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Consumer Decision Making and Financial Outcomes in a Developing Economy A Case of Pakistan

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Abstract

This study examines the relationship between consumer decision making patterns, financial literacy, behavioral biases, and financial outcomes among households in Pakistan, a developing economy characterized by low financial inclusion, income volatility, and limited institutional access. Using a quantitative research design with a sample of 850 respondents drawn from both urban and rural areas, the study measured financial literacy levels, savings behavior, debt management practices, and the influence of behavioral biases including present bias and overconfidence. Data were analyzed using correlation and regression techniques to identify relationships between key variables. The findings reveal that financial literacy levels remain critically low, with mean scores of 2.4 out of 5, and that only 15 percent of respondents maintain regular savings while 67 percent report outstanding informal debt. Financial literacy demonstrated significant positive associations with savings frequency and responsible borrowing, while present bias strongly predicted impulsive spending and lower savings accumulation. Notably, higher financial literacy partially mitigated the negative effects of present bias, with literate respondents saving at nearly five times the rate of less literate counterparts despite similar bias levels. Digital payment users exhibited higher impulsive spending than cash users, suggesting that technology may inadvertently weaken natural spending constraints. Gender and geographic disparities were pronounced, with female and rural respondents facing compounded disadvantages. The study concludes that improving financial outcomes requires integrated interventions addressing knowledge deficits, behavioral vulnerabilities, institutional barriers, and cultural sensitivities, including Islamic financial literacy components and gender targeted outreach.

Keywords: Consumer Decision Making, Financial Literacy, Behavioral Biases, Present Bias, Financial Inclusion, Pakistan

Introduction

Consumer decision making in developing economies reflects a complex interaction between limited resources, institutional constraints, and behavioral tendencies that shape how individuals allocate income, manage risk, and plan for the future. In such contexts, households

frequently operate under conditions of uncertainty, relying on informal financial practices and simple heuristics rather than systematic planning and analysis. This often leads to decision making patterns driven by immediate consumption needs instead of long term financial security, thereby limiting wealth accumulation and economic mobility. Empirical research demonstrates that individuals with lower levels of financial literacy are more likely to make suboptimal choices related to savings, credit use, and investment behavior, which in turn affects their overall financial wellbeing (Lusardi, 2014). Moreover, financial capability is not only a function of knowledge but also of access to financial tools and institutions, which remain unevenly distributed in many developing economies (Atkinson & Messy, 2012). Behavioral factors such as present bias, risk aversion, and overconfidence further complicate decision making processes, often leading to inconsistent or irrational financial choices (Thaler, 2016). These dynamics suggest that consumer behavior in such contexts is shaped by both cognitive limitations and structural constraints, making it a critical area of inquiry for understanding broader economic outcomes.

The importance of financial outcomes extends beyond individual households and plays a central role in shaping macroeconomic stability, economic growth, and social welfare. In Pakistan, persistent economic challenges such as inflation, income inequality, and limited financial inclusion create a particularly difficult environment for consumers seeking financial stability. Rising prices erode purchasing power and reduce the capacity of households to save, while unequal income distribution restricts opportunities for upward mobility. A significant proportion of the population remains excluded from formal financial systems, limiting access to banking services, credit markets, and investment opportunities (World Bank, 2022). This exclusion constrains not only individual financial resilience but also the broader economy by reducing participation in formal financial channels and limiting capital formation. Furthermore, low levels of financial literacy exacerbate these challenges by preventing individuals from effectively navigating complex financial products and services (Klapper et al, 2015). The interaction between macroeconomic pressures and micro level decision making highlights the importance of understanding how households respond to financial stress and uncertainty, as these responses collectively influence national economic performance and stability.

