

THE CORRELATION BETWEEN FINANCIAL LITERACY AND INVESTMENT BEHAVIOR AMONG SALARIED PROFESSIONALS

Shweta Gupta
Research Scholar
Commerce

Dr. Richa Bansal
(Associate Professor)
Glocal School of Business and Commerce

DECLARATION: I AS AN AUTHOR OF THIS PAPER / ARTICLE, HEREBY DECLARE THAT THE PAPER SUBMITTED BY ME FOR PUBLICATION IN THE JOURNAL IS COMPLETELY MY OWN GENUINE PAPER. IF ANY ISSUE REGARDING COPYRIGHT/PATENT/OTHER REAL AUTHOR ARISES, THE PUBLISHER WILL NOT BE LEGALLY RESPONSIBLE. IF ANY OF SUCH MATTERS OCCUR PUBLISHER MAY REMOVE MY CONTENT FROM THE JOURNAL WEBSITE. FOR THE REASON OF CONTENT AMENDMENT/OR ANY TECHNICAL ISSUE WITH NO VISIBILITY ON WEBSITE/UPDATES, I HAVE RESUBMITTED THIS PAPER FOR THE PUBLICATION. FOR ANY PUBLICATION MATTERS OR ANY INFORMATION INTENTIONALLY HIDDEN BY ME OR OTHERWISE, I SHALL BE LEGALLY RESPONSIBLE. (COMPLETE DECLARATION OF THE AUTHOR AT THE LAST PAGE OF THIS PAPER/ARTICLE)

Abstract

This research looks into the complex relationship between financial literacy and investment behavior in the setting of salaried professionals. The goal is to determine how much an individual's financial knowledge influences their investment decisions. The research aims to identify patterns, trends, and potential correlations between the level of financial literacy and the nature of investment choices made by this specific demographic through a comprehensive review of existing literature and the administration of surveys or interviews among salaried professionals. The study employs quantitative and qualitative studies to assess financial literacy levels, taking into account characteristics such as financial concept understanding, risk perception, and familiarity with investment tools. Concurrently, it investigates salaried persons' investment behavior, studying their portfolio choices, risk tolerance, and decision-making processes. The research attempts to uncover if increased financial literacy correlates with more informed, diverse, and risk-appropriate investment choices among salaried professionals by combining these two sets of data. This paper makes an attempt to investigate the relationship between salaried individuals' financial literacy and their awareness of financial goods. The association between financial literacy and salaried individuals' investment behavior is also investigated. The study's findings imply that an individual's level of financial literacy influences their knowledge and investing choices towards financial items.

Keywords: Financial Literacy, Investment, Salaried, Professionals, Behavior

1. INTRODUCTION

Financial literacy, which includes a person's awareness of financial ideas, managerial skills, and decision-making ability, is critical in influencing many elements of personal finance. Among these, the relationship between financial literacy and investment behaviors stands out as a critical subject of investigation, particularly among the salaried professional group. Individuals' level of financial literacy becomes a decisive factor in the quality of their investment decisions as they traverse the complicated environment of investment possibilities, risk assessments, and financial planning.

Salaried professionals with a consistent salary confront particular investment challenges and opportunities. Their decisions about investment vehicles, risk tolerance, and portfolio diversification can have a substantial impact on their long-term financial well-being. Understanding the complex relationship between financial literacy and investing behaviors within this particular generation is critical for designing effective financial education programmers, legislation, and support systems. This research aims to fill a significant knowledge gap by undertaking a thorough assessment of the relationship between financial literacy and investment behavior among salaried professionals. The research intends to find patterns and trends that illuminate the significance of financial knowledge in defining the investment environment for this demographic by synthesizing previous studies, measuring financial literacy levels, and analyzing investment choices. This investigation's significance goes beyond academic curiosity, resonating with broader societal ramifications. Understanding the dynamics of financial literacy's impact on investment behavior is becoming increasingly important as financial markets evolve and consumers face increasingly complex investment options. The study's findings have the potential to inform targeted interventions, educational initiatives, and policy measures that empower salaried professionals to make informed and strategic investment decisions, thereby improving their financial resilience and paving the way for long-term economic prosperity.

