European Economic Letters
ISSN 2323-5233
Vol 15, Issue 3 (2025)
http://eelet.org.uk

Rational minds, Happy wallets: Exploring how Financial Behavior mediates financial knowledge and well-being

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Abstract

Purpose- The goal of this study is to find out how financial behavior affects the link between financial knowledge and personal financial health. In today's changing financial world, it's important to understand how your own financial decisions affect your long-term financial health. The goal of this study, called "Rational Minds, Happy Wallets," is to find out how people can turn their knowledge into good financial health through their actions. The results should help improve financial education methods and encourage people to make smart financial choices.

Design/methodology/approach – The analysis is based on primary data collected from 384 people who live in Kathmandu. We used the Partial Least Squares (PLS) method to look at the survey answers as part of Structural Equation Modeling (SEM).

Findings – The information for this study came from 384 people who live in Kathmandu. We used the Partial Least Squares (PLS) approach of Structural Equation Modeling (SEM) to look at the answers we got. The results show that how people handle their money is a critical link between their financial knowledge and their own financial well-being. People who understand money better tend to make better financial decisions, which leads to better financial health in the long run.

Originality/Value – This study adds to the body of knowledge by looking at how financial conduct affects the connection between financial knowledge and well-being in a developing economy using empirical analysis. In contrast to earlier studies that tend to examine these factors separately, this study adopts a unified model using PLS-SEM to uncover underlying behavioral patterns. By focusing on the urban population of Nepal, it delivers context-specific insights that are often missing in current academic work. The outcomes offer practical value for shaping more effective financial literacy initiatives and behavior-focused interventions in comparable economic environments.

Keywords: Financial knowledge, financial behavior, financial well-being, Urban and Partial least square.
Paper type: Research paper

Introduction

People must make many decisions that have a big influence on their long-term financial stability and general well-being in the increasingly complex world of modern finance. Income is not the only factor that affects financial well-being, which is often defined as the ability to meet present financial demands, preserve confidence regarding future finances, and live stress-free (Brüggen et al., 2017). It mostly depends on how people view money, how well-informed they are about it, and what they do. Understanding how people convert financial literacy into practical behaviours that promote long-term financial health is essential as financial institutions grow more intricate. Numerous studies highlight how crucial financial literacy is in influencing financial results. Financial attitude includes the attitudes, values, and beliefs about money that can either support or impede sound financial practices (Perry & Morris, 2005), whereas financial knowledge enables people to make well-informed decisions about budgeting, saving, borrowing, and investing (Lusardi & Mitchell, 2014). However, having information or an optimistic outlook by itself does not ensure good financial outcomes, underscoring the importance of financial behaviour as a mediating element that links people's knowledge or feelings with their actual money management practices.

It is becoming more widely acknowledged that one of the main mechanisms connecting attitude and thought to financial well-being is financial behaviour. Such behaviour, according to Xiao (2008), entails routine behaviours like regular saving, careful debt management, and restrained spending that are frequently impacted by more profound psychological and cognitive processes. The importance of biases, emotions, and habits in financial decision-making is further highlighted by behavioural economics (Thaler & Sunstein, 2008). Therefore, studying financial behaviour as a mediator is crucial to comprehending how information is transformed into profitable financial results.

The urban population of Kathmandu, a fast-growing city with issues with modernisation and infrastructural gaps for financial literacy, is the focus of this study. Even while more people have access to financial services, many still find it difficult to use their financial knowledge efficiently. The behavioural elements that link financial literacy and well-being, especially in low- to middle-income environments, have been largely ignored in South Asian studies to date (Kempson et al., 2018). The study closes a significant research vacuum by concentrating on this context and offers localised insights that may be used to customise financial education and policy.

