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The Psychology of Financial Freedom: An Empirical Investigation of Behavioral Biases in Personal Finance with special reference to working professionals in Chennai

Dr. S. Usha[1], M. Priya[2]

Assistant Professor, Department of Management Studies, University of Madras, Chepauk, Chennai – 5[1]

Research Scholar, Department of Management Studies, University of Madras Chepauk, Chennai – 5[2]

Abstract: As personal financial decisions become increasingly complex in the digital era, it has become vital to explore not just what people know, but how people think and behave about money. This article explores the psychological basis of Financial Freedom by investigating the effects of four behavioral constructs – Overconfidence Bias, Financial Self-Efficacy, Self-Control Bias, Herding Bias – with Financial Literacy as a mediating variable. Based on Behavioral Finance Theory, Social Cognitive Theory (Bandura, 1997), and the Financial Capability Framework, the study adopts a quantitative explanatory research design with 207 working professionals in Chennai, India. Standardized Likert-scale instruments were applied and the data was analyzed in SPSS by correlation, multiple regression, and mediation analysis. According to the findings, Financial Literacy is a strong mediator of the relationships between Overconfidence Bias, Financial Self-Efficacy, and Self-Control Bias and Financial Freedom; Herding Bias has no mediation effect. Financial Self-Efficacy displayed the most indirect and total influence by far of the predictors, suggesting a central role of knowledge and confidence to financial freedom. The results confirm that effective financial behavior is a function of belief, discipline, and self-regulation, not just information. The result of this study helps to deepen behavioral finance research and explains that biases and literacy among individuals in a behavioral finance theory jointly determine financial freedom through this psychological model.

Keywords: Behavioral Finance, Financial Self-Efficacy, Overconfidence Bias, Financial Literacy, Self- Control Bias, Herding Bias, Financial Freedom, Social Cognitive Theory, Financial Capability.

I. INTRODUCTION

Traditional finance tends to imagine people as perfectly logical decision-makers, but making money is full of emotion, impulse, and social pressure. As Behavioral Finance Theory tells us, even in the digital era — when you can start investing or spending within seconds, you're more reliant on shortcuts, biases, and gut feelings. But this is the point – because financial freedom is more than the amount of money in a bank, it's a measure of how well a person has met the economic challenges of day-to-day life with the confidence and consistency of the new normal financial landscape. Even when financial information is abundant, far too many people have trouble putting what they've learned into action. Overconfidence leads some to overrate their financial savvy, low self-control tempts others toward instant rewards, and herding has many followers pursuing popular trends without realizing their risks. These biases detract from sound decision- making and influence financial Self-Efficacy and therefore impact it only briefly. Here, financial literacy is the missing link — the idea that one can handle money well. Based on Social Cognitive Theory, it turns knowledge into practice to instill behavior in individuals on how to plan, save, and invest with discipline. Analysing the influence of the Four Behavioral Forces (Overconfidence Bias, Financial Self-Efficacy, Self- Control Bias, and Herding Bias) in determining financial freedom among digitally active professionals of Chennai. Through investigating the mediating role of financial literacy, it provides a panoramic perspective of what truly propels financial independence in the technological age.

II. OBJECTIVES OF THE STUDY

1. To examine the influence of Overconfidence Bias, Financial Literacy, Self-Control Bias, and Herding Bias on Financial Preparedness.
2. To assess the mediating role of Financial Self-Efficacy between behavioral biases and Financial

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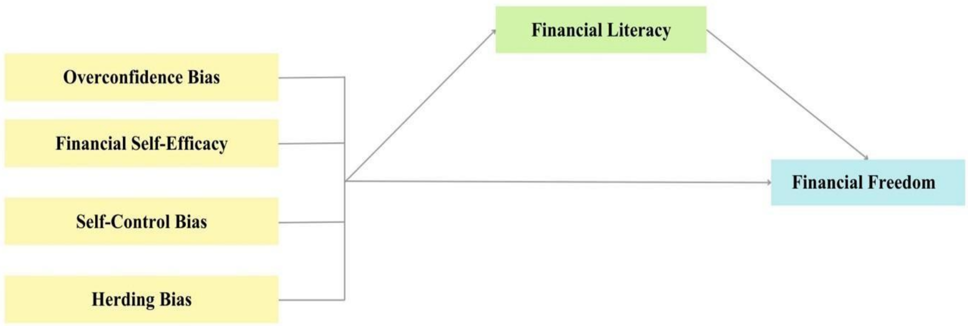
Preparedness.
3. To identify which behavioral construct exhibits the strongest direct and indirect effect on Financial freedom.
4. To provide theoretical and practical insights for improving financial capability among working professionals.

