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How Financial Literacy Translates into Financial Well-Being: A Behavioral Perspective

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ABSTRACT

Financial well-being is crucial for individual stability, yet in developing economies like Pakistan, factors like literacy, inclusion, and socioeconomic status create complex challenges. University employees, despite their education, face unique financial strains due to fixed incomes and limited access to tailored financial services. This study examines the interplay of financial literacy, inclusion, socioeconomic status, and access to finance on the financial well-being of public university employees in Khyber Pakhtunkhwa, Pakistan. It specifically investigates the mediating role of financial behavior in these relationships. A quantitative, cross-sectional survey was conducted with 250 faculty and administrative staff. Data were analyzed using correlation, regression, and mediation analysis via Hayes PROCESS Macro to test the hypotheses derived from the Theory of Planned Behavior. Socioeconomic status and financial literacy were the strongest direct predictors of financial well-being. Financial behavior partially mediated the effects of financial literacy, inclusion, and access to finance, confirming that knowledge and access translate into well-being through improved financial practices. Conversely, financial inclusion alone did not significantly predict well-being, indicating that mere access to services is insufficient without behavioral change. The findings underscore that enhancing financial well-being requires not only improving access to finance but also strengthening financial literacy to foster positive financial behaviors. Policymakers and institutions should develop integrated programs that combine financial education with service access to empower employees and promote financial resilience.

Keywords— Financial strains, Interplay, Financial well-being, Financial resilience, Financial behavior

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Introduction

The 21st century financial environment is distinguished by high speed of technology, rising sophistication in financial products and fluctuation in world economics. These have tremendously changed how people handle finances, strategize their future and make financial choices (Johnson & Lee, 2024). In this kind of environment, financial literacy and access to adequate financial services is required to ensure financial stability and flourishing. Financial well-being is not caused by individual choices alone but also the macroeconomic policies, social structures, and institutional support systems have significant effects on financial well-being. Financial markets in emerging economies such as Pakistan are less developed and most of the population does not have access to formal financial education and low-cost financial services. This disconnection renders people unable to maneuver around more complicated financial products and services. This causes a significant number of individuals to enter into debt, poor saving and investment choices that massively affect their financial standing and living conditions (Lusardi and Mitchell, 2014).

Besides, financial literacy in itself is not enough in the absence of access to inclusive financial systems. According to World Bank (2025) estimates, a very large number of working-age populations in developing countries are still unbanked, which makes saving their money in safe deposit boxes or accessing credit or making investments in growth opportunities very difficult. These barriers, in combination with lower socio-economic status levels, increase the financial well-being gap. Hence, the topic of financial literacy cannot be said to be complete without mentioning the interrelatedness of financial inclusion, socio-economic status, and individual financial behavior in shaping the financial health (Ingale & Paluri, 2022). Behavioral dimension of financial decision-making is another crucial area. The poor financial habits of excessive spending, no budgeting or retirement planning can be faced even by people who are well informed and have access to resources. Financial behavior is significant in determining personal welfare and the economy as a whole. It involves activities like budgeting, saving, paying loans on time and responsible spending (Bruggen et al., 2017).

In educational institutions, faculty and administrative staff are role models and decision-makers. Their financial literacy and behaviors may influence how they manage departmental budgets, lead student financial awareness initiatives, or engage with institutional funding models (Sara et al., 2023). If the academic workforce lacks strong financial well-being, this can negatively affect motivation, job performance, and even student guidance (Russell et al., 2025).

Faculty and administrators of the public sector universities in Pakistan have their own special set of financial problems. They are lower salary raises, price pressure, inadequate retirement, no available financial education, and little faith in formal financial markets (Shah Bukhari et al., 2022). Many faculty and non-teaching staff are responsible for large households and extended family needs, which often results in financial strain and debt dependency (Shah et al., 2024).

Khyber Pakhtunkhwa (KP) is one of the most culturally diverse yet economically constrained provinces in Pakistan. Public sector universities in the region employ

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thousands of faculty and administrative staff who serve as the backbone of the province's higher education system. These individuals play a vital role not only in teaching and research but also in managing university operations, student affairs, and strategic planning (Khan, 2022). However, the financial conditions of these employees often do not reflect the responsibilities they bear. Salaries are fixed, promotions are slow, and financial planning is rarely discussed or encouraged in institutional settings. Moreover, there is a general lack of formal financial training for staff members. Many are unfamiliar with digital banking systems, government financial schemes, or private financial instruments that could improve their financial security (Baber, 2023).

