CHAPTER 1

INTRODUCTION OF THE STUDY

CHAPTER 1

INTRODUCTION OF THE STUDY

1.1 Introduction:-[1]

Financial literacy is an ability to understand finance; it refers to the set of skill and knowledge that allows an individual to make informed and effective decision through their understanding of finances. Financial literacy often entails the knowledge of proper decision making pertaining to certain finance areas like real estate, insurance investing, saving, tax planning, retirement, etc. It also involves intimate knowledge of financial concepts like interest, financial planning, the mechanics of a credit, advantageous savings methods, consumer rights, time value of money, returns, benefits etc.

According to RBI Financial Literacy can broadly be defined[2] as 'Providing familiarity with an understanding of financially market products, especially rewards and risks in order making informed choices'.

1.2 Purpose of the Study:-

The purpose of this research is to assess the level of financial literacy among investors residing in Satara and assess the relationship between financial literacy and inclination of investment avenues. Also study endeavors to assess relationship between financial literacy and different demographic factors like occupation, education, income. This study is an attempt to decipher inclination towards investment avenues; the source of information preferred by and relied upon by sample investors while taking investment decisions and its association with financial literacy.

1.3 Statement of Research Problem:-

As the study proposes to find relationship between financial literacy and investment inclination, study is titled as, 'A Study of Relationship between Financial Literacy and Individual Investment Inclination in Satara'. The title signifies establishing relationship between financial literacy and individual investment inclination. The title also leads to have quantification of financial literacy amongst samples.

---

[1] http://www.investopedia.com/terms/f/financial-literacy.asp, 05/08/2011, 2020 hrs

[2] www.rbi.com, 05/08/2011, 2007 hrs

1.4 Hypotheses:-

Following hypotheses are formulated for study:

1. Demographic factors do not affect financial literacy.

2. There is no significant relationship between inclination towards investment avenues and financial literacy of the respondents.

1.5 Objectives of the Study:-

The study purports following objectives:

1. To assess financial literacy level of investors.

2. To find out investment inclination of investors.

3. To assess relationship between financial literacy and investment inclination

1.6 Scope of the Study:-

The study deals with the concept of financial literacy, its advantages, importance of financial literacy. The study covers different investment avenues available in market. The study has been conducted in Satara city. Data has been analyzed with the help of Frequency, Mean, Rank, Standard Deviation, Independent Sample 't' Test, Correlation and Chi-Square Test. Data for study has been collected in the month of February and March 2012.

1.7 Importance of the Study:-

To Common Investors:-

The study is of help to assess the financial literacy of investors, choices for investment avenues, etc.

To Financial Sector:-

The study may help to know the relationship between financial literacy and choice of investment avenues which will help for targeting investors segment for particular product.

1.8 Research Methodology:-

Following research methodology is adopted for study

1.8.1   Type of Research:-

Type of research is Descriptive and data is collected using inferential approach.

1.8.2   Data Required:-

The data required for the study is concept of financial literacy, scale for determining financial literacy, different investment avenues available, and regarding demographic details of investors, their current investment and investment inclination, sources of information, importance of parameters for investment and awareness regarding investment avenues.

1.8.3 Data Sources:-

a. Secondary Data Sources:-

Secondary data was collected through different sources like articles, reports, books, periodicals and websites. Through secondary source information about financial literacy, investment avenues, investment management framework, different agencies in India providing financial instruments, regulators and agencies and types of financial advisors.

b. Primary Data Sources:-

Primary data was collected with the help of schedule for assessing financial literacy and investment inclination of the respondents. Primary source has been used to collect and assess the knowledge regarding financial literacy among respondents, current investment of respondents, inclination of respondents, information about investment, importance of parameters in investment and preference towards financial advisors.

1.8.4   Instrument:-

Structured Schedule was used to collect the data from respondents.

Schedule contains two parts Part A and Part B

Part A consists of questions on financial literacy whereas Part B consists of questions on investment inclination.

Part A: - Part A includes questions on financial literacy. Questions are asked to check the awareness of respondents regarding investment avenues.

Part B: - Part B includes questions on investment of investors in future. The questions like respondents' current investment in different avenues, inclination towards investment avenues, from where do they collect information regarding investment avenues, preference towards financial advisors, etc.

1.8.5 Pilot Testing:-

Pilot testing has been carried out to check the validity of schedule and to determine whether schedule generates sufficient data for using proposed statistical tools and to test the hypotheses stated. It also ensured that respondents are able to perceive questions as they are meant to be and changes to be made in schedule for final study.

