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Effect of Emotional Intelligence on Behavior of Investment:
Possible Role of Financial Literacy and Gender

Irfan Ullah Munir*

School of Economics and Finance, Xi'An Jiaotong University, Xi'An
China

Shen Yue

School of Economics and Finance, Xi'An Jiaotong University, Xi'An
China

Muhammad Shahzad Ijaz

University Institute of Management Sciences Pir Mehr Ali Shah Arid Agriculture University Rawalpindi,
Pakistan

Syeda Yumna Zaidi

University Institute of Management Sciences Pir Mehr Ali Shah Arid Agriculture University Rawalpindi,
Pakistan

Saad Hussain

University Institute of Management Sciences Pir Mehr Ali Shah Arid Agriculture University Rawalpindi,
Pakistan

*Corresponding author's Email: irfanmunir@stu.xjtu.edu.cn

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lat 306 Savoy Residencia, Block 3 F11/1, 44000 Islamabad, Pakistan,
info@readersinsight.net

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Research Highlights

Individuals who have control over their emotions can make better and effective investment decisions than those who are less emotionally intelligent. Individuals who have more knowledge about financial terms and stock market can make efficient and effective investment decisions than those who are less financially literate. Positive and significant relationship was found between emotional intelligence and investment behaviour and between financial literacy and investment behaviour. It was found that gender has impact on investment behaviour and that it moderates the relationship between emotional intelligence and investment behaviour and males have higher financial literacy and tend to invest more than females.

Research Objectives

To, i) investigate the impact of emotional intelligence on investment behaviour with moderating role of financial literacy and gender in Pakistan and ii) investigate the impact of financial literacy and gender on investment behaviour of individual investors iii) to help government and policy makers in understanding the importance of emotional intelligence, financial literacy, gender differences, and their impact on investment decisions of investors and household individuals of Pakistan.

Methodology

A structured questionnaire was adopted and the data were collected from 300 respondents of Rawalpindi and Islamabad. Emotional intelligence having 16 items was adopted from Wong and Law (2002). Financial literacy having 14 items was adopted from Rooij, Lusardi, and Alessie (2011). Investment behaviour having seven items was adopted from Hira and Loibl (2008). Questionnaire was closed-ended based on Likert scale 1 to 5, 1 and 5 represent strongly disagree and strongly agree respectively.





Convergent validity, discriminant validity and factor loading of individual questions on study variables was checked through Explanatory Factor Analysis (EFA). KMO and Bartlett measure were calculated to determine the adequacy of samples. Mean, standard deviation, Cronbach's alpha, and correlation values of variables were also determined. Moreover, regression analysis of investment behaviour, emotional intelligence, financial literacy, and gender were determined by Adam (2017). Regression and moderation analysis were done through SPSS statistical syntax process file.

Results

The value of KMO test and significance showed the adequacy of sample and that it can be used for analysis. All items of instrument load on their relevant factors and values of factor loading of all items was greater than threshold value of 0.4 and none of the items crossed load which sufficed the convergent and discriminant validity of this instrument.

Alpha values showed that items of three variables were reliable and valid for the analysis as all the variables had value greater than 0.70 which was the minimum requirement for a scale to be reliable. Emotional intelligence had reliability value of 0.868 with 16 items, Financial literacy was moderating variable with 14 items having reliability value of 0.835, and investment behaviour having reliability value of 0.753 with 7 items. Correlation analysis showed the strength of the relationship between independent, moderating, and dependent variable. Emotional intelligence was positively and significantly correlated with financial literacy and investment behaviour. Financial literacy and investment behaviour were significantly and positively correlated.

Regression analysis showed that the model used for examining the impact of emotional intelligence, financial literacy, and gender on investment behavior in Pakistan was significant with p-value of 0.000 and this captured the effect up to 0.475 as described by the value of R square. Age, status, qualifications, and income were used as control variables being the significant value of independent sample t-test for gender and one-way ANOVA for age, status, qualification, and income with respect to investment behavior. Values of Beta and t for emotional intelligence, financial literacy, and gender were 0.396 and 7.758, .249 and 5.757, 0.125 and 2.809 respectively which explained that emotional intelligence, financial literacy, and gender had significant positive impact on investment behavior.

The result for interaction term between emotional intelligence & financial literacy, emotional intelligence and gender was significant with 0.12 and 0.15 respectively which showed that moderation existed. On the basis of results of moderation analysis we could say that financial





literacy and gender moderated the relationship between emotional intelligence and investment behaviour. The results also showed that emotional intelligence and investment behaviour had positive relationship.

Findings

Relationship among emotional intelligence and investment behaviour becomes stronger in the influence of financial literacy. However, financial literacy can simply enhance the strength of relationship between emotional intelligence and investment behaviour, but cannot completely alter the investment behaviour of investors and it is not essential that financial literacy entirely alters the behaviour of an investor's investment. An individual might not be completely financial literate but even then he can participate in investments and make better investment decisions.

Emotional intelligence and financial literacy play vital role in the process of making effective and efficient investment decisions (Hess et al., 2011). The individual investors of Pakistan should have enough emotional intelligence and financial literacy about stock market so that they can participate in investment decisions and can be able to make better investment decisions. Policy makers and government should take necessary steps in improving the cognitive abilities and education related to financial decisions of individual investors in Pakistan, so that they can take healthier investment decisions and can enhance their financial wealth by making good investment decisions.

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