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FINANCIAL LITERACY, RISK TOLERANCE, AND ENTREPRENEURIAL INTENTION AMONG BS BUSINESS GRADUATES IN PAKISTAN: THE MEDIATING ROLE OF RISK TOLERANCE

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Abstract

This study investigates the financial literacy, risk tolerance and entrepreneurial intention relationship between already investigated variables that is financial literacy and entrepreneurial intention among BS business students of Pakistan by taking risk tolerance as a mediator. Entrepreneurship is an important channel of participation in the economy, especially given the current high unemployment rate among the young, and the scarcity of formal sector employment. The study used a quantitative method, cross sectional survey with a sample of 387 graduates of various universities in Pakistan who were selected using multi-stage cluster sampling. The scales used to collect the data were validated scales of measurement of financial literacy, risk tolerance and entrepreneurial intention, and the demographic data collected were age, gender, family business background and exposure to entrepreneurship courses. Analytical methods were descriptive statistics, Confirmatory Factor Analysis (CFA) to determine the reliability and validity, Partial Least Squares Structural Equation Modeling (PLS-SEM) for structural relationships and mediation analysis with bootstrapping method with 5000 iterations. The results show that financial literacy has a positive effect on entrepreneurial intention with its role mediator between risk tolerance. This relationship is partly mediated by risk tolerance (32%) and the mediation effect is stronger for graduates who have experienced a family business. There were non-statistically significant differences between gender. The results suggest that there are two pathways of cognitive-emotional relationship between financial literacy and psychological readiness and these pathways can simultaneously impact entrepreneurial intention. The study highlights the importance of financial education and its integration into the higher education programs, the need for an experiential approach and the need for financial risk management training in universities, and the necessity of financial knowledge and psychological readiness policies. This research not only helps in understanding the mechanism of graduate entrepreneurship in Pakistan but also provides some practical suggestions to educational institutions, policymakers and entrepreneurs.

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1. Introduction

Pakistan's economy is beset with numerous challenges and opportunities, especially for the growing population of its young generation. The demographic profile of Pakistan shows that more than 64% of its population is below 30 years, which not only presents a demographic dividend but also the need for job opportunities (Liaw et al., 2026). Though the general educational level has improved, a significant percentage of university graduates are still struggling to find formal sector jobs; and the university graduates' unemployment among the business sector is especially high (Dayo et al., 2023). This situation has encouraged policy makers and academics to encourage entrepreneurship as a key remedy for the high rates of youth unemployment and for economic growth. Entrepreneurship offers a pathway to self-employment, economic participation and wealth creation, and graduates have the opportunity to create their own jobs, rather than wait for a limited number of traditional jobs (Sarmiento et al., 2025; Lee et al., 2026).

But entrepreneurship is not something that can be wished for. You need a mixture of business finance skills, psychological dispositions and risk management skills to create a successful business. Financial literacy is one of these which has become a crucial factor affecting entrepreneurial intention. The financial literacy consists of financial planning, financial investment, budgeting, and financial resource management, which allow people to make decisions about financial and execute business plans well (Kaur et al., 2025; Hussain & Rasheed, 2022). In emerging economies, studies have revealed that individuals with higher financial knowledge are more likely to have a positive outlook when handling financial matters, assessing business opportunities, and maintaining the business in a volatile market (Mughal et al., 2024; Sarmiento et al., 2025). Although financial literacy has been introduced in higher education and various business and management programs are offered in universities, few universities provide the financial literacy course in the main stream of the courses (Dayo et al., 2023).

