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Behavioural Economics in Financial Decision-Making

Akash Kiran Deshmukh
Assistant Professor
Department of Economics
Thakur College of Science & Commerce

Dr. Harsha H
Assistant Professor
Department of Economics
Thakur College of Science & Commerce

Abstract

Besides rational calculations and data from the market, psychological, emotional and social factors also factor into financial decision making. This research paper is entitled "Behavioural Economics in Financial Decision Making", which is about the 'Behaviour' of human beings including their cognitive biases, emotions, perception etc in taking financial decisions. It delves into the impact of "behavioural factors" on saving and investing, borrowing and spending, including overconfidence, loss aversion, herd behaviour, anchoring, mental accounting and present bias. The research also provides insights into the impact of these behavioral inclinations on risk assessment, investment choices, and handling uncertainty in financial scenarios. The paper uses psychology to explain economics concepts and provides insight into why individuals may make sub-optimal decisions and the critical role these sub-optimal decisions can have on the personal and financial outcome. It also reflects the importance of financial literacy, behavioural awareness and suitable decision-making process for enhancing financial management. The importance of applying the lens of behavioural economics to make sound financial choices and the potential for developing relevant financial institutional and policy interventions based on consumer behaviour are highlighted. In general, the paper highlights the role of behavioural economics to understanding the complexities of financial decisions in an ever-changing financial landscape.

Keywords: Behavioural Economics, Financial Decision-Making, Cognitive Biases, Investor Behaviour, Loss Aversion, Financial Literacy, Investment Decisions, Risk Perception.

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1. Introduction

The process of making financial decisions is a key component of everyday life, shaping people's saving and spending, investing and borrowing, and financial risk management. Economic theories have traditionally assumed that individuals make financial decisions rationally, considering the available information, comparing the available alternatives and choosing options that maximise their expected benefits. But, there are many assumptions of financial behavior that are not always true in the real world. People can make choices based on emotions, past experiences, social pressure, cognitive restrictions and mental bias. Such behavioral influences have been responsible for the rise of behavioral economics as an important field to analyze financial decision making.

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Behavioural economics is a method that merges economics and psychology to understand that individuals do not always make a perfectly rational decisions. It acknowledges that financial decisions are often influenced by our mental shortcuts, perceptions, habits and emotions. There are several concepts that can help explain why sometimes people make less-than-ideal financial decisions, including loss aversion, overconfidence, anchoring, mental accounting, present bias, and herd behaviour. For instance, investors might be reluctant to sell off investments that are declining for fear that they would suffer a loss on the deal, while consumers might be more inclined to purchase more when they are provided easy financing options or discounts. Likewise, people might delay saving due to the fact that they are able to please their inner needs in the short run than in the long run.

Behavioural economics has become much more important as financial markets have grown, digital banking has advanced, financial services have gone online, financial payments have been digitised and credit facilities have become readily available. In today's world, consumers have many financial products and services to choose from and it is a complex choice. While digital financial services provide convenience and increased access, they can also lead to impulsive spending, excessive borrowing, and not fully assessing financial risks. Behaviour is thus becoming an important factor that can influence the way people react to financial information, make investment decisions, and handle their personal finances.

The great success story of behavioural economics has been explaining the psychology behind the misbehaviour of financial decision makers when they deviate from the orthodox rules. Daniel Kahneman and Amos Tversky's study on prospect theory showed that people experience different levels of emotional response to gains and losses, and that losses create a bigger emotional response than gains. The effects of mental accounting, self-control, and choice architecture on economic actions has also been a focus of Richard Thaler's research in behavioural economics. These views offer some insight into consumer financial decision making, preferred investment choices, retirement planning, savings and risk management.

Financial institutions, policy makers and financial educators have implications with regards to behavioural economics as well. Financial service providers and banks can use behavioral insights to develop financial products and communications targeted at customers and encourage responsible financial choices of borrowing and saving. Policy makers can leverage the power of behavioural science to help with financial decisions, such as creating suitable default settings, reminders, disclosure and financial awareness campaigns. Similarly, financial education programs can raise awareness on popular cognitive biases and the importance of taking informed decisions.

