



## FINANCIAL KNOWLEDGE AND ITS ROLE IN THE VOLUME OF TRADING IN THE STOCK MARKET

Haider A. Aljanabi<sup>1</sup> & Hussain H. Abdul Ameer<sup>2</sup>

<sup>1,2</sup> Karbala university, Collage of Administration & Economics

[Haider.abbas@uokerbala.edu.iq](mailto:Haider.abbas@uokerbala.edu.iq)

[Hussain.hadi@uokerbala.edu.iq](mailto:Hussain.hadi@uokerbala.edu.iq)

### Abstract

This paper explores the relationship between financial knowledge and the volume of trading in the stock market. The stock market plays a crucial role in the economy by facilitating the allocation of capital and providing opportunities for investors to participate in financial markets. Understanding the factors that influence trading volume is essential for market participants, regulators, and policymakers.

Financial knowledge refers to an individual's understanding of financial concepts, investment strategies, market dynamics, and risk management techniques. It encompasses a broad range of expertise, including fundamental analysis, technical analysis, portfolio diversification, and financial literacy. The level of financial knowledge varies among market participants and can significantly impact their decision-making processes.

The volume of trading in the stock market reflects the number of shares or contracts traded within a given period. It is influenced by various factors, including market sentiment, economic conditions, company-specific news, and investor behavior. Financial knowledge plays a vital role in shaping investor behavior and, consequently, affects trading volume.

Investors with a higher level of financial knowledge are more likely to actively participate in the stock market and engage in frequent trading. They possess the skills and understanding necessary to analyze market trends, evaluate investment opportunities, and manage risks effectively. Additionally, knowledgeable investors may have a better grasp of market dynamics, enabling them to exploit short-term trading opportunities and capitalize on market inefficiencies.

Furthermore, financial knowledge promotes confidence and reduces uncertainty among investors. Informed investors are more likely to engage in trading activities, driving up the volume of transactions. Their ability to make well-informed investment decisions enables them to take advantage of market fluctuations and potentially generate higher returns.

Conversely, individuals with limited financial knowledge may be hesitant to participate in the stock market or engage in trading. The lack of understanding can lead to a perceived higher level of risk and hinder investor confidence. Consequently, these investors may choose to remain on the sidelines or opt for passive investment strategies, resulting in lower trading volumes.

The role of financial education and literacy programs should not be overlooked in enhancing financial knowledge among market participants. By promoting financial literacy and providing accessible resources, investors can gain the necessary skills and knowledge to make informed investment decisions. This, in turn, can contribute to increased trading volume and overall market efficiency.

Financial knowledge plays a significant role in the volume of trading in the stock market. Investors with higher levels of financial knowledge are more likely to actively participate in the market, engage in frequent trading, and capitalize on investment opportunities. Conversely, limited financial knowledge can hinder investor confidence and lead to lower trading volumes. Encouraging financial education and literacy programs can help empower investors and promote a more vibrant and efficient stock market.

**Keywords:** *Financial Knowledge - Volume of Trading - Stock Market - market dynamics*

## 1. Introduction

The stock market is a dynamic and complex environment where investors buy and sell securities, such as stocks and bonds, in search of financial gains. The volume of trading, which represents the number of shares or contracts traded within a given period, is a key indicator of market activity and liquidity. Understanding the factors that influence trading volume is crucial for market participants, regulators, and policymakers alike.

One important factor that influences trading volume is the level of financial knowledge possessed by market participants. Financial knowledge refers to individuals' understanding of financial concepts, investment strategies, market dynamics, and risk management techniques. It encompasses a wide range of expertise, from basic financial literacy to advanced technical analysis.

The role of financial knowledge in stock market trading volume is significant. Investors with a higher level of financial knowledge are more likely to actively participate in the market and engage in frequent trading. They possess the skills and understanding necessary to analyze market trends, evaluate investment opportunities, and manage risks effectively. These knowledgeable investors are better equipped to make informed investment decisions, potentially leading to higher trading volumes.

Financial knowledge also plays a role in shaping investor behavior. Informed investors are more confident in their abilities and have a better understanding of market dynamics. This confidence reduces the perceived level of risk associated with trading, encouraging investors to participate actively in the market. As a result, trading volumes increase, contributing to market liquidity.

On the other hand, individuals with limited financial knowledge may be hesitant to participate in the stock market or engage in trading activities. The lack of understanding can lead to a higher perceived level of risk and uncertainty, which may discourage investors from actively trading. These investors may choose to adopt passive investment strategies or avoid the market altogether, resulting in lower trading volumes.