This situation creates an urgent necessity to investigate the effect produce by financial literacy, financial inclusion, possibility of access to financial resources, and economical background on the financial well-being of such employees. Moreover, one should know of the interceding part of personal financial behavior in this interaction. Determining these dynamics will enable universities to make better decisions in supporting staff, including providing them with special financial education, access to institutional credit, better planning resources, etc. Although financial well-being has been the subject of numerous studies, most existing research focuses on isolated factors such as financial literacy or financial inclusion. Few studies have adopted a comprehensive model that examines the interplay between multiple variables within the same framework, particularly in the context of developing countries like Pakistan. Moreover, the mediating role of financial behavior remains understudied in this area.

This study seeks to address this gap by offering an integrated approach based on the Theory of Planned Behavior and empirical evidence. It examines how financial literacy, financial inclusion, access to finance, and socio-economic status (SES) collectively influence financial well-being, while assessing the mediating effect of financial behavior.

Literature Review

Financial well-being is being held as a critical aspect of both personal and social wellness. It includes the capacity to manage present and future financial demands, feel stable in terms of financial future, and take decisions that will enhance the quality of life (Consumer Financial Protection Bureau, 2023). Financial well-being depends on many different factors, such as financial literacy, financial inclusion, socioeconomic status (SES) and access to finance (Mishra et al., 2024). Although the research on financial well-being is becoming more popular, it is necessary to comprehend the interrelationship of these components and how financial behavior can be the mediating phenomenon.

Financial literacy has been termed as a pillar of good financial decision-making. It comprises more than financial literacy, but the skills, confidence, and desire to spend money wisely (Lusardi & Mitchell, 2014). Recent literature on financial literacy takes a multidimensional perspective that involves knowledge, attitudes and self-efficacy.

According to Lone and Bhat (2022), the financial literacy plays an important role in financial self-efficacy and financial well-being, especially in the case of the business school faculty in India. As they noticed, literacy and self-efficacy are connected partially through self-efficacy as a mediator of the connection between literacy and

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well-being.

Financial inclusion involves more than just access to banking services. It encompasses the **availability, accessibility, and usage** of financial products and services by all segments of the population, particularly the marginalized. Mindra and Moya (2017) have discovered that the financial attitude and literacy affect the financial inclusion indirectly through financial self-efficacy. Their results indicate that financial success is all about the psychological confidence and not solely access. This is in support of the claim that inclusion need to be combined with behavioral preparedness and literacy, to achieve any meaningful result. As contextual variables in financial research, socioeconomic status (SES) is usually determined by such variables as income, education, and occupation. It does not only affect the access and knowledge to finances but also the behavior and confidence of finances. According to Munisamy et al. (2022), the impact of financial literacy on SES and well-being directly affected low-income households across Malaysia. It is worth noting that literacy led to the influence of financial well-being on the issue of socioeconomic improvement. This is indirectly implying that improving well-being is not only an effect but a means to a higher socioeconomic mobility.

Access to finance includes credit, savings and other financial instruments, which empower people to participate in the economy and how to manage risk and help them to raise their living standards. Johnson and Lee (2024) note that access to finance is both fulfilling and limiting. Although it helps in the process of financial planning and investment, it can be a cause of distress and debt when not well regulated or the user is not literate. This is more important in third world countries, where literacy is not catching up the rate of financial access. The significance of financial behavior has been highlighted across numerous studies as the primary conduit through which financial knowledge and resources influence well-being. Ali and Siddiqui (2021) found that behavior bridges the gap between knowledge and financial capability. Jung (2021) similarly emphasized that subjective knowledge and access only improved well-being when accompanied by positive behavior. Goodell et al. (2023) argued that in emerging markets, responsible financial behavior such as budgeting, saving, and avoiding unnecessary debt has a stronger impact on well-being than financial literacy alone. Their study emphasized the need to view behavior not as an outcome but as a central process variable.