At the same time, there is an increasing awareness of the need for behavioral change, but many people still struggle with a number of financial issues, including managing financial uncertainty, assessing investment risk, controlling spending, and planning for long-term financial objectives. It is therefore important to have an understanding of the relationship between financial behaviour and psychological characteristics to support financial wellbeing and financial participation.

This study, titled “Behavioural Economics in Financial Decision-Making,” investigates how psychological, cognitive and emotional aspects affect individual financial decisions in this context.

It aims to understand the impact of behavioural biases, risk perceptions, social factors, and the way people make decisions on saving, spending, borrowing and investing. The study will aim to connect the concepts of economics with human psychology, and help to understand financial decision making and the role of the behavioural economic in developing better financial strategies and policies.

2. Background of the study

The traditional explanation of the process of making financial decisions is based on economic theories, which assume that people are rational, can objectively assess information, and make decisions which maximise their financial welfare. But, in real life, financial decisions are not always made based on these assumptions. Individuals can save less than they are anticipating, spend their money frivolously, avoid investing in something because they are fearful of it, or make an investment decision based off an emotion, peer pressure and prior experience. The patterns show how psychological and cognitive factors are related to financial behaviour, as well as income, prices, interest rates and market conditions. There is a new developing area of research, behavioural economics, which is becoming crucial in the understanding of these influences and in the explanation of why people sometimes make decisions that run counter

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to the economic rationalities they are presumed to apply. Behavioural economics is a field of economics that integrates the insights from psychology and economics in understanding the choices that people make when they are uncertain, have limited information and have cognitive constraints. It understands that people aren't always going to be able to judge every financial option in a completely optimal fashion. Rather, they often rely on mental shortcuts, beliefs, feelings, and risk perceptions. Bounded rationality, loss aversion, overconfidence, anchoring, mental accounting, herd behaviour, are all helpful concepts to understand these decision-making patterns. Bookkeeping habits can affect regular monetary transactions such as budgeting, saving, borrowing, insurance coverage, investment actions and plans for retirement. As financial markets become increasingly complex, so too do the behavioural influences. People today enjoy a variety of banking products, electronic banking services, online and internet investment options, credit and mobile payments. These advancements have simplified financial transactions, but have also added challenges. The ease with which transactions can be made, consistent market data, the personalised advertising and the user-friendly interfaces for investment may lead to hasty decision making without due consideration of the long-term effects. It is easy for investors to become emotionally attached to changing market conditions, to be caught up in the hottest investment fad, or to make investment decisions based on flawed information. Similarly, consumers may also rely on the recommendations of social media, on well-known brands and/or on appealing offers when selecting financial products. The most important feature of the behavioral economist is the theory they have on the role of humans in financial decision making. These emotions – fear, anxiety, excitement, regret and optimism – have the capacity to influence an individual's ability to take financial risks. For example, when the market is down, investors may sell off assets early because of a market downturn because they think they will lose more or in a market boom they may overestimate the risk of holding assets because they are optimistic. The effect of loss aversion may make people more responsive to losses than to similar gains, and thus affect their investment decisions and financial commitments.

Knowing these emotional reactions helps to account for differences in financial behaviour, even among people who are making similar income. Another area of focus of behavioural economics is social and environmental factors that drive financial decisions. People watch the financial choices of others including their relatives, buddies, colleagues and some of the users of the market before coming to a choice. These can lead to suitable saving and investment tendencies, herd tendency, speculation and excessive investment and borrowing. Other factors, such as financial experience, culture, age, education and financial literacy, could also influence people's interpretation of financial information and opportunities they have. Financial institutions, policy makers, investment advisors and educators are the ones that are relevant to the relevance of behavioural economics in this context. Behavioural insights can be used to design financial products and services that are more consumer friendly, improve the communication and have a high chance of encouraging responsible financial activities. Behavioural insights can be utilised as a tool by policy makers to shape policies in favour of saving, retirement planning, financial inclusion and informed borrowing. As part of the lessons, they can be used as tools for financial educators to raise awareness about cognitive biases, to make more informed risk assessments and to develop healthy financial habits. As financial information becomes more accessible and accessible digital financial services, consumers continue to struggle with making consistent and informed financial decisions. People don't necessarily have the best financial sense about what they are doing with information because they may have their own biases and emotions in the way that they process and use it. It is therefore significant to consider financial decision making from a behavioural economics perspective to gain insight into the psychological, social and economic factors that impact upon people's decisions. The present study is titled “Behavioural Economics in Financial Decision Making” which aims to study the relationship between the behavioural and financial decision making. It is designed to discover the part cognitive distortions, emotions, risk evaluation, monetary information and social setting play in personal financial choices. The study aims to enhance the level of understanding of the actual financial behaviour and to highlight the importance of taking these dimensions into financial planning, financial practice and financial education. The background of the study is built around the theme that the financial choices aren't just impacted by the economy, but similarly by human psychology, feelings, intellectual limitations and social context. These influences can be investigated within the scope of the existing literature of prospect theory, bounded rationality and behaviour finance.