1.1 Financial Literacy and its Importance

- **Financial Concepts to Understand:** Financial literacy entails understanding basic financial concepts such as budgeting, saving, investing, debt management, and the time value of money. A financially literate person has the information to make sound decisions in these areas.
- **Budgeting and money management that works:** Individuals with financial literacy are better able to design and stick to successful budgets. It entails the capacity to manage income and costs, deploy cash strategically, and make prudent spending decisions, all of which contribute to financial stability.
- **Making Sound Investment Choices:** Financial knowledge is especially important when making investment decisions. A literate person is aware of various investment vehicles, risk concerns, and prospective rewards. This knowledge assists in making informed and smart investment decisions that are in line with one's financial objectives.
- **Debt Management and Credit Awareness:** Individuals that are financially literate are better positioned to manage debt responsibly. They are aware of the consequences of credit, interest rates, and the significance of having a decent credit score. With this knowledge, they can make sound borrowing judgements.
- **Retirement Planning:** Retirement planning is a component of financial literacy. Financially literate people can navigate retirement savings options, comprehend the impact of inflation, and make decisions that ensure a pleasant and secure retirement.

1.2 Investment Behavior of Salaried Professionals

- **Income Security and Investment Prospects:** Salaried professionals often have a consistent income, which influences their investment decisions. Their consistent salaries serve as a foundation for contemplating long-term investment options like as equities, mutual funds, and retirement accounts.
- **Diversification and risk tolerance:** Salaried professionals' investment behaviour is frequently influenced by their risk tolerance. Some people prefer low-risk investments such as government bonds or fixed deposits, while others with a higher risk tolerance may look into more dynamic assets. Diversification, or spreading investments across several asset classes, is a frequent risk-management approach among salaried investors.

- **Pension Investments and Retirement Planning:** Salaried professionals are more likely to plan for retirement and examine investment options that match with long-term financial objectives. Employer-sponsored pension plans, provident funds, and systematic investment plans (SIPs) are all options that salaried people use to ensure their financial future after retirement.
- **Investing in Real Estate:** Real estate is a tangible and long-term investment that often appeals to salaried professionals. This asset class is favoured for its potential appreciation and the perception of providing a solid investment path, whether through property purchases or real estate funds.
- **Tax-Advantaged Investment Strategies:** Salaried professionals frequently plan their investments with tax efficiency in mind. Equity-Linked Savings Schemes (ELSS), Public Provident Fund (PPF), and National Pension System (NPS) investments are picked not only for their potential returns, but also for their tax advantages.

1.3 Objectives

- a) To investigate how salaried individuals' financial literacy levels influence their awareness of financial products.
- b) To investigate how salaried individuals' financial literacy levels influence their investment preferences for financial products.

2. REVIEW OF LITERATURE

Annamaria Lusardi and Olivia S Mitchell (2007) on financial literacy, it was found that people in developed countries were uninformed of financial products and functions. Women and people with low income and education were especially financially illiterate and more prone to economic hardships. This study also found that financial education went a long way in planning for retirement savings. This study also emphasised that only a meagre number of individuals attended seminars on retirement planning. The study further concluded that although educational programmes and initiatives were essential, it is not the only answer to solve the behavioural problems of the consumers.

Lewis Mandell and Linde Schmid Klein (2007) The information that was used came from the National Jump Start survey that was administered to senior high school students. They came to the conclusion that the key reason for a poor score on the financial literacy test among young adults was a lack of desire to acquire or build financial abilities. This conclusion was reached on the basis of their data. As soon as the students had finished their lessons on personal finance and money management, the data showed that the questions about the students' levels of motivation had a significant impact on the scores that they received on the financial literacy test

Annamaria Lusardi (2008) It is true that they are directly accountable for their financial security and that they regularly deal with 221 people who are unemployed and those who do not have access to the internet, as he stated in his working paper. This is despite the fact that many people do not have the necessary resources to make the necessary decisions regarding savings. Those individuals who scored in the top twenty percent of the financial literacy test displayed very desirable financial behaviour, as indicated by the findings

Hooman Estelami (2009) He carried out a study in which he outlined five decision-making patterns that are responsible for a variety of sub-optimal financial choices made by customers. In addition, he made an effort to propose concrete solutions regarding the ways in which financial literacy programmes might be required to combat these patterns using specific remedies. The purpose of this research was to investigate the ways in which consumers frequently demonstrate suboptimal decision-making styles as a potential consequence of fundamental limitations in cognitive ability and the human neurological system.

