

## FACTORS INFLUENCING FINANCIAL DECISION- MAKING AND THE GENDER GAP IN FINANCIAL BEHAVIOR

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### Abstract

Financial literacy is a critical aspect of a country's economic stability and overall development. By increasing financial literacy, we can foster economic stability and improve the personal and household well-being of the population. When people have a strong grasp of basic finances, they are better equipped to plan for retirement securely, start businesses, and invest wisely. This, in turn, fuels innovation, creates new jobs, increases money circulation, and drives economic growth. Gender gap in finances must be studied as it reveals inequalities that can be critical for economies as a whole. Numerous studies have revealed that a significant portion of women lack financial literacy and even a basic understanding of financial principles.

**Keywords:** Financial literacy, gender gap, financial education, determinant, financial behavior.

### Introduction

To understand the origins of financial literacy, we need to delve into several aspects of life, including education, society, and politics. By analyzing these areas, we can gain a comprehensive understanding of the factors that affect, change, or hinder the development of financial literacy. This paper will discuss the factors influencing the level of financial literacy in each gender and the division of financial tasks between males and females within a family.

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## METHODS

The goal of this paper is achieved through an investigation of the works of various researchers and scientists who have previously studied this field. By understanding prior studies, we can identify existing shortcomings and areas that require further exploration, allowing us to set new goals for future investigation. The gender gap in financial literacy is categorized and investigated separately to clarify the specific challenges and advantages within each group.

## DISCUSSION

Scientist from Russia Litvinova [1] has categorized the main determinants of financial behavior into two groups: internal and external factors.

**External factors** encompass culture, access to financial consulting, the development of a country's financial system, and politics.

Culture influences people's behavior in all aspects, including finances. It shapes the way people see the world. Culture influences the financial tools and assets used by the population. A link exists between people's preferences and their subsequent financial planning. Additionally, the author believes that national culture affects the configuration of national financial systems, including financial consulting and insurance systems. Our cultural norms and values affect our activities with investment or savings and the way we manage our money. Culture that is the way we think surely determines priorities we set for ourselves. In some cultures, it is more important to help your family or relatives rather than to be financially stable, whereas some cultures tend to encourage independence from an early age and taking measures by every individual to have financial cushion for themselves and deal with hardships all alone.

Access to consulting in terms of money management was proven to be advantageous in upgrading financial behavior. The availability of financial consulting is characteristic of a developed national financial industry.

The economic environment and the development of the financial system are other crucial aspects influencing financial decision-making. Financial decisions can vary significantly depending on the economic cycle a country is experiencing. Financial behavior can be markedly different during periods of economic growth compared to economic downturns.

The next external determinant of financial behavior is a country's political environment. People's financial decisions can change depending on this factor. For instance, stable political conditions might encourage individuals to start businesses or invest in certain sectors. Conversely, unstable political conditions can lead to a lack of trust in the government, potentially preventing people from using services like bank deposits or funding startups.

**Internal factors** include intellectual, personal-psychological, and socio-demographical groups.

Intellectual determinants include factors such as financial literacy and interest in finance. Financial literacy undoubtedly plays a crucial role in financial decision-making. In her 2009 studies [2], researcher Annamaria Lusardi found this factor to be significantly correlated with retirement savings and investment activity.

In her 2017 studies [3], researcher Olga Sushko highlighted that financial behavior depends more on individuals' financial literacy than on their income.

Enhancing the financial knowledge of the population at a governmental level is crucial. This can primarily be achieved by educating the youth and implementing educational programs through various channels. By doing so, we can reduce information asymmetry and potentially decrease investment in high-risk financial instruments due to a lack of understanding.

Another factor in this group is past experience. The situations and experiences we go through undoubtedly shape our future actions. For instance, an unsuccessful investment can make an individual more cautious and less likely to make future investments. Another example is when people deposit money in a bank that goes bankrupt, causing them to lose their funds. This experience will likely deter those individuals from using this service or trusting the banking system in the future.