3. Justification

Financial decision making plays a vital role in determining financial security, financial wellbeing and future financial security of an individual. The choice of financial decisions has been traditionally analysed from the perspective of classical economic theories, which feature rational decision making by individuals, given the information they have and their expected return and risk. However, in reality, the psychological, emotional, personal, social and cognitive

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issues may impact the financial decision-making process. These factors can make people make decisions that differ from orthodox views on how people would make rational economic decisions.

The framework of behavioural economics can help explain these deviations as it explores the psychological and cognitive influences on financial decision-making. Loss aversion, overconfidence, herd behaviour, anchoring, mental accounting and present bias are all concepts that help to explain the irrational behaviour of investors, over-spending, delayed saving, and emotional reactions to uncertainty about finances. Financials are getting more complex, technologically advanced, digital banking, online investments, financial tech, and changing consumer preferences.

Justification of study is given because of the study of the relation between behaviour and financial decision making for various economic and demographic categories. The goal is to learn what attitudes the people have regarding financial risk and opportunities, consider investment choices, anticipate savings and navigate through market fluctuations. The findings could be useful in the identification of common financial decision-making biases and to gain insights into the misalignment between financial knowledge and financial behaviours.

There is also a practical implication for financial institutions, financial policy makers, financial advisers and financial educators in the study. Knowledge of the impact of behaviour may guide the development of more effective financial literacy initiatives, investor information campaigns, financial products for responsible investing and financial services to consumers. It can also help policy makers develop interventions that will encourage good savings habits, prudent investment decisions and financial discipline.

Hence, the study is significant as it relates economic theory to human behaviour. To gain insight into financial behaviour and to stimulate informed, responsible and sustainable financial decision making by looking at financial decisions from the perspective of behavioural economics.

4. Objectives of the Study

1. To investigate the impact of psychological aspects on financial decision making of individuals.
2. Identify the main financial decision-making mistakes due to thinking errors: Overconfidence, Loss aversion, Anchoring and Herd behaviour.
3. To understand the effect of emotions, risk perception and attitudes on investments.
4. To explore the impact of behavioural factors on saving behaviour, spending behaviour, borrowing and investing.
5. To test the impact of financial literacy and behaviour awareness on financial decision making.

6. Literature Review

1. Introduction

Behavioural economics has become a significant area for the understanding of financial decision-making in situations of uncertainty, risk and lack of information. Economists tend to make several assumptions about the behavior of individuals—rational, complete information, maximize economic returns to choices. But financial behaviour is much more complex than is assumed as emotional/mental/personal/social and psychological factors all influence behaviour in making financial decisions. An investor could be reacting to the market or not realize that he is not taking advantage of the market when prices are favorable or just not really thinking about what he is doing to simply take the path of least resistance.

These patterns are explained by combining principles from economics and psychology under the guise of behavioural economics. It is used in the field of finance for decision-making and clarifies preferences for investment, savings behaviour, borrowing decisions, risk perception, consumption behaviour and financial planning. The field offers some understanding of why sometimes people do what they do, and do not what they would like to do, that may not be in their long-term financial best interests.

2. Theoretical Foundations of Behavioural Economics

The emergence of behaviour economics posed a threat to the classical notion of rational economic decisions. Bounded rationality was created by Simon (1955) to describe the fact that people's minds are not very powerful and they cannot consider all possibilities. People do not always choose the best alternative, but rather they choose an alternative that is satisfactory enough.