III. CONCEPTUAL FRAMEWORK



The Overconfidence Bias and Financial Freedom

Overconfidence bias refers to the phenomenon of people overestimating their knowledge, judgment or control over financial outcomes. As Barber and Odean (2001) stated, overconfident investors would over-execute their trade and considered the decision they were making better than all the other investors, while underestimating certain risks. Excessive confidence can be detrimental to the financial condition of individuals through fear but moderate confidence levels can actually lead to autonomy in decision-making and financial initiative (Pompian, 2012). Overconfidence can affect what someone would do to save and invest because such behaviour in the context of financial freedom becomes excessive. Its long-term impact, though, is dependent on whether confidence is tempered by knowledge. Accordingly, overconfidence may be a factor which indirectly influences financial independence by affecting learning, decision making, and financial literacy development.

Financial Self-Efficacy and Financial Freedom

Based on Bandura’s (1997) Social Cognitive Theory, it is the extent to which individuals believe they have the ability to manage financial difficulties, issues, and responsibilities. Lown (2011) identified individuals with self-efficacy in managing finances as those more likely to be engaged in budgeting, saving, and saving for the long term—a process known to be necessary for attaining financial freedom. Previous studies have also found that higher financial self-efficacy encourages persistence in the wake of financial insecurity, which tends to result in more regular financial transactions (Farrell et al., 2016). Since financial freedom is built on careful preparation and careful thinking, with sustained practice and knowledge, confidence as one of the psychological motivation mechanisms that drives such actions. Financial self-efficacy may increase levels of financial literacy, and subsequently, financial independence, by affecting motivation and learning, which by its very nature has implications for financial literacy.

Self-control bias and financial freedom

“Self-control bias” is a person’s ability – or inability – to inhibit impulses and delay immediate gratification. Tangney et al. (2004) define self-control as one of the most important personal resources that is required for disciplined financial behaviors. Those characterized by greater self-control are known to save more regularly, tend to prevent superfluous expenditures, and are capable of managing a long-term plan (Strömbäck et al., 2017). If you want a life of financial freedom, you need consistent discipline with regard not just to budgeting, debt and investment behavior but also to what kind of debt you have. So self-control bias affects how likely you are to do those behaviors. Previous studies have found that people with higher self-control are more likely to gain financial literacy and make progress on it. Self-control bias indirectly supports financial freedom as it reinforces good financial habits.

Herding Bias and Financial Freedom

Herding bias is when people do not use their own judgment, but imitate others as does the majority and, thus, the financial behaviour of others. Herding occurs at times of uncertainty on the uncertain and less knowing situations (Bikhchandani & Sharma, 2001). Although herding can cause them to engage in financial behaviors that are beneficial behavior (e.g., joining savings plans, investment plans, and investments in life, e.g., in the influence of social pressures), it leads to irrationality and volatility (Prosad et al., 2015). When imitates the behaviour, we get guided by social cues; its impact can be rational or speculative, and its impact on financial freedom. Because the herd dynamic of financial independence, instead of building its own expertise, humans learn based on others. Herding bias may

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therefore attenuate the prospects for financial independence, unless this is counterbalanced by personal understanding and judgment.

