Impact Of Financial Literacy On Investment Decisions In Ballari District Of Karnataka

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Abstract

Investment decision-making will involve cognitive, psychological, social and behavioral aspects. Financial literacy includes financial knowledge, financial behavior, financial awareness and financial attitudes. This study aims to analyze the impact of financial literacy on investment decisions of individuals in Ballari districts. This study is most dependence on primary data, so for collection of primary data we have been selected simple random sampling technique. For analysis of data researchers has used Test of Homogeneity of Variance and One way ANOVA as statistical tools.

Keywords: Financial Literacy, Investment Decision, Test of Homogeneity of Variance, ANOVA

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Introduction

The word financial literacy has gained its importance in recent years and therefore it is very necessary for middle income group and particularly lower income group of people who are participating in these markets either as savers or borrowers to know about the variety of products in these financial markets. It is observed that due to lack of knowledge in financial products, individuals instead of investing their savings into different markets. They hesitate in making investments in financial products which carry little risk or no risk. Financial literacy is all about understanding and creating awareness about the financial products and it's functioning in the markets where people can apply to financial choices in order to make informed decisions and can relatively get high returns compared to other forms of investment. Inadequate financial literacy and lack of financial knowledge raises serious concerns about the individuals to secure their financial well-being. There is evidence that individual's under-save, fail to invest wisely and are often indebted (Mitchell, Poterba et al.) and this behaviour is particularly seen among youth across nations. For instance, Reed and Cochrane observed that about two-third of students who graduated from college in 2011 were heavily indebted due to educational loans and credit borrowings (Reed and Cochrane).

Today financial services are widely recognized as a contributing factor to a country's financial stability, efficiency and economic growth. The issue is of great importance in knowing whether people really come across with

greater difficulty while assessing financial services in the mainstream market. In developed countries, the importance of financial literacy has gained the interest of various groups including governments, employers, community interest groups, financial markets and other organizations as well. The importance of increasing financial literacy has gained recently due to development of new financial products, complexity of financial markets and the changes in social, economic, political and demographic factors. Indians are suffering from the financial disease like underinsurance, debt trap, insufficient retirement fund, low return on investment etc.

Review of literature

Lubis et al., (2015) examined the psychological factors which impact investment decisions. The study discusses the criteria for investment decisions from three dimensions, i.e., corporate data, risk and repay. The study also considers the effect of personality traits, defense mechanisms, financial literacy and emotional intelligence on investment decisions. A total of 320 respondents were surveyed for data collection. The results suggest that all the independent variables influence investment decisions except emotional intelligence.

Fedorova et al., (2015) examined the influence of financial literacy on the stock market. The study uses data from 1,006 participants. The survey instrument was used to collect data from the respondents. Demographic information such as, income, age, gender, education, job designation was sought from the respondents. The findings of the study suggest that financially literate investors participate proactively in the stock market.

Kourtidis, Chatzoglou, & Sevic (2017) examined whether the personality traits of investors affect their trading behavior in the market. The study used structural equation modeling for analyzing the data

collected from 345 Greek investors. The findings of the study suggests that the trading behavior and performance of Greek investors are influenced by their personality traits. The results indicate that trading volume has a positive effect on trading frequency. In addition, the study finds that professional investors have a higher trading frequency as compared to other investors.

Sivaramakrishnan et al., (2017) examined the effect of financial literacy on investment decisions in the stock market. The study adopts the theory of planned behavior to explain investor participation in the stock market of India. The theory of planned behavior conceptualizes consumer financial literacy as a part of perceived behavioral controls (Ajzen, 1991). Structural equation modelling was used for data analysis. The results of the study suggest that the intention to invest in the stock market was positively affected by both subjective and objective financial literacy, whereas behavior was only influenced by objective financial literacy. The study also suggests that financial well-being positively influence investor behavior.

