

# EVALUATING THE INFLUENCE OF FINANCIAL LITERACY ON THE INVESTMENT CHOICES OF INDIAN INVESTORS

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## Abstract

*This study explores the impact of financial literacy on investment decisions among Indian investors. Based on a survey of 274 participants, the analysis reveals a significant relationship between demographic factors such as age, gender, and occupation, and financial literacy levels. It highlights that individuals with higher financial literacy are more likely to make informed investment decisions. Using Chi-square, ANOVA, and regression analyses, the study confirms that factors like age and occupation influence financial knowledge. Additionally, the research shows a strong connection between financial literacy and investment choices, with higher literacy levels leading to better investment decisions. The study also distinguishes between basic and advanced financial literacy, noting that individuals with higher education and income levels tend to have greater financial understanding. These findings emphasize the need for targeted*

*financial education to enhance financial literacy, empowering Indian investors to make more informed and effective investment decisions.*

**Keywords:** *Financial literacy, investment decisions, demographic factors, age, gender, occupation.*

## 1. Introduction

Financial literacy plays a crucial role in shaping investment decisions, particularly in emerging markets like India, where a growing number of individuals are engaging in financial markets [1]. The ability to make informed investment choices is directly influenced by one's understanding of financial concepts, such as budgeting, saving, investing, and managing risk. However, financial literacy levels in India remain varied, and demographic factors such as age, gender, and occupation significantly impact an individual's financial knowledge. This study aims to explore the relationship between financial literacy and investment

decisions among Indian investors, with a specific focus on how demographic variables affect financial understanding and decision-making processes [2]. The research, based on a survey of 274 participants, utilizes statistical methods including Chi-square, ANOVA, and regression analyses to assess the interplay between financial literacy and investment behavior. The study examines both basic and advanced financial literacy, exploring how education, income, and occupation influence financial knowledge and its application in investment choices. The findings suggest that individuals with higher financial literacy are more likely to make informed investment decisions, underlining the importance of enhancing financial

education to empower investors and support the growth of India's financial markets.

## 2. Literature Review

The relationship between financial literacy and investment decisions has become a crucial area of research, particularly in emerging markets like India. As financial markets evolve and more individuals engage in investment activities, understanding the role of financial literacy in shaping investment choices is essential. Financial literacy, encompassing knowledge of financial concepts, products, and strategies, influences how investors make informed decisions. This literature review explores the impact of financial literacy on investment behavior among Indian investors, focusing on key demographic factors and the role of education, income, and occupation.

### Summary of Literature Review

Author's	Work Done	Findings
Arora, A. (2024)	Analyzed the impact of financial literacy on investment decisions in India, considering age, gender, and occupation.	Found significant differences in financial literacy based on demographic factors, influencing investment decisions.
Sharma, V. (2024)	Explored the role of financial education on investor behavior in the Indian market.	Highlighted the importance of financial education in improving investor decision-making and behavior.
Gupta, A. (2023)	Studied the demographic determinants of financial literacy and its impact on investment decision-making.	Concluded that age, gender, and occupation significantly influence financial literacy levels and investment behavior.

Raj, M. (2023)	Investigated the relationship between financial literacy and behavioral biases in investment decisions.	Found that higher financial literacy helps in mitigating common behavioral biases in investment decisions.
Mehta, S. (2022)	Examined financial literacy in emerging economies, with a focus on Indian investors.	Identified gaps in financial literacy, suggesting targeted financial education to improve investment outcomes.
Sharma, N. (2022)	Analyzed the role of financial literacy in personal finance management among Indian investors.	Found that improved financial literacy leads to better management of personal finances and investment choices.
Joshi, S. (2021)	Investigated the link between financial literacy and investment choices in India.	Revealed that financial literacy significantly affects investment decisions and financial planning.
Agarwal, P. (2021)	Studied the influence of education and income on financial literacy and investment behavior.	Found that higher education and income positively correlate with higher financial literacy and better investment decisions.
Desai, V. (2020)	Analyzed the relationship between demographics, financial literacy, and investment decisions in India.	Concluded that financial literacy is positively correlated with age, income, and occupation, influencing investment choices.
Tripathi, R. (2020)	Explored the link between financial literacy and investment decisions in India.	Found that higher financial literacy leads to more informed and rational investment decisions.
Sharma, K. (2019)	Focused on financial literacy and investment behavior among Indian youth.	Concluded that financial literacy among youth is low, affecting their ability to make informed investment decisions.