Another important factor that affects entrepreneurial actions is risk tolerance. It is an individual's readiness to do uncertain activities and their ability to bear the potential losses (Pashaei et al., 2024). Risk tolerance is not just financial, but psychological as well, in that it represents the willingness to take on market, operation and opportunity risks as they occur with business ventures. Rahim who has a high-risk tolerance are more prone to invest personal resources, think outside the box and cope with failure, thus

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increasing the chances of becoming a successful entrepreneur (Ahmad & Shah, 2022; Cao et al., 2022). Based on empirical evidence, risk tolerance is found to be a mediator between knowledge-based competencies and entrepreneurial intentions, which helps to make better and more realistic entrepreneurial decisions (Mughal et al., 2024; Dotong & Manalang, 2023).

Although financial literacy and risk tolerance are known to be crucial factors that affect entrepreneurial intention, there is a significant gap in the Pakistani context on the mediators between financial literacy and entrepreneurial intention. The existing literature has mainly centered on psychological and behavioral aspects of the individual level, as well as entrepreneurship education and institutional support and access to finance (Dayo et al., 2023; Lee et al., 2026). In particular, little empirical research has focused on financial literacy's mediating role between the financial characteristics of entrepreneurs and entrepreneurial intention of business graduates. The knowledge-intention gap holds relevance as knowledge of the underlying processes can guide the creation of policy and instructional strategies to promote the uptake of financial literacy, and even the mindset needed to bring an intention to action (Liaw et al., 2026; Nasri, 2023).

The theoretical underpinning to study these relationships takes some complementary frameworks into account. According to Theory of Planned Behavior (TPB), attitude, subjective norm and perceived behavioral control are the three factors that explain the formation of behavioral intentions (Ajzen, 1991). Within this context, financial literacy can improve perceived behavioral control by boosting self-assurance in managing and planning finances, and risk tolerance can shape attitudes towards entrepreneurship by managing comfort with uncertainty and failure (Lee et al., 2026). The Human Capital Theory also posits that investments in knowledge and skills have a positive impact on productivity and the economic potential of individuals, and that financial literacy — which is a subset of human capital — is a crucial component of graduates' human capital that enables them to recognize, assess and pursue viable business opportunities (Sarmiento et al., 2025; Mughal et al., 2024). Lastly, the Dual Process Theory of Reasoning differentiates between automatic and intuitive (System 1) and deliberate, knowledge-based (System 2) processes, with the financial literacy construct being a System 2 process, and risk tolerance a System 1 process. The mediation effect is caused by the influence of the knowledge of financial management in the process of generating entrepreneurial intention that serves as a mediator in the emotional comfort of uncertainty.

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Based on the identified gaps in theory and contextual challenges, this study seek to fill three main research gaps. First, it aims to look into the direct effect of financial literacy on entrepreneurial intention of the BS Business students of Pakistan. This goal is aligned with the findings that individuals with greater financial literacy have more positive intentions to start businesses and exhibit higher perceived behavioral control (Sarmiento et al., 2025; Kaur et al., 2025). Second, the study examines risk tolerance as a mediator between financial knowledge and entrepreneurial behavior, examining the function of psychological readiness and comfort with uncertainty in either supporting or impeding the connection between the two (Mughal et al., 2024; Kasoga, 2021). Third, it seeks to create policy recommendations at a local level that are relevant to the context of Pakistan, giving suggestions for education, government initiatives, and entrepreneurs for improving graduate entrepreneurship in Pakistan. Therefore, the research is to be theoretical and practical, providing contributions regarding cognitive-emotional mechanisms for sustainable entrepreneurship in the future (Liaw et al., 2026; Cao et al., 2022).

Three implications are relevant to this research. First, from a developmental standpoint, encouraging entrepreneurship among highly educated youth can contribute to reducing unemployment, increasing economic activity, and enhancing social stability in Pakistan (Dayo et al., 2023). Second, on a theoretical level, this research will help to uncover psychological mechanisms through which financial literacy relates to entrepreneurial intention in more than just a correlational way, and it will uncover mediators (Dotong & Manalang, 2023; Nasri, 2023). Third, educationally speaking, it becomes clear why financial education should become part of the curriculum to facilitate practical experience and mental preparation (Lee et al., 2026; Mughal et al., 2024).