For pilot testing 30 samples were collected. Data has been filled in MS Excel Sheet and analyzed with the help of statistical tools. With the feedback of respondents from pilot testing some changes have been made in final schedule.

Following Question 3 was replaced by

Do you maintain financial records?

     a. Maintain very detailed records.

     b. Maintain minimal records.

     c. Maintain no records.

     d. Use Bank Statements and Statements from broker as reference.

Replaced By

Your net worth is

     a. The difference between your expenditures and income.

     b. The difference between your liabilities and assets.

     c. The difference between your cash inflow and outflow.

     d. The difference between your bank borrowings and savings.

Question 13 (b) The minimum amount that you have to invest in Mutual Fund at one time is Rs 5000 is replaced by other alternative 13(b) If you buy/sell securities through stock exchange, it is called as online trading as it was not perceived correctly by respondents. Statistical tools like Standard Deviation, Mean, Rank and Correlation were used on data collected through pilot testing successfully.

1.8.6 Sampling:-

The type of universe is infinite. Sampling unit is investor, an individual who is doing any kind of investment. Convenient Quota sampling was used for selection of samples. Data has been collected in the month of February and March 2012.

Table 1.8.6.1

Sample Size

Following table shows sample size with stratification proposed on basis of occupation

Sr.	Occupation	Sample Size
1	Service	32
2	Professional	32
3	Businessman/Industrialist	32
4	Total	96

(Source: - Complied by Researcher)

1.8.7 Data Analysis:-

The data is analyzed through different statistical tools like Mean, Rank, Standard Deviation Correlation and Chi-Square test. For data feeding and analysis excel sheet and SPSS software are used. For testing the hypotheses Correlation and Chi-Square Eta is used. Data analysis for part A of questionnaire is done through calculation of financial literacy score. Twenty Five questions, each carrying 2 marks totaling to 50 marks maximum score for Financial Literacy were framed. For analysis of financial literacy score, Sebastian Muller and Martin Weber research review is taken as a base in which the researchers had used response to close ended questions indicating financial literacy. For Analysis of Data collected through part B of questionnaire statistical tools like Standard Deviation, Mean, Rank, Independent Sample 't' Test, Correlation and Chi-square Eta is used where correlation is calculated between

financial literacy score and demographic factors like age, income, occupation and education. Correlation is also determined between investment in risky tradable investment avenues and financial literacy score.

1.8.8 Concept Used in Research:-

Following concepts are used in research.

Financial Literacy:-

Financial literacy is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. Financial Literacy is regarded as an important requirement of functioning effectively in modern market trends in retirement income policies, work patterns and demographic suggest its importance and can only increase in the years ahead. Raising financial literacy supports social inclusion and enhances the wellbeing of the community.

Salaried Person:-

A salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. From the point of a business, salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. In accounting, salaries are recorded in payroll accounts.

A salaried person earns a set of amount of compensation, pay and benefits over a given span of time regardless of the number of hours worked.

Professionals:-

A professional is a person who is paid to undertake a specialized set of tasks and to complete them for a fee. The traditional professions were doctors, lawyers, clergymen and commissioned military officers. Today, the term is applied to architects, accountants, educators, engineers, scientists, technology experts, social workers and many more.

Business Person:-

A business person is someone who is involved in particular undertaking of activities, commercial or industrial, for the purpose of generating, revenue from a combination of human, financial and physical capital. There re different types of business structures like Sole Proprietorship, General Partnership, Limited Partnership, Corporation, Nonprofit Corporation, Limited Liability Company, Trust, Joint Venture, Municipality, Association, etc.

1.9 Limitations of Study :-

Researcher has mainly focused on risky investment avenues like shares and mutual fund for devising questions to judge the financial literacy of respondents.

1.10 Chapterization:-

Chapter 1: Introduction of the study

The chapter deals with the brief introduction to the study, research problem, statement of research problem, objectives of the study, importance of the study, research methodology, limitations of study and chapterization.

Chapter 2: Review of Literature

This chapter deals with the review of research articles studied by the researcher.

Chapter 3: The Conceptual Framework

This chapter deals with the concept regarding financial literacy, advantage, importance of financial literacy, different investment avenues, financial planning, investment management framework, different financial advisors, Investment Inclination, etc.

Chapter 4: Data Analysis and Interpretation

The chapter deals with the analysis of the data collected through schedules and its tabular presentation.

Chapter 5: Findings and Conclusion

This chapter deals with certain findings, suggestions and conclusion based on data analysis.

Besides these chapters the dissertation is appended with Schedule used for data collection and list of references.