Bongomin, Munene, Ntayi & Malinga (2018) focused on testing the association between financial inclusion and financial literacy of the lower class in rural Uganda. The study has a cross-sectional quantitative research design. The Baron & Kenney (1986) approach was used to investigate whether cognition moderates the association between financial inclusion and financial literacy of lower class in rural areas of Uganda. The results indicate that cognition positively moderates the association between financial inclusion and financial literacy of lower class in rural areas of Uganda. In addition, the study found that financial inclusion of the lower class in rural areas of Uganda is influenced by financial literacy and cognition.

Adam et al., (2018) investigated gender inequality in financial literacy of retired individuals of Cape Coast, Ghana. The

study used data from a total of 334 retired individuals comprising 151 females and 183 males. The survey instrument was used to assess the respondent's understanding of budgeting, use of automated teller machines (ATMs), concept of time value of money, types of bank accounts, use of cheques and insurance facilities. The data was analyzed through the independent t-test and Pearson correlations. The results of the study indicate that male respondents were more financially literate as compared to female respondents. The study anticipates that gender differences in financial literacy are likely to diminish in the future due to a change in social trends. On the other hand, Potrich & Vieira (2018) analyzed the financial literacy of respondents residing in different cities of Brazil. The results suggest that financial literacy had a direct impact on compulsive buying behavior of respondents.

Statement of the problem

The review of literature suggests that most of the studies have been undertaken in foreign countries and very little work has been done in India and Karnataka and especially in Ballari. It was also found that youngest people as well as least educated people possess very little or no knowledge about financial literacy. Also, women are less financial literate than men. The present study is conducted on "Impact of financial literacy on investment decisions in Ballari district of Karnataka State".

Objectives of the study

1. To study the relation between Financial Literacy and demographic profile of individuals in Ballari district.
2. To understand the individual's investment pattern and their constraints while making investment in Ballari district.

Research Methodology

The study has used both primary and secondary sources, the secondary data has been collected from various journals, books, websites and annual reports. Primary data has been collected from field survey with the help of structured questionnaires. Simple random sampling method is used for collecting primary data. The data has been collected from 100 respondents who are investors located in Ballari. For analysis of data Test of Homogeneity of variances and One way ANOVA has been used as statistical tools.

Research Hypothesis

It is indeed essential to emphasize the fact that the Indian culture is different from the countries where previous research was conducted. The researchers predicted that the familiarity and economic benefits of developing the Financial Literacy among the individuals for taking investment decisions will definitely prove to be beneficial in the Ballari region. Therefore, the following hypothesis was adopted:

i) There is no significant association between Financial Literacy and demographic profile of individuals in 5 talukas of Ballari district.

Scope of the study

The study is limited to the Geographical area of Ballari district of Karnataka State. The individuals of Ballari region will be able to make the rational choice while making any investment and will be able to compare and select the financial products which can yield them with maximum returns. With safer investment and good returns, the wealth of the individuals of Ballari region will increase which ultimately leads to the development of Ballari region.

Results and Discussion

Table 1.1 Descriptive Statistics of Gender and Advanced Financial Literacy

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Male	80	37.2063	7.91830	.39011	36.4395	37.9732	13.00	65.00
Female	20	38.7614	9.59166	1.02247	36.7291	40.7936	13.00	65.00
Total	100	37.4800	8.24825	.36887	36.7553	38.2047	13.00	65.00

Table 1.1.1 Test of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Gender Anova_AFL	Based on Mean	3.663	1	498	.056
	Based on Median	3.488	1	498	.062
	Based on Median andwith adjusted df	3.488	1	483.446	.062
	Based on trimmed mean	3.664	1	498	.056

Table 1.1.2 Advanced Financial Literacy using One way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	175.348	1	175.348	2.586	.108
Within Groups	33773.452	99	67.818		
Total	33948.800	100			

From the above table it is seen that the significant value is more than the p value that is 0.108>0.05 which shows that there is no significant difference among the individual's and their financial literacy in Five talukas Ballari Region. So, Null hypothesis is accepted.