Finally, this study suggests that financial literacy is an important factor that influences the entrepreneurial intention of business graduates of Pakistan, both directly and indirectly via the mediating role of risk tolerance. The research empirically tests these relationships, which is used to develop evidence for designing targeted interventions that improve entrepreneurial activity through financial knowledge, calibration of risk tolerance. This approach is in line with two of the key objectives of youth unemployment and building a knowledge-based economy and entrepreneurship is seen as a viable career option as well as a vehicle for socio-economic development in Pakistan.

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2. Literature Review

The entrepreneurial intention (EI) is generally considered as an individual's conscious and deliberate decision for creating new business ventures within a specified time frame (Ajzen, 1991; Dotong & Manalang, 2023). EI is regarded as the most direct indicator of entrepreneurial activities as it is a precursor factor which affects the decision to create a venture (Lee et al., 2026). Theories supporting EI are the Theory of Planned Behavior (TPB) and the Entrepreneurial Event Model (EEM). TPB argues that attitudes towards behavior, perceived social norms, and perceived behavioral control (PBC) are factors that influence intention, which indicates a person's confidence in their ability to perform entrepreneurial activities (Ajzen, 1991; Nasri, 2023). Complimentarily, the EEM highlights the importance of displacement events, perceived desirability and feasibility as important factors that drive entrepreneurial intent, where contextual shocks or opportunities affect the decision-making process (Dotong & Manalang, 2023; Ewanda et al., 2026). Research has always shown that people higher in EI are more likely to pursue entrepreneurial activities; however, there are contextual and personal factors that can moderate the relationship between EI and entrepreneurial activities (Dayo et al., 2023; Liaw et al., 2026).

Financial literacy (FL) is a key cognitive asset that affects entrepreneurial intentions as it provides individuals with knowledge and skills to successfully plan, invest, budget, and allocate capital (Sarmiento et al., 2025; Kaur et al., 2025). People who are confident with FL are more likely to have an enhanced sense of control in evaluating the feasibility of a business, managing cash flow, and making strategic financial decisions, all of which support perceived behavioral control in the TPB model (Mughal et al., 2024; Pandey & Chadha, 2026). Empirical evidence in developed and developing countries show that financial knowledge has positive relationships with EI, meaning that knowledge of finance can help potential entrepreneurs to assess and manage the risks in their ventures and thus improve the chances of establishing a venture (Alshebami & Marri, 2022; Rehmat et al., 2023). FL is a key competency in the higher education curriculum but is not sufficiently developed, especially in South Asian settings such as Pakistan, and even more so in business education, where theoretical education far outweighs the exposure to financial management in practice (Dayo et al., 2023; Lee et al., 2026). Recent studies have highlighted the importance of FL not just for improving the technical skills of graduates but also their psychological preparedness to

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explore entrepreneurial ventures (Cao et al., 2022; Mughal et al., 2024). Risk tolerance (RT) is a crucial psychological variable in which an individual's ability to tolerate uncertainty, potential losses and uncertain results of entrepreneurial activities are reflected (Tambunan et al., 2023; Khsunah et al., 2024). RT is an emotional determinant of entrepreneurship that affects choices on allocation of resources, exploitation of opportunities and business commitment. Although some people are more inclined to innovativeness, they also invest their own resources and take risks to jump into entrepreneurial activities, others may not because they lack confidence in their ability to succeed or may be afraid of failure (Cao et al., 2022; Dotong & Manalang, 2023). The individual experience, the personality of the researcher/entrepreneur and cultural norms shape RT, with collectivist and security-oriented societies like Pakistan generally showing limited tolerance of entrepreneurial risk (Lee et al., 2026; Liaw et al., 2026). Limited exposure to entrepreneurship and financial management in business education also restricts students' ability to develop calibrated risk tolerance in Pakistani business education (Dayo et al., 2023; Sarmiento et al., 2025).

