



SCHOOL OF COMMERCE

DEPARTMENT OF CORPORATE FINANCE: SPECIALTY IN
INVESTMENT MANAGEMENT PROGRAM

FINANCIAL LITERACY AND THE INTENTION TO
PARTICIPATE IN THE EMERGING ETHIOPIAN CAPITAL
MARKET: A STUDY OF POTENTIAL INVESTORS

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THE EMERGING ETHIOPIAN CAPITAL MARKET: A STUDY OF
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Declaration

I, Meseret Nigatu Ayele, the undersigned, hereby declare that this thesis paper entitled “Financial Literacy and the Intention to Participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors” is my original work and that it has not been submitted partially; or in full, by any other person for the award of a degree in any other university or institution and all sources used for the study have been duly acknowledged.

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Certificate

This is to certify that the thesis entitled “**Financial Literacy and the Intention to Participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors**” conducted by **Meseret Nigatu** submitted to the Department of corporate finance specialty of investment management has been under my supervision Tenkir Seifu (PhD) for the partial fulfillment of Master of science . Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department for defense.

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APPROVAL OF THESIS FOR DEFENSE

I hereby certify that I have supervised, read, and evaluated this thesis entitled “Financial Literacy and the Intention to participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors in Addis Ababa by Meseret Nigatu, prepared under my guidance. I recommend the thesis be submitted for oral defense.

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Thesis Approval

As members of the board of examiners, we examined this entitled Financial Literacy and the Intention to participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors.” By Meseret nigatu we hereby certify that the thesis is accepted for fulfilling the requirements for the award of the degree of Master of Science in the Department of Corporate Finance, specialty of Investment Management.

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Abstract

The general objective' of this research is to explore investors' financial literacy and their participation in the Ethiopian capital market. Explanatory research design and mixed of quantitative and qualitative are employed. Through judgmental sampling of 384 respondents are participated. The study revealed that respondents possess a high level of financial knowledge, particularly in calculating interest and understanding investment diversification. While they expressed strong confidence in making personal investment decisions, there was limited interest in exploring new financial products. Access to financial information was generally high, with most respondents finding it easy to understand. Capital market participation potential was also strong, with many feeling knowledgeable and ready to invest. Regression analysis confirmed that financial knowledge, attitude, and access to information all significantly and positively influence participation potential, with financial knowledge showing the strongest effect. These findings highlight the critical role of financial literacy in promoting active engagement in Ethiopia's emerging capital market.

Key word: Financial Literacy, Financial attitude, Investors, capital market, Capital Market Participation.

Chapter one

Introduction

1.1 BACKGROUND OF THE STUDY

All jobs, living conditions, and social well-being depend upon economic growth. One of the key components of such growth is capital accumulation, particularly significant in developing countries (Rahman & Alam, 2021; Jolo & Koç, 2023). A presence of capital markets is required to mobilize domestic savings and draw in foreign capital (Ribaj & Mexhuani, 2021). Long-run economic growth is supported by investments made in capital markets, which also lead to additional output, jobs, and infrastructure.

By providing financial stability and resource mobilization, capital markets play a vital role in determining economic performance (Khetsi & Itumeleng Pleasure Mongale, 2015). Effective resource allocation generates economic activity as well as overall development when there is an effectively developed capital market (Chang & Li, 2024). By uniting borrowers and savers, such markets generate liquidity and enable companies to obtain financing through stocks and bonds, further maximizing the utilization of available resources (Fraumeni et al., 2021).

Enlarged capital markets can lead to greater macroeconomic stability, which has a favorable influence on exchange rates and inflation. Capital markets are able to supply firms with the financing required to employ workers; thus, long-term capital formation is critical for economic development in the long term (Khetsi & Itumeleng Pleasure Mongale, 2015). Capital markets enhance the quality and quantity of investment and encourage domestic savings through good financial intermediation (Ribaj & Mexhuani, 2021).

Financial literacy is a competitive asset in today's environment of capital market management and interaction. It defines one's capability to comprehend and manage effectively financial products, concepts, and markets and make logical investment choices and maximize financial strategies (Zhou et al., 2023). Financial literacy enables people and organizations to effectively manage their resources minimize risks, and capture opportunities in the dynamic world of finance. Financial literacy involves comprehension of economic data to make better decisions on debt, pensions, and wealth accumulation (Mitchell & Lusardi, 2015; Lusardi, Individuals with higher

financial 2019). The significant areas under financial literacy include numeracy, interest rates and inflation, and diversification of risks (Lusardi & Mitchell, 2023).

More financially literate individuals are able to invest more easily in better investments, particularly in the capital market. Alternatively, people with less understanding of finances would be less inclined to invest (Tabea Bucher-Koenen et al., 2024; Zhou et al., 2023). Such a knowledge and skill disparity may deter capital market investment, and thus financial education becomes important to facilitate investors and improve decision-making (van Rooij et al., 2011).

It is given very low priority in Ethiopia, but it is poorly understood by society although it is becoming increasingly important. The 2020 National Bank of Ethiopia education strategy targets raising financial literacy by making individuals knowledgeable and skilled enough to access the best out of financial products (Financial Education Strategy 2021-2025, 2020). The aim of this research is to examine the effect of investor financial literacy on their involvement in Ethiopia's nascent capital market based on variables including financial know-how, attitudes, behavior, and information seeking capability, and saving characteristics.

The purpose of this study is to investigate the financial literacy of investors and investors' involvement in the Ethiopian capital market. Through a contribution towards the knowledge of how financial literacy impacts economic development, this study was shed important light on the directions policymakers and educators should take, ultimately leading to more participation in the capital market and sustainable economic growth.

1.2. Statement of the problems

An effective capital market is essential to spur economic development and living conditions in society because it boosts investment and optimizes the use of resources. Well-established liquidity and high market capitalization make the market appealing to domestic and foreign investors (Ahmed & Rahman, 2024; Bello, 2022). A functioning capital market is able to mobilize capital from individuals, business enterprises, and the government, thus stimulating innovation, employment, and productivity (Cinnarella & Streb, 2017; Feng et al., 2024). The theory is bolstering the basic reasons for participating in the capital market, for instance, holding assets, capital appreciation, and security against inflation, diversification, and income from dividends. Evidence from the emerging markets is testimony to the fact that properly functioning capital markets are a source of economic strength (Krueger, 2003). Additionally, an established

capital market leads to more financial stability by offering necessary facilities for price discovery and liquidity (Liu et al., 2024).

The capital market offers diversified investment products appropriate for different risk tolerance levels to both institutional and individual investors (Li et al., 2023; Khan, 2022). Diversification of investments, by participating in the capital market, reduces risk but optimizes potential earnings. Capital markets are also pivotal in resource identification and allocation of finances to productive business undertakings, providing effective financing structures (Chowdhury et al., 2022; Croce et al., 2024; Lee et al., 2015).

Accessibility of funding through issuance of stocks (equity), bonds (fixed-income debt securities), and other investment instruments enables companies to finance necessary funds for operational and development purposes (Sun et al., 2023). All this finance access is crucial in driving innovation and sustaining economic growth. But the behavior of people in the capital markets is determined mainly by their financial literacy level, i.e., financial product knowledge, financial information access, and risk tolerance (Kadoya et al., 2017; Khan et al., 2020). Financial literacy is expertise and ability to manage personal finance, make informed decisions, and have knowledge on investment opportunities.

Financial literacy entails the possession and utilization of a range of financial competencies, including investing and budgeting, and taking the correct decisions on risk management (Bai, 2023b; Lusardi, 2019). Highly financially literate people are best placed to handle complex financial markets and make high-quality investment choices (Mitchell & Lusardi, 2015). It focuses not just on knowledge of the basic money concepts such as budgeting, investing, inflation, and risk but putting them into practice to improve individual financial security and overall well-being.(Thomas & Spataro, 2018; Lusardi, 2019; Bai, 2023b; Lone & Bhat, 2022).

Researchers indicated that low financial literacy greatly prevents involvement in capital markets. People who are not well informed about products and finance tend to be less likely to access capital markets, and these results in inefficient investment returns and overdependence on inefficient channels of savings (Lusardi & Mitchell, 2023). Choi and Laschever also believe that poor financial literacy hinders people from acquiring knowledge regarding market trends and investment instruments, while Hermansson et al. (2022) identify that lack of knowledge translates to risk aversion and missed investment opportunities.

Most research in recent years has been placed on investors' finance knowledge, capability, and availability of finance information. Financial literacy, however, has not been given much emphasis in Ethiopia. The aim of this paper is to establish the influence of finance knowledge, capability, attitude, behavior, availability of finance information, and capability of personal saving on individual investors' participation in Ethiopia's emerging capital market. The aim of this study is to examine the level of financial literacy of investors and their behavior in the Ethiopian capital market. This study was add significantly to literature available so far and would be useful to researchers studying the importance of financial literacy and investment in the emerging Ethiopian capital market.

This research wasconnecting investors' financial literacy and the involvement of capital markets in Ethiopia and its consequences to the economy. Based on literature reviews, different researches (D. Gashaw & Y. Gebe, 2017; Matewos Kebede Refera et al., 2017; Kinfe Yowhannes Araya, 2019; Elifneh, 2021; Kumaran & Kumaran, 2019) have measured financial literacy in terms of different groups of people in Ethiopia. These studies form the basis of conducting research on financial literacy in Ethiopia. There is strong evidence that fir analyses have been conducted on the role of financial literacy in capital market participation; in the majority of them, the impact of financial literacy on other variables like savings rates and access to financial services was examined. The researcher fells this gap by providing a complete assessment of financial literacy measures and their relationship with capital market participation in Ethiopia. Thus, the aim of this research is to determine the financial literacy of Ethiopian individual investors, to find out the major barriers to capital market participation, to investigate how investors obtain financial information for making investment decision-making, and to analyze the impact of financial literacy on capital market behavior. The dynamics of these engagements are relevant to policymakers, schools, and financial institutions in order to design focused programs aimed at increasing financial knowledge and, consequently, enhancing participation in the Ethiopian capital market.

1.3. Research Questions

1. What is the current level of financial literacy among investors in Ethiopia, and how is it assessed?
2. How does financial literacy influence the intention of potential investors to participate in the Ethiopian capital market?

3. What barriers do potential investors face in accessing financial information, and how do these barriers affect their willingness to participate in the capital market?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this research is to explore investors' financial literacy and their participation in the Ethiopian capital market.

1.4.2. Specific Objectives

1. Evaluate the Current Level of Financial Literacy among Investors in Ethiopia
2. Assess How Financial Literacy Influences the Intentions of Potential Investors to Participate in the Ethiopian Capital Market.
3. Examine the Barriers Potential Investors Face in Accessing Financial Information and Analyze How These Barriers Affect Their Willingness to Participate in the Capital Market.

1.5 Significance of the Study

The goal of this research is to identify the level of financial literacy among prospective investors in Ethiopia, which is crucial for making better investment decisions. Enhanced financial literacy can empower private investors and reduce money loss. It can also enhance the participation ratio and contribute to an efficient capital market.

This research would be utilized to inform the creation of policies that enhance higher involvement in the Ethiopian capital market through the determination of factors that lower investor participation levels. These are the variables stability and market growths rely on. Revealing the relationship between investment attitude and financial literacy, this research can inform the determination of barriers that discourage individuals from entering the market. This can facilitate the tailoring of intervention to promote more participation. Better investment in enterprises can come from more capital market engagement, which would likely propel the economy of Ethiopia. An active investment culture may be encouraged through comprehending the drivers of financial literacy.

Policy and regulatory measures as well as targeted educational interventions can be designed by policymakers based on the research to improve public financial literacy, simple and complex. There could be a possibility that policies to safeguard investors and ensure economic growth

would be a consequence of this. Especially in emerging economies such as Ethiopia, this research enhances the current body of literature for investor behavior as well as financial literacy. It presents foundations for future research on the topic. The findings can be used to motivate people to obtain information and become active in the economy and emphasize the importance of financial literacy to society.

Finally, policymakers, investors, and the Ethiopian economy in general can benefit from the profound implications highlighted in this research, which explain how investment involvement and financial knowledge operate in an emerging market environment.

1.6. Scope of the Study

The research is centered on the Ethiopian capital market in the Addis Ababa area, where financial institutions and the capital market are mostly situated and serving as the nation's capital and economic center. For reasons of time and budget limitations, opinions of investors who are not in the Addis Ababa area are not taken into consideration in this study.

1.7. Definition of Terms and Concepts

Investors: An investor is an individual who invests money in hopes of a future return (profit) or simply to earn interest. They consist of individuals, business firms, insurance firms, financial institutions, pension funds, and commercial banks.

Financial Literacy: Financial literacy refers to the capability of comprehending and effectively applying specific financial abilities, such as managing one's own finances, budgeting, and investing.

Financial Attitude: Financial Attitude refers to the manner in which one feels, thinks, and believes about money and finances. It encompasses their general investment, saving, spending, managing debt, and taking risk attitude. These all, in the long run, influence the way they make financial decisions and manage money.

Participation: Participation involves participating or being involved in a market or economic activity like buying and selling of securities.

Capital Market: A capital market is a section of a financial market in which long-term supported equity or debt securities are exchanged, offering firms access to funds.

Security: Security is a broad term for different types of securities such as stocks, bonds, options, etc. Securities are exchanged on financial markets and are desirable as claims on property, income, or future payment.

Investment Behavior: Investment Behavior is the inclination and decision pattern of the investor in choosing their investments based on a range of determinants such as financial literacy.

Capital Market Participation Rate: Capital Market Participation Rate is the ratio of eligible investors participating in the capital market, measuring the extent of financial activity

1.8. Organization of the Study

The study is organized into five chapters. The first chapter discusses the background information of the study, the statement of the problem, research questions, research objectives, significance of the study, scope of the study, and definitions of terms. Chapter two reviews the relevant literature to enhance understanding of the area, followed by the conceptual framework and background information of the organization. Chapter three discusses the research design and methodologies adopted for this study. Chapter four presents the results and discussion sections of the study. Lastly, the study concludes with a summary of the results, conclusions, recommendations, and suggestions for future research.

Chapter Two

Literature review

2.1 Introduction

The literature review serves to highlight the relationship between financial literacy and capital market participation, particularly within the context of Ethiopia. This section would be organized thematically, focusing on theories, definitions, determinants, barriers, the role of education, and contextual relevance. Moreover, it was critically engage with existing studies to elucidate their methodologies, findings, and limitations, ultimately identifying research gaps that this study was address.