Financial literacy as mediator

The financial literacy can be defined as: being financially proficient (Knowledge Financial concepts like budgeting, interest, diversification, long-term planning etc.). Lusardi and Mitchell (2007) regarded it as able to process economic information and use it to make decisions. Financial literacy enables individuals to evaluate risks, manage debt, and plan effectively--key components of financial freedom. Many studies have shown that financial literacy mediates the relationship between psychological factors and financial well-being (Xiao & Porto, 2019). People who are confident (self-efficacy), balanced in judgment (overconfidence), disciplined in behavior (self-control), and aware of their social influence (herding) are better placed to attain and use financial literacy. Thus, literacy is the bridge between behavioral tendencies and longterm financial freedom.

Financial Freedom as the Outcome Variable

Financial freedom is the level of capability which is required to fulfil present and future financial need without any stress, as provided by nest eggs, investments, long-term financial planning, and a great deal more. It embodies financial independence, stability, and freedom, free life choices in lieu of financial coercion (Garman & Forgue, 2018). Financial freedom is fueled by knowledge, disciplined and confident behavior, and proactive financial actions, according to scholars. Among psychological strengths, self- efficacy, cognitive clarity through financial education, and lower vulnerability to behavioral biases all lead to financial independence. Theories like those of Baillie et al., which posit that financial freedom is the ultimate behavioral outcome for every individual based on the synergistic relationship of biases, literacy, and self-belief, are central to this research framework.

IV. THEORETICAL BACKGROUND REVIEWS

Behavioral Finance and Cognitive Biases in Personal Finances

In traditional finance, we accept that individuals tend to make rational decisions, but Behavioral Finance Theory suggests that such choices are very emotionally laden, based on heuristics and cognitive distortions (Kahneman & Tversky, 1979; Barber & Odean, 2001). In the world of personal finance, such biases play out in everyday behaviors—the saving, investing and uncertainty-reaction behaviors of individuals. Overconfident and underconfident people tend to overestimate judgment and underestimate risk, whereas self-controlled people often wait to take small steps in gratification for their long-term financial goals. Herding is the urge to copy everybody else's decisions when things get uncertain. Taken together, these biases demonstrate that financial behavior is a psychological phenomenon that needs mechanisms—like confidence or self-efficacy—to harmonise emotion with rational action.

Role of Self-Efficacy in Financial Behaviour

Self-efficacy is inspired by Bandura's (1997) Social Cognitive Theory, and is defined as the belief that you can perform tasks successfully. In an economic vein, such a belief boosts budgeting, saving and long game planning. People with high financial self-efficacy persevere despite uncertainty; people with low self- efficacy avoid or postpone making financial decisions. Recent studies indicate that self-efficacy translates financial information to meaningful behavior, and is an essential mediatory link between cognition and behaviour. It also interacts with biases: for instance, overconfidence may inflate perceived competence, self-control encourages disciplined behavior; herding decreases personal confidence. Self-efficacy thus serves as a psychological bridge shaping effective financial behavior.

Psychology of Financial Preparedness

Financial preparedness indicates how ready an individual is—both psychologically and behaviorally—to take on responsibilities, crises, and future goals. Those prepared feel in control, can manage their impulses, and remain motivated ahead. The Financial Capability Framework unites this view, positioning knowledge, confidence, and behaviors as crucial components of preparedness. For that reason, true readiness depends not only on resources but also on the ability to pair financial literacy with psychological strength and continued performance. Preparedness has been identified as a fundamental attribute of financial well-being in a digital world with rapid pace of information, social influence, and influence of others; hence, emotion regulation, self-efficacy, and discipline also need to be considered.

V. METHODOLOGY.

Respondents and Sampling Procedure

A descriptive research design was used to explore psychological and behavioral facets of financial readiness among digitally active working professionals in Chennai. The research was undertaken using 207 participants at public and

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private organizations. Convenience sampling was adopted in the study as accessibility and voluntary participation were key factors in deciding who was in the study. Primary data were gathered using a structured Google Forms questionnaire, and secondary data were sourced from academic journals and financial reports in order to inform the theoretical framework. Statistical analyses were performed with IBM SPSS Statistics (Version 29), employing descriptive statistics, correlation, regression, and mediation analysis. The internal consistency and reliability of each measure was examined using Cronbach's Alpha.