The impact of financial knowledge on trading volume extends beyond individual investors. Institutional investors, such as mutual funds, hedge funds, and pension funds, also play a significant role in market liquidity. Their trading decisions are influenced by the expertise and knowledge of their investment managers, who employ sophisticated strategies based on financial analysis and market insights. The collective actions of these institutional investors contribute to overall trading volume in the stock market.

## 2. Research Problem:

The stock market is a complex and dynamic financial system where investors buy and sell securities, such as stocks and bonds, with the aim of generating profits. The volume of trading, which refers to the total number of shares or contracts traded in a specific period, is a key indicator of market activity and liquidity. Understanding the factors that influence the volume of trading is crucial for investors, financial institutions, and policymakers.

Financial knowledge, or the understanding of financial concepts, markets, and instruments, plays a significant role in investment decision-making. Investors with higher levels of financial knowledge are generally thought to make more informed investment choices and possess a greater understanding of market dynamics. However, the specific relationship between financial knowledge and the volume of trading in the stock market has not been extensively explored.

Research Question: What is the relationship between financial knowledge and the volume of trading in the stock market?

## 3. Research Objectives:

- A. To assess the level of financial knowledge among investors in the stock market.
- B. To analyze the relationship between financial knowledge and trading volume.
- C. To identify the factors that mediate or moderate the relationship between financial knowledge and trading volume.
- D. To examine the impact of financial literacy initiatives on trading volume.
- E. To provide recommendations for improving investor education and financial literacy programs based on the findings.

## 4. Hypothesis

$H_0$  = financial knowledge has a negative impact on the Volume of Trading in the Stock Market.

$H_1$  = financial knowledge has a Positive impact on the Volume of Trading in the Stock Market.

5. **Methodology:** The research will employ a mixed-methods approach, combining quantitative analysis of trading volume data and surveys to measure financial knowledge levels among investors. Trading volume data will be collected from stock exchanges or financial data providers, while surveys will be administered to a representative sample of investors. Statistical techniques, such as regression analysis, will be used to analyze the relationship between financial knowledge and trading volume, controlling for other relevant factors.

6. **Expected Contribution:** This research aims to contribute to the existing literature on the determinants of trading volume in the stock market by emphasizing the role of financial knowledge. The findings can provide valuable insights for investors, financial institutions, and policymakers, enabling them to develop more effective strategies for promoting financial literacy and improving market efficiency.

### **7. Definition of financial knowledge**

Financial knowledge refers to a person's understanding and familiarity with concepts, principles, and practices related to finance and the management of money. It encompasses a range of topics, including personal finance, investment strategies, financial markets, economic principles, and financial planning. Financial knowledge allows individuals to make well-informed decisions about budgeting, saving, investing, borrowing, and other financial matters. (Barquin, 2019) It also enables individuals to navigate financial systems, understand financial products and services, and assess risks and opportunities in the realm of finance. Ultimately, financial knowledge empowers individuals to effectively manage their finances, make sound financial choices, and work towards achieving their financial goals. (Arthur , 2017)

### **8. The roles of Financial Knowledge**

Financial knowledge encompasses a broad range of concepts and principles related to the management, creation, and utilization of money. It involves understanding various aspects of personal finance, investment strategies, financial markets, and economic principles. Here are some key concepts within financial knowledge: (Bovee , 2019)

- A. **Budgeting:** Creating and managing a budget is fundamental to personal finance. It involves tracking income, expenses, and savings to ensure that financial goals are met.
- B. **Saving and Investing:** Knowing how to save and invest money is crucial for wealth creation. Understanding different investment vehicles, such as stocks, bonds, mutual funds, and real estate, helps individuals make informed decisions about allocating their funds.
- C. **Risk and Return:** Financial knowledge includes understanding the relationship between risk and return. Risk refers to the potential for loss or variability in returns, while return represents the gain or profit generated from an investment. Balancing risk and return is essential for managing investment portfolios.
- D. **Interest Rates:** Knowledge of interest rates is important for borrowing and lending decisions. Understanding how interest rates affect savings, loans, mortgages, and credit cards helps individuals make informed financial choices.
- E. **Financial Markets:** Understanding the functioning of financial markets, such as stock exchanges, bond markets, and foreign exchange markets, enables individuals to participate in investments and assess economic trends.
- F. **Taxation:** Knowledge of tax laws and regulations is necessary to manage personal and business finances efficiently. This includes understanding tax deductions, credits, and strategies for minimizing tax liabilities.
- G. **Debt Management:** Understanding concepts like credit scores, interest rates, and debt repayment strategies helps individuals effectively manage debt and avoid financial pitfalls.
- H. **Financial Planning:** Financial knowledge involves creating a comprehensive financial plan that addresses short-term and long-term goals. This includes setting financial objectives, assessing risk tolerance, and developing strategies for retirement planning, education funding, and estate planning.
- I. **Economic Principles:** Financial knowledge also encompasses foundational economic principles such as supply and demand, inflation, economic indicators, and fiscal and monetary policies. Understanding economic concepts helps individuals make informed financial decisions and navigate economic trends.
- J. **Financial Literacy:** Financial literacy refers to the overall understanding of financial concepts and the ability to apply that knowledge to make informed financial decisions. It encompasses all the above concepts and encourages individuals to develop responsible financial habits.