Robert J. Willis (2009) It was discovered that Americans' comprehension of financial issues and their cognitive capacities were straightforwardly correlated. Research has shown this. In contrast to individuals who have the contrary characteristics, Americans who have higher levels of cognitive ability and predominant financial mindfulness regularly have higher abundance levels. The review's conclusions lead to the conclusion that an individual's financial literacy is a fundamental piece of their human resources.

3. RESEARCH METHODOLOGY

3.1 Geographical Scope and Population Selection:

The study focuses on Haryana, considering all salaried individuals in government or non-government jobs falling under the income tax bracket as the target population.

3.3 Sampling Criteria:

Within the selected sub-divisions, salaried individuals were purposively sampled based on criteria such as place of work, occupational status, and willingness to cooperate for the study. This ensured a representative sample of the population.

3.4 Questionnaire Design:

A non-disguised structured questionnaire was used to collect primary data from respondents. Careful preparation involved incorporating necessary information using close-ended questions, attitudinal rating questions, and knowledge testing questions.

3.5 Sample Size:

In this study 250 questionnaires were distributed in Haryana out of this 200 were received back After analyzing, incomplete questionnaires were excluded, resulting in a final sample size of 200 questionnaires for the study.

3.6 Measurement of Financial Literacy:

The study employed the OECD approach to measure the level of financial literacy. This approach considers three dimensions: financial knowledge, financial behavior, and financial attitude. Financial knowledge was scaled down to 5 from a possible 13, while financial attitudes and behavior were measured on a 5-point Likert scale, with a maximum possible score of 5 each. The total financial literacy score could reach a maximum of 15.

3.7 Data Analysis:

SPSS 16.0 was used for data analysis and hypothesis testing. Hypothesis 1 was examined using a T-test, while Hypothesis 2 was tested using a Chi-square test. The significance level for hypothesis testing was set at 5%.

3.8 Hypothesis

Hypothesis 1

Ho: The amount of awareness for various financial products among paid individuals is independent of their level of financial literacy.

HA: The amount of awareness of various financial products among salaried individuals is not independent of their level of financial literacy.

Hypothesis 2

Ho: Salaried people's investment preferences for various financial products are unaffected by their level of financial literacy.

HA: Salaried persons' investment preferences for various financial products are not independent of their level of financial literacy.

3.9 Characteristics of the Sample:

Table 1 presents an overview of the sample characteristics used in the study, providing insights into demographic and professional aspects of the respondents. This information serves as a foundational reference for the subsequent analyses and findings.

Table 1: Respondent Demographic and Socioeconomic Information

Category	Subcategory	Frequency	Percentage%
GENDER	Male	120	60%
	Female	80	40%
AGE (Years)	20-30	40	20%
	31-40	30	15%

	41-50	50	25%
	51-60	60	30%
	More than 60	20	10%
MARITAL STATUS	Unmarried	100	50%
	Married	100	50%
EDUCATION	10+2	60	30%
	Graduation	60	30%
	Post Graduation	40	20%
	PhD	40	20%
INCOME PER ANNUM (In Rs.)	2-5 lacs	90	45%
	5-10 lacs	80	40%
	10-15 lacs	30	15%
NATURE OF EMPLOYMENT	Government	120	60%
	Non-Government	80	40%
PLACE OF WORK	Urban	110	55%
	Rural	70	35%