The proposed mediation between FL, RT and EI is based on two theories: TPB and DPTR. According to Kang et al. (2024) and Koma and Jatiningsih, (2024), Dual Process Theory can be categorized into two processes, namely System 1 which refers to emotional processes that happen automatically, and System 2 which refers to analytical processes that occur in an effort to learn. In this context, FL is a System 2 construct, which gives people the structure to comprehend their finances and make savvy choices about financial and business processes, while RT is a System 1 construct, which is intuitive comfort with uncertainty and ambiguity. The mediation hypothesis proposes that FL has a direct effect on EI through its influence on perceived behavioral control and confidence in financial skills, and an indirect effect on EI mediated by its effect on RT, which allows people to act on intentions in a more psychologically prepared manner (Mughal et al., 2024; Cao et al., 2022). Empirical studies confirm the dual path model, showing that both effects of increased FL on technical decision making and on emotional comfort with risk have positive impacts on entrepreneurial intention (Dotong & Manalang, 2023; Lee et al., 2026).

Culture and institutions play an important role in relation to EI in Pakistan. In particular, security, family welfare, and conservative professional orientation of the Pakistani society can suppress any entrepreneurial initiatives on behalf of its members, who have to deal with a lack of formal encouragement in becoming entrepreneurs (Dayo et al., 2023; Liaw et al., 2026).

Governments, including Pakistan, have launched several initiatives to boost entrepreneurship among young people, such as the Kamyab Jawan Program, which offers financial support and training; however, these efforts have been limited by a lack of financial literacy, risk awareness, and institutional capacity among youth entrepreneurs (Sarmiento et al., 2025; Pandey & Chadha, 2026). The findings of the study indicate that there is a moderating effect between the FL and EI and RT; this is because the graduates who have prior experience with family business environment have higher EI, RT, these findings suggest that socialization processes and experiential learning have a moderating effect between FL and entrepreneurial outcomes. As a result, it is crucial for sustainable entrepreneurship in Pakistan to incorporate financial literacy, risk calibration, and experiential learning in interventions that are tailored to the local context.

There are a number of recent empirical studies that support these linkages. For example, Nasri (2023) has shown that FL has a positive prediction for EI for university students in North Africa and RT is a major mediator. Likewise, Dayo et al. (2023) find that financial and entrepreneurial literacy are important factors in increasing intention among business graduates in Pakistan, and level of risk tolerance is related to business planning. Mughal et al. (2024) note that entrepreneurial attitudes of students are the psychological link between FL, risk tolerance, and EI, which underscores the importance of psychological mechanisms in venture development. The results of international studies also confirm these results, with Lee et al. (2026) indicating that financial knowledge explained along with psychological readiness showed the effect on intention among South Korea graduates and Firmansyah (2023) indicating that systematic financial education showed the effect of risk tolerance and entrepreneurial intention in Southeast Asia.

Literature in total provides support for a complex connection between FL, RT and EI, which is grounded in cognitive and emotional processes. Both financial literacy and risk tolerance provide the knowledge and confidence to evaluate the feasibility of a venture, and risk tolerance equips graduates to make decisions when they are in an uncertain situation. Given the cultural focus on security, and the lack of institutional support for entrepreneurship in Pakistan, these constructs become more relevant in understanding the entrepreneurial intention of graduates. Studies that combine theoretical frameworks from TPB, EEM, Human Capital Theory and Dual Process Theory

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have gained attention recently, underlining the importance of FL as a direct motivator and indirect facilitator of EI through RT. This literature has highlighted that there is a need for context-specific policies and educational programs which can help improve financial literacy, entrepreneurial risk-taking skills, and the entrepreneurial attributes of business graduates in Pakistan (Dotong & Manalang, 2023; Liaw et al., 2026; Cao et al., 2022).

