THE EFFECT OF PERSONAL FINANCE KNOWLEDGE: DETERMINANTS AND IMPLICATIONS FOR INVESTMENT BEHAVIOUR

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Abstract: A person's capability to manage his personal finance has become important in today's world. Majority of the educated young Indians do not use modern financial market instruments. They have to become more aware about the dynamics of the financial world. The present study is an attempt to analyze the status of investment behavior with two antecedents namely socio demographic characteristics and personal finance knowledge. A sample of 325 educated youth was studied to understand the role of identified antecedents on investment behaviour. To analyse the collected data, descriptive statistics, independent sample t-test ,one-way analysis of variance (ANOVA) and Pearson's correlation coefficient have been used. The study concluded that the investment behaviour is influenced by their socio-demographic characters and the objective of saving and selection investment avenues is observed to have a negative impact.

Keywords: Investment behaviour, Socio-demographic factors, Personal finance knowledge, Educated married youth.

INTRODUCTION

Personal finance knowledge is important not only to attain the financial wellbeing but also to achieve an inclusive and economic development for the nation. Nowadays the field of investment is even more vibrant than it was a decade ago.Gone are the days when individuals had limited choices for making investments. The investors have many investment avenues to choose from, and the amount of information available to the investors is astounding and continually growing. Growth of financial markets, complexity of financial products, increase in life expectancy, rise in cost of living have resulted a transformation in the investment pattern. The investment ratio is a big determinant of an economic activity. A rise in the investment ratio has a very significant impact on economic activity. **I**nvestment behavior is based on ambiguity about the future. Availability of information plays an important role in investment markets.Socio demographic factors and the personal finance knowledge are the major concepts and explanations of investment behavior. To understand the characteristics of the different types of investment,investors must have enough financial knowledge. The study analyzes the status of investment behaviour with two antecedents namely socio demographic characteristics and personal finance knowledge.

LITERATURE REVIEW

Personal finance comprises of creating a budget, saving for retirement, and using credit wisely. Understanding the basics of money management will allow you to attain financial well-being and to build a strong financial future. Financial knowledge around the world is low as evidenced in numerous studies conducted in developed countries. Financial education of citizens has gained a priority locus in the national agenda of developing countries also in recent times.India is no exception to this moderngrowth.

Socio-demographic characteristics refer to the sociological and demographical characteristics of individuals. The present study defines socio-demographic characteristics as the factors that directly or indirectly influence the individual's social identity and includes age, gender, education, income and the place of living. Many studies have revealed the influence of socio-demographic characteristics on financial literacy of individuals.Kahneman and Tversky (1979) individuals make decisions based on the potential value of losses and gains rather than the final outcome, and people evaluate these losses and gains using interesting heuristics.Palmer(2008) finds that people with financial plans are likely to be 10-15% wealthier than others.Tekce and Yılmaz (2015) suggest that the investment behavior of individual investors in real life is influenced by a combination of specific psychological factors. Baker and Ricciardi(2014)it is crucial to take psychological, sociological and demographic factors into account to explore the major attributes of how investors behave. Frankfurter and McGoun(2000) also indicated that psychology and sociology is the essence of behavioural finance.Zhang and Zheng (2015)support the view that sociological and demographic factors are also important to explain investor behavior. Qing (2007) provides evidence that demographic factors such as age and gender should be considered while studying investment behavior.

Lusardi and Mitchell (2014) opine that knowledge on concepts of interest compounding, inflation and risk diversification helps to assess the financial literacy of an individual. Number of studies echoedstrong correlation between personal finance knowledge and financial behavior (Hastings 2012; Goette and Meier 2010).Olga (2011) defines financial literacy as necessary numerical

skills and understanding of basic economic concepts required for educated saving and borrowing decisions. Donohue (2011) state that financial literacy means one is literate in the issues of managing money (including saving, budgeting, investing, credit, insurance and taxes). Chiteji and Stafford (1999) and Li, Baldassi, Johnson and Weber (2013) found that the financial situation of the family or annual income and standard of living also had significant positive influence on investment behaviour.