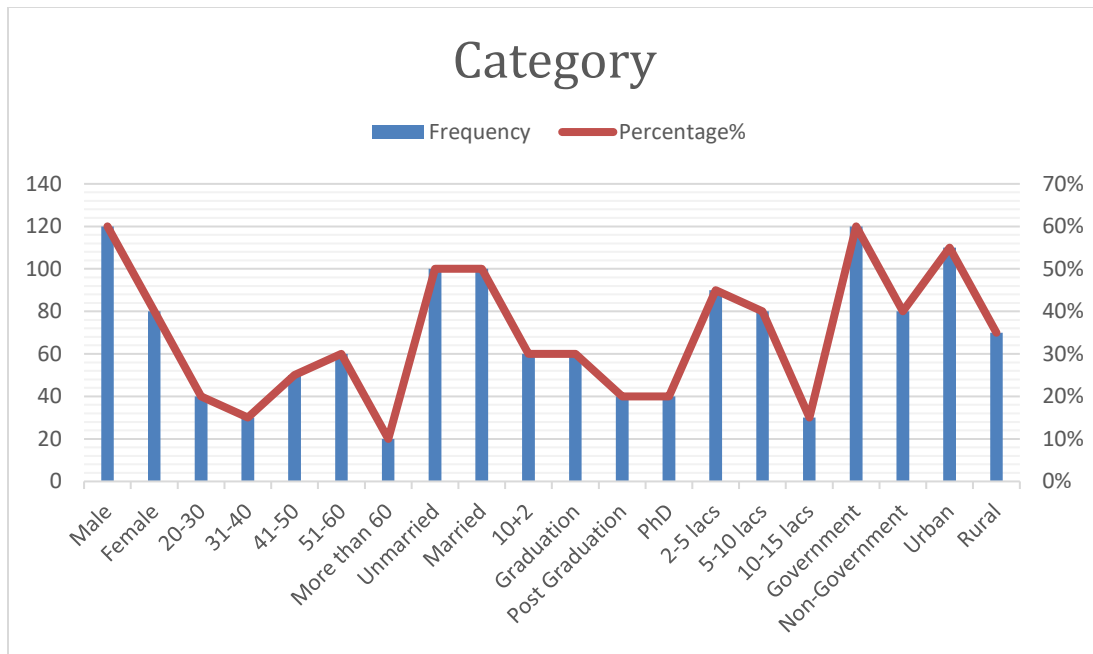


Figure 1: Respondent Demographic and Socioeconomic Information

The demographic data offered here provides useful insights into Haryana's socioeconomic landscape, encompassing a varied range of characteristics among its population. Haryana has a balanced gender mix, with 60% of respondents being male and 40% female. The age demographics reflect a diverse population, with a significant concentration in the 51-60 age range, indicating a mix of experienced individuals in the state. The marital status represents an even split, reflecting a variety of family forms. Respondents' educational backgrounds range from primary to secondary school, illustrating Haryana's diverse educational landscape. The distribution of annual income offers light on the financial situation of the population, with a major share lying within the 2-5 lacs income category. Employment trends show a significant presence in both the government and non-government sectors, highlighting the variety of employment opportunities accessible. Furthermore, the distribution of workplaces between urban and rural areas shows a little higher concentration in urban areas, emphasizing potential differences in work environment and lifestyle between these locations. In summary, this report provides a complete assessment of Haryana's demographic fabric, providing useful insights into the state's socioeconomic processes.

4. DATA ANALYSIS AND INTERPRETATION

4.1 Financial Product Awareness and Financial Literacy

To investigate how the financial literacy level of paid individuals influences their awareness of financial products, respondents were divided into two groups: "High Financial Literacy Group" and "Low Financial Literacy Group." Respondents with financial literacy scores higher than the median were assigned to the "High Financial Literacy Group," while those with financial literacy scores equal to or lower than the median were assigned to the "Low Financial Literacy Group." The average awareness level of responders in these two groups was determined and compared. Table 2 and Figure 2 indicate the level of awareness for various financial products among high and low financial literacy groups.