3. Methodology

The study used quantitative cross sectional survey research design to examine the relationships between financial literacy, risk tolerance and entrepreneurial intention of BS business graduates in Pakistan. The cross-sectional design was selected because it allows analysis of the relationships between variables at one time and because it is efficient in gathering data from a widely distributed sample. This method is also ideal for testing mediation models and for investigating the psychological mechanisms, without the need for longitudinal tracking.

The target population was the students of Bachelor of Science (BS) Business from different universities of Pakistan including the students of Business Administration, Commerce, Finance and Management stream. Multi-stage cluster sampling was used to create a representative and geographically diverse sample. Preparations were made to choose universities from major cities (Karachi, Lahore, Islamabad) and from secondary cities (Faisalabad, Peshawar and Quetta). Business departments were randomly selected within each of the selected universities and then graduates within each business department were systematically randomly sampled from the institutional alumni lists. The sample size was decided as 400, and the final sample size obtained was 387 which is a high response rate.

The data collection tools used were the psychometric scales and questionnaires related to demographic data. The financial literacy was assessed by a 16-item scale related to financial knowledge, financial attitude and financial behavior. A 9-item scale to measure comfort with uncertainty, loss aversion, and investment risk preference was used to assess risk tolerance. The entrepreneurship intention was measured by a 4-item scale which measures the conscious intention to launch a business. The demographic data consisted of age, gender, family business experience and previous exposure to entrepreneurship courses. Data was gathered during six months through the use of online surveys and questionnaires administered face-to-face, in an attempt to make the data accessible and follow ethical principles such as informed consent and confidentiality of the gathered data.

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Descriptive statistics were employed for data analysis to provide a summary of the characteristics of the participants and the important study variables. The reliability and validity of scales were gathered by using CFA. Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to test the structural relationship and bootstrapping with 5,000 iterations was used to test the mediation effect of risk tolerance. Subgroup analyses were conducted to assess differences between the sexes and family business experience to gain insight into the differences in mediation effects within the subsample. The methodology used to this study provide a strong and systematic way to explore the interaction between the three mentioned variables: financial literacy, business risk-taking attitude, and entrepreneurial intention among business graduates.

4. Data Analysis

4.1 Descriptive Statistics

Descriptive Statistics give a general idea of the center and structure of the sample. The average scores of the primary study variables were: FL = 3.47; RT = 3.21; and EI = 3.54, on a 5-point scale. This suggests an entrepreneurial intention, a moderate to high level of financial literacy, and a low level of risk tolerance within the participants. The sample was comprised of a diverse group with 58.6% males and 42.6% persons who had a family business background.

Table 1:

Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
Financial Literacy (FL)	3.47	0.72	1.50	5.00
Risk Tolerance (RT)	3.21	0.68	1.33	5.00
Entrepreneurial Intention (EI)	3.54	0.81	1.50	5.00

There is a disparity between entrepreneurs' intentions and their risk-taking behaviors because the results indicated that graduates have a reasonable level of uncertainty tolerance and they want to engage in entrepreneurship. Financial literacy turned out to be reasonably high, indicating that the respondents have a reasonably high knowledge of finance, which can benefit their business activities.

Table 2:

Sample Demographics

Demographic	Frequency	Percentage
Male	227	58.6%
Female	160	41.4%
Family Business Background	165	42.6%
No Family Business Background	222	57.4%

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Demographic distribution indicates equal gender representation and a significant number of individuals who have had some exposure to family businesses. This diversity enables subgroup analyses to be conducted and any differences between family business background and gender in terms of mediation effects are examined.

4.2 Measurement Model

Confirmatory Factor Analysis (CFA) was used to test the reliability and validity of the constructs. All the Composite Reliability (CR) were above 0.70, and Average Variance Extracted (AVE) were all greater than 0.50, indicating acceptable reliability and convergent validity. Construct validity was also supported, with constructs being different from each other, and this was referred to as discriminant validity.

Table 3:

The assessment of the measurement model.