Thus, using partial least squares structural equation modelling (PLS-SEM), the study "Rational Minds, Happy Wallets" attempts to empirically evaluate how financial behaviour mediates the links between financial knowledge and financial well-being. The comprehensive model aims to provide educators, legislators, and development organisations with useful advice while enhancing scholarly knowledge of financial behaviour. In the end, the results will guide tactics that encourage long-term financial well-being by promoting responsible financial behaviour in addition to increasing knowledge.

The following sections are included in the study: The literature review and the formulation of hypotheses are examined in the second section. The study's research design, data gathering methods, and analytical approaches are all included in the third section. Analysis and statistical data are presented in the fourth section. Together with references, the final section provides an overview of the study debates, consequences, and conclusions.

Literature review and hypotheses development

Financial Knowledge and Financial Well-Being

Financial knowledge is the ability to comprehend basic financial concepts such as risk management, investing, saving, and budgeting. Numerous studies have found that improved financial decision-making, which in turn leads to greater financial well-being, is associated with increased financial

literacy (Lusardi & Mitchell, 2014). According to Fan and Henager (2022), financial knowledge is a crucial component of the structural determinants of financial well-being (FWB); however, they emphasize that the efficacy of this knowledge is largely reliant on the individual's ability to apply it when making real-world financial decisions.

In a similar vein, Mahdzan et al. (2019) discovered that Malaysian households with greater financial literacy also had better financial well-being, especially when proactive financial practices were combined with the knowledge. These results support the idea that, even if financial literacy is crucial, meaningful results require contextual facilitators and sound financial behaviours. Thus, it can be hypothesized as follows:

H1: There is a significant influence of financial knowledge on personal financial well-being.

Financial Knowledge and Financial Behavior

Higher financial literacy has been repeatedly linked to increased propensity for proactive and prudent financial practices, including credit management, saving, and budgeting. Lusardi and Mitchell (2014) assert that financial literacy improves financial behaviour by empowering people to make well-informed decisions on investments and savings. Because it improves people's capacity to apply learnt concepts in everyday financial decisions, financial knowledge is also emphasized by Xiao and Porto (2017) as a critical antecedent of positive financial behaviors. In a similar vein, Robb and Woodyard (2011) discovered a robust correlation between financial literacy and actions pertaining to long-term planning, debt avoidance, and money management. These results imply that having more financial knowledge gives people the competence and self-assurance they need to make wiser financial decisions. It can be hypothesized as:

H2: Financial knowledge has a significant positive impact on financial behavior.

Financial Behavior and Financial well-being

Positive financial practices, such saving, budgeting, paying bills on time, and managing debt responsibly, are important determinants of financial well-being, according to empirical studies.

According to Xiao and Porto (2017), people's perceived financial stability and contentment are greatly influenced by their financial behaviour, which is a crucial mediating factor that connects financial literacy to well-being. According to Fan and Henager (2022), people who regularly engage in wise financial practices also report feeling less stressed and having more financial well-being. Furthermore, Mahdzan et al. (2019) highlighted that practicing responsible financial behaviour improves one's overall financial health by strengthening one's capacity to fulfil financial commitments and objectives. These results highlight how important financial behaviour is in determining one's financial well-being.

H3: Financial behavior has a significant positive impact on financial well-being.

Financial Behavior moderates the relationship between financial knowledge and Personal Financial well-being

According to earlier studies, financial literacy gives people the skills they need to make wise decisions, but its influence on financial well-being is mostly felt through actual financial behaviour. Financial behaviour is a key mediator in converting financial information into increased financial competence and satisfaction, claim Xiao and Porto (2017). Mahdzan et al. (2019) also discovered that people who possess more financial knowledge are more financially well-off when they actively use that information in their everyday financial choices, like prudent debt management and regular saving. Fan and Henager (2022) went on to confirm that financial literacy by itself does not ensure well-being

unless it is combined with sound financial practices. This emphasizes how crucial behaviour is as a channel by which knowledge affects total financial well-being.
H4: Financial behavior mediates the relationship between financial knowledge and financial well-being.