2.2 Theoretical Review

Theoretical underpinning of the Investors' Financial Literacy and Participation in the Ethiopian Capital Market is based on a number of basic theories that account for the relationship between investor behavior, financial awareness, and participation in and access to the financial market as well. The human capital theory, life cycle model, and behavioral economic principles are critical paradigms that collectively provide a complete account of how financial awareness affects the participation in capital markets and investment choices.

2.2.1. Human Capital Theory

Human capital theory focuses on the fact that educational and skill investments can enhance a person's productivity and economic capacity to a very great extent. The theory strongly applies to financial literacy, which is presently widely understood as an essential element of human capital. Financial literacy provides individuals with appropriate knowledge and skills to make informed financial choices, which enhances their economic performance and overall development.

There are various scholars who have examined financial literacy and theory of human capital and how investment in knowledge about money enhances economic growth and people's productivity levels. One of the prominent scholars of studies on financial literacy is Lusardi, who asserts that individuals' financial lives and choices are extensively affected by their financial literacy level, a type of distinctive human capital (Lusardi, 2019). Her research shows that financially educated

individuals are better placed to realize gains from their capital, maximizing their financial returns and economic well-being.

Financial literacy promotion is capable of enhancing the efficiency of financial resource allocation and effective utilization of the financial system, the foundation of sustainable economic growth (Calcagno et al., 2024). They contend that financial literacy has wide-ranging impacts on the economic performance of societies and individuals, particularly when it is incorporated in coordinated education policies. They further note that organizational financial performance is positively influenced by human capital and financial literacy, resulting in more strategic financial decision-making and overall economic efficiency.

Ashok Thomas and Luca Spataro look at how human capital, financial literacy, and stock market participation correlate among Europeans. They set that education and abilities cause higher financial literacy, which raises the participation of people in capital markets. Employing an endogenous approach, the study confirms that educated people was invest in equity, causing economic growth. The research emphasizes developing education and knowledge of finance to increase the participation of people in capital markets (Thomas & Spataro, 2015).

2.2.2 The Life Cycle Model

The Life Cycle Model (LCM) is a theoretical framework that examines financial decision such as saving and investing through the lens of an individual's life stages. It is essential for understanding how financial literacy influences wealth accumulation throughout an individual's life. According to the LCM, financial behaviors and knowledge evolve as individuals progress through different life stages, impacting their ability to manage money and achieve long-term financial goals. Milena Dinkova, Adriaan Kalwij, and Rob Alessie investigated the relationship between financial literacy and consumption patterns, focusing on how informed individuals make better financial decisions aligned with the predictions of the Life Cycle Model (Dinkova et al., 2021). The relationship between financial literacy and consumption patterns is supported by both theoretical and empirical evidence, emphasizing the importance of financial education in enabling individuals to make informed financial decisions over their lifetime (Lusardi & Mitchell, 2007). Their early research established a link between financial knowledge and effective financial planning, particularly in the context of retirement savings and consumption (Lusardi et al., 2017). They created a stochastic life cycle model that incorporates financial knowledge, demonstrating how increased financial literacy can lead to better resource allocation over a lifetime, influencing consumption patterns.

2.2.3 Endogenous Financial Literacy

Endogenous financial literacy refers to the concept that an individual's financial knowledge and understanding are shaped by personal experiences and choices, including investment decisions, rather than by external factors such as education or training. This form of financial literacy promotes a cycle of learning and experience in which individuals actively participate in capital markets, gaining knowledge and skills that enable them to make informed and effective investment decisions. As a result, the capital market becomes more active and engaged, with individuals taking greater responsibility for their financial futures.

Various studies provide a comprehensive picture of how endogenous financial literacy develops and its implications for wealth accumulation and economic behavior. Luca Spataro and Lorenzo Corsini investigate how individuals' financial literacy evolves and influences their saving habits and capital market participation. They contend that financial literacy is not static but rather evolves through experiences and education, influencing individuals' ability to make sound financial decisions. According to their study, increased financial literacy leads to higher savings rates and stock market participation, contributing to economic stability and growth. The authors emphasize the importance of enhancing financial literacy to encourage active participation in capital markets (Spataro & Corsini, 2017).

Endogenous financial literacy implies that an individual's financial knowledge is shaped by interactions with financial systems, personal financial decisions, and educational experiences. van Rooij, Maarten, Lusardi, Annamaria, and Alessie, Rob J. emphasize that financial literacy is dynamic and shaped by personal experiences, education, and socioeconomic factors, allowing individuals to improve their financial knowledge. Their research finds a strong positive relationship between financial literacy and household net worth, suggesting that individuals with higher literacy excel in retirement planning and wealth accumulation. Financially literate individuals are also more likely to invest in the stock market, which offers higher returns essential for retirement savings. The authors advocate for improved financial education programs to enhance financial behaviors, promote retirement readiness, and reduce wealth disparities, underscoring the significance of financial literacy in wealth accumulation and retirement planning (Rooij et al., 2011).

Financial literacy is critical for consumers because it influences their saving, borrowing, and investing habits, which in turn affect wealth accumulation and lifestyle choices. It can develop through education, personal experiences, and socioeconomic factors, allowing individuals to

enhance their financial literacy. Higher financial literacy leads to better decision-making, effective retirement planning, and sound investment strategies, resulting in greater financial stability. Ultimately, financial literacy promotes a healthier financial system by enabling individuals to make informed decisions and allocate resources more efficiently (Widdowson & Hailwood, 2007).

2.2.4. Behavioral Economics Theory

Gregory Elliehausen's article examines the relationship between financial literacy and behavioral economics, emphasizing the power of definitions in influencing consumers' decisions. Psychologically motivated factors have the potential to create irrational decisions, the article continues, whereas financial literacy provides consumers with greater information regarding financial products and markets and thus enhances their decision-making. The actions of such variables can easily map onto higher consumer participation in capital markets since the enlightened can better invest smartly and shun expensive errors. In addition, the article warrants higher financial literacy by way of sensitization campaigns that further enhance consumer welfare and market efficiency.

Various scholars and studies underpin and augment the assertion that financial literacy actually plays an important role in financial decision-making, for instance, participation in capital markets. Particularly, Lusardi, Mitchell, and van Rooij are leading in this area, well illustrating how financial knowledge is related to key financial actions such as planning, saving, investing, and wealth accumulation (Lusardi & Mitchell, 2014). Their conclusion suggests that low financial literacy people are far less inclined to invest in stocks (Van Rooij et al., 2011).

Behavioral economists know that psychological and cognitive biases are prone to lead to irrational economic choices. Financial literacy can be utilized to counteract these biases (Altman, 2012). Annamaria Lusardi and Olivia S. Mitchell are among those who have significantly contributed to the knowledge regarding the effects of financial literacy on saving, planning, investing, and wealth accumulation. Their research discovers lower financial literacy to be associated with lower participation in the stock market and adverse financial consequences (Lusardi & Mitchell, 2011, 2014). Elliehausen's research enlightens us on where finance literacy intersects with behavioral economics, demonstrating how psychological bias leads to irrational choice. He points out that financial literacy allows for more informed choice (Elliehausen, 2018). While behavioral economics analyzes how cognitive bias affects financial decision-making,

financial literacy enables one to identify and avoid such biases and subsequently make more informed financial decisions.

Endogenous financial literacy is a primary motivator of investment decision-making and general market participation in the Ethiopian capital market. There is evidence that the financial literacy of consumers in Ethiopia is not so high, and this can limit their access to capital markets. For example, research by the National Bank of Ethiopia (2020) suggested that most people have poor basic knowledge of financial products and hence are restricted in making a good investment decision. Promoting enhanced financial literacy in Ethiopia can result in greater engagement with the capital markets, leading to greater economic growth and stability.

Domestic initiatives to enhance financial education can have a great impact in the degree of market efficiency by having a more educated investor pool. Promoting financial literacy can induce stakeholders to encourage consumers towards making financially aware decisions, eventually leading to greater participation in the capital markets and economic growth in Ethiopia.

2.3 Definitions of Financial Literacy

Many scholars explain financial literacy differently to justify its value in acquiring and engaging in capital markets. Whereas some emphasize rudimentary skills for investment and risk handling, others venture into the psychological motivations of decision. Annamaria Lusardi identifies skills required for prudent financial choice but Robert T. Kiyosaki requires an entrepreneurial spirit. These multifaceted definitions highlight the applicability of financial literacy to individual economic prosperity and participation in capital markets as well-informed consumers. An appreciation for these points of view enhances our understanding of the wider implications of financial literacy for economic empowerment and stability.

Financial literacy incorporates a set of skills and knowledge required for successful handling of individual finances. Lusardi contends that financially literate people are likely to invest in the stock market and thus build up wealth in the long run. Financial well literacy, she claims, deters people from investing in the stock market and thus cannot gain long-term wealth (Lusardi et al., 2017). Secondly, according to her findings, low financial literacy reduces significantly the chance of investing in the stock market and promotes the possibility of maintaining unbalanced portfolios (Lusardi & Mitchell, 2011).

Maarten van Rooij, Annamaria Lusardi, and Rob Alessie conducted a study which explains the extensive effects financial literacy has on financial choice. According to them, financially well literate individuals are unlikely to use the stock market (Van Rooij et al., 2011). Financial literacy is defined by the OECD (Organisation for Economic Co-operation and Development) as the understanding and capacity of an individual to make prudent financial decisions, including investment options knowledge and risk management of capital markets (OECD, 2020). The explanations indicate that knowledge in finances is among the determinants leading individuals toward engaging in capital markets, with higher financial literacy giving rise to greater participation and better investment outcomes.

Financial literacy also includes the capacity to comprehend simple financial concepts such as interest rate, inflation, risk diversification, and types of investments. Financial literacy has been described by Oscar A. Stolper and Andreas Walter as the capacity to comprehend and make good use of fiscal variables and resources. This includes comprehending forces in the market, recognizing risk, investment objectives, and the implications of financial choices (Stolper & Walter, 2017). Chiara Monticone and Richardo Calcagno define financial literacy as having the ability to understand and utilize a number of financial skills such as analyzing risk, financial planning, and investment knowledge (Calcagno & Monticone, 2015). People who are financially literate are more likely to comprehend financial products, evaluate risks, and make very well-informed decisions, navigating the intricacies of the capital market in an effort to achieve positive investment results and even greater returns (Mitchell & Lusardi, 2015; Zhou et al., 2023).

Financial literacy is interested in understanding the significance of being well-versed with financial practices and knowledge, such as personal financial management, borrowing, saving, budgeting, and taxation (Bai, 2023; Lusardi, 2019). More financially literate individuals are less likely to experience financial problems and are better able to deal with financial problems (Bai, 2023; Iixiang et al., 2022). Financial literacy also has a significant influence in making sound financial decisions, whose implications are held accountable for the creation of total wealth and the management of financial assets (Behrman et al., 2012).

Finally, financial literacy is the education or capability that enables one to make sound money choices. It entails understanding things such as diversification of investments, budgets, and interest rates (Brown et al., 2018). One can also define it as the capability of individuals, especially investors, to properly read and comprehend financial information, thus making good finance decisions. Handling basic financial concepts, analyzing complex financial products, and

defending against dangers are all basic components of financial literacy (Anshika et al., 2021). Making a smart investment choice such as investing in shares, bonds, and other financial instruments must rely on good knowledge in the field of financial literacy.

2.4. Determinants and Levels of Financial Literacy

The determinants of financial literacy include education, income, age, and culture. They influence the knowledge and skill level of a person about personal money management. Provision of information and resources also contribute significantly to enhancing financial literacy. Psychological traits such as self-discipline can have a very strong effect on the financial decision-making process. It is extremely necessary to identify these determinants for formulating properly designed financial education programs.

There are a number of determinants impacting the level of financial literacy. The most important of them are education, age, and socioeconomic status. For example, Lusardi et al. (2020) established that those with better education are more financially literate. As Gignac (2022) also stresses, demographic determinants are found, and younger people tend to have lower mean financial literacy. These results show that demographic heterogeneity should be taken into account when examining financial literacy.

Objective and subjective financial literacy, risk tolerance, financial health, and social determinants are strong drivers of capital market participation and financial literacy (Sivaramakrishnan et al., 2017). Financial self-efficacy, or the self-assessed confidence in her or his ability to manage personal finances, as well as objective financial literacy and socioeconomic determinants (age, income, and education level), are strong drivers of capital market participation and investor financial literacy (Cupák et al., 2020).

Education is central in determining financial literacy. Formal education has been demonstrated to equip individuals with the skills needed to access sophisticated financial instruments (Bai, 2023). That being said, the effectiveness of financial education programs hinges on a number of factors, such as the necessity for customized mechanisms that take account of cultural and contextual drivers (Brown et al., 2018).

Socioeconomic status also plays a major role in contributing to financial literacy. Low-income individuals have limited access toward resources providing financial education, thereby affecting their capability to manage capital markets (Berhanu Lakew & Azadi, 2020). This disparity highlights the need for inclusive financial education programs among underprivileged groups.

Demographic characteristics of education, gender, and socioeconomic status are linked with better financial literacy, and financial literacy is linked with greater capital market participation (Lusardi, 2015; Stolper & Walter, 2017). Qiu, Preston, and Wright (2023) highlight that confidence and financial knowledge is shaped by family financial management practices, social norms, education, and culture. Educational levels of individuals, access to information available, cultural values, and roles of women in households are all determinants that play a significant role in financial education and capital market access (Rink et al., 2021).

2.5. Financial Literacy and Investor Participation

Financial literacy refers to the ability and competence to make sound financial decisions. Financial literacy involves understanding market behavior, financial products, and risk (Lusardi & Mitchell, 2014). Financial literacy is important to increase investor participation in the capital market of emerging markets such as Ethiopia.

Research has established that increased financial literacy has a higher likelihood of raising the inclination of investors to invest in capital markets. For example, Atkinson and Messy (2016) found that financially literate investors have a higher likelihood of perceiving the advantages of investing and thus higher stock market involvement.

Financial literacy also improves the capacity of an investor to access capital markets. Investors with better financial knowledge, as identified by Chinomona and Pooe's (2015) research, are better placed to comprehend market trends and hence make value investment decisions. In East Africa, where capital markets are not so developed and there are some peculiarities that investors have to overcome, this is particularly so.

Although there are advantages of being financially literate, there are also challenges. Low levels of financial literacy among East Africans are to be blamed for low investor confidence in a study carried out by Muriithi and Muli (2020). This translates to under-participation in the capital market because likely investors are confused or fear the investment process.