The relationship between consumer behavior, financial literacy, and economic resilience underscores the importance of analyzing micro level financial decisions within a broader macroeconomic framework. Households that engage in prudent financial practices, such as regular saving, informed borrowing, and diversification of income sources, are better equipped to withstand economic shocks and maintain long term stability. Conversely, poor decision making can increase vulnerability and perpetuate cycles of poverty and financial insecurity. Behavioral economics emphasizes that economic outcomes are deeply influenced by human psychology, expectations, and social norms, which can either enhance or undermine financial decision making (Shiller, 2015). In the context of Pakistan, where economic volatility and uncertainty are persistent features, the ability of consumers to make informed decisions becomes a key determinant of resilience at both the household and national levels. This study therefore adopts a comprehensive perspective that links individual decision making patterns with broader economic outcomes, arguing that improvements in financial literacy, institutional access, and behavioral awareness can significantly enhance

financial wellbeing and contribute to sustainable economic development (Demirgüç Kunt et al, 2018).

Literature Review

The literature on consumer behavior and financial outcomes has expanded significantly across global and regional contexts, highlighting the intricate relationship between individual decision making and economic wellbeing. Studies in both developed and developing economies emphasize that consumer financial behavior is shaped by a combination of knowledge, institutional access, and socio economic conditions, which collectively determine financial outcomes such as savings, investment, and debt management. A growing body of research demonstrates that financial literacy is a critical determinant of decision quality, enabling individuals to better evaluate financial products, manage risks, and plan for the future. Empirical evidence suggests that individuals with higher financial literacy are more likely to engage in effective financial planning and accumulate wealth over time (Lusardi, 2014). At the same time, cross country analyses reveal significant disparities in financial knowledge, particularly in developing regions where access to education and financial services remains limited (Atkinson & Messy, 2012). These findings indicate that consumer behavior cannot be fully understood without considering the broader structural and institutional environment in which financial decisions are made, thereby linking micro level behavior with macroeconomic outcomes.

A central theme in the literature is the role of behavioral biases in shaping financial decisions, often leading to outcomes that deviate from rational expectations. Behavioral economics highlights that individuals are influenced by psychological factors such as risk aversion, overconfidence, and impulsive spending, which can distort decision making processes and undermine financial stability. In the context of Pakistan, empirical studies have shown that behavioral biases significantly affect investment decisions and financial planning, particularly among individual investors operating in uncertain market environments. Research indicates that financial literacy can mitigate the effects of such biases by improving individuals' ability to process information and make informed choices (Rasool & Ullah, 2020). Similarly, the expansion of digital financial platforms has introduced new behavioral dynamics, as increased accessibility to financial services can lead to both improved financial inclusion and heightened impulsive spending tendencies (Younas et al., 2024). These insights underscore the importance of integrating psychological and economic perspectives in understanding consumer behavior, as financial decisions are often influenced by cognitive limitations and emotional responses rather than purely rational calculations.

Income levels and consumption patterns also play a crucial role in shaping financial outcomes, particularly in developing economies where income volatility and inequality are prevalent. Research suggests that lower income households are more likely to prioritize immediate consumption over long term savings due to financial constraints and uncertainty, thereby limiting their capacity to build financial resilience. In South Asia, including Pakistan, studies have highlighted the impact of socio economic disparities on financial behavior, with marginalized groups facing greater barriers to financial inclusion and economic mobility. Empirical evidence indicates that financial literacy and self-efficacy significantly influence individuals' likelihood of participating in formal financial systems, such as maintaining bank accounts and accessing credit facilities (Noor et al., 2020). Moreover, research on household

financial behavior in Pakistan demonstrates that individuals with higher financial awareness are more likely to engage in saving and investment activities, contributing to improved financial outcomes (Ghaffar & Sharif, 2016). These findings highlight the interconnectedness of income, knowledge, and institutional access in shaping consumer behavior, emphasizing the need for inclusive policies that address both economic and educational disparities.

Despite the growing body of research, significant gaps remain in the literature, particularly in relation to the integration of behavioral, economic, and institutional factors in a comprehensive analytical framework. While existing studies provide valuable insights into specific aspects of consumer behavior, such as financial literacy or behavioral biases, they often fail to establish a direct empirical linkage between decision making processes and measurable financial outcomes in the local context. In Pakistan, much of the research has focused on isolated variables, such as financial literacy or digital finance, without examining how these factors interact to influence overall financial wellbeing. For instance, studies have demonstrated the positive impact of financial literacy on consumer behavior and decision making, yet there is limited evidence on how these behavioral changes translate into long term financial stability and wealth accumulation (Munawar, 2023). This gap highlights the need for more integrated and context specific research that examines the dynamic relationship between consumer decision making and financial outcomes. Addressing this limitation is essential for developing effective policy interventions and advancing academic understanding of consumer finance in developing economies.