For presentation purposes, the research model guiding this work has been displayed in Figure 1.

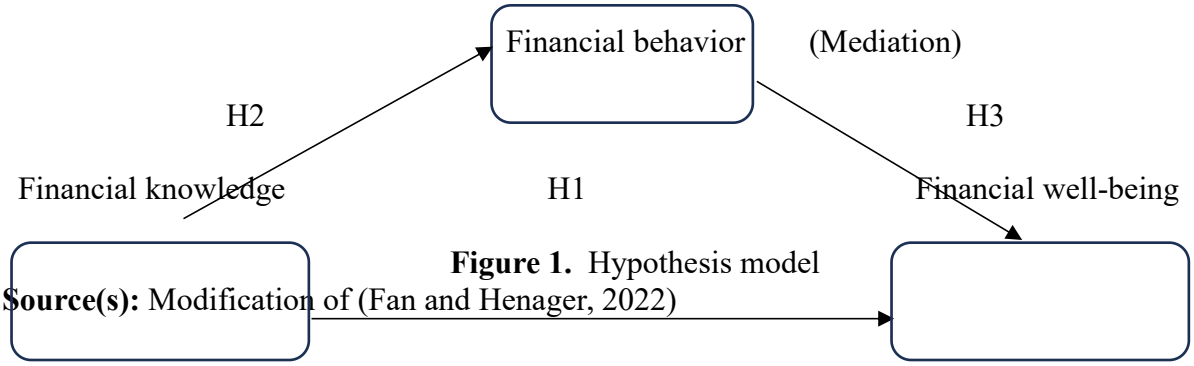

Figure 1. Hypothesis model
Source(s): Modification of (Fan and Henager, 2022)

Methodology

Measurement instrument

A structured questionnaire was used as the main instrument for gathering data for this investigation. The majority of the items on the self-administered questionnaire were closed-ended. Fifteen items on a Likert scale were used to collect data in order to investigate the factors that influence individual financial well-being in Kathmandu.
Five items taken from Joo and Grable (2004) were used to evaluate financial behaviour, including the statement, "I have set aside emergency funds." with a Cronbach's alpha of 0.897, the construct's dependability was validated. Using five items from Lusardi and Mitchell (2011), such as the example, "My financial knowledge is sufficient for me to make financial decisions," financial knowledge was assessed, the Cronbach's alpha was 0.868. Likewise, to assess financial wellbeing, five items were taken from Cohen, et al. (2015) with a Cronbach's alpha of 0.932 including the statement, "I am becoming financially secure."

Sample and data collection

Finding out how financial attitude and knowledge affect well-being through financial behaviour is the main objective of this study. A standardized questionnaire was given to all Kathmandu residents, including men and women, those with jobs, university students, and others, for this purpose. Using a non-probability purposive sampling technique, participants were chosen. According to Godden's rule (2004), only 384 valid replies remained in the final analysis after excluding incomplete or invalid data pertaining to important variables, despite the survey's initial aim of about 4,460 people. A five-point Likert scale was used in the survey to measure participant answers. Furthermore, secondary data was collected from a variety of sources, including national and international papers, periodicals, research articles, academic literature, Nepal Rastra Bank (NRB) annual reports, and other pertinent publications. Online and digital resources were also cited to support the study's secondary data. Males made up 46.9 percent of the legitimate responses, while females made up 53.1 percent. Table 1 contains comprehensive demographic information about the respondents.