Table 2: Financial Product Awareness Levels in the High and Low Financial Literacy Groups

Financial Products	High Financial Literacy Group	Low Financial Literacy Group	t-value	Significance
Bank Fixed Deposits	2.51	3.25	-3.12	0.007
Savings Account	3.22	3.55	-3.25	0.001
Life insurance	4.25	2.15	-2.56	0.071
Public Provident Fund	3.63	3.61	-3.15	0.020
Post Office Savings	4.15	2.15	0.20	0.912
National Savings Certificate	2.22	4.11	-0.71	0.622
Kisan Vikas Patra	4.19	4.25	-2.51	0.322
Pension Funds	2.58	3.25	-0.70	0.615
Mutual Funds	3.52	4.11	-3.15	0.040
Stock Market	4.22	2.59	-4.15	0.002
Bonds	5.36	3.25	-2.59	0.052
Debentures	6.15	2.22	-2.39	0.412

Commodity Market	1.55	3.25	-2.15	0.099
Forex Market	2.58	4.11	-2.96	0.071

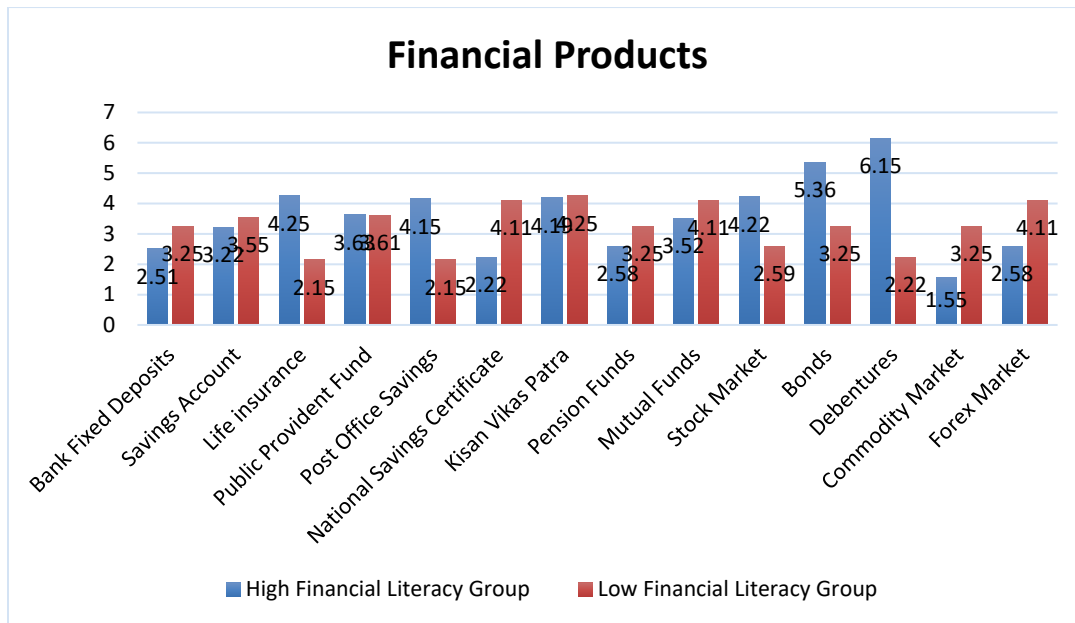


Figure 2: Financial Product Awareness Levels in the High and Low Financial Literacy Groups

The data presented here provides insights into the preferences for financial products among groups with varied levels of financial literacy. The t-values and significance levels give a statistical foundation for comparing the mean financial literacy scores of high and poor groups across different financial products. Bank Fixed Deposits reveal a statistically significant difference between the two groups, with the low financial literacy group having a higher mean score (3.25), while the high financial literacy group has a lower mean score (2.51). This shows that people with poorer financial literacy are more likely to favour bank fixed deposits. Savings Accounts show a significant difference as well, with the low financial literacy group (3.55) having a higher mean score than the high financial literacy group (3.22). This suggests that persons with poorer financial knowledge have a larger preference for Savings Accounts. Life insurance makes a significant influence, although it falls just shy of statistical significance. The high financial literacy group has a higher mean score (4.25) than the low financial literacy group (2.15), indicating a possible link

between higher financial literacy and a stronger preference for life insurance. The difference in Public Provident Fund scores is statistically significant, with the high financial literacy group scoring lower (3.63) than the low financial literacy group (3.61). This unexpected discovery may merit additional examination. The Stock Market shows a substantial difference, with the high financial literacy group (4.22) having a higher mean score than the poor financial literacy group (2.59). This shows that people with higher financial knowledge are more inclined to invest in stocks.