Financial education programs can boost investor participation to a significant extent. Ndirangu et al. (2021) explained in their research that investment in the capital markets among such people improved after financial education programs were introduced in Kenya. Financial education programs play an important role to develop an investing culture in Ethiopia and the rest of neighboring nations. A comparative study of East African nations' investment activities and

financial knowledge shows diverse participation levels. A study by Bonga and Muthoni (2022) shows that nations with extensive financial education systems, like Tanzania, are characterized by higher participation rates in the capital market relative to nations without systems.

Financial education is vital to enable investor participation in such emerging capital markets like Ethiopia's. Future studies need to focus on specialized financial education programs that cater to the individual needs of East African investors to activate sustainable market growth. Financial literacy is the key to quality investment choice. Lusardi and Mitchell (2014) argue that greater financial literacy is associated with greater probabilities of involvement in capital markets. The empirical evidence of their work indicates that financial education significantly determines investment decisions, highlighting the significance of available financial information (Lusardi & Mitchell, 2014).

2.6. Access to Financial Information

Access to proper financial information is a barrier to investment in emerging markets. Aker and Mbiti (2010) offer an example of research that well illustrates how a lack of availability of financial information is responsible for a lack of capability to make knowledgeable investment decisions, particularly in developing countries like Ethiopia (Aker & Mbiti, 2010).

As noted by van Rooij, Lusardi, and Alessie (2011), a study established that financial literacy has a direct relationship with engagement in financial markets. The authors believe that financial literacy can stimulate prospective investors to participate in the capital markets more aggressively (van Rooij et al., 2011).

Cultural leaning towards investment can affect investment willingness and also financial literacy. Financial literacy level and capital market investment willingness, as put forward by Hsu and Tzeng (2013), is also established with reference to believing culture and hence finding it relevant in the Ethiopian context (Hsu & Tzeng, 2013).

The Ethiopian capital market is in its infancy stage with low participation. Based on a report by the Ethiopian Securities Exchange (2020), financial well literacy and lack of access to information are significant barriers to investor participation in the nascent market (Ethiopian Securities Exchange, 2020).

Government efforts to promote improved financial literacy would aim to increase market participation. Effective policy action that bridges the space between potential investors and investment opportunities by providing improved access to capital and information would be

attained, as argued by Karpavicius and Cebulj (2020). Expansion in the employment of technology in the provision of financial information can enhance financial literacy. Digital media, according to studies by Fazoranti and Kose (2021), can convey financial information to a greater degree and thus enhance investor engagement in emerging economies such as Ethiopia (Fazoranti & Kose, 2021).

Poor Finance Literacy is a consequence of challenges like poor education and restricted access to financial services. Dibaba (2017) explains how such challenges exert a negative influence on the participation of potential investors in the capital market in Ethiopia (Dibaba, 2017).

2.7. Barriers (challenges) to Capital Market Participation

Capital market participation is confronted with a number of challenges, the most vital being attributed to a lack of financial literacy and the cost of entry, which might discourage potential participants. Psychological factors such as fear of loss, perceived complexity in the markets, contribute to barriers in participation.

Financial literacy has significant impacts on people's ability to participate in capital markets. Most potential investors lack knowledge of financial products and mechanisms in markets, creating high barriers to entry. Low financially literate people have been found to be less likely to invest in stocks and bonds. This is mostly because of loss aversion and overall risk aversion (Lusardi & Messy, 2023).

Financial literacy is what equips individuals with the knowledge and skills to control their finances (New or Outline). This involves keeping expenses under control, maximizing income, and arranging financial resources for effective savings and prudent use of debt (Dialnet, 2025). It is Lusardi and Mitchell's (2023) argument that financial literacy is an important investment in human capital that indirectly affects national development. Empirical evidence indicates that financially literate people tend to invest in financial markets and use financial institutions (De Bassa Scheresberg, 2013; Christelis et al., 2010; Van Rooij et al., 2011).

Inequality and other socio-economic variables also possess the potential to influence the financial environment and economic opportunities and thereby influence the demand for financial literacy (Arora, 2010; Pietrzak and Pietrzak, 2018; Peterson, 2014). Those who are financially literate have better financial inclusion, which enhances human development and progress (Ababio et al., 2021). Through encouraging sustainable development goals, financial literacy has the ability to foster stable and strong financial systems (MDS Consultancy, 2025). Moreover, research has

attributed financial literacy with better environmental quality in the majority of countries (Frontiers, 2025).

Lack of Awareness and Education

One of the main obstacles to capital market access is ignorance of its advantages. Most people do not know the investment opportunities that they can use (Zena, 2021). Effective education programs can cut off this by educating the population and improving financial literacy

Complexity in financial instruments may also discourage would-be investors. Investment opportunities are found to be too complex and hence individuals simply avoid capital markets (Khan et al., 2020). Financial literacy can simplify finance and offer plain tips that can raise the level of participation. Non-financially literate investors have serious obstacles in accessing capital markets, and thus it is not easy for them to make a smart investment. This unawareness can also exacerbate financial pressures and contribute negatively to the performance of sustainability-oriented companies (Zhang et al., 2022).

Challenges in Understanding Financial Products

Literature indicates that ignorance of finance is one of the initial impediments to accessing capital markets, making it impossible for investors to comprehend advanced financial products and making highly informed decisions. Furthermore, the absence of access to adequate information and advice limits access for potential future investors to enter the capital market (Anshika et al., 2021; Cupák et al., 2020; Cupák, Fessler, & Schneebaum, 2020).

New entrants to capital markets, especially the less sophisticated financially, are also discouraged by financial product complexity (Lusardi et al., 2014). Accordingly, removing these barriers through better financial literacy and more straightforward financial products is key to encouraging more capital market participation.

2.8. The Role of Education in Enhancing Financial Literacy

Education works towards raising the level of financial literacy by equipping individuals with skills and competencies that can be utilized in making quality financial decisions (Hersh Shefrin, 2021). Education boosts ability to manage money, enhances saving and investing skills, and encourages good financial behavior (Hersh Shefrin, 2021). Additionally, financial education equips individuals with the ability to handle sophisticated financial products and services and, thus, minimizes the level of risk of financial poverty and exclusion (Hersh Shefrin, 2021).

Financial education stands at the center stage of promoting financial literacy, especially in emerging economies such as Ethiopia (Taylor, S. & Wagland, S., 2011). Various studies have found that courses in financial education raise awareness of financial matters and principles markedly among people (Mitchell & Lusardi, 2015). Nevertheless, the impact of such courses generally rests on their design process and implementation mechanisms (Alison O'Connell, 2009). Research shows that successful innovative financial education courses namely those which are experiential and custom-made to participants' specifications are most likely to succeed (Calderone, 2025). [3] Those including concrete experience and clear connections with actual-life financial situations are most successful in developing financial literacy (Adiandari & Yanti, 2022).

Institutional and government actions can also be important in enhancing financial literacy (Taylor, S. & Wagland, S., 2011). For example, the National Bank of Ethiopia's financial education program for 2021-2025 aims to raise financial literacy across all levels of society (DFS Ethiopia Hub, 2021). This arrangement is most significant in the context of the rising Ethiopian capital market, where prospective investors may lack the necessary information to invest comfortably (DFS Ethiopia Hub, 2021).

Tracking the efficacy of interventions of this type is imperative to guarantee that they are meeting their proposed aims (DFS Ethiopia Hub, 2021). Assessing the effect of financial education programs can give an elaborate answer regarding whether they are indeed disseminating financial literacy and causing capital market participation (Alison O'Connell, 2009).

2.9. Contextual Relevance: The Ethiopian Experience

The setting in Ethiopia is marked by distinctive challenges and opportunities in terms of access to financial markets and financial literacy. Attitudes and behavior towards finance at the individual level are shaped by cultural values, economic context, and history.

Cultural assumptions and values about saving and investing have a very significant impact on the extent of financial literacy in Ethiopia. Cultural practices can inhibit investment in more sophisticated capital market instruments, and pedagogical methods should be culturally adapted (Rink et al., 2021). There is a need for cultural sensitization to comprehend the financial decision-making methods in different socio-economic settings. Empirics from previous studies evidence a strong role of culture in financial literacy and behavior, especially in developing economies such as Ethiopia (Klapper, Lusardi, & van Oudheusden, 2015).

In order to describe investment barriers in Ethiopia, cultural characteristics within income categories, age categories, and schooling levels need to be looked into. As an example, it has been observed through studies that financial literacy among poor households is more based on traditional traditions and expectations at the local level (Sserwanja, 2018). Education also plays a major role in financial literacy since higher education is associated with better-informed financial decisions (Lusardi & Mitchell, 2014). Thus, this study on these cultural determinants was helping policymakers apply the right interventions that can improve the financial literacy of different population groups in Ethiopia.

Empirical findings based on past studies underscore the need to integrate cultural factors into financial literacy research. For instance, an Ethiopian rural household survey found social networks and customary practices to be sound predictors of financial decision-making (Gebremedhin, 2020). In the same vein, research on financial inclusion in sub-Saharan Africa highlighted that socio-economic and cultural factors must be considered in the planning of financial products and services (Allen et al., 2016). By bringing culture concerns into financial literacy research, policy planners would be equipped to plan more useful programs for increasing financial inclusion and financial literacy in Ethiopia.

Effective interventions need to be framed in terms of their potential for influencing financial literacy and inclusion in the market. Ethiopia's changing economic profile and deepening of the capital market pose challenges and opportunities to investors, as discussed in the article "Digital Banking and Capital Markets: Ethiopia's Next Leap in Financial Inclusion" by Shega (2025). This article meets the fast-paced digitization of the Ethiopian economy and the opening of the Ethiopian Securities Exchange (ESX) with the vision of democratizing access to capital markets. It observes that even as these changes bring new investment opportunities, they also necessitate context-appropriate interventions that enhance financial literacy and inclusion to facilitate various groups of people to navigate through and gain benefits from the new financial system.

2.8. Empirical Review

Empirical review, in a thesis, refers to a summary of research and studies relying on quantified and observed events. This section synthesizes findings from prior empirical researches on the focus of the thesis, analyzing methodology, findings, and conclusions. The objective is to determine existing research gaps, formulate a theoretical foundation, and set the stage for hypotheses or research questions of the present study.

Preston et al. (2023) employed the data from the 2015 China Household Financial Survey (CHFS) to study financial literacy across various groups. In their study, descriptive statistics are employed in analyzing the overall financial literacy, with a focus on urban cities, utilizing stratified sampling methods. Blinder-Oaxaca decomposition method was employed by the authors to model the cohort effects and gender disparity in financial literacy. They employed cross-city analysis of data in Beijing, Shanghai, and Chongqing, and examining how gender norms intersected with geography, age, and education to identify cultural determinants.

Sivaramakrishnan et al. (2017) examined the influence of financial literacy on investment decision making among Indian stock market consumers based on the theory of planned behavior. The study employed a mixed-methods approach starting with qualitative research and ending with a quantitative questionnaire among 506 retail investors in four cities. The studies used structural equation modeling to estimate an empirical model that concluded investment intention has a significant impact on real stock market investments. Subjective and objective financial literacy are also found to have an impact on investment intentions, and only objective financial literacy had a significant impact on real investment activities. The two studies' findings confirm the very critical role financial literacy plays in influencing investment behavior. It is important that these dynamics are understood by prospective investors in the nascent Ethiopian capital market, in light of financial literacy's potential influence on their investment choices. This review empirically lays the groundwork for subsequent research on financial literacy in the context of the evolving financial environment in Ethiopia.

Corsini and Giannelli (2021) construct a theoretical model that explains the connection between financial literacy, human capital, saving, and equity market participation. The model of the authors suggests that more financial literacy enhances the ability of people to invest in risky assets and diversify their savings. Applying a two-period model, the authors investigate the connection between education, financial literacy, and economic choice. Empirical data document favorable relationships between income, education, stock market participation, and financial literacy. Most importantly, financially literate individuals invest more into risky, high-return assets, thereby promoting wealth accumulation. The study establishes the key role of financial literacy in investment choice, as well as overall economic performance. In another study that complements the current study, Matewos Kebede Referaa (2017) explores the financial literacy level of urban dwellers in Ethiopia and assesses several demographic and socioeconomic determinants. Utilizing cross-sectional survey research design, the study made use of face-to-face

interviews of 402 participants in order to collect primary data. Findings indicate that although more than half of the respondents exhibited moderate to high financial literacy, a vast majority swells need additional financial training. The research discovers that there are significant gender, age, education level, employment status, and household income-related disparities in financial literacy. Women, the youth and elderly groups, and less educated people with incomes below secondary school level or having an irregular income have poor financial literacy. The findings agree with the need for special financial education in Ethiopia due to these disparities. Together, the two pieces of work demarcate the position of financial literacy as a determinant of economic participation and investment behavior. As the Ethiopian capital market continues to grow, increased financial literacy among possible participants is essential to revitalize participation and effective economic advancement. The empirical overview that follows will be very enlightening in illustrating the connection between financial literacy and participation intention in the Ethiopian capital market.

Knowledge of the determinants of stock market participation is important to the formulation of appropriate investment plans and financial literacy improvement among potential investors. This review, through integration of recent research, i.e., Thomas and Spataro (2018) and Bucher-Koenen et al. (2023), addresses financial literacy, socio-demographic, and stock market participation. Thomas and Spataro (2018) study determinants of stock market participation in nine European nations using the 2010 Survey of Health, Ageing, and Retirements in Europe (SHARE) data. The econometric model is controlled for endogeneity of financial literacy and human capital. Findings are that improved financial literacy and education significantly explain stock market participation with marginal effects of 6.2% and 1.2%, respectively. Besides, the research emphasizes the significance of institution determinants differing among countries, i.e., market attractiveness and quality of education, affecting levels of participation. Socio-demographic determinants, i.e., wealth, income, and social networks, also significantly affect stock market participation. Bucher-Koenen et al. (2023) investigate the relationship between financial literacy and financial well-being based on evidence from the Panel on Household Finances (PHF) in 2021. The research discusses extremely significant financial knowledge aspects of interest, inflation, and risk diversification, targeting a representative sample of approximately 4,116 German households. According to the results, almost 62% of the household's answer very significant questions of finance correctly. Surprisingly, the studies identify lower financial literacy in women, East German residents, unemployed people, and people with lower education. Also, a positive correlation is found between stock market involvement and financial literacy and

lower probability of encountering financial distress. Implications of these studies highlight the critical role of financial literacy and education in stimulating stock market participation. As Ethiopia's developing capital market is constructed, an understanding of these forces would be essential in attracting potential investors and establishing financial well-being. Follow-up studies can further develop these forces within the Ethiopian context, with regard to regional socio-economic drivers and institutional landscapes.