Based on the Theory of Planned Behavior and supported by the Financial Capability Framework and Social Cognitive Theory, the study proposes a conceptual model in which financial literacy, financial inclusion, socioeconomic status, and access to finance affect financial well-being both directly and indirectly through financial behavior. Financial behavior acts as a central mediating variable in this model.

Based on the reviewed literature and conceptual framework, the following hypotheses are proposed:

H_1: Financial literacy has a relation to financial wellbeing.
H_2: Financial inclusion significant relation to financial wellbeing.
H_3: Socioeconomic status significant relationship to financial wellbeing.
H_4: Access to finance has a significant relationship with financial wellbeing.
H_5: Financial literacy has a relation to financial behavior.

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H_6: Financial inclusion significant relation to financial behavior.
H_7: Socioeconomic status significant relationship to financial behavior.
H_8: Access to finance has a significant relationship with financial behavior.
H_9: Financial behavior has a relationship with financial wellbeing. :
H_{10}: Financial behavior mediates the relationship of financial literacy on financial well-being.
H_{11}: Financial behavior mediates the relationship of financial inclusion on financial well-being.
H_{12}: Financial behavior mediates the relationship of socio economic status on financial wellbeing.
H_{13}: Financial behavior mediates access to finance to financial well-being.
A flowchart representation of this model is provided to illustrate the hypothesized relationships among the variables (Figure 2.1)