4.2 Financial Product Investment Preference and Financial Literacy

To investigate how the financial literacy level of salaried individuals influences their investment behaviors, respondents were divided into two groups: "High Financial Literacy Group" and "Low Financial Literacy Group." Respondents with financial literacy scores higher than the median were assigned to the "High Financial Literacy Group," while those with financial literacy scores equal to or lower than the median were assigned to the "Low Financial Literacy Group."

Table 3 and Figure 3 indicate the investing preferences for various financial products of high and low financial literacy groups. According to the findings, respondents in the high financial literacy group preferred mutual funds, stock market investments, debentures, life insurance, public provident fund, pension funds, bonds, and the commodity market over those in the low financial literacy group. Respondents in the poor financial literacy group preferred bank deposits and post office saves.

Table 3: Investment in Financial Products by Groups with High and Low Financial Literacy

Financial Products	High Financial Literacy Group		Low Financial Literacy Group		Chi-square value
	Frequency	Percentage %	Frequency	Percentage %	
Bank Deposits	10	5%	20	10%	20.151%

Post Office Savings	10	5%	10	5%	
Mutual Funds	15	7.5%	10	5%	
Stock Market	15	7.5%	5	2.5%	
Debentures	20	10%	5	2.5%	
Life Insurance	20	10%	10	5%	
Public Provident Fund	10	5%	10	5%	
Pension Funds	5	2.5%	10	5%	
Bonds	5	2.5%	10	5%	
Commodity Market	10	5%	10	5%	
Total Respondents	100		100		

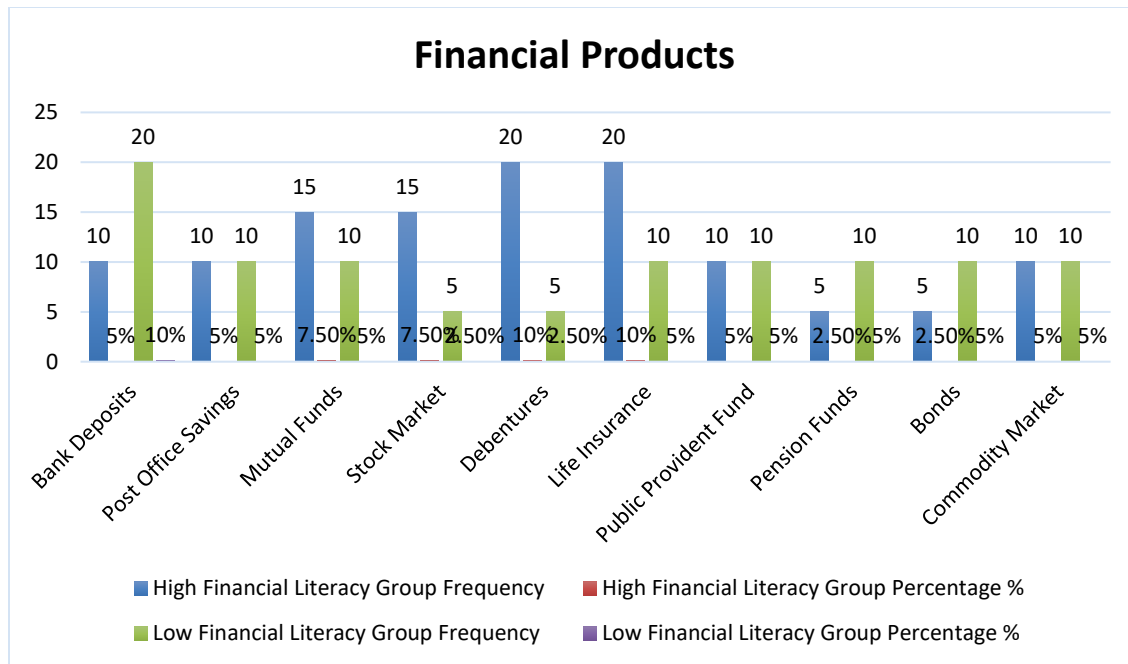


Figure 3: Investment in Financial Products by Groups with High and Low Financial Literacy