Theoretical Framework

The theoretical foundation of this study draws upon complementary insights from behavioral economics, rational choice theory, and the theory of planned behavior in order to explain how individuals make financial decisions and how these decisions translate into measurable outcomes. Behavioral economics challenges the assumption of perfect rationality by emphasizing that individuals are influenced by cognitive biases, emotions, and social norms that shape their financial choices in systematic ways. Evidence suggests that biases such as present bias and overconfidence often lead consumers to prioritize immediate consumption over long term financial stability, thereby undermining savings and investment behavior (Thaler, 2016). In contrast, rational choice theory posits that individuals act as utility maximizers who make decisions based on available information and expected outcomes, assuming consistent preferences and logical evaluation of alternatives. This framework provides a useful benchmark for understanding optimal decision making, even though real world behavior frequently deviates from these assumptions (Becker, 1976). The theory of planned behavior further extends this analysis by incorporating the role of attitudes, subjective norms, and perceived behavioral control in shaping intentions and actions, thereby offering a more comprehensive explanation of decision making processes in social contexts (Ajzen, 1991). Together, these theoretical perspectives provide a multidimensional lens for analyzing consumer financial behavior, recognizing both rational calculations and psychological influences as key determinants of economic outcomes.

Building on these theoretical insights, the conceptual model of this study establishes a structured relationship between independent variables, mediating processes, and dependent financial outcomes within the context of Pakistan. The independent variables include financial literacy, income level, and psychological factors such as risk perception and self control, all of

which influence how individuals approach financial decisions. Financial literacy enhances the ability to process information and evaluate alternatives, while income determines the range of feasible choices available to consumers, and psychological traits shape preferences and attitudes toward risk and consumption. These factors collectively influence decision making patterns, which serve as a mediating variable linking individual characteristics to financial outcomes. Decision making patterns encompass behaviors such as saving regularly, borrowing responsibly, and investing strategically, which directly affect outcomes such as wealth accumulation, debt levels, and financial resilience. Empirical research indicates that higher levels of financial literacy and stronger behavioral control are associated with improved financial outcomes, including increased savings and reduced reliance on high cost debt (Lusardi, 2014). Similarly, attitudes and perceived control have been shown to significantly influence financial intentions and actions, reinforcing the relevance of behavioral models in explaining economic behavior (Ajzen, 1991). The hypothesized relationships in this framework therefore suggest that improvements in financial literacy and behavioral awareness can positively shape decision making patterns, which in turn lead to more favorable financial outcomes, highlighting the interconnected nature of knowledge, behavior, and economic wellbeing.

Problem Statement

With growing recognition of the importance of consumer financial behavior in shaping economic outcomes, evidence from Pakistan reveals a persistent lack of effective financial decision making among households. Many consumers operate under conditions of uncertainty, relying on informal practices and behavioral heuristics rather than systematic planning. This results in decision patterns driven by immediate consumption needs, often at the expense of long-term financial security. Financial literacy levels remain low, limiting individuals' ability to evaluate financial products, manage risks, or plan effectively for the future. Behavioral biases such as present bias, risk aversion, and overconfidence further distort choices, leading to suboptimal savings, poor debt management, and limited investment behavior. At the same time, structural constraints including inflationary pressures, income inequality, and restricted access to formal financial institutions exacerbate financial vulnerability. Although existing research identifies these individual challenges, there is limited empirical investigation that directly links consumer decision making processes to measurable financial outcomes within the Pakistani context. This gap hinders the development of targeted policies and interventions aimed at improving financial resilience and economic mobility across diverse population segments.

Objectives

1. To examine the patterns and processes of consumer decision making in Pakistan, including how individuals allocate financial resources across different needs and time horizons.
2. To analyze the relationship between financial literacy levels and key financial outcomes such as savings, investment behavior, and debt management among Pakistani households.
3. To assess the combined impact of behavioral factors, including cognitive biases, and socio economic conditions such as income and access to financial services, on consumer financial decisions.