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Kahneman and Tversky (1979) had developed prospect theory, which showed people's assessment of financial gains with respect to a reference point, so that only wealth increments or decrements were taken into account. They performed experiments that proved that losses have a greater impact on individuals than equivalent gains. Loss aversion is important in the fields of investment, portfolio management, and financial risk-taking.

Thaler (1980) also showed that consumer decisions often fail to behave in a manner consistent with traditional economic theory. According to him, the psychological factors and mental accounting have an impact on people's valuation of money and financial options. These were the contributions that paved the way for studying financial decisions from a behavioural point of view as opposed to only traditional rational choice assumptions.

3. Cognitive Biases and Financial Decision-Making

The cognitive biases have a profound impact on the way people understand financial data and assess investment options. Tversky and Kahneman (1974) pinpointed four heuristics that people employ in order to make complex decisions easier; these were representativeness, availability, and anchoring. These mental heuristics can facilitate decision making, but they also can cause systematic errors.

Historical prices or past investment values may anchor investors in financial markets to place too much reliance on them. People can be influenced to act on the basis of recent market activity or information that comes to mind easily because of availability bias. Likewise, representativeness can cause investors to believe that if a firm's recent performance has been good, then the performance will be good in the future as well.

Barber and Odean (2001) studied the link between investor behaviors and trading. They concluded that heavy trading can have a detrimental impact on investment returns, partly because that investors' individual returns could be overconfident in their knowledge and decision-making skills. The authors' research highlights the importance of overconfidence as a behavioural trait and its relationship to financial decision-making.

4. Prospect Theory, Loss Aversion, and Risk Perception

Risk perception is one of the important factors involved in financial decision-making. Standard financial structures assume that individuals make uniform risk evaluations, depending on prospective returns and possibilities. The opposite is what behavioural economics predicts: the presentation of gains and losses in a psychological manner may have an impact on preferences.

Kahneman and Tversky (1979) showed that people tend to be more sensitive to equivalent losses than to equivalent gains. This can also cause investors to hold on to losses longer than is prudent under the circumstances, and prematurely sell winning investments. Shefrin and Statman (1985) studied this tendency and how the reluctance of investors to pony up funds to settle losses and a preference to settle gains can affect trading behavior.

Odean (1998) has discovered empirical evidence of the disposition effect by observing the existence of individual investor holding periods that appear to conform to this effect. The results indicate that the emotional reactions to losses can have a negative effect on financial decisions even when the market information is available and objective to suggest an alternative action that might be more beneficial.

5. Mental Accounting and Financial Choices

Another important notion in the field of behavioural economy is that of mental accounting. It is the process by which people distinguish and categorize money based upon where it comes from, what it is for, or where it's going. Thaler (1999) stated that individuals tend to separate their money into different mental buckets instead of viewing money as one, interchangeable unit. For instance, someone may save for a particular goal and spend the bonus money more liberally.

Shefrin and Thaler (1988) offered an answer to how self-control, mental accounting and psychological factors affect decisions on saving and consumption through their behavioural life-cycle hypothesis. They questioned the conventional life cycle perspective that individuals pursue lifetime wealth maximization and rational planning in making financial decisions. These behavioral patterns apply to personal savings, credit-card spending, retirement and household savings.

6. Herding Behaviour and Social Influence in Financial Markets

Individual analysis is not always the basis for financial decisions. Investors often watch what others do, before making a choice of what to invest in. This behaviour is called “herding behavior”, and can impact stock movements, investment patterns and market volatility.

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Banerjee (1992) considered an economic model of herd behaviour, where the individuals make decisions based on the actions of others, even if they have their own information. The term informational cascade, which was coined by Bikhchandani, Hirshleifer and Welch (1992), refers to the fact that people often follow the actions of others because they think those others have more information.

Shiller (2000) discussed the role of the expectations of the collectives and the market stories in contributing to the formation of specious bubbles, along with investor psychology. His research has been published that the economic factors are not the only ones that determine the financial markets, but also social interaction and common beliefs. Sheep herding is also one of the multiple behavioral biases that have been investigated in investment decision-making processes, as noted in more recent studies (Bagchi et al., 2024; Shah & Butt, 2024).