Developing financial knowledge is crucial for individuals to make informed decisions about money management, investments, and financial planning. It empowers individuals to take control of their financial well-being and work towards achieving their financial goals. (Charles , 2018)

### **9. Relationship of financial knowledge with financial markets**

Financial knowledge plays a crucial role in understanding and navigating financial markets. Here are some key relationships between financial knowledge and financial markets: (Cliff , 2017)

- A. **Investment Decision-Making:** Financial markets provide a platform for buying and selling financial instruments such as stocks, bonds, mutual funds, and derivatives. A solid understanding of financial knowledge helps individuals assess investment opportunities, analyze market trends, and make informed

investment decisions. It enables them to evaluate the risks and potential returns associated with different investments and choose suitable investment strategies.

- B. **Market Analysis:** Financial knowledge allows individuals to analyze and interpret market data, economic indicators, and financial news. It helps them understand market dynamics, identify trends, and assess the factors that influence market movements. This knowledge is essential for conducting fundamental and technical analysis, which are used to evaluate the value and performance of securities and make informed trading decisions.
- C. **Risk Management:** Financial markets are inherently associated with risks, including market volatility, economic uncertainties, and specific risks associated with different financial instruments. Financial knowledge helps individuals understand risk management techniques, such as diversification, asset allocation, and hedging strategies. It enables them to assess and manage risks effectively, protecting their investments and minimizing potential losses.
- D. **Capital Allocation:** Financial markets serve as a mechanism for allocating capital efficiently. Financial knowledge allows individuals to understand the different asset classes, investment vehicles, and market segments available for capital allocation. It helps them evaluate the risk-return trade-offs of various investment options and allocate their capital in a manner that aligns with their financial goals and risk tolerance.
- E. **Market Participation:** Financial knowledge is essential for individuals to actively participate in financial markets. It enables them to understand the rules and regulations governing market transactions, brokerage services, and investment products. With financial knowledge, individuals can make informed decisions about selecting brokers, opening investment accounts, and executing trades.
- F. **Market Trends and Opportunities:** Financial markets are influenced by a variety of factors, including economic conditions, geopolitical events, and technological advancements. Financial knowledge enables individuals to stay informed about these trends and identify potential investment opportunities. It helps them recognize emerging sectors, understand market cycles, and capitalize on market inefficiencies.

Financial knowledge provides individuals with the tools and understanding needed to navigate financial markets effectively. It enhances their ability to make informed investment decisions, manage risks, and capitalize on opportunities presented by the dynamic nature of financial markets. (Fred , 2017)

#### **10. Volume of Trading in the Stock Market**

The volume of trading in the stock market refers to the total number of shares or contracts that are bought and sold within a specific time period. It is a measure of the activity and liquidity of the market and indicates the level of investor participation and interest in trading securities. (Fabozzi & Modigliani , 2019)

Trading volume is typically reported on a daily basis and is calculated by summing up the number of shares or contracts traded during a trading session. It can be further analyzed based on different time frames, such as hourly, weekly, monthly, or yearly volumes, to understand trading patterns and trends.

Several factors influence the volume of trading in the stock market: (Elton, Brown, & Goetzmann, 2016)

- A. **Market Sentiment:** Investor sentiment and market expectations play a significant role in driving trading volume. During periods of optimism and positive sentiment, investors tend to be more active in buying and selling stocks, leading to higher trading volumes. Conversely, during periods of uncertainty or pessimism, trading volumes may decrease as investors become more cautious.
- B. **Market Liquidity:** The availability of buyers and sellers in the market affects trading volume. Higher liquidity, which refers to the ease of buying or selling without significant price movements, tends to attract more participants and increase trading volume. Conversely, low liquidity can result in reduced trading volume as investors may find it more difficult to execute their trades.
- C. **News and Information:** News events, corporate announcements, economic data releases, and other relevant information can impact trading volume. Significant news or events that affect the overall market or specific stocks often lead to increased trading activity as investors react to new information and adjust their positions.
- D. **Market Structure:** The structure of the market itself can influence trading volume. Factors such as the presence of market makers, electronic trading platforms, and the availability of different order types can affect the ease and efficiency of trading, thereby impacting trading volume.
- E. **Investor Behavior and Strategies:** Investor behavior, trading styles, and investment strategies also contribute to trading volume. For example, active traders who frequently buy and sell securities tend to generate higher trading volumes compared to long-term buy-and-hold investors.