Maarten van Rooij et al. (2007), in their research, utilized the data from the DNB Household Survey and specifically designed modules to gauge financial literacy. Financial literacy was measured based on answers to questions that are conducting deep financial knowledge and basic numeracy tests. The study utilized a representative panel sample of more than 2,000 Dutch households. The results suggest that financial awareness has a positive correlation with stock market participation; i.e., the more financially aware participants tended to participate in the stock market. However, the majority of the respondents are found to possess limited elementary financial literacy, which highlights the significance of financial education as a means of promoting more complex investment decisions. Similarly, Calcagno and Monticone (2015) employed data from the 2007 Unaccredited Customers' Survey and an ordinal response model of 1,686 Italian bank customers. Their findings revealed that more financially literate individuals are more likely to invest in higher-risk assets, like stocks, and be more inclined to use the services of professional financial professionals. Their less financially literate counterparts engaged less in capital markets. These findings emphasize the importance of higher financial literacy to enable effective investment decisions. By and large, the studies point to the pivotal role that financial literacy can play towards enabling participation in capital markets, especially in emerging economies such as Ethiopia. Enhanced financial education not only can empower prospective investors but also lead to a healthier and more prudent investment environment.

Annamaria Lusardi and Olivia S. Mitchell developed comprehensive studies of the problem of financial literacy based on surveys using important concepts such as diversification of risk, inflation, and compound interest, testing different populations with around 1,488 older American respondents using samples such as the National Longitudinal Survey of Youth (NLSY) and the Health and Retirements Study (HRS). Their work records a worrisome pattern: approximately only 30% of the sample ensured simple questions on finance correctly, expressing a widespread ignorance on finances that significantly influence economic behavior. Employing descriptive statistics and instrumental variable techniques, they established high financial literacy differences

across variables of education, gender, socioeconomic status, and age. Authors believe that financially literate individuals would be wasting to use capital markets, invest more productively, and stay away from expensive financial blunders. The study introduces the significance of financial literacy in developing economies such as Ethiopia, where prospective investors would greatly gain from enhanced financial knowledge, thus further mandating greater financial literacy in order to influence investment planning and practices within such economies.(Lusardi & Mitchell, 2014).

Almenberg and Dreber used the probity regression analysis in their 2015 study to investigate the gender gap in stock market participation against financial literacy. They used a survey of 1,300 people that represented the population in Sidon and conducted insightful research on factors behind women's and men's investment behavior. The study concluded that the gender gap in the stock market can be explained by different levels of financial literacy among women. This suggests a major barrier to women's involvement in capital markets, implying that financial literacy plays an important role in making investment choices. As the study concludes, increasing women's financial literacy may be a low-cost way to reduce the gap in stock market involvement. This observation is especially pertinent to emerging markets, like Ethiopia, in which enhancing financial literacy can encourage more participation by disadvantaged groups (Almenberg&Dreber, 2015).

2.9. Gap in Current Literature

It is important to be aware of the extent of financial literacy among Ethiopia's heterogeneous demographic groups to know the obstacles to access the emerging capital market. According to the existing literature, it is clear that financial literacy is extremely low among women and unbanked populations (Berhanu Lakew & Azadi, 2020). Premier studies like those of Desalegn et al. (2017) and Matewos Kebede Refera et al. (2017) have shown the substantial gaps in knowledge between the nexus of financial literacy and money market participation. Such gaps inhibit the development of effective financial literacy programs that are pivotal to improving investment practices.

In addition to this, fresh and complete data are required to truly enjoy the particular limitations of different segments of society in Ethiopia. Subsequent studies should center on measuring the influence of socio-demographic variables age, gender, and level of education, marital status, and earning on investment schemes and financial literacy. There is evidence from previous studies

that these determinants have a considerable effect on financial literacy and market participation, although there is some very limited research conducted on the Ethiopian case.

Also, future research needs to investigate the impediments that hinder financial literacy from being converted into real capital market participation. Knowing the impediments was present a scope for the identification of areas where focused intervention can be infused that eventually was bring in an inclusive and participatory financial system.

Empirical research acknowledges the pivotal role of financial literacy in influencing investment choices and economic engagement. For example, Preston et al. (2023) and Sivaramakrishnan et al. (2017) indicate the impact of financial literacy on investment decision across different cultural contexts. The findings demonstrate the need to realize greater financial literacy among prospective investors in Ethiopia, where financial education would be impactful in terms of investment choice in the emerging capital market.

Briefly, closing the gaps in the current financial literacy studies for Ethiopia is essential for securing effective involvement in the forthcoming capital market. Increased knowledge of socio-demographic determinants of financial literacy and intervention targeting them can be potentially setting the ground for increased economic participation and investment practice among potential investors.

2.10. Conceptual Framework

A conceptual framework is a guide that describes the anticipated relationships between variables in research. The conceptual framework demonstrates the relationship between different variables in the study of Financial Literacy and the Intention to participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors. Clear identification of dependent and independent variables is crucial when researching an investor's financial literacy and capital market participation. This framework may investigate the relationship between capital market participation (a dependent variable) and financial literacy (an independent variable), demographic and socio economic factors with serving as a controlling variable (Nadeem et al., 2020)

2.10.1. Explanation on the relationship on conceptual framework

1. Financial Literacy and Access to the Capital Market

The model shows that improved financial literacy (attitude, knowledge, and access to financial information) heightens one's capacity to access the capital market. This aligns with research by

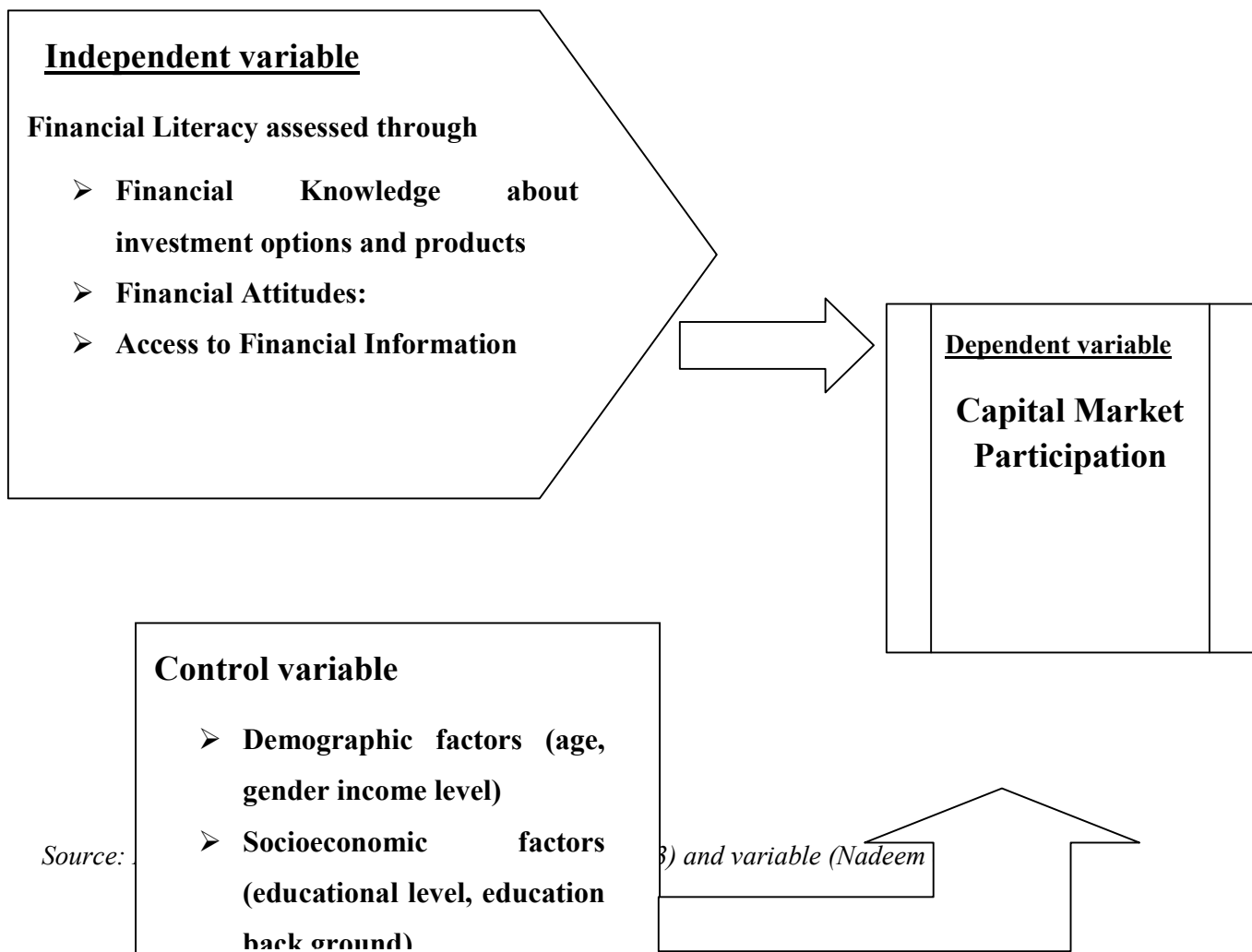
Lusardi and Mitchell (2014), which states that higher financial knowledge enhances one's chances of investing in activities. Availability of reliable financial information is a prerequisite to capital market participation. Research respondents indicated high availability of financial information, and this reflects high investment readiness and trust (Bucher-Koenen et al., 2024).

2. Control variables

Control factors have a great impact on take-up and financial literacy levels. The model shows that the younger and better educated, the more financially literate, which is in agreement with Preston et al. (2023) findings. This demographic finding is reinforcing the call for more focused financial education interventions to well knowledge gaps in less-educated and older cohorts..

Overall, the conceptual framework presented here provides a thorough description of the linkages between financial literacy, demographic factors, and capital market participation. By constructing such linkages, the framework improves knowledge on what motivates or constrains investment behavior in the Ethiopian context, making important contributions to the literature on financial

Figure 1. Conceptual framework



Source:

Chapter Three

Research methodology

3.1 Introduction

The chapter outlines the steps and procedures adopted by the researcher during conducting the study, for example, data collection procedures and sampling procedures. Procedures adopted in processing data as well as the equipment employed are also outlined. Important highlights of this chapter are: Research Design, Explanation and description of the research design adopted and why. Data Collection: Description of how data was gathered. Data Analysis: Explanation of how the data are analyzed. Reliability and Validity: Discussion of measures to enhance the reliability and validity of the findings. Establishment of Credibility: Discussion of measures taken to enhance the quality of the data and consequent knowledge claims derived there from. Methodological Assumptions: Discussion of methodological assumptions underlying the research. Ethical Issues: Discussion of ethical concerns that are encountered in conducting the research. The methodological design of such a process guarantees rigor and transparency in the research process and, overall, the credibility of the study (Flick, 2018; Creswell, 2014).

3.2 Research Methodology

Research utilizes a mixed-method approach, which is quantitative and qualitative research methodology. Utilizing numerical information and descriptive in-depth knowledge, the approach provides a thorough appreciation of the research issue (Barroga & Matanguihan, 2022). The mixed-method structure allows for intensive analysis of investors' financial literacy and investment in the Ethiopian capital market.

Financial literacy knowledge of financial products and investment vehicles, financial attitudes, financial capability, financial self-efficacy, and access to information about finance was measured by systematic surveying. Quantitative data collection on the basis of statistical representation of trends and correlations underlies this example. The impact of financial literacy on investor

behavior, for example, was quantitatively assessed through the aid of norms of recent measures of past research (Lusardi & Mitchell, 2014). This quantitative analysis makes it possible to identify patterns and relationships in the data.

The qualitative component supports the quantitative results in the light of causative factors of trends observed. It offers a more comprehensive understanding of drivers of financial literacy and barriers to entry of capital markets. This research element entailed semi-structured interviews and surveys that asked investors' money awareness, opinions, abilities, and exposure to news on finance, and personal experience (Zins, 2016; Bucher-Koenen et al., 2023).

By blending these two methodologies, this research not only measures the influence of financial literacy on investment choices but also situates these results in the lives of investors, thereby offering a richer, more textured understanding of the opportunities and challenges of the Ethiopian capital market.

3.3 Research Design

A well-defined research design is a template for an investigation, which facilitates the development of research questions, method selection, and data collection and analysis. A research design ensures research objectives are adequately attained through the incorporation of key aspects such as problem identification and ethics (Simpson, 2015; Busetto et al., 2020). Central to this is a research design that specifies steps in data collection and analysis of appropriate data, such that quality and effective methods are guaranteed.

In this case, explaining how the level of financial literacy among an investor influences engagement in capital markets, as well as decision-making, is best addressed through an explanatory research approach. The process is intended to explain relationships between variables by illustrating the manner in which levels of financial literacy determine whether or not an investor would participate in capital markets.

Besides, exploring how the financial literacy of individuals relates to their capital market participation in Ethiopia is suitable for the purposes of explanatory study designs. As earlier suggested by Thuku (2019) and again by Creswell (2013), this study utilizes an explanatory research design to explore the working mechanisms. To this end, the research seeks to uncover the nuanced way in which financial literacy affects investor activity and thus capital market activity in Ethiopia.

3.4 Source and Types of Data

The present study follows primary sources of data in capturing a comprehensive analysis of the contribution of investors to the Ethiopian capital market, specifically in Addis Ababa. Structured questionnaires are distributed to a set of anticipated individual investors in Addis Ababa to obtain primary data. This approach provides the quantitative data set, making it possible to analyze patterns and trends of investors' financial sentiment, financial products and investment products knowledge, and exposure to financial information (Creswell, 2014).

Apart from the quantitative data, some of the investors are also subjected to qualitative interviews so that qualitative data regarding their experiences and perceptions could be collected. The integration of the quantitative and qualitative methods brings value to the dataset as well as a better refined understanding of the investment context (Flick, 2018).

The selection of the data sources of the present study is justified on the following need of reliability along with relevance. Information was collected from individual investor's directly to get firsthand information and real-time data (Yin, 2018). Respondents are chosen based on credibility and richness of information they possess in terms of historical and current investment trends, regulatory actions, and market conditions (Barroga & Matanguihan, 2022). The reason for selecting these particular sources is in order to triangulate evidence from the primary data and to offer a wider context for the research (Denzin, 2017).

