



IMPACT OF FINANCIAL LITERACY ON EMPLOYED INDIVIDUALS IN TWIN CITIES CUTTACK AND BHUBANESWAR

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Abstract

Understanding financial matters relies heavily on financial literacy. It demonstrates a person's ability to comprehend financial matters, process financial data, and undertake well-informed decisions, particularly in the area of money management. The most important thing a person can do is develop a clear understanding of the complexities related to various financial products. This could be accomplished by improving financial literacy. Financially literate employees will effectively use financial products and services by measuring return and risk and selecting investment opportunities that are appropriate for them. This study assesses the degree of financial literacy among working people, their attitudes toward financial products, and the association of financial literacy and investment knowledge in the twin cities of Cuttack and Bhubaneswar.

Keywords: Financial Literacy, Cuttack, money management

1 INTRODUCTION

Financial literacy is a programme that helps working people grasp financial concepts and handle their personal finances. Financial literacy enables a person to develop informed financial decisions about a variety of financial products and services. Employed individuals with poor financial literacy, according to previous studies, have difficulty handling personal finances like deposits, borrowings, pensions, and retirement planning. Many new financial products are being introduced these times, making it hard for a person to manage the ramifications associated with these products. "Financially literate individuals can make effective use of these financial products and services by evaluating associated risks and returns and finally choosing those products which are best suited to them. Hence there will be less chances of being cheated by sales people selling financial products which are not suited for them. Financial literacy creates the framework for economic growth and development of a country (Beal, D. J., & Delpachitra, S. B. (2003)". The aim of this paper is to determine the effect of financial literacy on working individuals' investment knowledge and priorities for various financial products available for investment.

2 LITERATURE REVIEW

Geetha and Ramesh (2011) studied the attitude of Indians in terms of investment preferences. The study discovered that people are unaware of all of the investment avenues available to them and are unfamiliar with financial instruments. Samudra and Burghate (2012) studied the investment behavior of families in Nagpur particularly in middle-class section. The most famous investment

instrument was discovered to be bank deposits, accompanied by insurance. The third financially attractive choice is a small savings plan such as PPF or Post Office Savings Deposits. The payoff was observed to be the most effective strategy to improve the decision to invest in a specific instrument.

Chaturvedi and Khare (2012) studied the pattern of investment and cognizance of the Indian investors toward diverse instruments for investment. The findings indicate that a person's investment behaviour is influenced by their age, education, profession, and level of income. Conventional investment opportunities are far more well-known among participants than corporate stocks, mutual funds, preferred shares, and preference shares. They also discovered the variables that impact investor perception.

National Strategy for Financial Education" (2012) issued by the RBI, is a noteworthy paper swotted for the study in view of the steadfastness of the source. The emergence of the notion of financial literacy is traced in this article. It recognizes the value of the country's establishing a national strategy for financial literacy. The paper proposes that finance and research be integrated into school and college curricula across a wide range of subjects.

Bhushan and Medury (2013) evaluated the degree of financial literacy among salaried Indians. They discovered that financial literacy is influenced by gender, education, and income, as well as the type of job and location of jobs, but not by age or geographic area.

K. C. Chakrabarty (2013) The study stresses the importance of financial literacy, the intended audience for

financial education, and key recommendations for improving literacy levels for the country's progress and growth.

3 OBJECTIVES OF THE STUDY

1. To find out the level of financial literacy of employed individual and their knowledge towards availability of different financial products.
2. To find out the impact of employed individual's financial literacy on their investment choices.

4 HYPOTHESIS

H1: The financial literacy of employed individuals affects their awareness on financial products and services.

H2: The financial literacy of employed individuals affects their perception and preferences in investment.

5 RESEARCH METHODOLOGY

To study the financial literacy level two districts Cuttack and Bhubaneswar have been taken in to account. All Those employed individuals coming under income tax bracket from these two districts irrespective of their job in government unit or nongovernment were deliberated as the population for this study. Non-disguised structured questionnaire has been used for collecting primary data from different individuals. The questionnaire includes close ended questions, attitudinal related questions and questions related to their knowledge on different financial products and instruments. In each district 200 questionnaires were distributed means total questionnaires were 400. Out of 400 questionnaires 260 were received back from the respondents where 40 questionnaires were found incorrect responses. Hence, 220 questionnaires were taken for the purpose of this study.