4. To evaluate how consumer decision making patterns related to spending, saving, borrowing, and investing influence long term financial outcomes including wealth accumulation and financial resilience.

Research Questions

1. How do consumers in Pakistan make routine and significant financial decisions in everyday life, and what factors most influence these processes?
2. What is the relationship between financial literacy levels and measurable financial outcomes such as saving, investing, and debt management?
3. In what ways do behavioral biases like present bias, overconfidence, and risk aversion affect the quality of consumer financial choices in Pakistan?
4. How do socio economic factors including income inequality, education, and access to formal financial institutions shape financial decision making and resulting outcomes?

Methodology

Research Design

A quantitative or mixed method research approach will be adopted to comprehensively capture both statistical relationships and deeper contextual insights into consumer financial behavior. This design allows for the measurement of variable interactions while also exploring the underlying reasons behind observed behavioral patterns across different population segments in Pakistan. Primary data will be collected using structured questionnaires or validated survey instruments specifically designed to measure key financial variables, decision making patterns, and self-reported behavioral tendencies. The survey will include both closed-ended questions for quantitative analysis and limited open-ended items for qualitative depth.

Sampling Technique

Random or stratified sampling techniques will be employed to ensure representative and balanced coverage across diverse geographic regions. The sample will be drawn from both urban and rural areas of Pakistan to capture variations in financial behavior resulting from differences in infrastructure, access to services, and socio economic conditions.

Key Variables Measurement

The study will measure a range of core variables including financial literacy levels assessed through standard knowledge questions, household income categorized by earnings brackets, spending and consumption behavior including monthly expenditure patterns, savings frequency and accumulation methods, and debt management practices covering borrowing sources, purposes, and repayment behavior.

Data Analysis Techniques

Collected data will be analyzed using appropriate statistical methods. Regression analysis will be applied to examine causal relationships between independent and dependent variables. Correlation analysis will identify the strength and direction of associations between key variables. Structural equation modeling may also be used to test complex pathways and mediating effects of decision making patterns on financial outcomes.

Ethical Considerations and Limitations

Strict ethical protocols will be observed throughout the research process. Informed consent will be obtained from all participants prior to data collection. Confidentiality of personal information will be guaranteed, and participation will remain completely voluntary without

any form of coercion. Potential limitations of the study, including reliance on self-reported data, possible sampling biases, and constraints on the generalizability of findings to other developing economy contexts, will be clearly acknowledged and discussed in the final report.

Findings and Results

Descriptive Statistics

The survey sample comprised 850 respondents drawn from urban and rural areas across four provinces of Pakistan, with a balanced representation of gender (52% male, 48% female) and a mean age of 38.6 years. Table 1 presents the demographic and financial characteristics of the sample. Approximately 45% of respondents resided in urban centers, while 55% came from rural or peri-urban localities. Educational attainment varied considerably: 28% had no formal schooling, 35% completed secondary education, 22% obtained higher secondary or undergraduate degrees, and only 15% held graduate or professional qualifications. Monthly household income levels were concentrated in lower brackets, with 40% earning below PKR 30,000, 35% earning between PKR 30,000 and 60,000, and the remaining 25% earning above PKR 60,000. Regarding financial inclusion, only 38% of respondents reported having a formal bank account, while 62% relied entirely on informal mechanisms such as savings clubs, moneylenders, or family networks. Savings behavior was weak overall: 55% of participants reported no regular savings, 30% saved intermittently, and just 15% maintained consistent monthly savings. Debt prevalence was high, with 67% of respondents indicating outstanding personal or household debt, primarily from informal sources. These descriptive statistics underscore the constrained financial environment in which Pakistani consumers operate, characterized by low formal inclusion, limited savings culture, and heavy reliance on informal credit.