7. Overconfidence and Investor Behaviour

Overconfidence is the idea that a person has more knowledge than he or she actually does; more skills than he or she actually has; or is more capable than he or she is of predicting future events. When people make financial decisions they may feel that their investment selection is more correct than it actually is, due to being overconfident in their investments. This can result in excessive trading, risk taking, and not diversifying portfolios.

Odean (1998) studied the link between overconfidence and trading behavior, and found that overconfidence can lead investors to trade more often than warranted. Gender differences in investment behaviour were also explored by Barber and Odean (2001) who showed that excess trading led to a decrease in net investment returns, especially for males in their sample.

The causes and consequences of financial overconfidence have been the topic of ongoing research in recent years. Singha, Malik, Jain and Abouraia (2024) conducted a review of literature on financial overconfidence and its relationship with risk taking, investment decisions, personal financial behaviour and market environment. They also pointed to the need for more study on the role that investor characteristics and factors play on overconfidence.

8. Emotional Factors and Financial Decision-Making

When people are experiencing volatile markets, emotions like fear, greed, anxiety, regret and excitement can affect financial decisions. Investors can make rash decisions during periods of market volatility or miss out on a good opportunity due to the fear of losing money in the future.

Loewenstein, Weber, Hsee, and Welch (2001) discussed the role of risk as feelings; they showed that emotions can affect risk perception even without the conscious and deliberate process of thinking about risk. This implies that the way one emotionally reacts to uncertainty is part of financial decision making.

Lerner, Li, Valdesolo, and Kassam (2015) investigated the link between emotions and decision-making, and showed that emotion and emotion state can lead to different judgement patterns. The feelings of regret can prevent people from making the same investments, and fear can lead to early selling. There is some recent meta-analytic literature, too, that investigates the correlation between loss aversion, regret aversion, overconfidence and investment decisions (Sharma & Negi, 2025).

9. Financial Literacy and Behavioural Decision-Making

Financial literacy is an important factor in understanding and how one reacts to financial information and behavioural biases. It's about information and skills necessary to understand interest rate, inflation, investment risk, investment diversification and financial planning. Lusardi and Mitchell (2014) highlighted that financial literacy is a crucial factor in the economic choices made by individuals, such as their saving decisions, retirement planning, and their ability to build wealth. Their work confirmed that financial knowledge plays an important role in the process of informed financial decision making for individuals.

Klapper, Lusardi and Panos (2013) looked at financial literacy and financial behaviour, and showed that financial knowledge plays an important role in coping with economic uncertainty. Further, the impact of financial education on financial behaviour was tested by Fernandes, Lynch and Netemeyer (2014) which showed that the impact of financial education can diminish with time.

Financial literacy has also been found to be an important variable accounting for investor behavior and the magnitude of cognitive biases in recent behavioural finance studies (Bagchi et al., 2024; Douhabi & Drissi, 2026).

10. Behavioural Economics in Personal Financial Planning

There are important applications for behavioural economics in personal financial planning, such as saving and borrowing, insurance, and retirement planning. In traditional economic theory, people make economic plans by assessing their future needs and resources. Personal issues like procrastination, present bias and lack of self control

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though, make it hard for people to stick to their financial plans.

In 1997, Laibson suggested that people might care more about the near-term rewards than the long-term benefits, which he termed hyperbolic discounting. This is a characteristic that can discourage saving and unnecessary spending. Madrian and Shea (2001) illustrated the impact of default options on retirement account participation and found that the design of financial options can impact behavior.

Thaler and Benartzi (2004) developed a programme called Save More Tomorrow, based on behavioural principles, to tap into an individual's desire to save more in the future. The work demonstrates how financial institutions and financial and economic policy makers can create choice environments for positive long-term financial outcomes.

11. Recent Developments in Behavioural Finance Research

The study of behavioural economics has been extended beyond the typical stock market investment decision in recent research. The impact of these factors—comprising demographic factors, financial literacy, digital financial platforms, market information, and social influence—is increasingly studied together.