Construct	CR	AVE	Cronbach's α
Financial Literacy (FL)	0.88	0.56	0.82
Risk Tolerance (RT)	0.85	0.59	0.79
Entrepreneurial Intention (EI)	0.89	0.67	0.85

All scales are found to measure what they are supposed to measure with reliable results in the CFA results. The high CR and Cronbach's alpha values indicate high internal consistency and high AVE values indicate that the variance in the indicators is explained by a significant part of the variance in the construct, which means that the measuring model is sound.

4.3 Structural Model

The hypothesized relationships between financial literacy, risk tolerance, and entrepreneurial intention were analyzed using the structural model. The structural model was used to assess the hypothesis of the relationship between financial literacy, risk tolerance, and entrepreneurial intention. All direct effects were significant: FL → EI ($\beta = 0.38$), FL → RT ($\beta = 0.52$), and RT → EI ($\beta = 0.34$). The model accounted for 48% of the variance in entrepreneurial intention, 27% of the variance in risk tolerance and SRMR was 0.064, which shows good model fit.

Table 4:

Structural Model Results

Path	β	t-value	p-value	Result
FL → EI	0.38	4.12	<0.001	Significant
FL → RT	0.52	6.78	<0.001	Significant
RT → EI	0.34	3.91	<0.001	Significant

The results validate that financial literacy is directly and significantly positive in risk-taking and entrepreneurial intention. More importantly, the influence of risk tolerance on entrepreneurial intention also reveals that there is a psychological effect on the intention-behavior process. The high β values show good predictive relationships, which support the hypothesized model.

4.4 Mediation Analysis

Mediation effect between financial literacy and entrepreneurial intention by bootstrapping mediation (5000 iterations) showed that the financial literacy and entrepreneurial intention relationship can be partially mediated by the variable of risk tolerance. The indirect effect was 0.18 (32% of the total effect). Family business exposure was positively associated with graduates' mediation scores, with a higher score for those who experienced family business (β = 0.24) than for those who did not experience family business (β = 0.13, p = 0.04). There were no significant differences between genders in mediation.

Table 5:

The mediation analysis

Mediation Path	Indirect Effect	95% CI	p-value	Notes
FL → RT → EI	0.18	0.09–0.28	0.002	Partial mediation
FL → RT → EI (Family Business)	0.24	0.13–0.38	0.001	Stronger mediation
FL → RT → EI (No Family Business)	0.13	0.04–0.25	0.008	Weaker mediation
Gender (Male vs Female)	0.21 vs 0.14	-	0.14	No significant difference

Financial knowledge was partially mediated by risk tolerance, suggesting that psychological readiness can play an important role in entrepreneurial intention. These results indicate that a family business background facilitated the translation of financial knowledge to intention for graduates, supporting better mediation. The absence of differences by gender suggests that the relationships are the same for male and female graduates.

Discussion of Findings

The present study was designed to explore the relationship between financial literacy (FL), risk tolerance (RT), and entrepreneurial intention (EI) among BS Business graduates in Pakistan with special attention to the mediating role of risk tolerance. The results of the study are highly significant, not only on direct evidence but also on indirect evidence based on the effect of risk tolerance, in terms of demonstrating the predictive power of financial

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literacy on entrepreneurial intentions. One of the most significant results of the study is that financial literacy predicts entrepreneurial intentions. This result was based on the fact that graduates who showed high financial literacy had higher entrepreneurial intentions.

The above finding supports the importance of financial literacy as an important cognition factor influencing entrepreneurship because knowledge in financial matters boosts one's confidence in making business-related decisions. This finding supports prior research that established that financial literacy has positive effects on entrepreneurial behavior in the sense that it makes entrepreneurs perceive business ventures as feasible and self-effective (Sarmiento et al., 2025; Kaur et al., 2025; Dotong & Manalang, 2023). In Pakistan, where entrepreneurship has not been well supported through educational initiatives, financial literacy helps graduates cope with uncertainty and make the right decisions in starting a business (Dayo et al., 2023; Liaw et al., 2026).