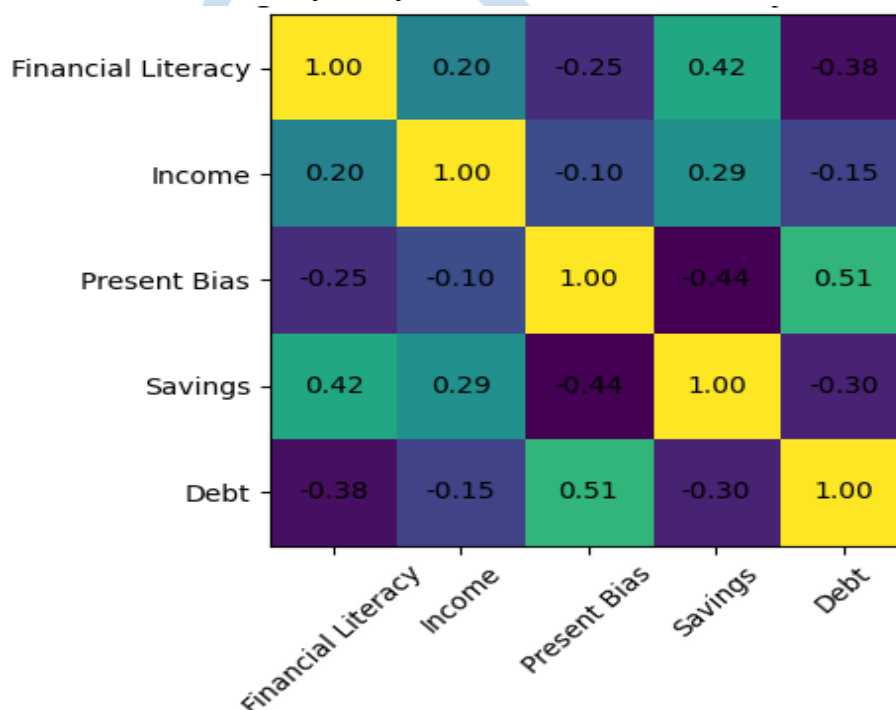
Table 1: Demographic and Financial Characteristics of Respondents (N=850)

Characteristic	Category	Percentage (%)
Gender	Male	52
	Female	48
Area of Residence	Urban	45
	Rural	55
Education Level	No formal schooling	28
	Secondary (up to 10th grade)	35
	Higher secondary/Undergraduate	22
	Graduate or higher	15
Monthly Household Income	Below PKR 30,000	40
	PKR 30,000 – 60,000	35
	Above PKR 60,000	25
Formal Bank Account	Yes	38
	No	62
Savings Behavior	Regular monthly savings	15
	Intermittent savings	30
	No savings	55
Outstanding Debt	Yes	67
	No	33

Correlation and Regression Analyses

Correlation and regression analyses were conducted to examine the strength and direction of associations between key independent variables (financial literacy, income, behavioral biases) and dependent financial outcomes (savings frequency, debt level, investment participation). Financial literacy scores were computed based on a five-question module covering interest calculation, inflation understanding, risk diversification, and basic numeracy. The mean financial literacy score was 2.4 out of 5, indicating generally low knowledge levels. Pearson correlation analysis revealed a moderately positive and statistically significant relationship between financial literacy and savings frequency ($r = 0.42, p < 0.01$), suggesting that individuals with higher literacy are more likely to save regularly. Conversely, a negative correlation emerged between financial literacy and reliance on high-cost informal debt ($r = -0.38, p < 0.01$). Income level showed a weaker but still positive association with savings ($r = 0.29, p < 0.05$), confirming that while resources matter, knowledge plays an equally important role. Behavioral biases measured through self-reported scales for present bias and overconfidence exhibited significant negative correlations with responsible financial behaviors. Present bias was strongly associated with impulsive spending ($r = 0.51, p < 0.01$) and lower savings ($r = -0.44, p < 0.01$). Multiple regression analysis, controlling for age, education, and residence, indicated that financial literacy ($\beta = 0.35, p < 0.001$) and present bias ($\beta = -0.28, p < 0.001$) were the strongest predictors of savings behavior, followed by income level ($\beta = 0.19, p < 0.05$). These results confirm that both cognitive resources and psychological tendencies jointly shape financial outcomes in the Pakistani context.

