting the market. As a result, investors may become more cautious about their investment decisions and avoid trading or investing with blind confidence.

Additionally, investors with better education may be more capable of recognizing and coping with other common cognitive biases, such as loss aversion and the herd effect. They may be more rational about losses in their investments and avoid making unwise decisions out of fear. Better-educated investors may be more capable of thinking independently and not blindly following market herd behavior.

They may invest based on analysis and judgment, recognizing and coping with cognitive biases, evaluating information objectively, and making fewer irrational decisions. This can improve the quality of their investment decisions and performance.

2.3. Increased Risk Awareness

Investors with higher levels of education usually have a better understanding of investment risks and are better able to assess and manage them. They are more inclined to diversify their investments to reduce portfolio risk [3].

From a behavioral finance perspective, individuals with higher levels of education may be better equipped to comprehend and manage investment risk. This is due to their potential acquisition of greater investment knowledge and experience through education, resulting in a more profound understanding of various types of risk.

For instance, an investor with a solid education may have been introduced to contemporary investment theories and asset allocation principles during their studies. They may comprehend that diversifying their portfolio across various asset classes, such as stocks, bonds, and real estate, can effectively reduce investment risk. Consequently, they may be more inclined to diversify their funds to achieve portfolio risk diversification and reduce overall portfolio volatility and risk.

Less educated investors may have difficulty understanding and assessing investment risk, making them more susceptible to emotional reactions and market fluctuations. As a result, they may over-concentrate their investments in certain risky assets or follow market hotspots, which can increase the risk of their investment portfolios.

Therefore, from a behavioral finance perspective, investors with higher levels of education may be better able to understand and manage investment risks and tend to diversify their investments to reduce portfolio risk [4]. Such investment behavior may be more consistent with a rational and sound investment strategy and help to improve the long-term return and robustness of the portfolio.

2.4. Improvement of Long-term Investment Concepts

Investors with higher education levels are better able to understand the importance of long-term investment and avoid short-term market speculation and speculative behavior. They are more inclined to focus on fundamental analysis and pursue long-term stable investment returns [5].

From the perspective of behavioral finance, investors with higher levels of education may be better able to recognize the importance of long-term investment and are more likely to avoid short-term market speculation and speculative behavior. This is because they may learn and understand the theoretical knowledge of behavioral finance and understand that short-term market fluctuations and noise may affect investors' decision-making, while long-term investment strategies may be more capable of obtaining stable investment returns.

In addition, better-educated investors may be better able to understand and accept market risks and uncertainties [6]. They may realize that the long-term trend of the market may be affected by various factors and short-term fluctuations may be a normal market phenomenon through studying and understanding the theoretical knowledge of behavioral finance. Therefore, they are more inclined to develop long-term investment strategies and pursue long-term stable investment returns.

In summary, better-educated investors may be better able to understand the importance of long-term investment and are more likely to avoid short-term market speculation and speculation. They are more inclined to focus on fundamental analysis and pursue long-term stable investment returns, which helps them to realize more robust and sustainable investment returns.

2.5. Increased Market Participation

Investors with higher levels of education have a deeper understanding of the market and are more willing to participate in market investments. Their participation helps to improve the liquidity and efficiency of the market [7].

3. Suggestions

To improve the overall quality of investment decisions in the market by enhancing investor literacy, the following measures can be taken: - Educational institutions, financial regulators, and industry associations can collaborate to provide comprehensive investor education programs and resources.

From a behavioral finance perspective, cooperation among educational institutions, financial regulators, and industry associations to provide comprehensive investor education curricula and resources can help investors better understand the investment market, reduce behavioral biases, and improve the quality of investment decisions [8].

Financial regulators can provide relevant investor protection guidelines and regulations to instruct investors on how to identify and avoid investment risks and protect their rights and interests [9]. At the same time, they can monitor and regulate the investment education market to ensure the quality and transparency of information and educational resources available to investors.

Industry associations can provide practical investment advice and information to investors by organizing investment seminars and providing investment reports and information. They can also facilitate communication and sharing of experiences among investors to help them better understand market dynamics and investment opportunities [10].

In summary, cooperation among educational institutions, financial regulators, and industry associations to provide comprehensive investor education courses and resources can help investors better understand the investment market, reduce behavioral biases, and improve the quality of their investment decisions. Such cooperation can provide investors with more comprehensive and systematic investment education, help them better protect their investment rights and interests, and realize long-term sound investment returns.

4. Conclusion

This paper explores the impact of education level on financial decision-making from the perspective of behavioral finance. First, a higher education level can enhance investors' information processing ability, helping them to understand investment-related information more deeply and thus make more informed investment decisions. Second, the level of education can help investors recognize their own cognitive biases, thus assessing information more objectively and reducing irrational decisions. In addition, increased education levels can also enhance investors' risk awareness, making them more inclined to diversify their investments and reduce portfolio risk. Finally, education level can also improve investors' long-term investment concepts, avoid short-term market speculation and speculative behavior, and pursue long-term stable investment returns. This study contributes to an in-depth understanding of how education level affects financial decision-making and provides a theoretical basis for investor education and market regulation.

However, there are some shortcomings in this paper. First, this article is mainly based on theoretical analysis and lacks the support of empirical research. Second, the article does not fully consider the impact of other individual difference factors such as gender and age on financial decision-making. Finally, the article's analysis of the mechanism of education level to improve investor quality is not systematic and comprehensive enough. Therefore, future research can further validate the theoretical viewpoints of this paper through empirical studies and examine the impact of other individual difference factors on financial decision-making, to enrich the research of behavioral finance in terms of the impact of individual differences on financial decision-making.

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