Financial Knowledge and Behavior in Emerging Markets: Insights from Ecuadorian Millennials

This study investigates the relationship between financial knowledge—both subjective and objective—and the financial behavior of millennials in Ecuador, a representative emerging economy. Using a robust sample of 1,207 university students from three provinces (Guayas, Manabí, and Azuay), the research applies a structural equation modeling (SEM) approach to understand how perceived and actual knowledge impact saving, investment, and consumption decisions.

The findings reveal that subjective financial knowledge, or the individual's self-perceived competence in managing financial matters, has a greater impact on behavior than objective knowledge. This aligns with key insights from behavioral finance, where confidence and cognitive biases play crucial roles in real-world decision-making, especially in low-literacy or low-regulation environments typical of emerging markets.

The Partial Least Squares SEM (PLS-SEM) model confirms strong, statistically significant relationships between subjective knowledge and all three financial behavior domains. The model shows good reliability and validity, with Cronbach's alpha and Composite Reliability (CR) values above 0.70 for all constructs, and AVE scores confirming convergent validity. The explanatory power (R^2) of the model is moderate to strong, suggesting a solid predictive structure.

This research contributes to the literature by emphasizing the behavioral and psychological dimensions of financial capability. It suggests that boosting financial confidence—rather than simply delivering factual knowledge—may be a more effective approach in educational interventions targeting youth in emerging markets. The study concludes with policy recommendations, including integrating behavioral components in financial literacy curricula and leveraging digital tools to enhance financial self-efficacy among young adults.