Table 1.2 Descriptive Statistics of Age and Advanced Financial Literacy

Age	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
15-25	20	38.3590	6.49070	.73493	36.8955	39.8224	23.00	52.00

26-35	15	39.0635	8.58254	.76459	37.5503	40.5767	21.00	65.00
36-45	10	37.5625	8.47598	.70633	36.1663	38.9587	13.00	62.00
46-55	15	35.3525	8.07703	.73126	33.9047	36.8002	13.00	56.00
56-65	35	36.3462	9.50765	1.86460	32.5059	40.1864	13.00	53.00
66-75	5	39.7500	5.37742	2.68871	31.1933	48.3067	33.00	46.00
Total	100	37.4800	8.24825	.36887	36.7553	38.2047	13.00	65.00

Table 1.2.1 Test of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Age Score AFL	Based on Mean	.815	5	494	.539
	Based on Median	.670	5	494	.646
	Based on Median and with adjusted df	.670	5	462.938	.646
	Based on trimmed mean	.760	5	494	.579

Table 1.2.2 Advanced Financial Literacy using One way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	983.443	5	196.689	2.947	.012
Within Groups	32965.357	95	66.731		
Total	33948.800	100			

From the above table it is seen that the significant value is less than the p-value that is 0.012<0.05 which shows that there is significant difference among the individual's and their financial literacy in Five talukas Ballari Region. So, Null hypothesis is rejected.

Table 1.3 Descriptive Statistics of Educational Qualification and Advanced Financial Literacy

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		

Primary Education		38.4947	9.31696	.95590	36.5968	40.3927	13.00	65.00
Secondary Education	25	38.7211	8.13582	15.59023	37.5568	39.8853	13.00	65.00
Higher Education	40	35.7164	7.65272	.53978	34.6520	36.7808	17.00	60.00
Not Educated	20	39.0714	6.29364	1.68205	35.4376	42.7053	25.00	51.00
Total	100	37.4800	8.24825	.36887	36.7553	38.2047	13.00	65.00

Table 1.3.1 Test of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Edu. Score AFL	Based on Mean	1.154	3	496	.327
	Based on Median	1.108	3	496	.345
	Based on Median andwith adjusted df	1.108	3	479.755	.345
	Based on trimmed mean	1.141	3	496	.332

Table 1.3.2 Advanced Financial Literacy using One way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1051.072	3	350.357	5.282	.001
Within Groups	32897.728	97	66.326		
Total	33948.800	100			

From the above table it is seen that the significant value is less than the p-value that is 0.001<0.05 which shows that there is significant difference among the individual's and their financial literacy in Five talukas Ballari Region. So, Null hypothesis is rejected.

Findings

1. It is observed that most of the respondents have invested their savings in various investment alternatives, but it is also seen that majority of the respondents possess lower level of financial literacy. Therefore, it proves that investors of Ballari region do not rationally think about their investment plans.

2. From the analysis of financial literacy questions, it is also found that majority of the investors have less financial literacy on some of the subjects and some of the investors do not understand the important concepts at all.

3. People of Ballari Region are very orthodox and conservative and

therefore they never take a chance of losing their money by investing in financial markets and therefore they park their savings in safer market (Fixed Deposits and Gold/Silver)

4. Increased in the number of financial products, have made the individuals (investors) of Ballari Region too confusing and they are unable to understand where and in which financial product they should invest.

5. Lack of knowledge about the financial markets, have restricted the investors to invest in certain financial products only.

6. Female respondents were less willing in making investments compared to men and they hesitate in taking risk by investing in financial markets.

Conclusion

Financial literacy attempts to measure the understanding and financial decisions of people. The present study outlined financial literacy as the individual's capacity to know, to possess fundamental information in an economic and financial area, along with the skill to use that knowledge to deal with financial resources effectively. 'Invest early, invest well' is the mantra. Lack of knowledge on avenues concerning the growth and risk factors and lack of confidence restrict individuals in the utilization of different avenues. To enjoy fruitful results in the future, individuals must get updated with the avenues. This study restricts to individuals in Ballari district and impact of financial literacy on investment decision.

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