Bagchi, Prasad and Shrivastava (2024) examined the literature pertaining to behavioural biases in financial investments and emphasized the relevance of cognitive and affective biases such as overconfidence, loss aversion, regret aversion, anchoring and herding. Shah and Butt (2024) addressed the issue of heuristic biases and suggested possible research opportunities in relation to the lesser-studied biases and in the context of emerging markets.

Kumar and Prince (2023) systematically mapped the literature on overconfidence in investment decisions to understand the trends in the literature and potential future research directions. Overconfidence, loss aversion, herding effect, anchoring and regret aversion are the various behavioural biases that influence the decision-making process, as described by Sharma and Negi (2025).

Douhabi and Drissi (2026) also explored the relationship between behavioural biases and demographic characteristics by conducting a systematic review and meta-analysis of studies on investment decision-making. The results suggest that financial literacy, investment experience and demographic factors are important factors to consider when examining behavioural patterns.

7. Material and Methodology

This study is descriptive and analytical research with the title Behavioral Economics in Financial Decision Making to study the impact of psychological, cognitive and emotional factors on individuals' financial decisions. The data for the study has been gathered from the secondary sources, which are scholarly journal articles, research publications, academic books, financial reports, reports from recognised financial institutions. The literature on behavioural economics, prospect theory, loss aversion, overconfidence, mental accounting, herd behaviour, anchoring and the perception of risk is reviewed to understand how it affects saving, spending, borrowing and investment. Data collected were qualitative in nature and analysed using content analysis and were categorized into relevant themes to show any patterns of behavior and implication for financial decision making. The study also uses widely-used behavioural theories like prospect theory and bounded rationality to gain insight into how and why people might behave in an irrational way. The methodological approach provides a comprehensive picture on the relationship between behavioural biases and financial decisions and the implications for financial literacy, investment planning and good financial management.

8. Results and Discussion

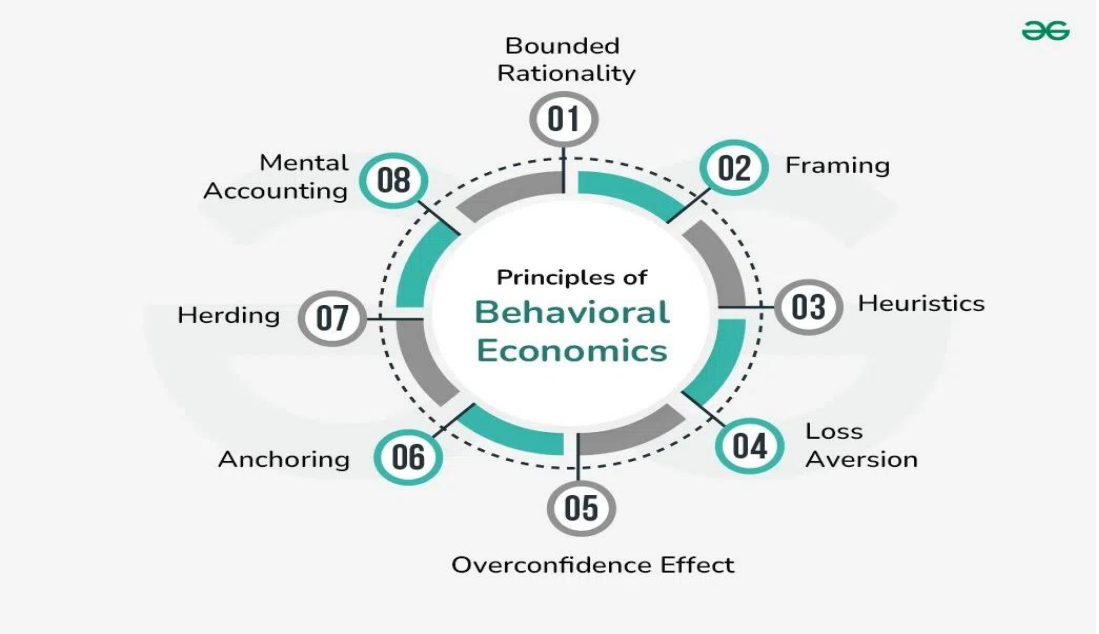
In addition to rational calculations and economic considerations, the results of the study “Behavioural Economics in Financial Decision-Making”, showed that psychological factors, feelings, past experiences, and social factors can also influence financial decision-making. The traditional economic theories assume that individuals are making economic decisions and are evaluating the information and options available to them for the best good they can obtain. But financial behaviour is not always as it is supposed to be: this is the scope of behavioural economics! People can make decisions based on limited information, beliefs, based on past experiences, and on emotions. These all affect important financial functions and practices such as saving, spending, borrowing, investing and dealing with financial risk.

