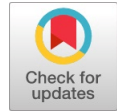


Assessing the Effect of Financial Literacy on Investors Decisions Making

Neha Yadav, T.V. Raman



Abstract: *Indian economy has made its growth at an accelerating pace over the last decade. The study aims to assess literacy level of investors. The association between demographic, socio-economic profile of investors and their financial literacy level has been studied. The study also finds that whether literacy of investors have any effect on decision making of investors. To see the impact of demographic factors on financial literacy level, regression is performed. The result of the study states that decision of investors is significantly affected by literacy and knowledge of investors regarding financial terms.*

Keywords: *Financial Literacy, Financial Decisions, Investors Financial Knowledge*

I. INTRODUCTION

Traditionally, Literacy refers to the capability to read and write. Therefore, it is a term which refers to several ranges of theoretical areas. Financial Literacy refers to “a literate individual is the one who can along with the understanding, will read as well as write, a straightforward report on their own. In 2003, this definition has evolved, an operational definition has been proposed was UNESCO which attempts to include the special proportions of the literacy which defined as- “capability to recognize, understands, take, build, communicate, calculate and use as written as well as printed materials which is linked with various context. The word Literacy includes a field of learning in permissive person to attain the aim to establish the knowledge, skills and probable to compete wholly in the wider culture. Financial Literacy is defined as the set of the knowledge as well as the skills that permits an investor to understand and to know.

- The fundamental as well as financial principles that an investor need to recognize and understand how to create informed decisions.
- Financial product that impact investor’s financial well-being.

Therefore, Financial Literacy related with the accepting of essential concept, principles, skills and ability of financial services to understand, the core financial products to take better choices related to financial aspect.

Manuscript published on 30 August 2019.

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Financial Literacy has a significant role with regard to the financial framework of an economy. With the growth and development of banks and banking framework throughout the country, the aspect of financial literacy has become more noticeable. With the developing and expanding financial inclusion which drives throughout the world in various countries worldwide to include the financially excluded community, the role of financial literacy become more generous as people are educated as well as understand about the financial terms and avenues both at the basic and the advance level.

II. LITERATURE REVIEW

(Volpe, Chen, & Liu, 2006), identifies questions related to Financial literacy of employees and knowledge. Researcher observed that retirement financial planning and personal finance are two topics where there is less research in employee’s knowledge. Other areas such as investments and real-estate planning were also rated low. In contrary, employees have better knowledge about company benefits. The findings suggested that financial education programs should aim to improve employees education and knowledge in areas where less knowledge exist. (Godsted & Mccormick, 2007), assessed the base line knowledge of adults related to financial literacy topics and what type of information improved their financial knowledge, study also identified the sources from where financial information is sought to gain knowledge. Researcher has used both questionnaire and interview to gain additional clarification. It was observed that majority of adults in US and India has not received formal financial literacy instructions. They feel it is important to taught as they do not have to rely on others to handle their finances. (Hilgert et al. 2002), Study explores the connection between behavior and knowledge ie what individuals know and what they do. Study includes 4 financial management activities: Cash flow management, savings, investment and credit management. Researched has analyzed data from survey conducted previously among consumers to show the relation between knowledge and behavior. Research summarizes that providing information and providing education are two different aspects. Education about financial management is necessary to elicit desired behaviour. (Haiyang Chen and Ronald P. Volpe, 1998), Study analyses the relation between student’s financial literacy and characteristics and further studies the impact of literacy on decision and opinion of students. This research concluded that students need to enhance their knowledge regarding financial aspects as through survey researcher analyzed that incompetence’s in students limit their informed financial decision making. (Singh, 2018) analyzed the financial literacy level among the young generation all over the world which is based on the previous data.



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The research mainly focus on how the socio- economic factors along with demographic factors like age, gender and the income which has been influenced by the financial literacy youth level and to analyze whether any kind of interrelationship is there between the financial education, financial behavior or financial attitude.(Mandell, 2009) study raises up difficult issues about the more raised out term adequacy of secondary school money related to the proficiency courses. This study signifies sample design which is based on a school system’s records to recognize students who had and had not taken a course in personal financial management. The result showed the individuals who took the course were no more monetarily educated than the individuals who had not. Also, the individuals who took the course did not assess themselves to be more reserve funds arranged and improved money related conduct than the individuals who had not taken the course.

III. OBJECTIVES OF THE STUDY:

- To study the basic concepts of financial literacy and its importance among investors.
- To assess the Financial Literacy Level of the investors.
- To study the relation between financial literacy and demographic profile of investors
- To study the how financial literacy influence decision making of investors.

IV. RESEARCH METHODOLOGY

This study is Descriptive in nature. The data for this research was collected through an online questionnaire. A total of 274 respondents filled the questionnaire. Statistical analysis was carried out on the data using SPSS software using Chi-square, Anova and regression analysis.