## Research Gap

Despite the growing importance of financial literacy in investment decisions, research on this topic, particularly in the Indian context, remains limited. While several studies have explored the role of financial literacy in

investment choices, there is a lack of comprehensive research that addresses the impact of demographic factors such as age, gender, and occupation on financial literacy levels in India. Additionally, the relationship between both basic and advanced financial

literacy and investment behavior requires further exploration, especially considering the diversity within Indian investors.

### 3. Problem Statement

The problem addressed in this study is the varied levels of financial literacy among Indian investors, influenced by demographic factors such as age, gender, and occupation. This study aims to explore how financial literacy impacts investment decisions and identifies key areas for improvement.

### 4. Methodology

This study adopts a descriptive research approach, using an online questionnaire to collect data from 274 respondents [3]. The data analysis was conducted using SPSS software, applying Chi-square, ANOVA, and regression analysis to assess the relationships between demographic factors and financial literacy, and to understand the impact of financial literacy on investment decisions. The demographic characteristics of the respondents were first analyzed to explore their literacy levels, followed by the use of Chi-square analysis to examine the association between these demographic factors and financial literacy. A significance level of 5% was used throughout the analysis. The demographic data revealed that 55.5% of respondents were female and 44.5% were male. Respondents ranged in

age from 20 to 42 years, with 63.5% holding postgraduate degrees. Monthly incomes varied from ₹10,000 to ₹1,00,000. Basic financial literacy questions assessed respondents' knowledge of investments, accounts, risk, and other financial concepts, with varying levels of correctness in their answers. Advanced financial literacy questions covered topics like fixed deposits, mutual funds, equity shares, and bonds. Regression and ANOVA tests showed that financial literacy significantly influences investment decisions. Additionally, the analysis revealed significant relationships between financial literacy and demographic factors such as age, gender, and occupation [4]. The results underscore the importance of financial literacy in shaping investment choices among Indian investors.

### 5. Result & Discussion

#### Demographic Details of Respondents

Among the respondents, 55.5% were female and 44.5% were male, with female participants outnumbering male participants. The age of the respondents ranged from 20 to 42 years [6]. In terms of educational qualifications, 63.5% of the respondents were postgraduates, while 23% held graduate degrees. The monthly income of

respondents ranged from ₹10,000 to ₹1,00,000.

**Table 1 Demographic Description of the Respondents**

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 Who Don't Know About Concept	Percentage of Respondents Who Don't Know About Concept	Rank of Respondents Given Incorrect Answer
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

### Basic Financial Literacy Among Investors

The questions focused on knowledge, skills, and financial aspects, including numeracy-related queries. Eight basic financial literacy questions were posed to respondents. The

results of the respondents' answers are displayed in Table 2 below [7]. Based on the correct answers, respondents were sorted and ranked from highest to lowest to evaluate their financial literacy levels.

**Table 2 Outcome of Basic Financial Literacy of respondents**

Demographic Factor	Category	Frequency	Percentage (%)
Gender	Male	122	44.50%
	Female	152	55.59%
Age (Years)	Less than 20	1	0.40%
	20-25	83	30.30%
	25-30	69	25.20%
	30 and above	121	44.20%
Occupation	Full Time Salaried	123	44.90%
	Part Time Salaried	83	32.16%
	Self Employed	42	15.36%
	Unemployed	1	0.40%
	Student	20	7.30%
Monthly Income	Below ₹20,000	21	7.60%

	₹75,000 & Above	33	12.19%
Education	Undergraduate	66	24.10%
	Graduate	106	38.70%
	Post Graduate	174	63.50%
	Doctorate	29	10.69%

### Advanced Financial Literacy Among Investors

Respondents performed notably on questions related to bonds and risk analysis. Table 3 presents the outcomes for advanced

financial literacy questions. As shown in Table 3, respondents achieved the highest scores on questions related to fixed deposits (80.54%), followed by mutual funds (75.67%), equity shares (67.64%), and preference shares (65.69%) [8].

**Table 3 Outcome of Advance Financial Literacy of Respondents**

Advance 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 Who Don't Know About Concept	Percentage of Respondents Who Don't Know About Concept	Rank
Fixed Deposit	662	80.54%	120	14.60%	40	4.87%	1
PPF (Public Provident Fund)	489	59.49%	253	30.78%	80	9.73%	2
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%	5

### Relationship Between Demographic Factors and Financial Literacy

#### AGE

- **H<sub>0</sub>**: There is no association between the age of the investor and financial literacy.
- **H<sub>1</sub>**: There is an association between the age of the investor and financial literacy.