Instrument Design and Structure

The questionnaire was created and developed from literature-based and validated scales from behavioral finance and psychology to assure construct validity. The instrument included closed-ended questions and five-point Likert-scale items that reflected cognitive, affective, and behavioral dimensions of financial decision-making (1 = Strongly Disagree to 5 = Strongly Agree).

VI. ANALYSIS AND INTERPRETATION

Demographic Profile of Respondents

The study involved 207 working professionals in Chennai. Most respondents were from the 25–35 year old age bracket, thus making up the digitally rich workforce that has been using online finance products quite often. A small fraction of respondents in the older age group showed the lower share was in the older age groups, which means younger generation of practitioners are more comfortable to participate in the financial technology and behavioral finance topic related studies. Male dominance was maintained, and the gender ratio was slightly male. Regarding income, several respondents had average monthly income in the range of ₹30,000 to ₹60,000, which reflects middle-income working professionals. Fewer earned in excess of ₹1,00,000 per month. This indicates that the sample consists of financially savvy urban working professionals available through digital financial services.

Reliability

Construct	Cronbach's Alpha
Overconfidence Bias	0.82
Financial Self-Efficacy	0.86
Self-Control Bias	0.84
Herding Bias	0.78
Financial Literacy	0.81
Financial Freedom	0.87

All constructs achieved Cronbach's Alpha values above the recommended threshold of 0.70 (Nunnally, 1978), indicating high internal consistency and reliability of scale items.

Regression 1: Direct effects on Financial Preparedness

Table 1 Regression Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.718	.712	1.21457

ANOVA Summary

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	615.121	4	153.780	124.199	.000[b]
Residual	241.264	195	1.237		
Total	856.385	199			

Dependent Variable: Financial Freedom

Predictors: Overconfidence Bias, Financial Self-efficacy, Self-Control Bias, Herding Bias

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Coefficient Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.842	.173	—	4.861	.000
Overconfidence Bias	.383	.044	.383	8.693	.000
Financial Self-Efficacy	.368	.046	.368	7.931	.000
Self-Control Bias	.276	.044	.276	6.314	.000
Herding Bias	.099	.040	.099	2.461	.015

Interpretation

Regression 1 results show that the predictors collectively explained 71.8% of the variance in Financial Freedom (R^2 = .718), and the overall regression model was statistically significant (F = 124.199, $p < .001$). Individually, Overconfidence, Financial Self-Efficacy, and Self-Control significantly predicted Financial Preparedness with strong positive effects, while Herding had only a weak but significant influence. Together, these findings indicate that confidence, financial knowledge, and behavioral discipline strongly enhance preparedness, whereas socially driven imitation plays only a minor role.

Regression 2: Direct effects on Financial Literacy

Table 2 Regression Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.690[a]	.476	.467	1.48921

ANOVA Summary

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	394.205	4	98.551	44.248	.000[b]
Residual	434.180	195	2.227		
Total	828.385	199			

Coefficient Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.773	.189	—	4.084	.000
Overconfidence Bias	.269	.060	.269	4.473	.000
Financial Self-Efficacy	.334	.063	.334	5.290	.000
Self-Control Bias	.220	.059	.220	3.695	.000
Herding Bias	.097	.055	.097	1.759	.080

Interpretation

This model explains **47.6%** of the variance in Financial Literacy ($R^2 = .476, p < .001$). Overconfidence, Financial Self-Efficacy, and Self-Control were statistically significant contributors, indicating that these factors enhance individuals' belief in their capability to manage finances. Herding was non-significant, suggesting socially influenced decision-making does not strengthen financial confidence.