V. DATA ANALYSIS

Research data were analyzed using SPSS and excel. At first, demographics of investors were analyzed to show the impact on literacy levels of the participants. Chi-square analysis has been done to identify relation between demographic factors and literacy of investors. Significance level was taken at 5% level. Regression analysis and Anova was performed, to identify the effect of literacy on decision of investors,

A. Demographic details of the respondents

55.5% of the respondents were female and 45.5% were male. Female participants are higher than male participants. Age of respondents ranges from 20-42. Educational qualification wise respondents postgraduates were 63.5% and graduate degrees were 23%. Monthly income of respondents ranged from ten thousand to one lakh.

Table 1 : Demographic Description of the Respondents

Respondents under the category of Basic Financial Literacy Test								
Basic Financial Literacy Questions	No. of Respondents given correct answer	Percentage of Respondents given correct answer	No. of Respondents given incorrect answer	Percentage of Respondents given incorrect answer	No. of Respondents don't know about concept	Percentage of Respondents don't know about concept	Rank	
Investment	242	88.32	31	11.31	1	0.36	2	
Account Info	116	42.34	153	55.84	10	3.65	6	
Risk	103	37.59	165	60.22	5	1.82	7	
Bonds	64	23.36	205	74.82	6	2.19	8	
Stocks	201	73.36	64	23.36	5	1.82	3	
Bonds & interest	159	58.03	110	40.15	9	3.28	4	
Regulation	124	45.26	143	52.19	5	1.82	5	
KYC	261	95.26	13	4.74	7	2.55	1	



Table 2 : Outcome of Basic Financial Literacy of respondents

Gender	Frequencies	Percentages (%)
Male	122	44.5%
Female	152	55.5%
Age (Years)		
Less than 20	1	0.4%
20-25	83	30.3%
25-30	69	25.2%
30 and above	121	44.2%
Occupation		
Full Time Salaried	123	44.9%
Part time Salaried	88	32.1%
Self Employed	42	15.3%
Unemployed	1	0.4%
Student	20	7.3%
Monthly Income		
Below 20000	21	7.6%
20000-25000	33	12.1%
25000-50000	66	24.1%
50000-75000	106	38.7%
75000 & Above	48	17.5%
Education		
Undergraduate	8	2.9%
Graduate	63	23%
Post Graduate	174	63.5%
Doctorate	29	10.6%

B. Basic Financial Literacy among Investors

Questions were related to knowledge, skills and financial aspects, numeracy questions. Eight questions were asked from respondents related to basic financial literacy. The outcome of respondents' literacy survey about questions of basic financial literacy is shown in Table 2 below. (Jariwala, 2015) On the basis of right answers sorting was done and ranks from high to low be assigned to respondents to

analyze literacy level among respondents. Table 2 shows that respondents outraged on question of Bonds and risk analysis. Table 3 shows outcome of the respondents towards questions of advanced financial literacy. With regard to advanced financial literacy, as can be seen from Table 3, respondents scored highest score on questions related to

C. Advance Financial Literacy Among Investors

Table 3 : Outcome of Advance Financial Literacy of Respondents

Respondents under the category of Advance Financial Literacy Test							
Advance Financial Literacy Questions	No. of Respondents given correct answer	Percentage of Respondents given correct answer	No. of Respondents given incorrect answer	Percentage of Respondent given incorrect answer	No. of Respondents don't know about concept	Percentage of Respondents don't know about concept	Rank
Fixed Deposit	662	80.54	120	14.60	40	4.87	1
PPF	489	59.49	253	30.78	80	9.73	5
Equity shares	556	67.64	203	24.70	63	7.66	3
Preference shares	360	65.69	145	26.46	43	5.23	4
Mutual Funds	622	75.67	108	13.14	92	11.19	2

fixed deposits (80.54%), followed by mutual funds (75.67%), Equity Shares (67.64%), Preference shares (65.69%), preference shares (56.23%).

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Table 4

Chi-Square Test			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.675 ^a	3	0.003
Likelihood Ratio	15.670	3	0.001
N of Valid Cases	274		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .45.

D. Relation Between demographic factors and Financial Literacy

AGE

H₀: There is no association between age of investor and financial literacy

H₁: There is association between age of investor and financial literacy

Table 5

Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	33.692 ^a	9	0.000
Likelihood Ratio	35.246	9	0.000
Linear-by-Linear Association	11.471	1	0.001
N of Valid Cases	274		

a. 10 cells (62.5%) have expected count less than 5. The minimum expected count is .00.

The null hypothesis is rejected because the significance value is less than 0.05. There is a significant relation between age and financial literacy of respondents

Regression Analysis

Table 7: Regression

Model Summary							Change Statistics		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.266 ^a	0.071	0.043	0.523	0.071	2.532	8	265	0.011

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.548	8	0.693	2.532	.011 ^b
	Residual	72.584	265	0.274		
	Total	78.131	273			

a. Dependent Variable: FINANCIAL LITERACY
b. Predictors: (Constant), Investment Alternative

From the table above, it is seen that significance value is less than 0.05. So null hypothesis is rejected and it is concluded that there is a significant impact of financial literacy on investment decision.