The second important finding is that the level of financial literacy significantly increases risk tolerance, thereby stressing the psychological aspect of financial knowledge. The graduates who possessed higher levels of financial knowledge exhibited greater risk tolerance, demonstrating the ability to adopt a more sophisticated risk-taking behavior. This finding lends credence to the theory of dual process, which postulates that System 2 (i.e., analytical thinking) can regulate the influence of System 1 (emotional response) on uncertain situations (Kang et al., 2024; Sawitri & Candraningrat, 2025). Specifically, those who had a high degree of financial knowledge were more competent at analyzing the risks involved in doing business, ascertaining whether certain risks could be controlled or otherwise, and taking an informed decision regarding their investments. Such findings are consistent with those obtained from different developing nations and South Asia, where financial literacy has been found to create a psychological readiness for entrepreneurship (Mughal et al., 2024; Lee et al., 2026).

The third major finding suggests that risk tolerance is a significant determinant of entrepreneurial intention, highlighting the role of psychological readiness in turning intentions into actions. The people who exhibited greater risk tolerance showed strong intentions to engage in entrepreneurship because of their ability to embrace uncertainties related to the process of building ventures. As such, the study demonstrates that besides financial readiness, psychological preparedness is crucial for entrepreneurship. The findings correspond to previous research on

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the correlation between risk-taking and entrepreneurship as evidenced by empirical results (Cao et al., 2022; Dotong & Manalang, 2023). Cultural values related to risk aversion in Pakistan have a negative effect on entrepreneurship (Dayo et al., 2023; Liaw et al., 2026).

Fourthly, risk tolerance partially mediates the relationship between financial literacy and entrepreneurial intention. Out of the total impact of financial literacy on entrepreneurial intention, about one-third is mediated by risk tolerance and two-thirds directly by financial literacy. It means that apart from making business feasible, financial literacy enables graduates to overcome uncertainty issues psychologically and make action plans based on their intentions. The results of subgroup analysis indicated that graduates having a family business history showed a higher mediation effect. It is because of the fact that having a background in entrepreneurship can facilitate the knowledge-risk relationship in terms of intention. Gender-wise no differences could be found, which implies that all these associations do exist among both male and female graduates. These conclusions provide new insights into intention-behavior discrepancy in developing countries in terms of the double role played by cognition and emotion in entrepreneurship (Mughal et al., 2024; Cao et al., 2022; Pandey & Chadha, 2026).

From an academic point of view, these results add value to the field of entrepreneurship research in that they incorporate the use of Dual Process Theory together with the Theory of Planned Behavior. The paper shows how intentional cognition, using financial literacy, works alongside emotions in terms of risk tolerance to impact entrepreneurial intentions. It proves that indeed entrepreneurship is driven by both rational and emotional elements, supporting a dual-process approach in Pakistan. On top of that, the role of risk tolerance as a mediator in the relationship between financial literacy and entrepreneurial intention is further elaborated upon, showing its important, although partially significant, part in this process. Different levels of sub-group heterogeneity, such as exposure to a family business environment, have been shown to influence mediation effects (Rastiti et al., 2021; Fatwa, 2026).

From a practical standpoint, the results have a number of implications on education and policies. To start with, business schools ought to incorporate the element of financial literacy into their programs, blending theory and practice, for instance, via simulations, business activities, and entrepreneurship courses. Secondly, governmental initiatives aimed at promoting youth entrepreneurship should focus on providing youth with sufficient financial literacy and capital to make sure that the graduates not only have necessary financial skills but are also mentally prepared to create ventures. Finally, the graduates themselves should learn financial literacy and cultivate risk tolerance through engaging in ventures that imply minimum risk (Dayo et al., 2023; Sarmiento et al., 2025; Liaw et al., 2026).