OBJECTIVES OF THE STUDY

The following are the main objectives of the study:

- To determine the relationship between socio demographic and investment behavior among individuals

- To find out impact of personal financial knowledge on individual investment behaviour
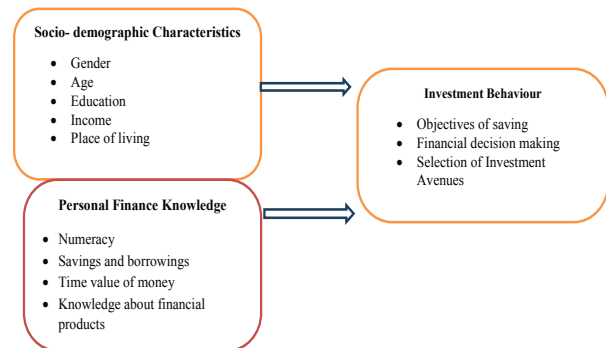
PROPOSED MODEL

Figure 1. Conceptual Model

HYPOTHESIS

Based on the extant literature and the conceptual model as well as the existing evidence on demographic characteristics, this study proposes the following hypotheses:

H_{01}: **Socio-demographic characteristics** (age, gender, occupation, income, place of living) significantly influence the investment behavior of Indian married youth.

H_{02}: **Personal finance knowledge** (through theirnumeracy, amount of savings and borrowings, time value of money, knowledge about financial products) significantly influences the investment behavior of Indian married youth.

DATABASE AND RESEARCH METHODOLOGY

The questionnaire method was used for data collection. To understand the shortcomings of the study, piolet testing was done on 40 respondents. Based on the responses and feedback questionnaire was finalised. The questionnaire developed had three parts. The first part of the questionnaire had questions on demographic details of the potential respondents. As per various research studies there are several demographic factors including age, gender, education, income level and place of living. The second part of the questionnaire had twenty statements covering the dependent and independent variables under study. After data validation checks and deleting invalid responses 325 responses were selected for further analysis.

SAMPLE CHARACTERISTICS

As far as the demographic profile of the respondent is concerned, the sample consisted of a variety of married couple belonging to different economic and social backgrounds.The demographic profile is presented in Table 1

Table 1.Demographic profile of educated youth

Demographic Variables	No. of Respondents	Percentage
A. Gender		
a) Male	169	52.0
b) Female	156	48.0
B. Age		0.0
a) 23 -26	83	25.5
b) 27-30	136	41.8
c) 31 -34	106	32.6
C. Education		0.0
a) MBA	109	33.5
b) MSc/MA	87	26.8
c) MTech /MArch	76	23.4
d) MD/Ph.D	53	16.3
D. Income		0.0
a) 25000 - 50000 INR	72	22.2
b) 50001- 75000 INR	107	32.9
c) 75001-100000 INR	82	25.2
d) Above 100000 INR	64	19.7
E.Place of living		0.0
a) Rural	75	23.1
b) Semi- Urban	96	29.5
c) Urban	154	47.4

Source: Author's own. Based on collected data

DATA ANALYSIS

The first four basic questions were related to socio demographic profile of the respondent while the second part was related to the simple conceptsviz, numeracy, savings and borrowings, time value of money and knowledge about financial products. These simple concepts form the basis for investment decision making. Table 2 shows the responses of 325 respondents to the basic questions related to personal finance.

Table 2. Responses to Finance Knowledge Questions

Responses to Personal Finance Knowledge

Concept	Correct	Incorrect	Do not know
Numeracy	176	113	36
Savings and borrowings	146	130	49
Time value of money	129	178	18
Knowledge about financial products	167	125	33

Responses to Investment behaviour

Concept	Correct	Incorrect	Do not know
Objectives of saving	265	52	8
Financial decision making	107	197	21
Selection of Investment avenues	132	182	31

In order to determine whether significant differences exist in the investment behavior on the basis of gender, *t*-test was used. Before conducting *t*-test, Levene's Test for equality of variance was used in order to determine whether the two situations have same or different amounts of variability between scores.Table3shows the value of level of significance for Levene's test is 0.723 in respect of gender. These values are greater than 0.05, therefore the variability in the two set of conditions is the same and the scores in this condition do not vary too much from the scores in the second condition. The significant value of for t-test is .623 which is greater than .05and therefore there lies no significant difference in the investment behaviour of the young educated in terms of gender.