F. Investment pattern of Investor

GENDER

H₀: There is no association between gender of investor and financial literacy

H₁: There is association between gender of investor and financial literacy
The null hypothesis is rejected because the significance value is less than 0.05. There is a significant relation between age and financial literacy of respondents

VI. OCCUPATION

H₀: There is no association between occupation of investor and financial literacy
H₁: There is association between occupation of investor and financial literacy

Table 6

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	27.522 ^a	12	0.006
Likelihood Ratio	29.344	12	0.004
N of Valid Cases	274		

a. 13 cells (65.0%) have expected count less than 5. The minimum expected count is .00.

The null hypothesis is rejected because the significance value is less than 0.05. There is a significant relation between occupation and financial literacy of respondents.

E. Effect of Financial Literacy on Investment decisions

Hypothesis

- **H₀**: There is no impact of the financial literacy on investment decision of investors
- **H₁**: There is impact of the financial literacy on investment decision of investors.

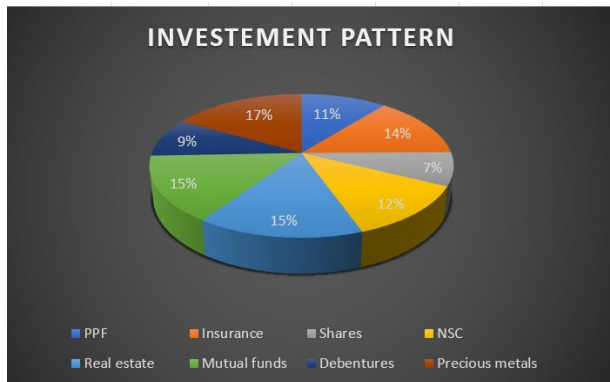


Figure 1: Investment Pattern

Figure 1 shows the investment alternatives in which the investors have invested their savings. From the same table, it can be seen that out of 274 respondents, 17% respondents have invested in Precious Metals, followed by Real Estate and Mutual Funds. 11% has invested in PPF followed by Insurance Policies. Only 9% has invested in Debentures.

VII. FINDINGS

The financial literacy is analyzed on the two levels i.e., considered as basic financial literacy level and advanced financial literacy level. The number of investors under the category of basic financial literacy and advanced level of financial literacy has been divided as high level of financial literacy and low level of financial literacy. At the basic financial literacy level, the highest financial literacy level is 58% and the lowest financial literacy level is 42%. At the advanced financial literacy level, the highest financial literacy level is 70% and the lowest financial literacy level is 11.47.

VIII. CONCLUSION

Majority of the investors are knowledgeable about financial literacy at the basic level as well as advanced financial literacy level and few are there who are unaware about the concept of financial literacy. Investors invest their savings in various alternatives of investments. Investment decision is impacted by Financial Literacy of investors. Financial Literacy has a significant role with regard to the financial framework of an economy. With the growth and development of banks and banking framework throughout the country, the aspect of financial literacy has become more noticeable. With the developing and expanding financial inclusion which drives throughout the world in various countries worldwide to include the financially excluded community, the role of financial literacy becomes more generous as people are educated as well as understand about the financial terms and avenues both at the basic and the advanced level.

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AUTHORS PROFILE



Neha Yadav is Pursuing PhD at Amity Business School, Amity University Noida, India in the area of Financial Literacy and Investors attitude and its implication on Decision Making. She possesses 3 years of teaching and research experience. She received her first class master degree in MBA with specialization in Finance from Periyar Management and Computer College, GGSIPU University Delhi, India. She has research interest in the area of Finance and Accounting. Her area of research includes Financial Literacy, Investors attitude, Behavioral Finance and Financial Technologies. She has presented several research papers in National and International Conferences and has published papers with reputed journals.



Dr. T.V. Raman is a professor & Head of the department, Accounting and finance in Amity Business School since last 15 years. He is possessing rich academic experience in the area of teaching, research, training, consultancy and publications. In last 25 years he has published more than 50 research papers and case studies in national and international journals including 10 papers in SCOPUS listed Journal. Area of expertise is Financial Decision making, corporate Tax Planning, Corporate Restructuring, Cost and Management Accounting, Behavioural aspects in Finance and Management Control System. Corporate trainer in the area of Finance for non-finance executives, Working Capital Management, Direct and Indirect Taxes, Cost control techniques, Financial Decision making, Financial Reporting, GST etc. and imparted training in corporate like, BEL, IFFCO, Delhi Transco Ltd., NTPC, SAIL, JCB Ltd, Department of Science and Technology, TATA motors, Apparel Export promotion Council, Handicraft Export Promotion Council, etc. journals of good repute. His specialized area is Investment Decisions, Corporate restructuring, Financial Inclusion, Management control etc. He is certified Goods and Service Tax Trainer by NACEA.