Table 1 illustrates the demographic profile of the people who answered the survey. It includes things like gender, age, level of education, and monthly income. The demographic information of the people that answered has been quite helpful in figuring out their personal attributes. There were 384 people who answered, and 53.1% were men and 46.9% were women. This shows that the gender distribution was fairly even. The age distribution showed that most of the participants (54.4%) were between 20 and 30 years old, 37.2% were between 30 and 50 years old, and only 8% were beyond 51 years old. This means that most of the participants were young professionals who were just starting out in their careers. In terms of marital status, 57.3% were single and 42.7% were married. The biggest group had a bachelor's degree (42.2%), followed by a master's degree (27.6%), other degrees (1.3%), and a school level of education (SEE) (28.9%)

Table1. Background information

Items		Frequency	Percent
Gender	Male	204	53.1
	Female	180	46.9
Age	20- 30 years	209	54.4
	30-50 years	143	37.2
	Above 50 years	32	8.3
Education	SEE	111	28.9
	Bachelors	162	42.2
	Masters	106	27.6
	Others	5	1.3
Marital status	Single	220	57.3
	Married	164	42.7
	Divorce		
Occupation	Government	346	90.1
	Non- government	16	4.2
	Private business	5	1.3
	Others	17	4.4
Monthly income	Below 25,000	38	9.9
	25,000- 50,000	141	36.7
	Above 50,000	205	53

Source(s): Authors' own work

These demographic distributions suggest that the study sample comprised well-educated and predominantly young professionals across, Kathmandu providing a reliable basis for assessing perceptions and behaviors relevant to the study. Similarly, occupation includes government with the most (90.1%), along with the least number of entrepreneurs (1.3%), followed by non-government i.e. (4.2%), and others including only (4.4%). Lastly, monthly income covers highest 53% of the respondents with the second highest 36.7% of the respondents having income between (25000-50,000), accompanied by (9.9%) of the respondents having income below 25,000.

Results and analysis

The research design used in this work is hypothetico-deductive, which makes it easier to generate preliminary hypotheses that are then converted into mathematical models (Holden & Lynch, 2004; Ponterotto, 2005). When examining social and economic problems that have a numerical expression, this design works very well (Broadbent & Unerman, 2011; Holden & Lynch, 2004). Accordingly, a Likert scale was employed in the current study to collect quantitative information the factors being studied.

Partial Least Squares Structural Equation Modelling (PLS-SEM) was used to analyse the data using SmartPLS 4.1.1.4 software in order to test the hypotheses that were developed. The study initially evaluated the measurement model to verify the validity and reliability of the survey instrument, following the two-step evaluation process suggested by Chin (1998). The structural model was then examined in order to evaluate the suggested theories.

Since PLS-SEM does not rely on conventional parametric inference techniques, a bootstrapping resampling strategy was used to estimate the PLS-SEM parameters (Wold, 1982). This approach was chosen because it facilitates in-sample prediction, which researchers like Hair et al. (2014) have found to be quite beneficial for studies of this kind, in addition to relaxing assumptions of multivariate normality (Chin et al., 2003).

Measurement model assessment

Following established literature, the measurement model's adequacy was evaluated through reliability, convergent validity, and discriminant validity. To determine reliability, Cronbach's alpha, Composite Reliability (CR), and pa were utilized. As shown in Table 2, all constructs reported values above the recommended threshold of 0.7 for these metrics, aligning with the guidelines by Henseler et al. (2016). Convergent validity was evaluated using the Average Variance Extracted (AVE). According to Hair et al. (2014), convergent validity is established when the outer loadings of individual items exceed 0.7 and the AVE of each construct surpasses 0.5. As indicated in Table 2, all item loadings are above 0.7, and the AVE values for every construct are also greater than 0.5, confirming adequate convergent validity.