Primary data are gathered through standardized questionnaires with attempts to rule out bias and enhance reliability (Kvale, 2007). Pilot work was also carried out on the questionnaires prior to their use in full, so problems that emerged could be detected and removed. The validity, reliability, and usefulness of the secondary data sources for the purpose of answering the research questions are thoroughly evaluated (Buchanan et al., 2017). Such critical reflection enhances the validity of the inferences drawn in the study by making the outcome based on quality information.

3.5. Population and Samples

3.5.1. Population

Individual investors residing in Addis Ababa are the target population of this research, a cross-section of the representative population across age, gender, education level, and socioeconomic status (Althubaiti, 2022).

3.5.2. Sampling Technique

Sampling technique refers to a methodical process employed to choose a sample from a given population. It identifies the process in which every member of the sample is chosen to act as a proxy for the total population. In the current research, a non-probability random sampling technique was employed in choosing a representative sample. Non-probability sampling is highly appropriate for heterogeneous populations since it enables researchers to highlight distinctive attributes relative to the study (Althubaiti, 2022).

Non-probability random sampling techniques, including purposive sampling, are plausible in research environments where the goal is to collect information from certain subgroups in a heterogeneous population. The method enhances the cost-effectiveness and estimation accuracy of the sample design. For instance, purposive sampling allows researchers to focus on some strata in the population that share similar characteristics, which enhances the generalize ability of conclusions (Althubaiti, 2022).

By means of purposive sampling, members of the target population are divided into separated groups, or strata, based on common features that relate to research goals. This ensures the samples have specific features or backgrounds that interest the study goals. Purposive sampling further enables the survey costs to be controlled while improving the richness and relevance of findings (Althubaiti, 2022).

3.5.3. Sample Size

A non-random sampling method is used in this research to choose the target sample from prospective investors investing in the Ethiopian capital market. The use of the method is warranted because it makes it possible to specifically choose the respondents that are both current and future investors, making the sample more aligned with the purposes of the study (Hair et al., 2021).

The use of non-random sampling possesses various benefits. First, it makes the gathered data more applicable by focusing on individuals that have a direct stake or interest in the capital market. Two, it minimizes possible bias since the sample needs to be capable of taking into account the uniqueness of the investor population that is of concern to research (Hair et al., 2021). Third, the process allows for transparency of the complexity of investor attitude and financial literacy.

Sampling is needed to identify the quality of the study. Sampling a proportion of the population enables researchers to estimate the attributes of the overall sample (Hair et al., 2021). Some of the factors that must be taken into account when estimating the sample size are the research goals, the desired population size, attribute heterogeneity of the items being measured, and the level of precision desired, also known as the sampling error.

In order to attain credibility in researching the financial literacy and behavior of investors in the Ethiopian capital market, an adequate sample size must be determined. Here, the margin of error is typically set at 5% and the confidence level at 95%. The population proportion (p), that is, the proportion of financially informed individuals, is estimated using data sources that are available readily (Hair et al., 2021). This methodological complexity guarantees the reliability and validity of the findings, providing the more in-depth understanding of the Ethiopian capital market dynamics.

If data is not available, a conservative estimate of $p = 0.5$ should be used.

$$Z^2 (P (1-p))/e^2 = n$$

Where, n is the sample size.

Z is the chosen degree of confidence's standard error (for 95% confidence = 1.96).

(0.05) is the tolerable sample error (e).

p = success probability (let's say its 0.5).

$$Z^2 (P (1-p))/e^2 = n$$

$$(1.92) n \text{ One-half } (0.5(1-0.5)) \div (0.05) n=384$$

Hence, a sample size of about 384 respondents is appropriate for this research. Since the Ethiopian capital market is an emerging market significant to the nation's economic development, it is imperative to be aware of it (Hair et al., 2021).

The main goal of this research is the assessing of investors' financial literacy, which is significant in heightened market participation and responsible investment decision-making (Hair et al., 2021). Financial literacy provides investors with required competence to examine investment alternatives, assess risks, and make informed financial decisions. Through the examination of how much financial literacy among investors exists, the study seeks to determine areas of gaps and encourage activities towards knowledge and participation in the capital market (Hair et al., 2021).

3.6. Data Collection Methods

Information was collected from both primary and secondary sources. The survey was conducted through the use of a structured survey to establish the level of financial literacy and investment behavior among prospective investors in the Ethiopian capital market. The target respondents of interest are Ethiopian financial experts, individual (retail) and investors. The questionnaires used in this quantitative research are standardized and consisted of five sections full of closed-ended.

Demographic Profile captured data on the respondents' gender, age, education level, income level and field of study orientation. All of these data matter to know the background of the respondents and how it can affect their financial behaviors (Lusardi & Mitchell, 2014; van Rooij et al., 2011).

Financial Knowledge test measured how much respondents knew about investment products and financial instruments. This dimension is relevant in that financial literacy has a direct influence on investment choice and financial health (Lusardi & Mitchell, 2014; Ixiang et al., 2022).

The Attitudes on Finance test measured respondents' financial attitudes. It is fascinating to know how financial attitudes influence investment plans (Oehler & Horn, 2023). The Financial Skills test assessed the capacity of the respondents in performing financial activities well. This is needed to identify the actual application of financial knowledge in situations (Lusardi & Mitchell, 2014; Ixiang et al., 2022).

The Access to Financial Information test examined the ease with which respondents obtained financial services and information. Ease of access is a major driving factor for investments and financial literacy (Daryaei & Fattahi, 2021).

In order to attain relevance and reliability, the questionnaire was constructed utilizing measurement scales that are validated from earlier research. The financial knowledge scale was taken from scholars like Lusardi & Mitchell (2014) and van Rooij et al. (2011). The attitudes toward finance are taken from Oehler & Horn (2023), whereas those of financial skills are taken from Lusardi & Mitchell (2014) and lixiang et al. (2022). The questionnaire was constructed specifically for this research.

Participants are provided with utmost explanation of the reason and structure of the questionnaire, and confidentiality procedures are strongly upheld to allow frank answers. A thorough conceptual literature and empirical evidence review in allied disciplines was undertaken to prepare the survey content. The review dealt with issues of financial literacy such as access to financial information, management of finance skills, and financial attitudes.

By giving clear definitions of the words used throughout the whole questionnaire, all the respondents had a uniform understanding of the concepts to be investigated. This approach is in favor of the study titled "Financial Literacy and the Intention to participate in the Emerging Ethiopian Capital Market: A Study of Potential Investors."

In conclusion, emphasis on the use of a sample size of 384 respondents is justified by the importance of financial literacy in a changing economic environment to ensure that the results was improve the understanding and design of the Ethiopian capital market.

3.7. Validity and Reliability

The suitability of the measure tool of the study has been extensively validated. Questionnaires have been constructed with a careful critique of the relevant literature in order to obtain the valid topic and applicability to the study goals. I augmented our instrument by incorporating elements from existing measurement tools which already possess validity and reliability.

In the case of Hair Jr. (2021), the three major validity types include construct validity, criterion-related validity, and content validity. The three types of validity are crucial in ensuring the measuring tool can capture appropriately the concepts under study

Construct Validity: This means the extent to which the instrument is measuring the theoretical constructs it was designed to measure. I confirmed this by making sure that questionnaire items align well with the theoretical model of financial literacy.

Criterion-Related Validity: This validity evaluates whether a measure has the ability to predict an outcome from another measure. I established this by cross-matching our questionnaire outcomes with well-established measures in financial literacy.

Content Validity: This is a process of determining whether the instrument adequately measures all the facets of the construct. I had expert opinion in the field and revised literature in order to guarantee full coverage of elements of financial literacy.

Convergent Validity: To assess convergent validity, I calculated the Average Variance Extracted (AVE) for the constructs. If the score is higher than 0.50, it means the indicators are capturing more than half of the variance and hence proving that the measuring instrument is good. The statistical method proves the items are measuring the corresponding constructs well and giving consistent results to be analyzed.

Table 1 presents the reliability coefficients (Cronbach's alpha) for all the variables. Cronbach's alpha is an internal consistency measure, which tells us how much a set of items correlate with each other .It is a value between 0 and 1, with larger values representing greater internal consistency.

Table 1: Reliability coefficient (Cronbach alpha)

Variables	No of items or statements or Likert scale items	Cronbach's Alpha
Financial Knowledge	6	0.788
Financial Attitude	6	0.727
Access to Financial Information	5	0.760
Capital Market Participation Potential	5	0.871
All variables	22	

Source: survey result 2025

Interpretation of Cronbach's Alpha Values

Financial Knowledge (0.788): Suggests good to sufficient internal consistency.

Financial Attitude (0.727): Suggesting sufficient internal consistency.

Access to Financial Information (0.760): Suggesting sufficient internal consistency.

Capital Market Participation Potential (0.871): Suggesting good internal consistency.

The above results indicate that the scales applied in the study are reliable in quantifying the intended concepts.

In short, the strict validation process, such as the measurement of construct validity, criterion-related validity, content validity, convergent validity, and the estimation of Cronbach's alpha, enhances the findings in "Financial Literacy and the Intention to Engage in the Upcoming Ethiopian Capital Market: A Study of Prospective Investors." By ensuring the reliability of measurement tools and validity, i enhance the credibility of the research findings.

3.8 Methods of Analysis Applied in the Research

Regulations laid out are adhered to when conducting the collection, updating, coding, and classification of data required. A quantitative data analysis technique was used in analyzing quantitative data. Closed-ended questions as well as quantitative and qualitative techniques are used in data collection and analysis. Findings are evaluated based on empirical data gathered.

The main aim of the study is to test investors' financial knowledge and involvement in the Ethiopian capital market. Regression and correlation analysis are used to examine the relationship between different variables, e.g., Financial Literacy, Financial Knowledge of products and investment options, Financial Attitudes, Financial Skills, Access to Financial Information and products, and Demographic Factors, and Participation in the Capital Markets. The research model is inquiry type and contains concise guidelines for the research process, known as inquiry tactics (Kothari, 2004).

Besides this, data processing and analysis was conducted using SPSS version 27. SPSS facilitated descriptive statistics analysis, which was used to understand the demographic basic profile of respondents within the research setting. This systematic approach brings clarity and authenticity

to the research process, enhancing the validity of the study and academic contribution to knowledge in the Ethiopian context of financial literacy.

3.9. Ethical considerations

Ethics pertain to the code of ethics which governs the officials in every area of their duties. The major principles of ethical conduct include honesty, integrity, probity, diligence, fairness, trust, respect, and consistency (Ie, 2002). The next section talks about the steps taken to make sure that participants are not exposed to harm in the process of conducting the research as well as steps taken towards safeguarding their rights.

In convenience of data collection, advance appointments are scheduled through a call to the respective authorities of the sampled company. The researcher communicated with participants in scheduling participant-friendly data collection sessions. The data collection was carried out in the presence of the researcher with the help of volunteers of the sampled company.

In data gathering, all the ethical issues are dealt with carefully. The participants are properly informed about the study so that they could uphold ethical standards. The researcher ensured that confidentiality was upheld and there was an organized environment conducive to voluntary participation in the research.

Such moral values are relevant to the protection of the rights of participants and validity enhancement of the study, culminating in a proper comprehension of financial literacy and its effect on investment intention in the Ethiopian capital market.

Chapter Four

Analysis and Discussion

4.1. Introduction

This chapter deals with the data collected through questionnaire analysis and discussion with previous empirical studies. Primarily, the study intends to distribute and collect 384 questionnaires in Addis Ababa. From the 384 questionnaires that were distributed, 367 respondents' data were collected successfully, with a response rate of 95%, while the remaining 8 questionnaires were incomplete and 9 were not returned.

Table 2. Response rate

Distributed	Collected	Questionnaire
384	367	95.57%

Source: survey result 2025

As shown in the above Table, 384 questionnaires were distributed and 367 were returned. This makes the response rate about 95.57%.

4.2. Profile of the respondents

Table 3. Respondents' Demographic Characteristics

Variable	Category	Frequency	Percent (%)
Gender	Male	276	75.2
	Female	91	24.8
	Total	367	100.0
Age Group	Between 25 – 35	223	60.8
	Between 36 – 45	122	33.2
	Between 46 – 55	12	3.3
	Above 56	10	2.7
	Total	367	100.0
Educational Level	Diploma or less	21	5.7
	Bachelor's Degree	210	57.2
	Master's Degree	133	36.2
	Doctorate	3	0.8
Field of Study	Business and Economics	146	39.8
	Other Social Sciences	80	21.8
	Natural Sciences (Health, Engineering, CS, etc.)	141	38.4
	Total	367	100.0
Monthly Income	Less than 15,000 ETB	161	43.9
	15,001 – 25,000 ETB	104	28.3
	25,001 – 35,000 ETB	34	9.3
	More than 35,000 ETB	68	18.5

	Total	367	100.0
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Source: survey result 2025

As displayed in Table 3, the study included 276 (75.2%) males and 91 (24.8%) females. Regarding the age categories, the majorities, i.e., 60.8%, were aged 25-35; followed by 32.2% aged 36-45, and only 6% were aged above 46. Over half of the participants, i.e., 57.2%, held a degree, followed by about 36.2% who held a Master's degree, 5.7% who had a diploma, and less than 1% who had a PhD. Regarding their academic background, about 39.8% had a background in Business and Economics, followed by 38.4% from Natural Sciences, and 21.8% from Social Sciences. When looking at their monthly income, a large proportion, i.e., 43.9%, earned less than 15,000 ETB, followed by about 28.3% of the respondents who earned between 15,001 and 25,000 ETB. Those with higher incomes (25,001-35,000 ETB) accounted for only 9.3% of the total, while about 18.5% of the

4.3. Descriptive analysis

4.3.1. Descriptive analysis for Financial Knowledge

Table 4: Descriptive analysis for Financial Knowledge

Item	Mean	Std. Deviation
I understand the basic financial concepts such as interest rates, inflation, and time value of money.	4.32	0.823
I am capable of calculating interest on savings or investments.	4.35	0.724
I understand how inflation affects the purchasing power of money.	4.32	0.717
I can differentiate between various investment options (e.g., stocks, bonds, real estate).	4.24	0.835
I understand the relationship between risk and return in investing.	4.30	0.710

I know the importance of diversifying investments to manage risk.	3.97	0.669
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Source: survey result 2025

“I understand the basic financial concepts such as interest rates, inflation, and time value of money,” computed a mean score of 4.32. The data revealed that respondents strongly agreed about their understanding of these basic financial concepts.