From the results, it was concluded that there is an influence of the loss aversion effect on investment decision. The people feel worse about losing money than they feel good about the same amount of money they are able to win. This makes some investors unwilling to go on the pursuit of an opportunity that is capable of profiting, because they are more afraid to lose what they invested in the opportunity. This behavior may result in a lack of diversification of one's

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investment portfolio and in conservative investments. Similarly, a belief that they know more about money, more about analysing markets and that they can foresee more about the market than they really can is referred to as overconfidence bias. These people might trade often, misjudge risk, and trade in a manner that is not based on proper research. Such behavioural tendencies have a potential negative impact on the long-term financial results.

A second major finding is on the herding behaviour influence on financial decisions. Before making investment decisions, people tend to compare the decisions they make with their friends, relatives, co-investors and other people who invest in the market. This may be exacerbated in times of uncertainty in the market and investors can be tempted to follow the trend instead of making their own investment decisions. Excessive investment speculation and fast reversal of mood in the market can result from herd behavior. The results also reveal how social media, financial communities online and digital financial platforms have allowed financial information to be accessible to the public in a way that has made it more accessible, but also made false financial advice, unverified financial recommendations, and emotional financial decisions accessible by the public.



Source: ***https://www.geeksforgeeks.org/macroeconomics/behavioral-economics-meaning-principles-application-and-criticism/***

The study also focuses on mental accounting in personal finance management. People tend to split up their money in the following ways: Where the money has originated, what it has been spent on and, the importance of the money to them. They may, for example, not see the value of money in terms of their salary income, savings, bonuses, or investment income as being equal. This attitude can impact on spending, savings and debt. In the same way, it is shown that the manner in which financial information is conveyed can impact the individual's choice. Similarly, it is disclosed here that the presentation of the financial information has the ability to impact on the individual's decision. Investors might have different responses when offered the same investment opportunity in terms of returns and not losses. Thus, the presentation of financial information is a crucial factor in the consumer's and investor's behaviour.

The insights also highlight the importance of present bias and self-control issues for savings and consumption decisions. As humans, they can fall into the trap of opting for a quick fix over long-term financial stability, resulting in poor spending habits, low savings and not achieving their financial goals. They may be aware of how vital it is to save for retirement, save for an emergency, and invest wisely—but they may be delayed in making those decisions because they have immediate needs to be met. The behaviour suggests that the financial knowledge may not necessarily be accompanied by financial responsibility. These issues can be addressed through the use of automatic savings options, systematic investment options, reminders, and convenient financial planning tools, offered by financial institutions and government.

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In addition, people's interpretation of financial information is affected by anchoring bias and availability bias. When considering a stock investment opportunity, investors might heavily weigh an initial stock price, investment value at an earlier time or a market estimate that is readily available. These points can make them make bad choices, even if they are given new information on which they could make a better decision. Availability bias is the other way, where people easily recall or are focused on information that they have recently heard or seen. For instance, if the market has moved up a lot, or down a lot, people may have unrealistic perceptions of the level of risk in the market. An objective investment decision should be made by investors when reviewing the data in this study, and should not be made based on a major market event or misconceptions about the information.

Financial literacy and behavioural awareness is also covered to help them make better financial decisions. People who have an understanding of basic financial terms, investment risks, diversification, inflation and the risk/return relationship could be more likely to assess financial options. But even individuals with a solid background in economics can be victims of behavioural biases in a situation of uncertainty or emotion. Therefore, it is important to have financial education programmes with the incorporation of notions of behaviour besides financial knowledge. These programs can assist people discover their common monetary problems, perceive their monetary actions and be more disciplined in their monetary behavior.