Regression 3: Combined effects of predictors and Financial Literacy on Financial Freedom

Table 3 Regression Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.881[a]	.776	.770	1.06743

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ANOVA Summary

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	653.525	5	130.705	134.154	.000[b]
Residual	202.860	194	1.046		
Total	856.385	199			

Coefficient Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.651	.166	—	3.922	.000
Overconfidence Bias	.294	.041	.294	7.104	.000
Financial Self-Efficacy	.257	.044	.257	5.793	.000
Self-Control Bias	.203	.040	.203	5.020	.000
Herding Bias	.067	.036	.067	1.848	.066
Financial Literacy	**.331**	**.047**	**.331**	**7.054**	**.000**

Interpretation

This combined model explains **77.6%** of the variance in Financial Freedom ($R^2 = .776$, $p < .001$). Financial Literacy emerges as a strong and significant predictor, confirming its mediating role. The coefficients of Overconfidence, Financial Self-Efficacy, and Self-Control decrease after adding Financial literacy, establishing **partial mediation**, while Herding remains non-significant.

Sobel Test & Indirect Effects

Table 4 Indirect Effects & Sobel Z Values

Path	Indirect Effect (a x b)	Sobel z	Sig.	Mediation Type
Overconfidence Bias → Freedom	.089	3.70	.000	Partial
Financial Self-efficacy → Freedom	.111	4.43	.000	**Strong Partial**
Self-Control Bias → Freedom	.073	3.13	.002	Partial
Herding Bias → Freedom	.032	1.52	.128	None

Interpretation

The mediation analysis confirms that Overconfidence, Financial Self-Efficacy, and Self-Control exhibit **significant indirect effects** through Financial Literacy. Financial Self-Efficacy shows the **strongest mediated impact**, indicating that knowledge enhances preparedness primarily by strengthening self-belief. Herding shows no mediation, confirming its weak influence in the overall model.

VII. FINDINGS AND DISCUSSION

The research assessed the effect of psychological and behavioural aspects on financial freedom in working professionals in Chennai. Outcome demonstrates the significant effect of Overconfidence, Financial Self- Efficacy, and Self-Control on freedom, suggesting that people's preparedness for both future goals and emergencies is positively influenced by their confidence, knowledge and financial management practice. These conclusions demonstrate that freedom is influenced by not only economic circumstances but also cognitive and behavioral tendencies. The mediation data identified Financial Literacy as a key mediating factor between these variables and freedom. Overconfidence and Financial Self-Efficacy both imparted financial freedom indirectly by developing higher levels of self-confidence, however, Self-Control mediated only to some extent. On the other hand, Herding had a weak direct effect and no indirect influence, indicating that social imitation has not served as a significant factor in preparing people to prepare. Overall, the results confirm the idea that financial freedom derives from rational thought, emotional assurance, and behavioral discipline, where financial literacy is the central psychological trigger of sustained financial behavior.

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VIII. RECOMMENDATIONS

Financial literacy programs should be built upon, and should include practical, scenario-based financial training that promotes a sense of value on the part of the customer, both through knowledge and from a practical perspective. Establish Financial Self-Efficacy: Workshops, mentoring and structured planning sessions can develop confidence in financial self-expression, and ultimately, long-term fiscal behavior. Help Personalize Finance with Self-Behavioral Controlling Features: Budgeting tools, automated savings systems, and expense trackers can ensure everyone is disciplined and does not make irrational financial decisions. No One to Overly Influence: Due to the little effect herding has on preparedness, finance education programs need to promote independent thinking or on-level planning to avoid the type of social interference. Encourage Long-Term Financial Behaviors: Employers can promote preparedness by organizing emergency fund programs, rewarding regular saving, and by implementing systematic long-term financial planning.

IX. CONCLUSION AND FUTURE IMPLICATIONS

The psychological factor for freedom of finance in Chennai professionals was investigated in the present study. Overconfidence, Financial Self-efficacy, and self-control all had positive and direct effects on freedom through Financial Literacy. One would expect that financial readiness would be determined so much by knowledge and behaviour that the belief that one can handle finances. Herding had little effect, suggesting that readiness is more determined by personal moral commitment and confidence than through social replication. On the whole results have implications for strengthening literacy, gaining self-efficacy and enhancing behavioral discipline as protective factors for financial security. Longitudinal or experimental studies could use longitudinal or experimental designs to monitor changes over time. Broadening the sample to encompass rural areas, a variety of careers and various income backgrounds would improve representation. Qualitative approaches like interviews may also provide additional insights into how individuals feel about financial preparedness.

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