Table 1 Demographic and Socioeconomic Profiles of the employed individual

		Frequency	Percentage
SEX	Male	140	63.7
	Female	80	36.3
OLDNESS (IN YEARS)	20-35	65	29
	36-50	95	43
	50-60	40	18
	More than 60	20	10
MARRAIGE	Unmarried	55	25
	Married	165	75
EDUCATIONAL QUALIFICATION	+2	20	9
	U.G.	51	23
	P.G.	130	59
	PhD	20	9
ANNUAL INCOME (In Rs.)	Up to 7 lacs	140	64
	8-15 lacs	54	24
	15 lacs/Above	26	12
SERVICE TYPE	Government	122	56
	Non-Government	98	44
WORKING AREA	Urban	130	60
	Rural	90	40
DISTRICTS	Cuttack	90	40
	Bhubaneswar	130	60

Source: Primary Data

To find out the level of financial literacy of the employed individuals the best way is to follow the OECD method where financial literacy measurement includes financial knowledge, behavior and attitude by adding the individual scores of these three variables on 5-point Likert scale. Hence, the maximum possible score for financial literacy is 15 (5 for each financial dimensions) and SPSS software was used for analyzing the data and testing the hypothesis.

6 DATA ANALYSIS AND DISCUSSION

Employed Individual Awareness on Financial Products and Services.

To identify the level of financial literacy of employed individual and the impact of financial literacy on their awareness towards different financial products, individuals were classified under two head that is "financial literacy group with higher awareness" and "financial literacy group with lower awareness" The individuals having greater financial literacy awareness than median came under "Financial Literacy Group with higher awareness" and individuals having equal to or less than median value came under "Financial Literacy Group with lower awareness". Awareness level of employed individual classified in these two groups was calculated and compared using mean value. Table 2 and Figure 1 show the financial literacy of employed individuals and their awareness towards various financial products

Table 2 Awareness Level of Financial Products between High and Low Financial Literacy Group

Financial Products	Financial Literacy Group with higher awareness	Financial Literacy Group with lower awareness	t- value	Significance
	Mean Awareness level	Mean Awareness level		
Bank Fixed Deposits	5.13	4.97	-3.511*	.007
Savings Account	5.12	4.85	-5.170*	.000
Life insurance	4.87	4.75	-2.347*	.085
Public Provident Fund	4.62	4.43	-3.486*	.019
Post Office Savings	4.64	4.63	-2.270*	.581
National Savings Certificate	4.32	4.24	-.715	.656
Kisan Vikas Patra	4.27	4.15	-2.285	.741
Pension Funds	4.19	4.10	-.740	.428
Mutual Funds	4.09	3.88	-3.185*	.048
Stock Market	3.71	3.37	-3.487*	.002
Bonds	3.55	3.35	-2.991*	.008
Debentures	3.39	3.28	-2.057	.607
Commodity Market	2.91	2.75	-2.455	.675
Forex Market	2.78	1.65	-2.373	.864

Source: Primary Data, * Significant at 5% level

From the above analysis it is clear that individuals who have strong awareness towards financial products were mainly from GROUP 1(Financial literacy group with

higher awareness) and individuals who have low or weak awareness towards financial products were mainly from GROUP 2(Financial literacy group with lower awareness). However, it is clear from the analysis that group 1 individuals who have greater financial literacy level were aware on financial products like bank deposits, saving accounts, life insurance, PPF, post office savings, pension funds, mutual funds, stock market, bonds, and all these are statistically significant at 5% level than other financial concerns.

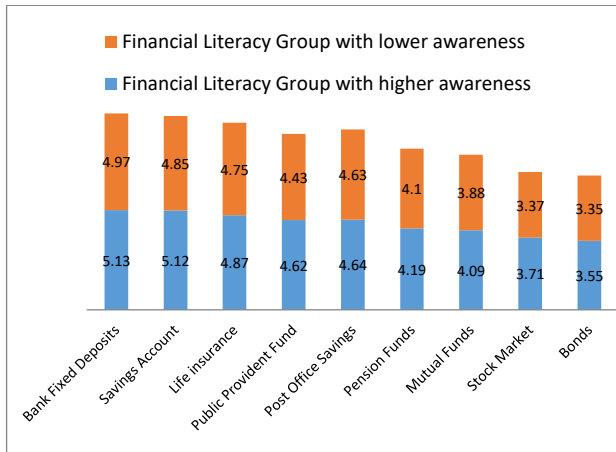


Figure 1 Financial literacy group

Financial literacy of employed individuals affects their perception and preferences in investment.