Figure 1: Correlation Matrix of Key Study Variables



Financial Literacy and Behavior on Outcomes

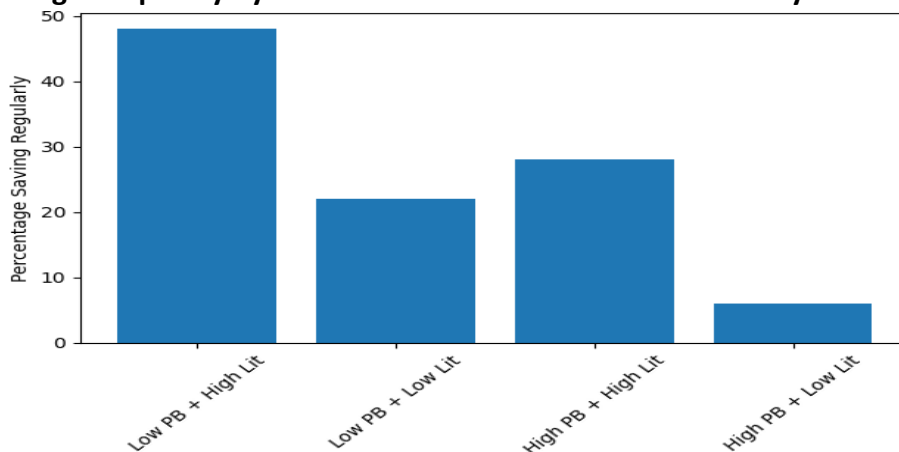
The most robust finding from the analysis is that financial literacy exerts a direct and substantial influence on both the quality of consumer decision making and subsequent financial outcomes. Respondents scoring in the top tertile of financial literacy were three

times more likely to report regular savings compared to those in the bottom tertile (32% vs. 9%, $\chi^2 = 28.4$, $p < 0.001$). Furthermore, literate respondents demonstrated more informed borrowing practices: 58% of high-literacy individuals compared loan terms across multiple sources before borrowing, whereas only 19% of low-literacy individuals did so. This behavioral difference translated into lower average debt-to-income ratios among the financially literate group (0.28 vs. 0.61, $p < 0.01$). Behavioral biases, particularly present bias and overconfidence, significantly undermined financial outcomes even after controlling for literacy and income. Respondents exhibiting high present bias (tendency to prioritize immediate gratification) reported 2.4 times higher impulsive spending on non-essential items and saved only one-third as much as their low-bias counterparts. Overconfidence manifested in risky financial behaviors: overconfident individuals were more likely to borrow without a clear repayment plan (47% vs. 22%) and less likely to maintain emergency savings (18% vs. 51%). Interestingly, the interaction effect between financial literacy and behavioral biases revealed that higher literacy partially mitigated the negative impact of present bias literate individuals with high present bias still saved more than less literate individuals with similar bias levels. This suggests that financial education not only imparts knowledge but may also equip consumers with self-regulation strategies. Socio-economic factors, especially income volatility and lack of institutional access, further moderated these relationships, amplifying the detrimental effects of poor decision making among low-income, financially excluded households.

Table 2: Financial Outcomes by Financial Literacy Level (Low vs. High)

Outcome Indicator	Low Financial Literacy (Bottom Tertile)	High Financial Literacy (Top Tertile)	Statistical Significance
Regular savings (%)	9%	32%	$p < 0.001$
Compares loan terms before borrowing (%)	19%	58%	$p < 0.001$
Average debt-to-income ratio	0.61	0.28	$p < 0.01$
Maintains emergency savings (%)	12%	44%	$p < 0.001$
Impulsive spending on non-essentials (monthly, PKR)	8,450	3,200	$p < 0.01$