Figure 2: Measurement model

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 3 (2025)
http://eelet.org.uk

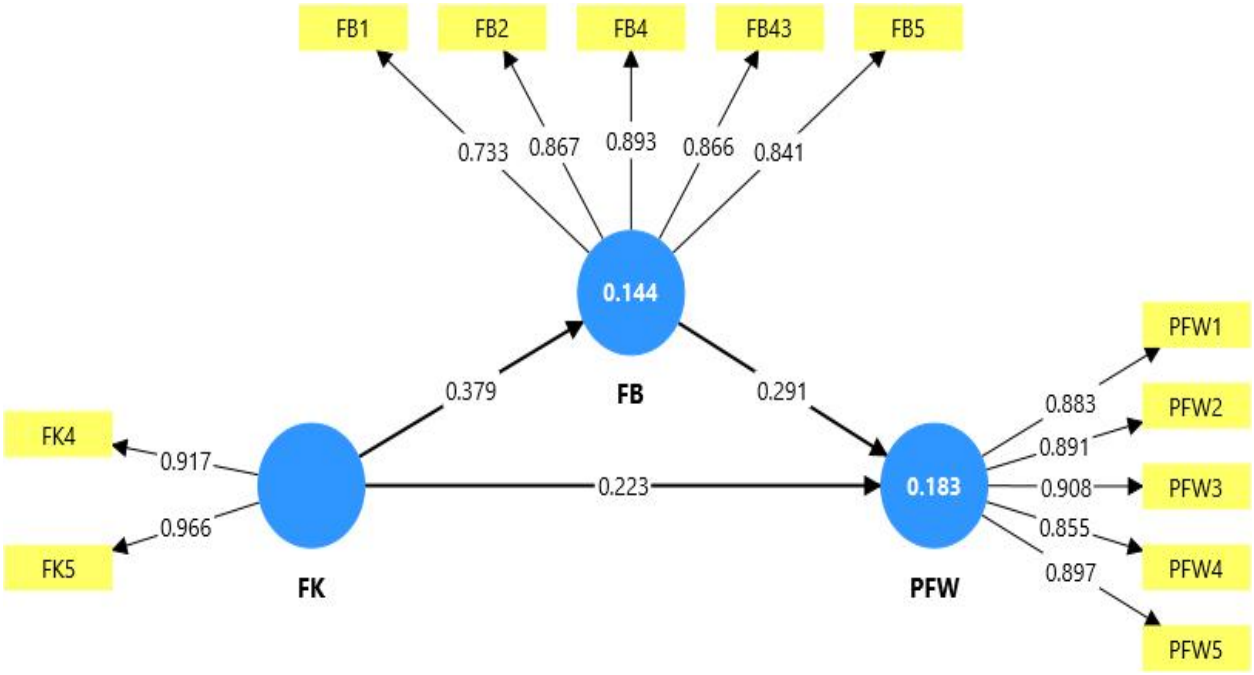

Table 2 gives a full overview of how reliable and valid the study's constructs were, which were Financial Behavior, Financial Knowledge, and Personal Financial Well-being. We used Cronbach's Alpha, Composite Reliability (ρA), and Composite Reliability (ρC) to check how reliable the results were. All three constructions had strong internal consistency, with Cronbach's alpha values above the usual criterion of 0.70. The alpha coefficients for Financial Behavior, Financial Knowledge, and Personal Financial Well-being were 0.897, 0.895, and 0.932, in that order.

Table 2: Factor Loadings, Constructs Validity and VIF

Construct	Items	FL	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	VIF
Financial Behavior	FB1	0.73	0.897	0.91	0.924	2.518
	FB2	0.865				3.06
	FB4	0.895				4.433
	FB43	0.865				2.976
	FB5	0.844				3.204
Financial Knowledge	FK1	0.91	0.895	0.899	0.925	1.181
	FK4	0.848				3.3
	FK5	0.912				4.337
Personal Financial Well-being	PFW1	0.886	0.932	0.94	0.948	3.755
	PFW2	0.894				4.139
	PFW3	0.91				3.711
	PFW4	0.849				2.98
	PFW5	0.894				3.894