The data presented depicts the distribution of financial product choices across persons with varied degrees of financial literacy, which are classified as high or low. The chi-square values reveal the significance of the preferences variations between the two groups. When it comes to bank deposits, 10% of respondents in the low financial literacy group choose this financial product, whereas only 5% of those in the high financial literacy group do. The chi-square value indicates that this difference is statistically significant, indicating a significant variation in the predisposition towards bank deposits between the two literacy groups. Post Office Savings and Mutual Funds have identical preferences among each literacy category, with 5% and 7.5% choosing these financial vehicles, respectively. The chi-square values show no significant variation in preferences for these goods between the high and poor financial literacy groups. In contrast, there is a substantial gap in preferences for the Stock Market, with 7.5% of the high financial literacy group choosing it versus only 2.5% of the low financial literacy group. This emphasises the importance of financial literacy in engaging in more complicated investment vehicles. Debentures, Life Insurance, Public Provident Funds, and Pension Funds are all preferred by the high financial literacy group over the low financial literacy group. The chi-square values for various products show statistically

significant differences in preferences, highlighting the importance of financial literacy in the selection of these financial instruments. Bonds and the commodity market, on the other hand, show no substantial differences in preferences between the two groups, as evidenced by chi-square values.

5. CONCLUSION

In conclusion, the study of the relationship between financial literacy and investment behaviors among paid professionals provides intriguing insights into the complex relationship between knowledge, awareness, and financial decision-making. The study found that higher levels of financial literacy are related with more informed and diverse investing decisions, emphasizing the importance of education in altering people's investment behaviors. The findings highlight the importance of financial literacy programmes and activities in empowering salaried professionals to make more strategic and informed investing decisions. Salaried professionals with higher levels of financial literacy are more likely to use a broader range of investment instruments, ranging from basic options such as bank savings to more complicated vehicles such as the stock market and debentures. This shows that focused efforts to enhance financial literacy can help to cultivate a more resilient and competent investment base. According to the findings, individuals with high financial literacy are more educated about all financial products except post office savings. There are statistically significant disparities in knowledge levels across bank fixed deposits, savings accounts, public provident funds, mutual funds, stock market investments, and bonds. Respondents with limited financial literacy spend primarily in traditional and safe financial products and invest less in financial items that are comparatively riskier but could deliver higher returns. As a result, financial literacy affects both financial product awareness and investment preferences for financial products.

REFERENCES

1. Gaurav, S., & Singh, A. (2012). *An inquiry into the financial literacy and cognitive ability of farmers: Evidence from rural India. Oxford Development Studies, 40(3), 358-380.*
2. Gentile, M., Linciano, N., & Soccorso, P. (2016). *Financial advice seeking, financial knowledge and overconfidence. Evidence from Italy, Consob Research Papers, (83).*