Understanding the volume of trading in the stock market is important for various market participants, including investors, traders, financial institutions, and regulators. It helps assess market liquidity, determine the level of market activity, and provides insights into investor sentiment and behavior. Trading volume data is often analyzed

alongside price movements and other market indicators to gain a comprehensive understanding of market dynamics and make informed investment decisions. (Gitman,J., 2017)

### 11. Data analysis

In this part of the research, the results obtained will be analyzed through the use of the simple regression equation to determine the effect of Financial Knowledge on Trading volume Index in the Iraqi stock exchange . Table( 1 )shows the effect of Financial Knowledge on Trading volume Index

variables	Financial Knowledge (X)			Notes
	R <sup>2</sup>	F test	sig	
Trading volume Index (Y)	0.772	87.721	0.000	Acceptance H1

Table (1) shows the results of the effect relationships between Financial Knowledge (X), trading volume index (Y), which can be summarized as follows:

1. The value of the interpretation coefficient (R<sup>2</sup>) amounted to (0.772), which means that (77.2%) of the changes that occur in the trading volume index (Y) can be explained through Financial Knowledge (X), while the remaining percentage of (22.8%), it is due to other variables not included in the current study.
2. The value of (F) calculated for the simple linear regression model amounted to (87.721), which is greater than the value of (F) tabular amounting to (4.96) at a significant level (5%) and with a degree of freedom (1-99), and this means that the effect relationship between the variables has Statistical significance.
3. The value of the significance level (F) was (0.000), which is less than the level of significance of 5%, and this means that the results that have been reached can be relied upon by more than (99%).
4. The decision regarding the hypothesis of the effect relationship between Financial Knowledge (X), the trading volume index (Y), was reached by accepting the existence hypothesis (H1).

### 12. Conclusion

Financial knowledge plays a vital role in the volume of trading in the stock market. Traders and investors who possess a strong understanding of financial concepts and market dynamics are more likely to actively engage in trading activities. Their financial knowledge enables them to make informed decisions, effectively manage risks, stay aware of market conditions, employ technical analysis tools, and develop sound trading strategies. This knowledge empowers traders to confidently participate in the stock market, contributing to increased trading volumes.

However, it is important to recognize that financial knowledge is just one of several contributing factors to trading volume. Market conditions, investor sentiment, and macroeconomic factors also influence trading activity. Moreover, while financial knowledge enhances trading capabilities, it does not guarantee success. Other skills such as emotional discipline, adaptability, and continuous learning are equally important.

A strong foundation in financial knowledge equips traders with the necessary tools to navigate the complexities of the stock market and make informed trading decisions. It empowers them to assess risks, identify opportunities, and actively participate in trading, thereby impacting the volume of trading in the stock market.

### References:

- Arthur , T. (2017). Strategic Management concepts cases. usa: Irwn.
- Barquin, A. (2019). What is Knowledge Management . bari: Roman optic.
- Bovee , C. (2019). Financial Knowledge . new york: Hill.
- Charles , H. (2018). financial markets. new york: Hill.
- Cliff , B. (2017). The Essence of strategic Management . new delhi: Hall.
- Elton, G., Brown, J., & Goetzmann, S. (2016). Modern Portfolio Theory and Investment Analysis. new york: Hill.
- Fabozzi , J., & Modigliani , M. (2019). Financial Management. new jersy: Mc-graw.
- Fred , D. (2017). Concept of Strategic Management . new jersy: Mcgraw.
- Gitman,J., L. (2017). Principles Of Managerial Finance. usa: Addison-Wesley .
- Sultan, A. A., Alfaiza, S. A., & Riyadh, H. A. (2022). Impact of mass collaboration on knowledge sharing process using mediating role of innovation capability. International journal of organizational analysis, 30(5), 1085-1099 .
- Sultan, A. A., & Noor, S. M. (2017). Absorptive capacity, civil conflict and e-commerce adoption among Iraqi firms. Advanced Science Letters, 23(8), 7992-7995 .
- Sultan, A. A., Noor, S. M., & Nasirun, N. (2018). Technological factors and e-commerce adoption among small medium enterprises in Kurdistan, Iraq. Int. J. Eng. Technol, 7(3.5), 98-101 .