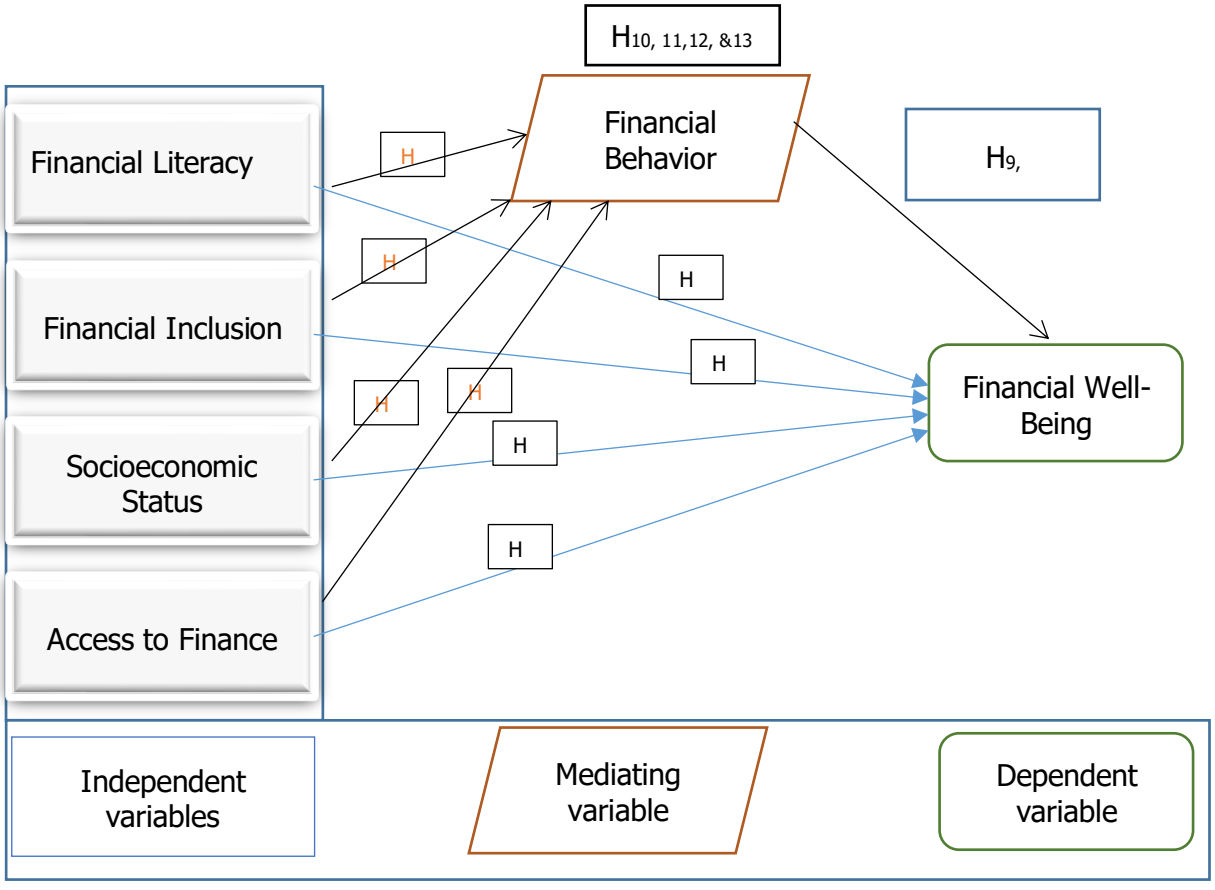

Figure 2.1: *Conceptual Framework based on the Theory of Planned Behavior (TPB)*

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Online ISSN 3007-3197
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http://amresearchreview.com/index.php/Journal/about

Methodology

The research methodology was quantitative research based on positivist epistemology and focused on objective measurements and statistical analysis of data. In this study used quantitative, cross-section, explanatory research design, and is more appropriate when studying the relationship between variables by using numbers and mathematical tools. The structure of the study adhered to the Saunders Research Onion which encompassed positivist philosophy, deductive approach, mono-method quantitative approach and time bound data collection. The research strategy was mono-method quantitative, involving the collection and analysis of numerical data using a single data collection technique a structured questionnaire. This strategy allowed for the generation of statistically reliable data and objective measurement of variables. The use of quantitative analysis enabled the researcher to test hypotheses, establish correlations, and generalize findings. The cross-sectional survey design was adopted, in which data were collected at a single point in time from the selected respondents. This design provided a snapshot of the relationships among variables within the specified population.

The research target population was comprised of the members of the faculty and the members of the administrative body of the universities in the KP Province of Pakistan. The sampling frame included employees from the nine KP public universities.

To assess the internal consistency of the measurement scales used in the questionnaire, Cronbach's alpha coefficients were calculated for each construct.

Pearson's correlation analysis was carried out to determine the strength and the direction of the relationship between the important variables.

Multiple linear regression was conducted to identify the predictive relationship among the variables. Two primary regression models were estimated, including the first predicting the financial behavior by the financial literacy, inclusion, socioeconomic status, and the access to finance; and the second one predicting the financial well-being by the same independent variables, but including the financial behavior as a mediator.

Variance Inflation Factor (VIF) values were estimated so as to ascertain the possibility of multicollinearity amongst the independent variables in the regression models.

The mediating role of the financial behavior (FB) in the association between the independent variables (FL, FI, SES, and AF) and the dependent variable (FWB) was studied by utilizing Hayes PROCESS Macro (Model 4) in SPSS. Bootstrapping with 5,000 samples was applied to estimate indirect effects and determine whether mediation occurred..

To explore differences in financial well-being scores across demographic categories (e.g., gender, income levels, and educational qualifications), independent samples t-tests and one-way ANOVA tests were conducted.

The study included one dependent variable, financial well-being (FWB), and four independent variables: financial literacy (FL), financial inclusion (FI), access to finance (AF), and socioeconomic status (SES). In addition, financial behavior (FB) was examined as a mediating variable to explore its role in linking the independent variables with financial well-being.

3.11 Research Model

The following regression model was used:

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http://amresearchreview.com/index.php/Journal/about

$$Y = \alpha + \beta1(FL) + \beta2(FI) + \beta3(AF) + \beta4(SES) + \gamma(FB) + \varepsilon$$

Where:

- **Y** = Financial Well-being
- **FL** = Financial Literacy
- **FI** = Financial Inclusion
- **AF** = Access to Finance
- **SES** = Socioeconomic Status
- **FB** = Financial Behavior (mediator)
- **α** = Intercept
- **β1 – β4** = Coefficients for independent variables
- **γ** = Coefficient for the mediating variable
- **ε** = Error term

Data

We used a sample of 250 faculty and administrative personnel from public universities in KP, which is well above the minimum sample size recommended for statistical analysis and supports both analytical robustness and population representation. The data were collected using a structured questionnaire that adapted instruments from other studies (e.g., Lusardi & Mitchell, 2014; CFPB, 2015) that included demographics, financial literacy, financial inclusion, socioeconomic status, access to finance, financial behavior, and financial well-being. Most constructs were measured using a five-point Likert scale to capture more specificity within attitudes and self-reported behavior. Before analysis, the data were screened and cleaned meticulously for missing values, outliers, normality, and multicollinearity to promote the validity and reliability of the statistical tests.