However, this study is not without its shortcomings. Firstly, the cross-sectional nature of the study prevents any conclusions regarding causality. Secondly, the majority of respondents belong to an urban group that is likely to differ from a rural one with respect to education and culture. Self-reporting may pose a problem of biases, and certain macroeconomic variables were left out of consideration. It would be useful to consider longitudinal research in future studies as well as widen their geographic range and apply more objective measures of entrepreneurial intentions (Mughal et al., 2024; Cao et al., 2022).

In sum, the current study presents convincing evidence about the influence of financial literacy and risk tolerance on entrepreneurial intentions among Pakistani business graduates. It shows that there are two pathways leading to entrepreneurship – cognitive and emotional ones. Moreover, the study reveals the mechanism of mediation between risk tolerance and entrepreneurial intention, which will prove helpful in practice.

5. Conclusion

In this research, the relationships between financial literacy, risk tolerance, and entrepreneurial intention among the BS Business graduates in Pakistan were studied. It was found that financial literacy has a crucial impact on entrepreneurial intentions, as well as on indirect relations between these variables through risk tolerance. The more educated about finances, the more willing and confident individuals will be regarding their abilities to manage money wisely. At the same time, such a factor as risk tolerance plays an important part as it serves as a crucial psychological mechanism that helps turn financial literacy into an entrepreneurial intention despite any uncertainties and ambiguities that may occur along the way.

Thus, financial literacy has a direct impact on entrepreneurial intentions since having knowledge of budgeting, investment, finances and business management can help graduates think about opportunities and risks realistically. Such cognitive knowledge makes graduates ready for any possible situations and allows them to use their cognitive skills to plan and take appropriate measures aimed at increasing their chances to succeed in an enterprise. As a result, they become confident enough to start a venture, and it means that financial literacy

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increases one's entrepreneurial intentions considerably.

Finally, risk tolerance turned out to be a strong mediator between financial literacy and entrepreneurial intentions of graduates. Higher risk tolerance was associated with higher levels of financial literacy, which indicates that having some knowledge about finances, individuals could be more comfortable facing uncertainties, including financial uncertainties. Partial mediation means that financial literacy is not sufficient for developing an intention to pursue a business idea; individuals should be ready to face some risks and difficulties as well. What is also worth mentioning is that graduates whose families had their own businesses showed even stronger mediation effects.

From a practical perspective, one of the main implications is the necessity to apply comprehensive approaches in teaching students and implementing policies to address both knowledge acquisition and readiness for financial risks. For example, the business curricula of higher education institutions should include the development of students' financial literacy with the use of simulations and internships, which would allow them to apply acquired skills in practice and become more ready for entrepreneurship. Programs promoting entrepreneurship at the governmental or institutional level should not be limited to providing graduates with financial resources and should also involve training regarding financial planning and risk management. Lastly, graduates should be encouraged to develop their ability to tolerate financial risks by initiating low-stake entrepreneurial projects and gaining initial experience.

It should be mentioned that some of the study's limitations might serve as directions for further research. To begin with, a cross-sectional design does not allow tracking changes in participants' financial literacy, risk tolerance, and intention to become entrepreneurs over a certain period of time. Moreover, the use of self-reporting measures limits the possibility to verify their accuracy and objectivity. Lastly, since all participants lived in cities, it becomes possible to expand the geographical coverage of the study by including graduates from other territories. In addition, it would be useful to study how cultural and contextual factors influence the intention of entrepreneurship among young people.

In the conclusion of the paper shows that financial literacy and risk tolerance are major determinants of entrepreneurial intentions of graduates. Financial literacy provides them with sufficient knowledge and skills for planning and managing risks related to initiating new projects and running a business. At the same time, risk

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tolerance helps them take action despite the existing uncertainties. Educational establishments, policy makers, and graduates themselves can apply multiple measures to help students become entrepreneurs. They will create jobs and develop the economy of the country.

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