Similarly, a mean score of 4.32 (strongly agree) was obtained for the item “I understand how inflation affects the purchasing power of money.” This result indicates that respondents believe they have a strong theoretical understanding of foundational economic principles. The mean score and standard deviation for the item “I understand the relationship between risk and return in investing” were 4.30 (strongly agree) and 0.710, respectively, indicating high homogeneity among respondents' responses.

Additionally, the mean score and standard deviation for the item “I can differentiate between various investment options (e.g., stocks, bonds, and real estate)” were 4.24 and 0.835, respectively. This implies that respondents are aware of various investment options like stocks, bonds, and real estate.

The item “I know the importance of diversifying investments to manage risk” had a mean score and standard deviation of 3.97 and 0.669, respectively. This shows that respondents agreed about their understanding of the importance of diversifying investments to manage risk.

4.3.2. Descriptive analysis for Financial Attitude

Table 5. Descriptive analysis for Financial Attitude

Item	Mean	Std. Deviation
I feel confident in my ability to make personal investment decisions.	4.02	0.808
I believe investing in the capital market is a smart way to grow my wealth.	3.76	0.835
I am willing to take financial risks if the returns are potentially high.	3.81	0.830
I believe financial planning is essential for long-term stability.	3.59	1.036
I consider myself a financially responsible person.	3.92	0.804
I enjoy learning about new financial products and investment	2.39	1.220

opportunities.		
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Source: survey result 2025

The descriptive analysis of the item “I feel confident in my ability to make personal investment decisions” computed a mean value of 4.02 and a standard deviation of 0.808. This reveals that respondents are confident in their ability to make personal investment decisions. The mean score of the second item, “I believe investing in the capital market is a smart way to grow my wealth,” is 3.76 with a standard deviation of 0.835. This indicates a positive attitude towards investing in the capital market.

The mean score and standard deviation for the item “I am willing to take financial risks if the returns are potentially high” were 3.81 (agree) and 0.830, respectively, indicating a relatively homogeneous response. The mean score and standard deviation for the item “I believe financial planning is essential for long-term stabilities” were 3.59 (agree) and 1.036, suggesting relatively low homogeneity among respondents' responses. The mean score and standard deviation for the item “I consider myself a financially responsible person” were 3.92 (agree) and 0.804, indicating a relatively homogeneous response. Finally, the mean score and standard deviation for the item “I enjoy learning about new financial products and investment opportunities” were 2.39 and 1.220, respectively.

4.3.3. Descriptive analysis for Access to Financial Information

Table 6. Descriptive analysis for Access to Financial Information

Item	Mean	Std. Deviation
I have regular access to financial information about the Ethiopian capital market.	3.99	0.808
I use online platforms to stay updated on financial and investment news.	3.96	0.769

I know where to find reliable financial advice when I need it.	4.38	0.588
I find financial information in Ethiopia easy to understand and interpret.	4.43	0.568
I frequently engage with financial institutions to learn more about investment options.	4.22	0.625

Source: survey result 2025

From the table, the initial statement, "I have regular access to financial information about the Ethiopian capital market," had a mean score of 3.99 and a standard deviation of 0.808. This shows that people notice that they have regular access to the Ethiopian capital market's financial information. The second one, "I use online sites to keep abreast of investment and financial information," has a mean of 3.96 and a standard deviation of 0.769. What this indicates is that they are making use of internet and market-specific sources of information, though there is a slightly wider variation in using or accessing them.

For the item "I find financial information in Ethiopia easy to understand and interpret," the respondents agreed at a mean score of 4.43 (strong agreement) with a standard deviation of 0.568. This shows that the majorities of the respondents not only access financial information but also agree that they can interpret and understand it with minimal variability in responding. The overall outcome shows a good attitude for access and interpretation of financial information by the respondents. The item on the questionnaire "I know where to find reliable financial advice when I need it" was also rated very high with a mean of 4.38 and a standard deviation of 0.588. This is reflective of the widely prevailing strong availability of knowledge among participants regarding sources of financial information that they might access in need of trustworthy advice. The other response, "I personally visit financial institutions periodically to learn more about investments," had a mean of 4.22 (strong agreement) and a comparably low standard deviation of 0.625. This indicates respondents actively search for information regarding investments by meeting financial institutions in person. Together, these findings indicate good financial awareness and active search for investment information among respondents.

4.3.4. Descriptive analysis for Capital Market Participation Potential

Table 7. Descriptive analysis for Capital Market Participation Potential

Item	Mean	Std. Deviation
I am interested in participating in the Ethiopian capital market.	4.03	0.789
I believe the capital market in Ethiopia was contributed to economic development.	4.05	0.846
I am planning to invest in the Ethiopian capital market within the next year.	4.10	0.770
I feel I have enough knowledge to start investing in the Ethiopian capital market.	4.14	0.771
I am likely to recommend capital market investment to friends or family members.	4.07	0.822

Source: survey result 2025

Table 7 summarizes essential findings of the respondents' perception and willingness to invest in the Ethiopian capital market. The response, "I think that I have enough knowledge to invest in the Ethiopian capital market," had a mean of 4.14, and this is supported by a standard deviation of 0.771. It shows that there is a very high confidence and preparedness level among the respondents and it is a reflection of how financially educated and confident they are to participate in the market.

A second alternative, "I intend to invest in the Ethiopian capital market within a year," had an average of 4.10. The measure shows respondents have strong investment intentions in the near future, and it is an indicator of positive attitude towards capital market participation. In addition, the response, "I am likely to recommend capital market investment to friends or family members," had an average of 4.07. That suggests not only that respondents believe in the market but would be inclined to recommend it, signifying a certain social influence and word-of-mouth potential.

The statement, "I believe the capital market in Ethiopia will make a contribution to economic growth," was scored on average at 4.05. Whereas there was a high degree of overall agreement concerning the contribution of the market to growth, there was variability of response on this item, indicating differing opinions among the respondents.

Finally, the declaration, "I am interested in investing in the Ethiopian capital market," scored an average of 4.03. This continues to demonstrate a high level of interest by the respondents to invest in the capital market, which helps to further affirm the general positive attitude towards investment opportunities within Ethiopia. Overall, the information indicates very high confidence and willingness by respondents to invest in the Ethiopian capital market and willingness to recommend it to other people and they are convinced that it can be used for national economic development.

4.4. Financial Literacy vs. control Variables

Table 8. Financial Literacy vs Demographic Variables

Demographic Variable	Category	Relatively Low Financial Literacy	Relatively High Financial Literacy	Total (%)
Gender	Male	56 (15.3%)	220 (59.9%)	276 (75.2%)
	Female	24 (6.5%)	67 (18.3%)	91 (24.8%)
Age Group	Between 25-35	54 (14.7%)	169 (46.0%)	223 (60.8%)
	Between 36-45	18 (4.9%)	104 (28.3%)	122 (33.2%)
	Between 46– 55	4 (1.1%)	8 (2.2%)	12 (3.3%)
	Above 56	4 (1.1%)	6 (1.6%)	10 (2.7%)
Education Level	Diploma/ Less	8 (2.2%)	13 (3.5%)	21 (5.7%)
	Degree	46 (12.5%)	164 (44.7%)	210 (57.2%)
	MA	26 (7.1%)	107 (29.2%)	133 (36.2%)
	PHD	0 (0.0%)	3 (0.8%)	3 (0.8%)
Monthly Income (ETB)	Less than 15,000	26 (7.1%)	135 (36.8%)	161 (43.9%)
	15,001 – 25,000	22 (6.0%)	82 (22.3%)	104 (28.3%)

	25,001 – 35,000	16 (4.4%)	18 (4.9%)	34 (9.3%)
	More than 35,000	16 (4.4%)	52 (14.2%)	68 (18.5%)
Total		80 (21.8%)	287 (78.2%)	367 (100%)

Source: survey result 2025

In terms of demographic variables in reference to market participation and financial literacy, the evidence is noteworthy. At 59.9%, men were in greater percentage than women, at 18.3%, to reflect high financial literacy. Such variations point to the substantive differential in reference to knowledge of money between the two genders. Furthermore, young adults aged between 25 and 35 had higher levels of financial literacy. Education was also a crucial factor because bachelor degree and master degree holders exhibited higher levels of financial knowledge than those with low educational attainments.

Surprisingly, financial literacy was found in all income groups. Interestingly, a very high proportion of individuals earning below 15,000 ETB still demonstrated relatively high financial literacy, representing 36.8%. This suggests that income level is important but perhaps not the only or even most important driver for financial literacy. In conclusion, these findings both echo and explain the multifaceted dynamic between demographic forces and financial literacy, demonstrating that it is the interplay between multiple drivers that determines individuals' knowledge of and engagement with the market.

4.5. Inferential statistics

In this part I am going to examine the association between financial literacy and investment willingness to utilize the burgeoning Ethiopian capital market by prospective investors. Based on inferential statistical analysis, our objective is to examine whether financial literacy affects investment willingness or otherwise. While examining our data, we utilized the following statistical techniques: Correlation Analysis: The direction and strength of the relationship between investment intention and financial literacy scores were determined using Pearson correlation coefficient. Regression Analysis: Multiple regressions were

employed to analyze the influence of financial literacy on investment plans with demographic variables like age, education, and income level controlled for. The result was interpreted with Pearson Correlation Coefficient and Regression Analysis.

4.5.1. Correlation

Table 9: Correlation

		Financial Knowledge	Financial Attitude	Access to Financial Information	Capital Market Participation Potential
Financial Knowledge	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	367			
Financial Attitude	Pearson Correlation	.313**	1		
	Sig. (2-tailed)	.000			
	N	367	367		
Access to Financial Information	Pearson Correlation	.203**	.021	1	
	Sig. (2-tailed)	.000	.694		
	N	367	367	367	
Capital Market Participation Potential	Pearson Correlation	.592**	.455**	.457**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	367	367	367	367
**. Correlation is significant at the 0.01 level (2-tailed).					

Source :(survey result of 2025)

The correlation table is for four Financial Knowledge, Financial Attitude, Access to Financial Information, and Capital Market Participation Potential variables with a sample of 367. There is a

significant positive correlation of 0.313 (at the 0.01 level) between Financial Knowledge and Financial Attitude that shows greater financial knowledge resulting in good attitudes toward finance. There is also extremely low positive correlation of 0.203 (significant at the 0.01 level) between Financial Knowledge and Access to Financial Information, indicating that higher financial knowledge is associated with improved access to financial resources. Alternatively, Financial Attitude's relationship with Access to Financial Information is extremely low at 0.021, and with no significant relationship. There exists a positive correlation of 0.592 at the 0.01 level between Financial Knowledge and Capital Market Participation Potential, indicating that greater financial knowledge is associated with greater market participation. In addition, there exists a positive correlation of 0.455 at the 0.01 level between Financial Attitude and Capital Market Participation Potential, indicating that positive financial attitudes have the power to drive market participation. Lastly, moderate 0.457 (significant at the 0.01 level) correlation between Access to Financial Information and Capital Market Participation Potential shows that higher access contributes to higher participation. In conclusion, these findings indicate that greater financial knowledge and financial attitudes can contribute to higher participation in capital markets, while access to financial information is not related to financial attitudes.

4.5.2. Diagnosis of the data

The diagnosis of data regarding financial literacy and the intention to participate in the emerging Ethiopian capital market involves assessing the levels of financial knowledge among potential investors and analyzing their willingness to invest.

4.5.2.1. Multi-co linearity

Table 10. Multi-co linearity

Model		Co linearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Financial Knowledge	.863	1.158
	Financial Attitude	.900	1.111
	Access to Financial Information	.957	1.045
a. Dependent Variable: Capital Market Participation Potential			

Source :(survey result of 2025)

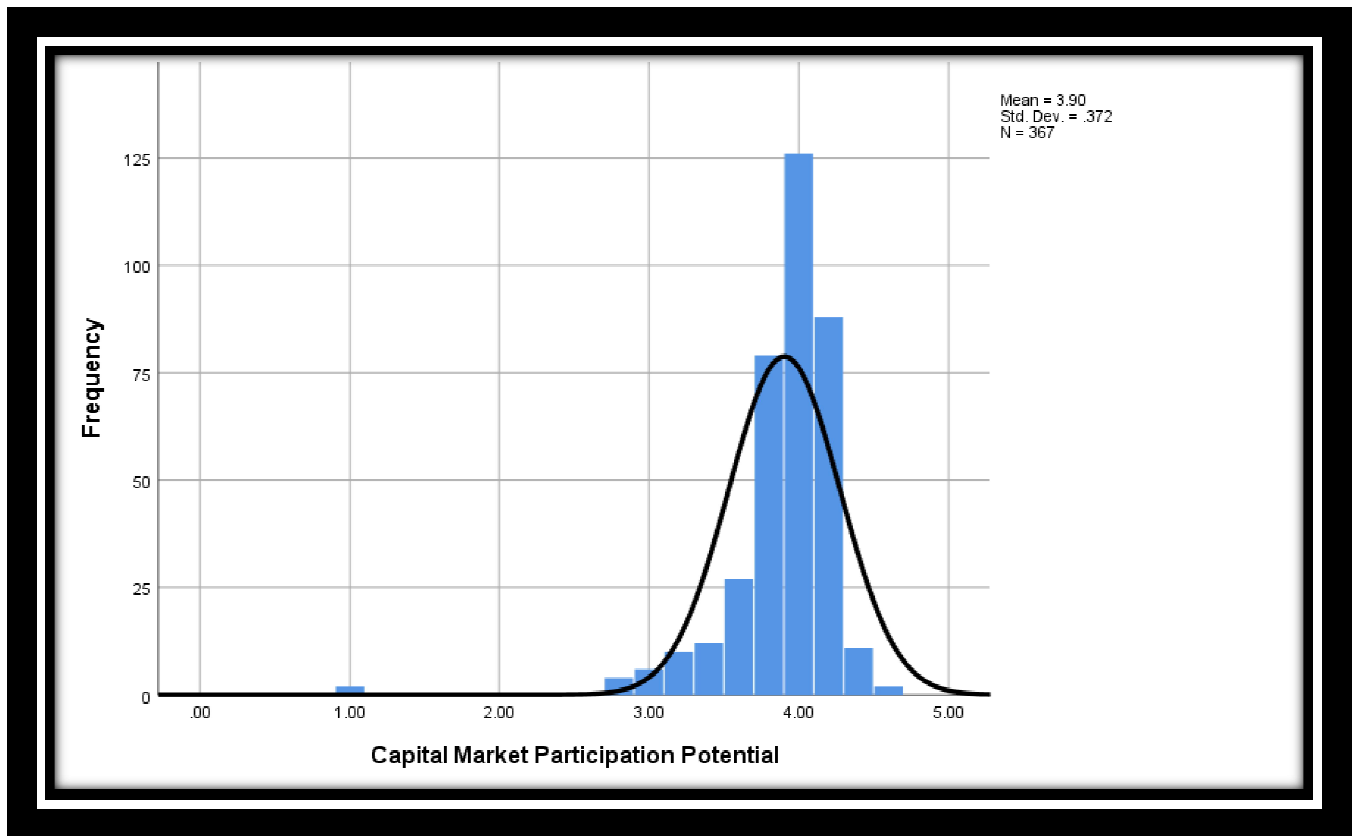
Table 10 shows the multi-co linearity statistics for predictor variables in the regression model to quantify capital market participation potential. The table shows tolerance and variance inflation factor (VIF) for each predictor variable.