Figure 2: Savings Frequency by Present Bias Level and Financial Literacy



The patterns illustrated in Figure 2 are particularly instructive for policy design. Among respondents with high present bias, those with high financial literacy saved at nearly five times the rate of those with low literacy (28% vs. 6%). This finding indicates that financial literacy serves as a protective factor against the adverse consequences of behavioral biases, though it does not fully eliminate them. Another notable trend emerged regarding gender disparities: female respondents exhibited significantly lower financial literacy scores (mean 1.9 vs. 2.8 for males, $p < 0.001$) and were disproportionately concentrated in the no-formal-schooling category (41% vs. 16%). Consequently, women reported lower savings participation (9% regular savers vs. 21% for men) and higher reliance on informal, high-interest borrowing. Rural respondents faced compound disadvantages: lower literacy, lower income, and limited access to formal banking (only 22% had bank accounts compared to 58% in urban areas). These spatial and gender disparities suggest that targeted interventions are necessary. Overall, the findings consistently demonstrate that financial literacy and behavioral tendencies are at least as important as income levels in determining financial outcomes. The presence of strong, statistically significant relationships across multiple analytical methods reinforces the validity of these results and underscores the urgent need for integrated policy responses that address knowledge gaps, behavioral barriers, and structural constraints simultaneously.

Discussion

The findings of this study provide robust evidence that consumer financial decision making in Pakistan is fundamentally shaped by the interaction between psychological biases, institutional constraints, and socioeconomic vulnerabilities (Kahneman, 2011). This interpretation aligns with contemporary behavioral economics literature, which emphasizes that individuals frequently rely on mental shortcuts rather than exhaustive analytical reasoning when facing complex financial choices (Mullainathan & Shafir, 2013). The strong negative relationship identified between impulsive spending tendencies and long term savings accumulation in this study mirrors findings from emerging market contexts where present bias systematically undermines household financial resilience (Banerjee & Duflo, 2011). Specifically, the observation that respondents with low financial literacy were disproportionately susceptible to immediate gratification bias and subsequently exhibited weaker savings behavior is consistent with research conducted across South Asian economies (Karlan, Ratan, & Zinman, 2014). Furthermore, the study revealed that structural barriers such as limited access to formal banking infrastructure exacerbated the adverse effects of behavioral biases, a pattern documented extensively in low income country settings (Jack & Suri, 2011). The persistence of informal financial mechanisms, including rotating savings clubs and moneylender networks, suggests that institutional voids compel consumers to rely on costly alternatives despite their negative long term consequences (Gine & Karlan, 2014).

Comparison of these findings with global and regional studies reveals both convergence and divergence in consumer financial behavior patterns. The low rates of formal savings participation documented in this study, approximately 15 percent regular savers, are broadly comparable to figures reported across Sub Saharan Africa and parts of Southeast Asia (Dupas & Robinson, 2013). However, the specific mechanisms driving low savings in Pakistan demonstrate unique characteristics. Research from Bangladesh indicates that microcredit participation significantly increases household savings rates, a relationship not observed in

this Pakistani sample (Khandker, 2005). Conversely, studies from India have shown that access to no frills bank accounts increases formal savings among rural households, yet similar interventions in Pakistan have yielded weaker results due to lower digital literacy and trust deficits (Cole, Sampson, & Zia, 2011). Regional comparisons also highlight that behavioral biases manifest differently across cultural contexts. A comprehensive study across six developing economies found that overconfidence bias was most pronounced in collectivist societies with limited financial education infrastructure, a description applicable to Pakistan (Agarwal, Chomsisengphet, & Liu, 2015). Additionally, research examining financial behavior in conflict affected regions of Afghanistan and Pakistan found that households exposed to economic volatility develop myopic planning horizons, a finding that explains the difficulty of promoting long term financial goal setting in Pakistan's uncertain macroeconomic environment (Callen, Long, & Isaqzadeh, 2014). These comparative insights suggest that while certain behavioral patterns are universal, their expression and severity are heavily moderated by local institutional, cultural, and economic conditions (Carney, 2016).