3. *Gera.P, Ratnesh, Anand.N & Hemantha Kumar (2012), financial literacy as a tool for financial inclusion and client protection.*
4. *Glaser, M., & Walther, T. (2014). Run, walk, or buy? Financial literacy, dualprocess theory, and investment behavior.*
5. *Gowri.M, (2014). A study on financial literacy among employees in Coimbatore city.*
6. *Guest, R., & Brimble, M. (2018). Financial Literacy 101. Policy, 34(1), 3-7.*
7. *Guiso, L., &Jappelli, T. (2008). Financial literacy and portfolio diversification.*
8. *Gupta, S.P. (2001). Statistical Methods. (30th Revised Edition, Sultan Chand & Sons Publications, New Delhi).*
9. *Gustafsson, C., &Omark, L. (2015). Financial literacy's effect on financial risk tolerance: A quantitative study on whether financial literacy has an increasing or decreasing impact on financial risk tolerance.*
10. *Hair, J. F., Bush, R. P. & Ortinau, D. J. (2003). Marketing Research – Within a Changing Information Environment (2nd ed.). New Delhi: Tata McGraw Hill Publishing Company Ltd*
11. *Harris Poll (2014). A Survey about financial literacy among the U.S Military. Prepared for The National Foundation for Credit Counseling (NFCC)*
12. *Harter, C., & Harter, J. F. (2010). Is financial literacy improved by participating in a stock market game. Journal for economic educators, 10(1), 21-32.*
13. *Hassan Al-Tamimi, H. A., & Anood Bin Kalli, A. (2009). Financial literacy and investment decisions of UAE investors. The Journal of Risk Finance, 10(5), 500- 516.*
14. *Horioka, C. Y. and Wan, J. (2007), The Determinants of Household Saving In China: a Dynamic Panel Analysis of Provincial Data, Forthcoming in Journal of Money, Credit and Banking.*

15. Hung, A., Parker, A. M., & Yoong, J. (2009). *Defining and measuring financial literacy*. Huston, S.J. (2010) *Measuring financial literacy*. *Journal of Consumer Affairs*, 44, 296 – 316.
16. Hussein A. Hassan Al-Tamimi and Al Anood Bin Kalli (2009), *Financial literacy and investment decisions of UAE investors*, *The journal of Finance*, Vol.10, No. 5, 2009, pp 500-516, Emerald Group Publishing Limited 1526- 5943.
17. Ibrahim, M. E., & Alqaydi, F. R. (2013). *Financial literacy, personal financial attitude, and forms of personal debt among residents of the UAE*. *International Journal of Economics and Finance*, 5(7), 126.
18. Jappelli, T., & Padula, M. (2013). *Investment in financial literacy and saving decisions*. *Journal of Banking & Finance*, 37(8), 2779-2792.
19. Jariwala, H. (2011, March). *Financial Literacy: A call for an Attention*. In *Articles and Case Studies: Inclusive & Sustainable Growth Conference (Vol. 1, No. 1)*.
20. Jessie Sim (2014). *Measuring financial literacy, its determinants and correlates: A Study of fifteen year olds in Oxfordshire and greater London*.

Author's Declaration

I as an author of the above research paper/article, hereby, declare that the content of this paper is prepared by me and if any person having copyright issue or patent or anything otherwise related to the content, I shall always be legally responsible for any issue. For the reason of invisibility of my research paper on the website/amendments/updates, I have resubmitted my paper for publication on the same date. If any data or information given by me is not correct I shall always be legally responsible. With my whole responsibility legally and formally I have intimated the publisher (Publisher) that my paper has been checked by my guide (if any) or expert to make it sure that paper is technically right and there is no unaccepted plagiarism and the entire content is genuinely mine. If any issue arise related to Plagiarism/Guide Name / Educational Qualification/ Designation/Address of my university/college/institution/Structure or Formatting/ Resubmission / Submission / Copyright / Patent/ Submission for any higher degree or Job/ Primary Data/Secondary Data Issues. I will be solely/entirely responsible for any legal issues. I have been informed that the most of the data from the website is invisible or shuffled or vanished from the

data base due to some technical fault or hacking and therefore the process of resubmission is there for the scholars/students who finds trouble in getting their paper on the website. At the time of resubmission of my paper I take all the legal and formal responsibilities, If I hide or do not submit the copy of my original documents (Aadhar/Driving License/Any Identity Proof and Address Proof and Photo) in spite of demand from the publisher then my paper may be rejected or removed from the website anytime and may not be considered for verification. I accept the fact that as the content of this paper and the resubmission legal responsibilities and reasons are only mine then the Publisher (Airo International Journal/Airo National Research Journal) is never responsible. I also declare that if publisher finds any complication or error or anything hidden or implemented otherwise, my paper may be removed from the website or the watermark of remark/actuality may be mentioned on my paper. Even if anything is found illegal publisher may also take legal action against me.

Shweta Gupta
Dr. Richa Bansal