Values of independent variables—Financial Knowledge, Financial Attitude, and Access to Financial Information—tolerance are 0.863, 0.900, and 0.957, respectively. The values show that there is very little multi-co linearity in predictors since tolerance values above 0.1 are usually okay. Similarly, all the VIF values are below 2 with Financial Knowledge at 1.158, Financial Attitude at 1.111, and Access to Financial Information at 1.045. VIF values below 5 suggest that multi-co linearity is not a problem in the current model.

In general, the findings reflect that the independent variables are not highly correlated, verifying the validity of the regression analysis. This is an indication that each of these variables contributes uniquely to the prediction of possible participation in the capital market, giving clearer signals about their unique contributions.

4.5.2.2. Histogram

Figure 2. Histogram



Source :(survey result of 2025)

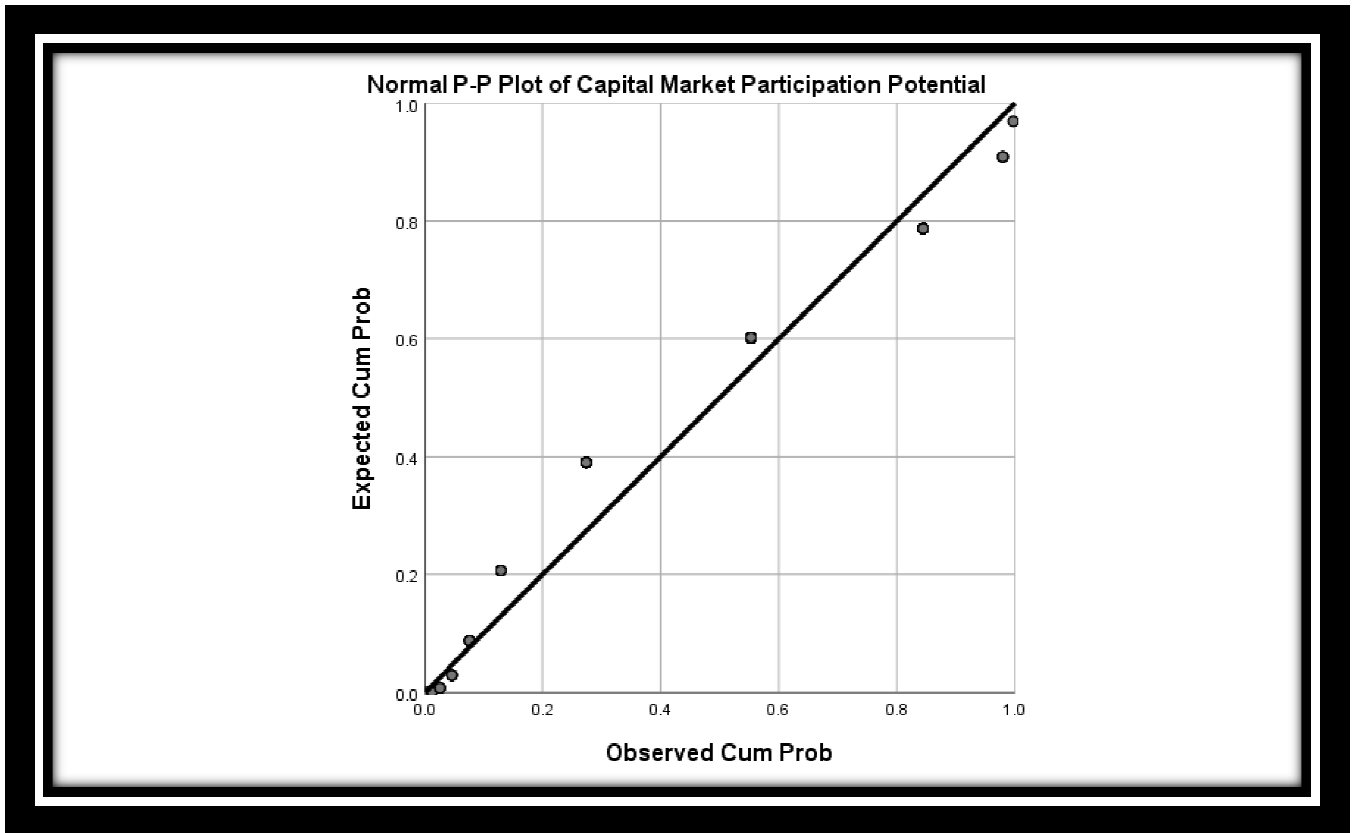
The Figure 1 histogram illustrates the distribution of financial literacy scores across the potential investors in the rising Ethiopian capital market. The histogram presented here is right-skewed, as the longer tail on the right side of the histogram is evident when compared to the left-side tail. When a histogram is left-skewed, the mean will necessarily be lower than the median. Linker-scale information on investors' possible participation in the capital market in Addis Ababa is also right-skewed. This suggests that more respondents marked those responses near the lower end of the scale (Agree or Strongly Agree), whereas fewer marked higher degrees of agreement (Strongly Disagree to Neutral).

This histogram indicates that most investors view themselves as having low to moderate participation ability or willingness to participate in the capital market. The long right-side tail is for a lesser group of investors who are very confident in their high participation ability. Thus, this histogram indicates a majority of low-perceived readiness or consciousness among investors. It

focuses on the imperative of more investor education, building confidence, and having effective market platforms accessible to raise participation rates overall.

4.5.2.3. p-p Lot

Figure 3. P-P Plot



Source :(survey result of 2025)

Figure 2 displays the P-P plot that shows observed scores of financial literacy against a hypothetical normal distribution. Each point on the graph represents an individual score, and in the best case, all would fall along the diagonal line that depicts normality in the distribution of the data. The Probability-Probability (P-P) Plot is used to verify if the standardized residuals of a study of prospective investors to invest in the Addis Ababa capital market are normally distributed. This is very important in the majority of statistical models such as regression and structural equation modeling.

In the P-P plot, the X-axis graphs the cumulative probabilities of the observed standardized residuals with an expectation of 0 and a standard deviation of 1. The Y-axis graphically displays the expected cumulative probabilities for a standard normal distribution for the same sample size ($n = 367$). If the P-P plot behaves close to the 45-degree line, it suggests that the residuals are

nearly normally distributed. This observation indicates that the model employed in making an estimate of the likelihood of participation in capital markets is consistent with data, hence making the conclusions obtained from analysis more valid.

Variation evident from the line—especially at the extremes—can, however, imply that the magnitude of some investors' potentials is underestimated or overestimated. These variations could result from outliers, response asymmetry, or unobserved participation drivers. By comparing these results to a prior right-skewed histogram that indicated a cluster of investors at lower potential levels, the P-P plot serves to verify whether or not that skewness actually is statistically significant or if the data still meets under the normality assumptions required for additional inferential statistics. Generally, both histogram and P-P (probability-probability) plot can be utilized to verify normality of a data set.

4.5.3. Regression

4.5.3.1. Model Fitness

Table 11. Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747 ^a	.559	.555	.24788
a. Predictors: (Constant), Access to Financial Information, Financial Attitude , Financial Knowledge				

Source :(survey result of 2025)

The regression analysis introduced to the model fitness statistics provides meaningful information on the relationship of financial literacy and the willingness to engage in the upsurge Ethiopian capital market. The R value of 0.747 is a strong positive correlation between observed and predicted values and indicates a satisfactory overall relationship between predictors Access to Financial Information, Financial Attitude, and Financial Knowledge and the dependent variable, potential for capital market participation.

The R Square (R²) value of 0.559 implies that the three independent variables account for an aggregate of about 55.9% of the variability in the ability to engage in the capital market. This is a

high percentage, and it shows the explanatory power of the model. The Adjusted R Square, adjusted for the number of the predictors, is also 0.555. The small difference between R² and Adjusted R² shows that each of the three predictors makes a distinct contribution to the model; hence the model is well-specified and not over fitted.

Lastly, the Standard Error of the Estimate at 0.24788 is the average difference between actual values and the line of regression line. The lower the standard error, the nearer predictions of the model to the actual values and thus the more credible the model. Lastly, these findings underscore the need for financial literacy in influencing plans by prospective investors towards engagement in the newly created Ethiopian capital market.

4.5.3.2. ANOVA

Table 12. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.240	3	9.413	153.197	.000 ^b
	Residual	22.305	363	.061		
	Total	50.545	366			
a. Dependent Variable: Capital Market Participation Potential						
b. Predictors: (Constant), Access to Financial Information, Financial Attitude , Financial Knowledge						

Source :(survey result of 2025)

The ANOVA table outcome suggests that the regression model predicting Capital Market Participation Potential is statistically significant. The F-value of the model is extremely high at 153.197, and its accompanying significance (p-value) is .000. This suggests that the combined influence of the three predictors, i.e., Financial Knowledge, Financial Attitude, and Access to

Financial Information, contributes significantly to explaining the variance in the dependent variable.

The sum of squares of regression is put at 28.240 and stands much higher than the sum of squares for residuals, put at 22.305. The difference indicates that a large percentage of the overall variation in the ability to take part in the capital market with the total sum of squares put at 50.545 is reasonably explained by the assumed model. These results confirm the previously reported R² measure of 0.559, thereby confirming that the predictors significantly explain and forecast individuals' likelihood to be involved in the Ethiopian capital market.

Concisely, the findings underscore the significance of financial literacy, as captured by predictors, in determining the intentions of potential investors in the rising Ethiopian capital market. Improved financial education and beliefs, as well as enhanced access to finance information, are therefore stressed in this study to aid in motivating increased capital market participation.

4.5.3.3. Regression Coefficient

Table 13. Regression Coefficient

Model		Unstandardised Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.310	.179		1.731	.084
	Financial Knowledge	.054	.005	.418	11.146	.000
	Financial Attitude	.049	.006	.317	8.618	.000
	Access to Financial Information	.071	.007	.366	10.258	.000
a. Dependent Variable: Capital Market Participation Potential						

Source :(survey result of 2025)

Table 13 regression output provides us with important insights on the effects of different independent variables on the dependent variable, Capital Market Participation Potential. The three predictors of the model are Financial Knowledge, Financial Attitude, and Access to Financial Information. All three variables are positively and statistically significant in their effects on capital market participation potential, as indicated by their low p-values (Sig. = 0.000). Strong statistical significance here means that observed relationships are not likely to occur by chance alone and confirm their authenticity.

The predictors are Financial Knowledge, the most significant variable with the greatest standardized coefficient of Beta = 0.418. This indicates that, while holding the impact of the other variables constant, a rise in financial knowledge is related to a greater rise in potential capital market participation than the other variables. After Financial Knowledge, Financial Information Access (Beta = 0.366) and Financial Attitude (Beta = 0.317) also have significant positive impacts, but smaller.

The unstandardized coefficients (B) also help identify the practical significance of the said relationships. In particular, a one unit increase in Access to Financial Information results in an increase of 0.071 units in the measure of capital market participation potential, Financial Attitude in an increase of 0.049 units, and Financial Knowledge by 0.054 units. These revelations speak volumes about the significance of access to good information and financial knowledge in raising the use of the capital market. The intercept term (B = 0.310, p = 0.084) is not significant, i.e., when all the predictors are zero, the level of the potential to participate in the capital market is not significantly different from zero.

In conclusion, findings from this study underscore the pivotal position of knowledge and education about finance in raising the intention to join the new Ethiopian capital market. Financial information and sound financial position are also obtainable, showing the importance of these factors in encouraging participation. The work adds to what has been formulated in terms of the contribution of financial literacy to investment choice in developing countries. Insights from the study can provide insights that can guide policy and education for encouraging participation in the capital market among potential investors in Ethiopia.

2.6. Analysis of Empirical Evidence in Light of Established Theories

The research offers solid evidence that the respondents had a high degree of economic literacy, specifically in comprehending elaborate words like "interest" and "investment diversification,"

with a mean of 4.35. The evidence supports Human Capital Theory, asserting that those who invest in economic education tend to have the knowledge to make sound investment choices. For example, the capacity to compute interest on savings, also with a mean of 4.35, confirms that the respondents have key financial skills, supporting Becker's argument that knowledge contributes a lot to economic productivity. The capability indicates that educated individuals can manage the complexity of financial markets, as Lusardi and Mitchell (2014) emphasized.

Moreover, the study also disclosed that the younger respondents aged 25-35 were also found to have greater investment intentions and higher financial knowledge, wherein 60.8% of them reported investment willingness. This finding is consistent with the Life Cycle Model in which individuals in this age category make financial planning and investment behavior toward accumulating wealth in the long term. The average score of 4.10 among young adults who intend to invest in the Ethiopian capital market next year indicates a forward-looking investment behavior. The result confirms the Life Cycle Model hypothesis that the youth would be more willing to invest as part of a strategy to accumulate their own future wealth (Lusardi, 2015).

Furthermore, while the respondents were excessively confident in their investment decisions, scoring a mean of 4.02, there also existed a broad reluctance to venture into new financial products with a mean score of only 2.39. Such disparity is a sign of the overconfidence factor that is the core area of research in Behavioral Economics, where people have been found to over-estimate their abilities but under-estimate their risks. The optimism regarding investment decisions despite a small interest in learning about new products is the general cognitive bias. It suggests that despite some level of financial literacy, people's confidence does not always result in active financial behavior (Lusardi & Mitchell, 2014).