Source(s): Authors' work

The measurement model's robustness was further validated by composite reliability metrics in addition to internal consistency. Both the ρA and ρC values above the suggested benchmark and showed good construct dependability, with the former falling between 0.899 and 0.94 and the latter between 0.924 to 0.948. The measurement model's convergent validity was supported by the fact that each indicator's factor loading (FL) was more than 0.70. For instance, the Financial Knowledge items (FK1, FK4, FK5) showed high loadings between 0.848 and 0.912. Likewise, item loadings for Personal Financial Well-being ranged from 0.849 to 0.910, while those for Financial Behaviour ranged from 0.73 to 0.895. Furthermore, with a range of 1.181 to 4.433, the Variance Inflation Factor (VIF) values for all observed variables stayed far below the essential cutoff value of 5.0, verifying the statistical independence of the indicators and demonstrating the lack of multicollinearity problems.

Table 3 displays the Heterotrait-Monotrait Ratio (HTMT) values in order to evaluate discriminant validity among the dimensions of Financial Behaviour (FB), Financial Knowledge (FK), and Personal Financial Well-Being (PFW). For evaluating discriminant validity in structural equation modelling, HTMT is regarded as a strong and trustworthy criterion (Henseler, Ringle, & Sarstedt, 2015). Each construct in this table is statistically different from the others since all of the HTMT values are significantly below the suggested conservative threshold of 0.85.

Table 3: Heterotrait-Monotrait Ratio (HTMT)

Construct	FB	FK	PFW
FB			
FK	0.403		
PFW	0.404	0.352	

Source(s): Authors' own work

In particular, there is an HTMT value of 0.403 between FB and FK, 0.404 between FB and PFW, and 0.352 between FK and PFW. These low results attest to the fact that the conceptions are not conceptually redundant and do not share substantial variance. The findings thus confirm strong discriminant validity, guaranteeing that distinct conceptual areas are measured by Financial Knowledge, Financial Behaviour, and Financial Well-Being.

Table 4: Fornell& Larcker criterion

Construct	FB	FK	PFW
FB	0.841		
FK	0.369	0.932	
PFW	0.377	0.335	0.887

Source(s): Authors ‘own work

Financial Behaviour (FB), Financial Knowledge (FK), and Personal Financial Well-being (PFW) are the components whose discriminant validity was assessed using the Fornell and Larcker criterion values, which are shown in Table 4. When the square root of a construct's Average Variance Extracted (AVE), which is displayed on the table's diagonal, is greater than its correlations with other constructs, which are listed off-diagonal, discriminant validity is proven, according to the methodology of Fornell and Larcker (1981).

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 3 (2025)
http://eelet.org.uk

For FB (0.841), FK (0.932), and PFW (0.887), the square root of the AVE is larger than the corresponding inter-construct correlations (e.g., FB–FK = 0.369; FB–PFW = 0.377; FK–PFW = 0.335) in this table. These findings support the existence of sufficient discriminant validity in the measuring model by showing that each concept has a stronger correlation with its own indicators than with other constructs.

Structural model assessment

After making sure that the measurement model was good enough, we moved on to testing the structural model. The structural model was tested with SmartPLS 4.1.1.4. We used the bootstrapping resampling method, which drew sub-samples with replacements from the original sample of 384, to find out how statistically significant the path coefficients were. Figure 2 and Tables 5 and 6 show the results of the evaluation of the structural model.