Table 3. Independent Sample T-Test, Analysis of Differences in Investment Behaviouron Gender Basis

Gender	Levene's test for equality of variances		t-test for equality of means				
	F	Sig.	t	df	Sig. (two-tailed)	Mean difference	Std.Error Difference
Equal Variance assumed	0.297	0.723	0.322	323	0.623	1.2951	5.1784
Equal Variances not assumed			0.307	49.14	0.631	1.2951	5.3621

Source: Author's own N= 325p<.05(Significant) p>.05 (Not significant)

In order to determine whether significant differences exists in the investment behaviourof the educated youth on the basis of their other demographic factors and personal finance knowledge One-Way ANOVA was computed.

Table 4.Summary of One- Way ANOVA test

		df	F	Sig.
Age	Between Groups	2	2.263	0.142
	Within Groups	323		
	Total	325		
Education	Between Groups	3	2.294	0.103
	Within Groups	322		
	Total	325		
Income	Between Groups	3	0.152	0.933
	Within Groups	322		
	Total	325		
Place of living	Between Groups	2	1.83	0.139
	Within Groups	323		
	Total	325		
Numeracy	Between Groups	2	2.104	0.091
	Within Groups	323		
	Total	325		
Savings and Borrowings	Between Groups	2	0.635	0.584
	Within Groups	323		
	Total	325		
Time Value of money	Between Groups	2	0.564	0.093
	Within Groups	323		
	Total	325		
Knowledge about financial products	Between Groups	2	0.739	0.634
	Within Groups	323		
	Total	325		

Source: Authors own N= 325 p< .05(Significant) p>.05 (Not significant)

As shown in Table 4. The value of level of significance of one-way ANOVAis 0.142,0.103, 0.933, 0.139,0.091, 0.584, 0.093, 0.634 in respect of Age,

Education, Income, Place of living, Numeracy, Savings and borrowings, Time value of money and Knowledge about financial products respectively. Since all these values are greater than 0.05, there lies no significant difference in the investment behaviour of young educated Indians in terms of the above mentioned variables.

Pearson's correlation was calculated among various variables to test investment behaviour. The scores of all variables that is investment behaviour, objectives of saving, financial decision making, selection of investment avenues were averaged for the calculation purpose. The results of Pearson's correlation @ 95% significance level are shown in Table 4.

Table 5. Pearson's Correlation among investment behaviour

Variables	Investment behaviour	Objectives of saving	Financial decision making	Selection of investment avenues
Investment behaviour				
Pearson Correlation	1	0.228	0.817	0.181
Significance		0.000	0.000	0.001
Objectives of saving				
Pearson Correlation	0.228	1	0.311	0.131
Significance	0.000		0.000	0.017
Financial decision making				
Pearson Correlation	0.817	0.311	1	0.416
Significance	0.000	0.000		0.000
Selection of investment avenues				
Pearson Correlation	0.181	0.131	0.416	1
Significance	0.001	0.017	0	

Source: Authors ownSignificance level is 95%

As shown in Table 5. The value of level of significance of Pearson's correlation is 0.228, 0.817, and 0.181 in respect of objectives of saving, financial decision making, and selection of investment avenues. The correlation is very less among the variables except financial decision making.

CONCLUSION

The financial industry plays a significant role and has aroused increasing managerial and academic interest in recent decades. The major challenge among the financial institutions today is to review the investment behavior to target the prospective investors. The study concluded that the investment behaviouris determined by gender, age, education, income, place of living, numeracy, savings and borrowings, time value of money,knowledge about financial products and financial decision making .The study is targeted only to Kerala State, exclusive studies in different regions of India can bring further insights on the pattern of investment. The role of attitude in investment behaviour using a more rigorous measure could also be investigated.

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