Collected data were initially screened for completeness and consistency. Responses with excessive missing values or patterned answers were excluded from analysis. Data cleaning involved checking for outliers, normality, and multicollinearity.

The data collected from respondents were analyzed using SPSS (Statistical Package for the Social Sciences) version 26.

Descriptive Statistics

This section presents the descriptive analysis of the key constructs used in the study. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize the data.

Table 1: Descriptive Statistics of Study Constructs (n = 250)

Construct	Minimum	Maximum	Mean	Standard Deviation
Financial Well-being	1	4.8	3.19	0.82
Financial Literacy	1	5	3.53	0.72
Financial Inclusion	1	5	3.19	0.87
Socioeconomic Status	1	5	3.38	0.81
Access to Finance	1	5	3.1	0.82
Financial Behavior	1	5	3.6	0.73

Table 1 contains the descriptive statistics of this study, indicated that the faculty and

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Volume 4, Issue 4 (2026)

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http://amresearchreview.com/index.php/Journal/about

administrative personnel of the public universities of Khyber Pakhtunkhwa portray moderate to high levels of both financial behavior (M = 3.60) and financial literacy (M = 3.53). Such findings indicate that employees in universities have a fairly good knowledge on financial principles and practice good financial practices in their everyday lives.

Analysis and Results

Table 2 Cronbach Alpha of each construct was also between 0.78 and 0.82 and has established adequate presence on internal consistency. Particularly, there was the highest reliability of the Financial Inclusion and Access to Finance (0.819 and 0.808), respectively, whereas there was an acceptable performance in Financial Behavior and Financial Literacy (0.788 and 0.780, respectively). Overall, the scales of measurement employed in the given study are statistically sound and allow conducting additional inferential statistical analysis such as correlation, regression, and mediation tests.

Table 2: Reliability Analysis (Cronbach's Alpha)

Construct	Cronbach's Alpha
Financial Literacy (FL)	0.78
Financial Well-being (FWB)	0.807
Financial Inclusion (FI)	0.819
Socioeconomic Status (SES)	0.796
Access to Finance (AF)	0.808
Financial Behavior (FB)	0.788

According to Table 3.4 contains Pearson correlation analysis, every one of the nine hypothesized relationships (H_1, H_9) were statistically significant. The independent variables of financial literacy, financial inclusion, socioeconomic status (the greatest correlate), and access to finance all had statistically significant and positive relationships with both financial well-being and financial behavior (the mediating variable), which had a statistically significant and positive relationship with financial well-being. This confirms the study's main hypotheses, provides empirical evidence of the Theory of Planned Behavior, and suggests that financial knowledge, financial resources, and environmental enablers significantly contribute to individuals' financial behavior and perception of their financial satisfaction. These results reinforce prior empirical evidence. For example, Kiril (2020) reports that financial inclusion and access to credit facilities are foundational in improving individual and household-level financial stability. Similarly, Prawitz et al. (2017) highlight that better financial behaviors—such as tracking expenses and avoiding unnecessary debt—are linked with reduced financial stress and increased well-being.

Table 3: Pearson Correlation Matrix among Key Constructs (N = 250)

Variables	FWB	FL	FI	SES	AF	FB
Financial Well-being (FWB)	1	.502**	.466**	.641**	.530**	.379**
Financial Literacy (FL)	.502**	1	.610**	.606**	.582**	.481**
Financial Inclusion (FI)	.466**	.610**	1	.694**	.641**	.378**
Socioeconomic Status (SES)	.641**	.606**	.694**	1	.686**	.489**

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http://amresearchreview.com/index.php/Journal/about
Volume 4, Issue 4 (2026)

Online ISSN 3007-3197
Print ISSN 3007-3189
http://amresearchreview.com/index.php/Journal/about

Access to Finance (AF)	.530**	.582**	.641**	.686**	1	.463**
Financial Behavior (FB)	.379**	.481**	.378**	.489**	.463**	1

Note: Correlation is significant at the 0.01 level (2-tailed).