Figure 3: Path Model

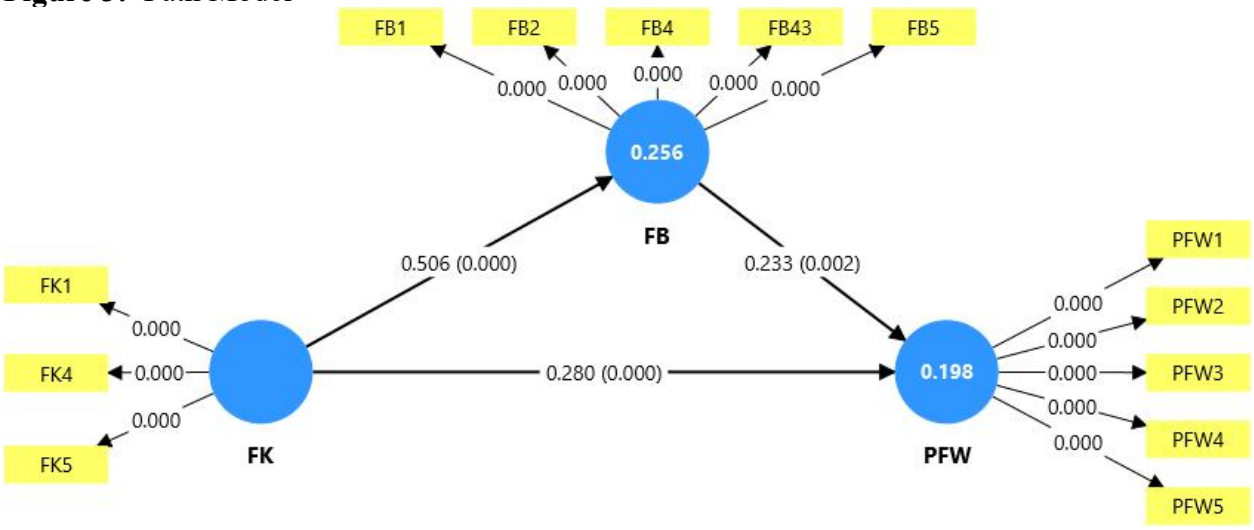

Table 5. Path analysis

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
FB -> PFW	0.233	0.232	0.073	3.167	0.002
FK -> FB	0.506	0.507	0.055	9.224	0.000
FK -> PFW	0.28	0.279	0.058	4.858	0.000
FK -> FB -> PFW	0.118	0.119	0.044	2.67	0.008

Source(s): Authors' own work

As anticipated, it was discovered that the beta value significantly impacted the individual's financial well-being (path coefficient = 0.233, p = 0.002), supporting hypothesis H1. Once more, the results showed that the beta value significantly influenced financial behaviour (path coefficient = 0.506 p =

0.000), supporting hypothesis H2. Personal financial well-being was found to be significantly impacted by financial knowledge (path coefficient = 0.28, p = 0.000). Through financial behaviour as a moderating variable, financial knowledge was found to have a significant impact on personal financial well-being, as predicted (path coefficient = 0.118, p = 0.008). Overall, all of the hypotheses are supported by our structural model, which explains 19.8% of the variance in personal financial well-being and 25.6 percent of the variance in financial behaviour. Additionally, the Standardized Root Mean Square Residual (SRMR) was used to evaluate the model's overall fitness. The model's SRMR value was 0.070. This is less than the 0.08 cutoff point that Hu and Bentler (1999) suggest. This outcome suggests that there is a good model match with the suggested model. When the RMSE (prediction errors) values for all PLS-SEM measurement indicators are less than the RMSE values for the naïve linear benchmark, Shmueli et al. (2019) recommend that a model has excellent predictive power. The great predictive power of our model is supported by Table 2, which shows that all of the RMSE values for PLS-SEM are lower than those for the naïve linear benchmark.

Table 6: Hypothesis Testing

Hypothesis	Path	Path coefficient	T- statistics	P-values	Result
H1	FB -> PFW	0.233	3.167	0.002	Accepted
H2	FK -> FB	0.506	9.224	0	Accepted
H3	FK -> PFW	0.28	4.858	0	Accepted
H4	FK -> FB -> PFW	0.118	2.67	0.008	Accepted
Model fit				R-squared	
SRMR	0.070	Financial behavior		0.256	
		Personal financial well-being		0.198	

Source(s): Authors' own work

Discussion

The study's conclusions support the important role that financial behaviour plays as a mediator between financial well-being, financial attitude, and financial knowledge. According to the findings, which are in line with earlier studies, financial attitudes and knowledge are significant, but they do not by themselves ensure better financial well-being until they are converted into consistent and responsible financial behaviour (Xiao & Porto, 2017; Fan & Henager, 2022).