It's also necessary to consider cognitive skills, as the ability to understand, analyze, and perceive information directly affects the economic choices we make. A lack of concentration or the inability to process and generate information effectively often leads to inadequate financial decisions.

Personal- psychological factor, according to some scientists has more impact on financial decision-making than economic factors do. Especially this trait can be noticed in dealing with risks. Mainly we can outline the following aspects: needs and desires, risk and uncertainty, time, learning effort, profits and losses, costs and efforts, risk and deviation, exploration.

Kübilay and Bayrakdaroglu (2016) [4] developed a financial decision-making model published in the International Journal of Financial Research. They analysed the relationship between financial risk-taking and personality traits.

They categorized factors into groups:

- 1) 5 factors: extraversion, agreeableness, conscientiousness, emotional instability, openness to experience.
- 2) Psychological biases: representativeness, availability, anchoring, adjustment overconfidence, regret aversion, herding effect.
- 3) Risk tolerance: low or high.

The researchers mention that in many cases investors are not aware of their psychological biases. By changing this, they can be more rational and take more elaborate decisions.

Psychological features allow us predict individuals' future financial decisions or prevent them from failure.

Socio-demographical factors contain the following characteristics such as age, gender, family, religion and health.

Age is a crucial predictor of financial behavior. By different studies it is noted that as they age and gain more experience investors are less likely to take risks and this can be applied to other financial decisions as well. Some authors claim that financial literacy tends to decrease.

Family is also often described as a component that affects financial behavior. Firstly, financial literate parents reflect their correct behavior in their children. They don't experience shortcomings in their pocket money and are less likely to be in debt. Secondly, cooperation between spouses is another mostly studied part of affects of a family in financial behavior. A group scientists claim that on average a husband's decisions more often tend to be correct. This is assumed to happen because of the gender gap in financial literacy.

Religion can indeed shape our preferences and the principles we establish for ourselves. For instance, some individuals, guided by their religious beliefs, may choose not to deposit money in banks or invest in ventures perceived as risky. While it's not always a certainty, religion can occasionally influence our actions and financial decisions.

Next important element of the group of external determinants is gender. It was proven that males have different level of financial literacy and different financial behavior. It's clear that the underlying cause isn't gender itself, but rather the life experiences individuals encounter, such as education, family circumstances, upbringing, and other factors. Analyzing the key traits that differentiate male and female mindsets in financial matters can help us personalize financial products, such as Forex and investment projects, education programs for different genders.

In their studies, Bernasek and Bajtelsmit demonstrate that for women, the extent of their involvement in financial decision-making is directly linked to their income. Similarly, Anne-Marie Lusardi's research has established that while financial illiteracy is prevalent among both genders, women tend to exhibit lower levels of financial literacy compared to men. Furthermore, women face greater financial insecurity, a phenomenon often attributed to their greater involvement in caring for parents and funding their children's education compared to men. Research into risk aversion among women also exists, although this area warrants further in-depth analysis.

## **RESULTS**

The provided study reveals two groups of determinants that influence individuals' financial behavior at different levels: external and internal components. External components tend to have a more general impact on behavior, whereas the combination of various internal elements affecting an individual is often unique. Within the context of this paper, we note

that factors such as family, politics, religion, and personal and psychological characteristics significantly affect the gender gap. By focusing on each factor separately, we can identify shortcomings within each area that contribute to the gender gap in financial literacy. Consequently, future work in this direction will be more efficient and contribute to achieving greater equality in financial literacy between genders.

## **CONCLUSION**

From the preceding points, we can conclude that to understand the reasons behind the financial literacy gap between genders, a comprehensive analysis of all the factors mentioned in this paper is necessary. While some determinants may influence both genders similarly, others can have a differential impact on men and women. Future research should focus on each group of factors, specifically examining gender-based differences and conducting more thorough investigations. Furthermore, it's probable that this work will need to be conducted separately in different geographical areas, as the results may vary depending on location. This general knowledge needs to be broken down into several components to yield more specific and accurate findings.

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