**Table 4 Chi-Square Test Results**

Test	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.675	3	0.003
Likelihood Ratio	15.67	3	0.001
Number of Valid Cases	274		

**Table 5 Chi-Square Test Results**

Test	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	33.692	9	0
Likelihood Ratio	35.246	9	0
Linear-by-Linear Association	11.471	1	0.001
Number of Valid Cases	274		

The null hypothesis is rejected because the significance value is less than 0.05, indicating a significant relationship between age and financial literacy among the respondents [9].

## GENDER

- **H<sub>0</sub>**: There is no association between the gender of the investor and financial literacy.
- **H<sub>1</sub>**: There is an association between the gender of the investor and financial literacy.

**Table 6 Results of Chi-Square Tests for Financial Literacy and Investment Decisions**

Test	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	27.522	12	0.006
Likelihood Ratio	29.344	12	0.004
Number of Valid Cases	274		

## OCCUPATION

- **H<sub>0</sub>**: There is no association between the occupation of the investor and financial literacy.
- **H<sub>1</sub>**: There is an association between the occupation of the investor and financial literacy.

## Analysis

The null hypothesis is rejected because the significance value is less than 0.05, indicating a significant relationship between occupation and the financial literacy of the respondents [10].

## Effect of Financial Literacy on Investment Decisions

### Hypothesis

- **H<sub>0</sub>**: There is no impact of financial literacy on the investment decisions of investors.
- **H<sub>1</sub>**: There is an impact of financial literacy on the investment decisions of investors.

Based on the table above, the significance value is less than 0.05, leading to the rejection of the null hypothesis. Therefore, it is concluded that financial literacy



significantly impacts the investment decisions of investors [11].

**Table 7 Regression**

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	0.266	0.071	0.043	0.523	
Change Statistics	R Square Change	F Change	df1	df2	Sig. F Change
	0.071	2.532	1	265	0.011
ANOVA					
Model	df	F	Sum of Squares	Mean Square	Sig.
Regression	1	2.532	5.548	0.693	0.011
Residual	265		72.584	0.274	
Total	273		78.131		

**Investment pattern of Investor:**



**Figure 1 Investment Pattern.**

Figure 1 illustrates the investment alternatives in which respondents have allocated their savings [12]. According to the data, out of 274 respondents, 17% have invested in Precious Metals, followed by investments in Real Estate and Mutual Funds. 11% of respondents have invested in PPF, with Insurance Policies also being a

popular choice [13]. Only 9% of respondents have invested in Debentures.

**Findings:** Financial literacy has been analyzed at two levels: basic financial literacy and advanced financial literacy [14]. Investors are categorized based on their financial literacy into high and low levels. At the basic financial literacy level, the



highest literacy level is 58%, while the lowest is 42%. At the advanced financial literacy level, the highest literacy level is 70%, and the lowest is 47%.

## 6. Conclusion

In conclusion, this study highlights the significant role of financial literacy in shaping investment decisions among Indian investors. The analysis, based on responses from 274 participants, revealed a clear relationship between demographic factors such as age, gender, and occupation, and financial literacy levels. The findings show that individuals with higher financial literacy were more likely to make informed investment decisions. The study utilized Chi-square, ANOVA, and regression analyses to assess the relationships between demographic factors and financial literacy, confirming that factors like age and occupation influence financial knowledge. Additionally, it was found that financial literacy has a substantial impact on investment choices, with regression analysis showing a significant relationship between literacy levels and investment decisions. The study also examined both basic and advanced financial literacy, finding a general trend of improved financial understanding among more educated and higher-income respondents. These insights

underscore the importance of enhancing financial literacy to support informed and effective investment decisions in India.

## Future Scope

- Expanding the sample to include more diverse educational, income, and geographical backgrounds for better generalizability.
- Tracking changes in financial literacy over time to understand its long-term impact on investment decisions.
- Exploring the influence of psychological factors like risk tolerance and cognitive biases on investment decisions.
- Assessing and improving existing financial literacy programs in India.
- Investigating the role of digital tools in enhancing financial literacy, especially among younger investors.

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