Institutions, including financial institutions like banks, financial investors and insurance companies, and financial policy makers are interesting at the institutional level because of behavioural economics. Implementing behavioural tools can contribute to the creation of clear financial products, more comprehensible financial information, better financial education and enable consumers to take responsible financial decisions. Providing clear details on costs, hazards, returns and contractual terms can help to reduce the risk of misunderstandings and help to make informed choices. Similarly, there are tools for communicating behavioural interventions to policy makers that can drive improved financial outcomes and without taking away choice, such as default savings arrangements, timely financial reminders and streamlined investment processes.

The overall theme is the need to take into account the interplay of economic thinking, psychological factors, and social contexts when making financial decisions. These factors, such as cognitive biases, emotional reactions, financial knowledge, and the way information is presented, all play a role in the decision-making process for financial opportunities and risks. The study therefore validates the use of the notions of Behavioural Economics in the real world to understand financial behaviour. The application of behavioural science concepts to financial education, the processes of institutions, and financial policies can benefit financial decision making, responsible spending, sensible saving and financial sustainability.

9. Limitations of the study

While interpreting the findings of the study on Behavioural Economics in Financial Decision-Making, one should take into account some limitations of the study. Personal, psychological, social and economic factors can affect an individual's financial decisions and are different for each person and circumstance. Thus, the behaviour observed in the study might not be representative of the financial decision-making practices of population groups. Age, income, education, financial literacy, cultural background, and investment experience are important factors that could affect how people react to behavioural biases like overconfidence, loss aversion, herd behaviour and present bias. The study could also be limited by the availability and reliability of the primary and secondary data, especially when the respondents need to remember or reveal their financial transactions. Self-reported data can be subject to social desirability, inaccurate recall or personal bias. Also, the relevance of the findings may be affected due to the changes of financial markets, economic conditions, technological advancements and regulatory policies over time. The effect of a single behavioural factor on a particular financial outcome may also be challenging to identify due to the complexity of human thinking and emotions as studied in behavioural economics. Therefore, the results of the work should be considered in the context of the research population, variables, methods and period selected in the study.

10. Future Scope

Future studies in behavioural economics in financial decision making could examine the impact of psychological factors, cognitive biases, emotions, and social factors on financial decisions among various economic and demographic subgroups. Future research could investigate how the effects of behavioural biases (loss aversion, overconfidence, herd behaviour, anchoring, and present bias) on savings and investment behaviour, borrowing and spending behaviour. As digital banking spreads, the mobile payment application, the online financial investment platform, algorithm-driven

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financial services and so much more is becoming commonplace, allowing researchers to examine the effects of the digital environment on consumers' financial behaviour and risk perceptions. A comparison of rural and urban population, age group, financial literacy and financial income would provide more insights into financial decision-making. The success of the behavioral interventions, financial education programs, tailored financial advice and policy nudges for enhancing financial discipline and long-term financial health could also be evaluated in future studies. Behavioural economics and AI, data analytics and financial technology can also play a potential role in shaping personalised decision-support systems. This form of research could contribute to improved financial planning of financial institutions, policy makers and educators that is inclusive, transparent and behaviourally responsive to achieve sustainable financial outcomes and responsible financial decision making.

11. Conclusion

Behavioural Economics is an important field to gain insight into the behaviour of individuals in real-life financial situations. It differs from conventional economic theory, which assumes full rationality, in terms of the effect of the role of emotions, cognitive biases, social pressures, past experience and limited information on financial behaviour. Factors that greatly affect saving, spending, borrowing and investment decisions are: loss aversion, overconfidence, herd behaviour, mental accounting and present bias. It's vital to consider these behavioral factors and how they may be tainting your decision-making processes to help rectify any errors and to make better financial choices. Financial products can also be designed using behavioral insights that can be utilized for saving and investment, financial education, and responsible borrowing by financial institutions and policy makers. The research underscores the need to incorporate economic knowledge with a psychological understanding to enhance financial decision-making. To summarise, the application of behavioural economics in financial planning and financial policy may contribute to advancements in pro-policy financialities, enhanced personal financial results, and greater financial security within society.

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