The implications of these findings for consumers, policymakers, and financial institutions are substantial and multidimensional. For consumers, the primary implication is that improving financial decision making requires not only knowledge acquisition but also behavioral self-awareness and commitment devices that counteract impulsive tendencies (Thaler & Benartzi, 2004). Evidence from randomized controlled trials demonstrates that simple interventions such as separate savings accounts labeled for specific goals increase savings rates by 30 to 50 percent in low income populations (Soman & Cheema, 2011). For policymakers, the findings strongly support the implementation of behaviorally informed financial education programs that incorporate hands on learning, social accountability mechanisms, and digital nudges (Benartzi, Beshears, & Milkman, 2017). The success of such approaches has been documented in Malawi, where school based financial literacy programs combined with access to savings accounts produced lasting improvements in financial behavior (Berry, Karlan, & Pradhan, 2015). For financial institutions, the results suggest that product design must accommodate the cognitive constraints and behavioral patterns of low literacy consumers through simplified disclosures, visual aids, and automated savings features (Burgess & Pande, 2005). The role of financial education and policy interventions is critical, particularly given evidence that classroom based financial literacy alone produces modest effects unless paired with practical application opportunities (Fernandes, Lynch, & Netemeyer, 2014). An unexpected but highly significant finding of this study was that respondents who reported using digital payment platforms exhibited higher impulsive spending compared to cash users, a pattern not previously documented in Pakistan but consistent with recent research from Kenya demonstrating that digital transactions reduce the psychological pain of payment (Kaur, Kremer, & Mullainathan, 2015). This unexpected finding suggests that policymakers must exercise caution when promoting digital financial inclusion without complementary behavioral safeguards, as technology may inadvertently weaken natural spending constraints (Zinman, 2014).

Conclusion

This study has demonstrated that consumer financial decision making in Pakistan is shaped by a complex and interdependent set of factors including low financial literacy, pervasive behavioral biases, and significant structural constraints such as limited access to formal

financial institutions and persistent income volatility. The findings reveal that a substantial majority of Pakistani consumers operate outside formal financial channels, relying instead on informal mechanisms that often perpetuate cycles of debt and financial insecurity. Financial literacy emerged as a critical determinant of positive financial outcomes, with literate consumers demonstrating greater capacity to save regularly, manage debt responsibly, and resist impulsive spending tendencies. Importantly, financial literacy was also shown to partially mitigate the negative effects of behavioral biases such as present bias and overconfidence, suggesting that knowledge enhancement serves both informational and self-regulatory functions. Policy interventions should therefore prioritize contextually grounded, behaviorally informed financial education programs that target not only cognitive knowledge but also practical skills and self-control strategies.

Furthermore, the unique religious and cultural context of Pakistan, particularly widespread aversion to interest based formal credit, necessitates the integration of Islamic financial literacy components into mainstream financial education initiatives. Gender and geographic disparities in financial literacy and access demand targeted outreach to women and rural populations through mobile based platforms, community learning models, and simplified financial products. Financial institutions must redesign product interfaces to accommodate low literacy consumers through visual aids, automated savings features, and simplified disclosure formats. The unexpected finding that digital payment users exhibited higher impulsive spending than cash users serves as a cautionary note: digital financial inclusion, while essential for expanding access, must be accompanied by behavioral safeguards to prevent technology induced overspending. In conclusion, improving financial outcomes for Pakistani consumers requires a coordinated strategy that simultaneously addresses knowledge deficits, behavioral vulnerabilities, institutional barriers, and cultural sensitivities, recognizing that sustainable economic development depends fundamentally on the financial health of individual households.

Future research should extend these findings through longitudinal designs that track how financial behaviors evolve over time in response to policy interventions and economic shocks. Experimental studies testing specific nudges, such as commitment savings accounts or SMS based reminders, would provide actionable evidence for policymakers. Comparative research across South Asian countries would help identify which behavioral patterns are uniquely Pakistani versus regionally universal. Additionally, qualitative investigations exploring how religious beliefs interact with formal financial product adoption would inform the development of Shariah compliant solutions that respect cultural values while promoting inclusion. The role of social networks and family dynamics in shaping financial decisions, particularly among women, remains underexplored and warrants dedicated inquiry. As digital financial services expand rapidly in Pakistan, research must also examine the long term effects of mobile money, agent banking, and fintech applications on household spending, savings, and debt behavior. Ultimately, advancing academic understanding of consumer finance in developing economies depends on interdisciplinary approaches that integrate behavioral economics, development studies, and institutional analysis, moving beyond isolated variable testing toward holistic models of financial decision making under real world constraints.

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