In addition, the research established that those who looked for money information offered more financial literacy with 4.43 mean ease of understanding money information. This is corroborative proof that long exposure to the systems of finance results in heightened literacy. For instance, a score of 4.22 for people visiting banks and other financial institutions to obtain investment information shows that direct experience in financial markets makes the greatest contribution towards financial awareness. The learning process on a constant basis is perpetuated by the idea of endogenous financial knowledge gained through first-hand exposure and interaction with financial environments (Spataro & Corsini, 2017).

Overall, empirical evidence from the study decisively favors the theories that have been established such as Human Capital Theory, the Life Cycle Model, Behavioral Economics, and

Endogenous Financial Literacy. With the identification of the role played by education and life cycles in determining financial behavior, and that of psychological variables and participative learning of finance, the study covers for the inherent determinants of market participation and financial education in the Ethiopian capital market. Such observations indicate the need for having tailor-made financial education programs addressing the heterogeneous needs of different demographic segments, which in turn will lead to higher participation in the capital market.

2.7. Discussion

The results of this study are consistent with the wider global literature that is favorable towards financial literacy in the explanation of capital market participation. Descriptive and regression analysis from this study show that finance knowledge, finance attitude, and availability of finance information all play substantial roles in getting people ready to invest. The research indicates that the entire sample possesses excellent financial literacy with average values of more than 4.0 in relation to the comprehension of fundamental financial principles. This agrees with Mandell's (2008) claim that possessing knowledge helps in the ability to make sound financial choices. Mandell contends that having a good understanding of personal finance enables individuals to handle complicated financial landscapes adequately, enhancing their decision-making capacity on savings, investments, and all other aspects of finance. Yet, even with extremely high levels of financial literacy, investment and especially risk orientation are ambivalent. This finding supports Gerrans et al. (2016)'s contention that there is a huge knowledge-behavior gap. They assert that, even with the requisite financial knowledge, individuals do not engage in riskier investments. This gap serves to underscore the necessity for intervention in the form of targeted educational efforts that not only enhance investment knowledge, including financial literacy, but also behavioral engagement with investing, leading to a practical application of that knowledge.

Respondents rated access to financial information positively, implying that they are very well-educated about the Ethiopian capital market. The result is in line with the study by Kim et al. (2018), also highlighting access to information when making investment choices. They highlight the significance of financial market transparency, i.e., if investors can have access to credible information, then they will make better investment choices. This relation would suggest that increased transparency would mean increased participation in the capital markets.

Researchers acknowledge that the accessibility of finance-related information is vital in investment decision-making. For instance, Arestis et al. (2017) affirm that financial literacy and the accessibility of information determine capital market participation. In the same context, van

Rooij, Lusardi, and Alessie (2011) found that individuals with higher accessibility to information are likely to engage in stock investment. Guiso and Jappelli (2005) argue that knowledge of financial products has a direct influence on investment behavior. In addition, Gerrans et al. (2016) establish the knowledge-action gap, demonstrating that even when individuals are highly well-informed, investment choices might be dictated by risk attitudes. Lastly, Mandell's (2008) findings establish the need for fundamental financial knowledge and information access for investors to make smart investment choices.

Arestis et al. (2017) identified that the individuals that are more financially literate have greater chances of being involved in capital markets. This is evidenced empirically by which high positive relation exists between financial literacy and willingness to be involved in such markets ($r = 0.592$). This shows that as financial literacy increases among people, so also does investing intentions in capital markets. These facts identify the need for financial literacy initiatives that have the capacity to equip people with the ability to make better financial choices and acquire general economic well-being. Several authors are in consensus that financial literacy is a factor that determines involvement in capital markets. Van Rooij, Lusardi, and Alessie (2011), for instance, found that financially literate subjects are likely to invest in stocks and other products. In the same vein, Guiso and Jappelli (2005) concluded that financial product and finance knowledge has a crucial role to play in influencing people's investment choices in the capital market. All the above references point to the need to craft education programs to enhance financial literacy and hence enhance membership in the capital market.

Regression test verified that attitude, awareness, and exposure to financial data play an important part in driving involvement in the capital market, as previously determined elsewhere. Chen and Volpe (2002) suggest that investment behavior is a main driver that depends on financial literacy, and therefore individuals who have a better grasp of financial regulations will engage in the capital market. This is advocated by various studies examining financial literacy and investment selection.

For example, Agarwalla et al. (2015) concluded that financial literacy contributed heavily to the investment decision of young adults in sustaining the hypothesis that well-educated people participate in financial markets. Likewise, Bucher-Koenen and Lusardi (2011) affirmed that the higher the knowledge of financial matters, the better retirement saving and investing are secured. Almenberg and Dreber (2015) found that higher financial literacy correlates with greater stock market activity; whereas Klapper and Panos (2011) pointed out that more financially literate

individuals are more active in retirement planning and financial product investment. Additionally, Hastings et al. (2011) demonstrated that financial literacy not only has an effect on investment choice but also on financial product choice. Together, these articles indicate the large contributions that financial information, attitudinal predisposition, and access to information make to enabling participation in the capital market, confirming findings by Chen & Volpe (2002).

Chapter Five:

Summary, Conclusion and Recommendation

5.1. Summary

The descriptive analysis revealed that the respondents possessed a satisfactory finance comprehension as evidenced by the mean score of 4.35 in the statement, "I can calculate interest on savings or investments." This was followed closely by a mean score of 3.97 in the finance comprehension of diversification of investments. For financial positioning, the respondents were most in consensus with the statement, "I feel confident in my ability to make personal investment decisions," with a mean of 4.02. Least consensus was recorded on the statement, "I enjoy learning about new financial products," at a mean of 2.39, indicating that the participants are not as interested in handling new financial products.

For access to financial information, the highest mean score was for the item, "I find financial information in Ethiopia easy to understand," and was 4.43. The lowest score, 3.96, was for the item, "I use online platforms to stay updated," reflecting comparatively good but weak access to finance. In measuring readiness to participate in the capital market, the most agreeing item was "I feel I have enough knowledge to start investing" with a mean of 4.14. Nevertheless, "I am interested in participating," and it scored 4.03. This indicates a high readiness and interest of the respondents towards participating in the Ethiopian capital market.

Regression coefficient analysis further confirmed that all one of the three predictors influences possible participation in the capital market. Financial knowledge showed the strongest standardized impact (Beta = 0.418, $p < .001$), followed by access to financial information (Beta = 0.366, $p < .001$) and financial attitude (Beta = 0.317, $p < .001$). Unstandardized coefficients revealed meaningfully contributing factors: information access added +0.071 units, financial attitude added +0.049 units, and financial knowledge added +0.054 units to participation potential for every one-unit increase. Also, the constant term was not statistically significant ($B = 0.310$, $p = .084$), suggesting the underlying level of capital market participation potential is not significantly different from zero if predictors are excluded from the model.

This finding supports the existing literature on investment behavior and financial literacy that emphasizes finance knowledge and information as playing a crucial role in facilitating investment plans (Atkinson & Messy, 2012; Lusardi & Mitchell, 2014). Therefore, promoting financial

education as well as financial information availability can be critical in raising the level of participation of the ongoing momentum in the newly emerging Ethiopian capital market.

5.2. Conclusion

The following were the conclusions of this research:

According to the research, the level of financial literacy among the respondents currently is overall high, specifically in the knowledge of such major financial concepts as interest, inflation, and investment risk. This means there is a high ground of readiness for prospective investors. There is a discernible gap in knowledge of the need for diversification and ongoing learning of new financial products, however. This deficiency highlights the necessity of specialized financial education initiatives beyond basic principles to more advanced subject matter and ongoing financial education.

Financial knowledge was the best predictor of potential market participation. Financially knowledgeable respondents also showed greater confidence, more specific investment plans, and stronger intentions to encourage others to invest. Financial knowledge is thus a main driver of market participation; promoting it across parts of society could significantly boost actual and potential investor activity in the Ethiopian capital market.

Descriptive evidence implies that younger, more educated people are more financially sophisticated and have a greater likelihood of being in the capital market. Income is desirable but not the best discriminator. These trends imply that efforts at financial literacy campaigns should focus on less educated, older, and lower-income people, who are likely to be cut off from the capital market because they do not have financial sophistication. Demographic targeting of outreach and training efforts will assist in filling participation gaps.

There are extremely strong correlations between financial literacy and gender, age, schooling, and income. Males and younger adults (particularly 25–35 years) and higher graduates (bachelors and masters) are more frequently of high financial literacy. But financial literacy also exists among low-income families, which indicates that availability of information can counteract some economic disadvantages. This result suggests that interventions ought to be demographically responsive. Particular attention needs to be directed toward enhancing women's, older people, and less well-educated persons' financial literacy. Available intervention programs offered by community groups, institutions of higher education, and the Internet can be tailored to address the specific requirements of such groups.

In terms of the principal obstacles to participation, low take-up of new financial services and absence of active search behavior for information are key issues. Whereas there is a very high level of the public being exposed to financial information, demand to test new investment products will be low, possibly as a result of uncertainty or ignorance. Increased financial literacy—particularly experiential, hands-on knowledge—can enhance investor confidence, lower caution, and overcome fear or misinformation. Overcoming behavioral barriers by way of financial literacy and unfettered access to information is most essential to transform would-be investors into active participants.

5.3. Recommendations and Future Directions of Research

From the findings of this study, the following are some of the recommendations to enhance financial literacy and involvement in the Ethiopian capital market:

- It is crucial to develop niche financial education courses beyond the main subjects. They include large fields such as diversification and investment strategies. Specially developing these courses for less-educated, older, and poorer people will bridge knowledge gaps and draw more citizens to the market.
- Community organizations, schools, and websites collaborate to provide affordable financial education training. Workshops, seminars, and online courses can be structured to address various segments of the population, like women and older adults who might have special needs for access to financial products. The community-based model can enhance awareness and stimulate participation.
- It is important to encourage learning on new financial products. Experiential learning techniques, such as simulations and case studies, are applied in financial literacy training to assist individuals to overcome fear and become confident regarding new financial instruments. Establishing opportunities for learning from fellow learners and communicating with them can also assist in passing knowledge effectively.
- Future studies investigate the behavioral restrictions that prevent engagement with novel financial products. Knowledge of the psychosocial determinants of investment can allow improved plans of financial education to be developed. Furthermore, cultural beliefs about financial products can uncover myths and misconceptions that can discourage take-up.
- Carrying out longer-term research to assess the effect of financial literacy programs in the longer term will be very useful. Following up on financial know-how, attitude, and actual

investment practices improvement will enable these interventions to be optimized and brought up to date as the finance environment evolves.

- Policy-makers increasingly advocate financial education programs as a component of overall economic development. Encouraging policies for school and community-based financial education has the potential to educate the population, eventually driving capital market participation.

By accepting these suggestions and exploring the areas provided here, stakeholders can facilitate the building of a more inclusive financial system in Ethiopia that provides the people with the skills and knowledge they require to invest suitably in the new capital market.

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Appendix

Questionnaire



SCHOOL OF COMMERCE

Department of corporate finance: specialty of investment management

Dear Sir/ Madam,

This questionnaire is designed to collect the necessary information for the research title “*investor’s financial literacy and participation in the Ethiopian capital market*” as a partial fulfillment of *Master of Science Degree in corporate finance specialty in investment Management*. Your participation is very important for the success of the study. The information you provide will be used only for academic purpose and will be kept strictly confidential. The following questions have no right or wrong answers. Please don’t hesitate to provide important information to the best of your knowledge. You are not required to write your name. Completing this questionnaire will take you few minutes.

The questioner is organized in five parts with 6 Pages, part I demographic information of respondent’s part II financial knowledge assessment, part III investors financial attitudes, part IV investors access to financial information and product and part V participation in the capital market .

Thank you in advance for spending your precious time to answer the questions and please do not hesitate to contact the undersigned with any questions.

MeseretNigatuAyele

Email: nigatu4messi@gmail.com

Part I: Demographic Information

Please tick (√) the boxes to indicate the appropriate answers of yours for the following demographic questions.

1. Gender: Male Female
2. Age (years): Between 25 – 35 Between 36 – 45 Between 46 - 55 above 56
3. Educational level :
 - A. Diploma or less
 - B. Bachelor degree
 - C. Master’s Degree
 - D. Doctorate
4. Field of study
 - A. Business and economics
 - B. Other social science
 - C. Natural science (health science ,engineering, computer science)
5. Income per Month:

- A. Less than 15,000 ETB
- B. 15,001 - 25,000 ETB
- C. 25001- 35 ,000 ETB
- D. More than 35,000 ETB

Part II: Financial Knowledge Assessment (6 Items – Likert Scale Format)

(1 = Strongly Disagree, 5 = Strongly Agree)

No.	Statement	1	2	3	4	5
1	I understand the basic financial concepts such as interest rates, inflation, and time value of money.					
2	I am capable of calculating interest on savings or investments.					
3	I understand how inflation affects the purchasing power of money.					
4	I can differentiate between various investment options (e.g., stocks, bonds, real estate).					
5	I understand the relationship between risk and return in investing.					
6	I know the importance of diversifying investments to manage risk.					

Part III: Financial Attitude

(1 = Strongly Disagree, 5 = Strongly Agree)

No.	Statement	1	2	3	4	5
6	I feel confident in my ability to make personal investment decisions.					
7	I believe investing in the capital market is a smart way to grow my wealth.					
8	I am willing to take financial risks if the returns are potentially high.					
9	I believe financial planning is essential for long-term stability.					
10	I consider myself a financially responsible person.					
11	I enjoy learning about new financial products and investment opportunities.					

Part IV: Access to Financial Information

(1 = Strongly Disagree, 5 = Strongly Agree)

No.	Statement	1	2	3	4	5
12	I have regular access to financial information about the Ethiopian capital market.					
13	I use online platforms to stay updated on financial and investment news.					
14	I know where to find reliable financial advice when I need it.					
15	I find financial information in Ethiopia easy to understand and interpret.					
16	I frequently engage with financial institutions to learn more about investment options.					

Part V: Capital Market Participation Potential

(1 = Strongly Disagree, 5 = Strongly Agree)

No.	Statement	1	2	3	4	5
17	I am interested in participating in the Ethiopian capital market.					
18	I believe the capital market in Ethiopia will contribute to economic development.					
19	I am planning to invest in the Ethiopian capital market within the next year.					
20	I feel I have enough knowledge to start investing in the Ethiopian capital market.					
21	I am likely to recommend capital market investment to friends or family members.					