Table 3 Investment in Financial Products between High and Low Financial Literacy Group

Financial Products	High Financial Literacy Individuals		Low Financial Literacy Individuals		Chi-square value
	Frequency	Percent of cases	Frequency	Percent of cases	
Bank Deposits	190	86.4%	210	94.45%	25.226*
Post Office Savings	130	59.9%	190	86.4%	
Mutual Funds	170	77.8%	115	52.3%	
Stock Market	90	40.5%	60	27.8%	
Debentures	30	13%	10	0.4%	
Life Insurance	190	86.3%	170	77.6%	
Public Provident Fund	160	72.8%	90	40.9%	
Pension Funds	120	54.5%	60	27.3%	
Bonds	50	22.7%	20	9.09%	
Commodity Market	10	4.5%	5	0.2%	
Total Respondents	220		220		

Source: Primary Data * Significant at 5% level

Table 3 and Figure-2 shows the employed individual’s perception and choices towards different financial products. It is clear from the analysis that individuals who have higher financial literacy want to invest in risky products in order to get more return. Whereas individuals in low financial literacy group having a perception that all those products other than bank and post office saving are risky and contain uncertain return. Therefore, low financial literacy individuals revealed greater preference for bank deposits and post office savings. From the analysis it is found that financial literacy plays an important role in the mind of employed individual in selecting the financial products for investment. Financial

literacy put a significant impact on individual preferences and choices and this leads to acceptance of Hypothesis 2

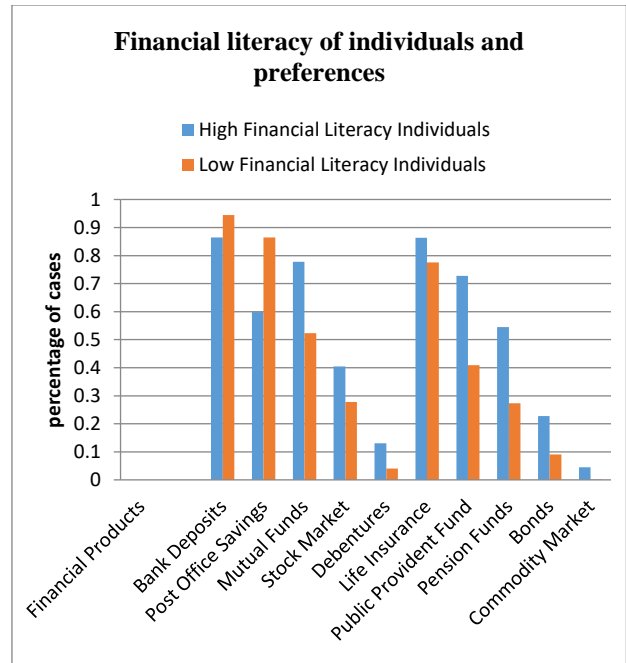


Figure 2 Financial literacy of individuals and preferences

CONCLUSION

According to the findings, financial literacy plays a major role in financial understanding of various financial items. Employed folk’s financial decisions and priorities are also influenced by their financial literacy. By analyzing the correspondent data, the author has accepted both the hypothesis one and two. It is also seen that those individuals who have greater financial literacy score were more aware on available financial products and instruments as well as they are the risk taker and want to invest in risky products. They know that higher the risk higher is the return. Whereas individual having lowered financial literacy score were exactly opposite to the higher-level financial literacy groups. They are risk adverse people and believe in traditional pattern of investment and particularly prefer bank and post office investment. They avoid modern financial products and instruments even if new products are offering higher return. Hence it is required that financial literacy of employed individuals must be maximized which will not only help them to know about various existing financial opportunities but also helps in creation of capital formation in the state. Government should come on modern policies and financial education programs to rally the level of financial literacy amid the population.

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