Table 4 shows that the model has an R value of 0.665, indicating a strong correlation between the predictors and financial well-being. The R Square value of 0.443 suggests that approximately 44.3% of the variance in financial well-being is explained by financial literacy, financial inclusion, socioeconomic status, access to finance, and financial behavior. The adjusted R^2 value of 0.431 confirms the model's robustness even after adjusting for the number of predictors.

Table 4: Model Summary of Multiple Regression Predicting Financial Well-Being

Model	R	R^2	Adjusted R^2	Std. Error of Estimate
1	0.665	0.443	0.431	0.61364

Table 5 confirms that the model is statistically significant with an F-value of 38.629 and a p-value less than 0.001. This means that the independent variables collectively provide a good fit to explain variations in financial well-being. The significant F-test supports the overall reliability of the regression model.

Table 5: ANOVA Summary for Regression Model

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	72.731	5	14.546	38.629	0
Residual	91.503	243	0.377		
Total	164.234	248			

As demonstrated in Table 6, socioeconomic status (SES) emerged as the greatest and most robust predictor of financial well-being; this was not only consistent with the study hypothesis, but is further influenced by research conducted around the world that locates income stability, education, and employment as the most salient contributors to financial satisfaction and security. This was comparable to previous scholars that have been consistent in recognizing that financial well-being is not entirely based on individual behaviors, but is a result of socio-structural mechanisms. Therefore, in developing regions such as Khyber Pakhtunkhwa where there is evidence of income dissimilarity, any improvements in financial well-being will happen based on enhanced income security and educational opportunities.

Table 6: Coefficients of Regression Model Predicting Financial Well-Being

Predictor	B	Std. Error	Beta	T	Sig.	VIF
(Constant)	0.582	0.228		2.551	0.011	
Financial Literacy	0.169	0.076	0.149	2.225	0.027	1.956
Financial Inclusion	-0.047	0.068	-0.051	-0.696	0.487	2.319
Socioeconomic Status	0.485	0.078	0.481	6.224	0	2.602
Access to Finance	0.133	0.071	0.135	1.886	0.061	2.234
Financial Behavior	0.033	0.064	0.029	0.507	0.612	1.447

As shown in Table 7, all Variance Inflation Factor (VIF) values ranged between 1.85

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Volume 4, Issue 4 (2026)

Online ISSN 3007-3197
Print ISSN 3007-3189
http://amresearchreview.com/index.php/Journal/about

and 2.50, well below the threshold of 5, confirming that no multicollinearity exists among the predictors. This ensures the stability and reliability of the coefficient estimates.

Table 7: Variance Inflation Factor (VIF) for Multicollinearity Diagnostics

Variable	VIF
Financial Literacy	1.956
Financial Inclusion	2.319
Socioeconomic Status	2.602
Access to Finance	2.234
Financial Behavior	1.447

A mediation analysis was performed to examine whether financial behavior (FB) functions as a mediator between four independent variables and financial well-being (FWB) with key findings in the results presented in Table 8 The study showed that financial behavior functions as a partial mediator in three of the four relationships. Specifically, financial behavior partially mediates the relationships between financial literacy (FL), financial inclusion (FI), and access to finance (AF) and FWB because both indirect and direct effects were significant supporting H10, H11, and H13. On the other hand, the analysis showed financial behavior does not mediate the relationship between socioeconomic status (SES) and FWB. Socioeconomic status is a strong direct predictor of well-being but the pathway through financial behavior was not significant so H12 was not supported. This suggests the impact of structural factors like income and education on well-being is independent of an individual's financial behavior. In summary, these findings solidly situated within the Theory of Planned Behavior indicate that financial behavior is an important pathway through which knowledge (FL) and access (FI, AF), create financial well-being. The strong direct effect of socioeconomic status suggests that improving well-being in developing regions requires not only behavior-based interventions but also policies that address structural inequalities while improving income security and educational opportunity.