The claim that knowledgeable people are more likely to participate in activities like budgeting, saving, and responsible debt management is supported by the positive correlation between financial behaviour and financial knowledge (Lusardi & Mitchell, 2014). However, it was discovered that financial behaviour acted as a partly mediating factor in this relationship, suggesting that behavioral application is crucial and knowledge alone is insufficient. Likewise, through financial behaviour, financial attitude—which represents people's views and attitudes about money—also demonstrated a strong indirect influence on financial well-being. This result is consistent with the Theory of Planned Behaviour by Ajzen (1991), which holds that attitudes impact behaviour, which in turn affects results.

The practical implication that financial education programs should actively foster behavior-change techniques in addition to improving cognitive understanding and encouraging positive financial attitudes is highlighted by the mediation effect. Mahdzan et al. (2019) found that households with both sound financial practices and excellent financial awareness reported far higher levels of financial well-

being. Furthermore, as also mentioned by Lim et al. (2021), behavioral consistency—such as consistently conserving money or refraining from impulsive purchases—was strongly associated with reduced financial stress and increased satisfaction.

All things considered, our results demonstrate that financial behaviour serves as an essential channel by which attitudes and knowledge impact financial well-being. Policymakers, educators, and financial institutions should therefore concentrate on creating interventions that encourage ingrained financial behaviours rather than just dispensing information. People's long-term financial stability and well-being can be significantly enhanced by this behavioral focus.

Implications

According to the study's findings, one important way that financial knowledge and attitudes affect financial well-being is through financial behaviour. This emphasizes how crucial it is to change financial education curricula from ones that only teach knowledge to ones that encourage practical actions. It is not enough to simply raise people's awareness of financial concepts; they also need to be helped to regularly apply that information in their financial decisions, including appropriate debt management, saving, and budgeting. Therefore, to promote long-term financial discipline and self-efficacy, financial literacy programs should include behavior-focused components including goal-setting, self-monitoring tools, and habit formation techniques.

The study emphasizes the importance of creating behaviorally informed financial education outside of the classroom for educators and policymakers. Practical elements that develop real-life financial capacities should be incorporated into national initiatives and public policies targeted at enhancing financial well-being, particularly for disadvantaged groups, low-income workers, and youth. Programs that promote consistent financial behaviour can lower financial stress and increase long-term financial pleasure. All things considered, the study is in favor of a paradigm change that views financial behaviour as the means to enduring and significant financial well-being rather than financial knowledge as the ultimate goal.

Conclusions

By emphasizing the crucial role that financial behaviour plays in mediating the relationship between financial knowledge, financial attitude, and personal financial well-being, this study adds to the expanding corpus of research on personal finance. The results imply that although financial attitude influences people's motivational and emotional reactions towards money and financial knowledge gives them the cognitive tools to make wise decisions, these elements by themselves are insufficient to guarantee financial well-being. Rather, its impact is best achieved when people regularly practise sound financial practices like saving, budgeting, and prudent debt management.

The findings demonstrate that financial behaviour serves as a crucial conduit by which attitudes and knowledge impact well-being outcomes. According to earlier studies, people who use their financial knowledge to take disciplined financial activities report feeling less stressed about money, more satisfied, and having better overall health. Additionally, by bridging the gap between financial intention and financial outcomes, the behavioural component supports frameworks like the Theory of Planned Behaviour, which holds that actions guided by intention are necessary to achieve desired outcomes.

This study's conclusion emphasises the necessity of governmental policies and financial education programs that go beyond merely raising financial literacy. Interventions must be behavioural in nature, promoting the adoption of prudent financial behaviours that convert attitudes and knowledge into long-term financial security. People are more likely to lead knowledgeable, financially secure, and fulfilling lives if they do this.

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