Table 8: Mediation Analysis Results (Bootstrapped Confidence Intervals at 95%)

Path	Direct Effect (B)	Sig.	Indirect Effect (via FB)	95% CI (Boot)	Mediation	Hypothesis
FL → FB → FWB	0.4703	0	0.0975	[0.0266, 0.1822]	Partial	Supported (H10)
FI → FB → FWB	0.3507	0	0.0835	[0.0343, 0.1439]	Partial	Supported (H11)
SES → FB → FWB	0.6065	0	0.0427	[−0.0075, 0.1041]	None	Not Supported (H12)
AF → FB → FWB	0.4461	0	0.0782	[0.0188, 0.1396]	Partial	Supported (H13)

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http://amresearchreview.com/index.php/Journal/about
Volume 4, Issue 4 (2026)

Online ISSN 3007-3197
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http://amresearchreview.com/index.php/Journal/about

Table 9 contains the degree to which Financial Behavior (FB) is predicted by Financial Literacy (FL), Financial Inclusion (FI), Socioeconomic Status (SES), and Access to Finance (AF) was evaluated using a standard multiple linear regression analysis. The combined model explains a moderate 30.9% of the variance in financial behavior, as indicated in Table 4.10 (R^2 =.309, Adjusted R^2 =.297). This suggests that the model is stable for generalization and that these four predictors significantly influence financial habits.

Table 9: Model Summary for Financial Behavior Prediction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.556	0.309	0.297	0.6101

Table 10 contains the F-statistic (F = 27. 253, p < 001) confirm the results that the regression model is significant and the independent variables as a group significantly predict financial behavior. This aids the theoretical basis that financial capability is determined by various aspects, including knowledge, access, and socioeconomic setting (Xiao et al., 2022). The regression coefficients table gives the individual contribution of each predictor.

Table 10: ANOVA Table for Financial Behavior Regression

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	40.577	4	10.144	27.253	.000**
Residual	90.823	244	0.372		
Total	131.4	248			

Table 11 contains a multiple regression analysis that was performed to explore possible predictors of financial behavior, and the results are summarized in the table below. Financial literacy was a statistically significant positive predictor (β = .269, p < .001), supporting H_5, which suggests greater knowledge leads to better financial habits. Socioeconomic status was also a positive, statistically significant predictor (β = .258, p = .002), confirming H_7, which suggests higher economic status provides access and context for better financial practices. Education and financial access was statistically significant predictors (β = .181, p = .022) supporting H8, suggesting that the availability of services leads to better financial habits. Financial inclusion was not a statistically significant predictor (β = -.080, p = .321) leading to a rejection of H_6, suggesting that while financial services are available, with only limited education or resources, it has little to no effect on financial behavior.

Table 11: *Regression Coefficients for Predicting Financial Behavior*

Predictor	B	SE	Beta	T	p-value	VIF
(Constant)	1.573	0.203		7.73	0	
Mean_FL	0.272	0.073	0.269	3.711	.000**	1.852
Mean_FI	-0.067	0.067	-0.08	-0.994	0.321	2.31

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Online ISSN 3007-3197
Print ISSN 3007-3189
http://amresearchreview.com/index.php/Journal/about

Mean_SES	0.232	0.076	0.258	3.057	.002**	2.506
Mean_AF	0.16	0.069	0.181	2.304	.022*	2.187

*Note: *p < .05, **p < .01*

Conclusion

Based on the thorough analysis of the data, the findings of this inquiry demonstrate that financial well-being exists as a result of a nuanced combination of knowledge, access factors, social-structural factors, and behavior. The findings convincingly support the appropriateness of the Theory of Planned Behavior, as financial literacy, access to finance, and financial inclusion all contribute to financial well-being both directly and indirectly, partially mediated through better financial behavior. However, socioeconomic status (SES) emerged as the strongest direct predictor, emphasizing that financial well-being is not simply the result of individual behavior; rather, it is shaped by deeper social-structural conditions. This is especially important in Khyber Pakhtunkhwa, where income inequality and unequal access to opportunities exist. Therefore, it is clear that well-designed interventions must fuse behavior-based financial literacy with macro policies designed to mitigate structural inequality, increasing income security and level of education access.

There are several next steps for research offered by this work. First, we need longitudinal studies to show an established directionality and how relationships change over time. Second, qualitative methods can add lived experience and context to understand the psychological and contextual barriers to constituting positive financial behavior that would not surface under quantitative measures. Third, future models need to introduce other variables not captured in this study.

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