

Investor's Financial Education in Terms of Literacy and Financial Awareness Essential

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Abstract:

Investor financial education plays a crucial role in shaping an individual's financial literacy and awareness, which are essential for making informed and effective investment decisions. Financial literacy encompasses the understanding of financial concepts such as budgeting, saving, investing, and managing risks, while financial awareness involves staying updated on market trends, investment options, and the economic environment. This paper explores the significance of fostering financial literacy and awareness among investors, emphasizing how well-informed investors are better equipped to navigate the complexities of financial markets, minimize risks, and maximize returns. Additionally, it highlights the barriers to financial education, including limited access to resources, and suggests strategies for improving financial education through formal education, digital platforms, and practical tools. By empowering investors with the knowledge necessary to make informed decisions, financial education can enhance overall economic stability, reduce personal financial stress, and contribute to more sustainable wealth-building practices.

Keywords: Financial Literacy, Sustainable wealth Building Practices, Budgeting.

1. Background to research

In recent years, the need for effective financial education has become increasingly evident as financial markets become more complex and accessible to a broader population. Investors, both seasoned and novice, face a growing array of investment options, each with varying levels of risk and reward. The global financial landscape has evolved with advancements in technology, the rise of digital investment platforms, and the increasing availability of financial products such as cryptocurrencies, ETFs, and socially responsible investments. Despite these opportunities, a significant portion of the population remains financially illiterate, struggling to comprehend key concepts such as asset allocation, risk management, and diversification. Financial literacy, which refers to the knowledge and understanding of financial concepts, is essential for making informed financial decisions. However, many individuals lack this foundation, resulting in poor investment choices, increased vulnerability to market volatility, and missed opportunities for wealth accumulation. Financial awareness, on the other hand, involves staying informed about current market conditions, economic trends, and investment strategies. Without this awareness, even financially literate individuals may struggle to adapt to changing market dynamics or take advantage of emerging opportunities. Various studies have shown that higher financial literacy and awareness are directly correlated with better financial decision-making, leading to more successful investment

outcomes. However, many challenges remain, such as a lack of widespread financial education programs, limited access to quality resources, and societal factors that influence an individual's financial behavior. Additionally, cultural, socioeconomic, and educational barriers often prevent certain groups from gaining the knowledge they need to make sound investment decisions. This research seeks to examine the relationship between financial education, literacy, and awareness, investigating how these factors impact investor behavior and decision-making. The study aims to identify the key barriers to financial education and explore strategies for improving financial literacy and awareness, particularly among underrepresented and underserved populations. By understanding these dynamics, the research will contribute to the development of more effective financial education initiatives, ultimately empowering investors to make informed decisions and promoting greater financial stability and well-being.

Need for study

The need for this study arises from the increasing complexity of global financial markets and the growing importance of sound financial decision-making in an individual's economic well-being. In an era where financial products are more diverse, investment opportunities are more accessible, and economic conditions are continuously evolving, investors, particularly those with limited financial knowledge, are at greater risk of making poor investment choices. Financial illiteracy remains a significant issue worldwide, leading to suboptimal investment strategies, financial instability, and a lack of long-term wealth accumulation. This research is needed for the following reasons:

- 1. Widespread Financial Illiteracy:** Despite the abundance of financial resources available, studies have shown that a large portion of the population still struggles to understand basic financial concepts. According to global financial literacy surveys, many individuals lack a fundamental understanding of concepts such as compound interest, inflation, and risk diversification. This gap in financial knowledge can result in poor investment decisions that negatively affect personal wealth and long-term financial goals.
- 2. Increasing Complexity of Financial Markets:** With the rise of online trading platforms, robo-advisors, cryptocurrencies, and various other investment products, financial markets have become more accessible but also more intricate. Many investors, especially those new to investing, find it challenging to navigate the variety of investment options available, leading to confusion, misallocation of resources, and an increased risk of losses. Financial education becomes essential in helping individuals understand these new tools and make informed choices.
- 3. Impact on Investor Behavior:** Research suggests that individuals with higher financial literacy tend to exhibit more prudent financial behaviors, such as saving for retirement, investing in diverse portfolios, and avoiding excessive debt. On the other hand, those lacking financial knowledge are more likely to make impulsive and high-risk decisions, often influenced by market speculation or emotions. This study will examine how financial literacy and awareness influence investor behavior, providing valuable insights into how to better equip individuals for sound financial decision-making.
- 4. Barriers to Financial Education:** Access to quality financial education is not evenly distributed, with certain populations, such as low-income households, minorities, and people with

limited formal education, facing greater barriers to acquiring financial knowledge. The lack of accessible, engaging, and tailored financial education materials exacerbates this divide. By identifying these barriers, the study will help inform strategies to enhance financial education programs, ensuring they reach a broader and more diverse audience.

5. Economic and Social Implications: Financially literate and aware individuals are better positioned to contribute to economic stability by making informed investment decisions, saving for the future, and reducing dependence on public financial assistance. In contrast, widespread financial illiteracy can lead to negative outcomes such as higher levels of debt, reliance on predatory financial products, and greater vulnerability to economic shocks. This study aims to contribute to the development of educational policies and strategies that promote financial inclusion and long-term economic stability.

6. Policy Implications: Governments, financial institutions, and educational bodies are increasingly recognizing the importance of financial literacy and are looking for evidence-based solutions to improve it. This research will provide valuable insights that can guide the creation of public policies, financial education programs, and community-based initiatives aimed at increasing financial literacy and awareness, particularly in underserved and vulnerable communities.

In summary, this study is needed to address the pressing challenges of financial illiteracy and low financial awareness among investors. By identifying the key gaps in financial knowledge and exploring strategies for improvement, the research will contribute to a more informed, financially secure population and promote better financial outcomes for individuals and society at large.

Objective

The primary objectives of this study are to explore the relationship between financial literacy, financial awareness, and investor behavior, and to identify strategies for enhancing financial education. Specifically, the study aims to:

- 1. Assess the Current Levels of Financial Literacy and Awareness:** To evaluate the existing financial literacy and awareness levels among investors, identifying gaps in knowledge and understanding of essential financial concepts such as risk management, diversification, budgeting, and investment strategies.
- 2. Examine the Impact of Financial Literacy on Investor Decision-Making:** To explore how financial literacy influences the investment decisions of individuals, including their ability to assess risk, select appropriate investment options, and make informed decisions in response to market changes.
- 3. Identify Barriers to Financial Education and Awareness:** To investigate the key barriers that prevent individuals from acquiring financial knowledge, such as limited access to resources, socioeconomic factors, educational constraints, and cultural influences.
- 4. Evaluate the Role of Financial Education in Improving Investor Behavior:** To analyze the effectiveness of financial education programs in shaping better financial behaviors, such as long-term investing, saving for retirement, and avoiding high-risk or speculative investments.

5. Propose Strategies for Enhancing Financial Literacy and Awareness: To suggest practical solutions and strategies to improve financial education, including the development of accessible educational resources, digital platforms, and community-based initiatives aimed at increasing financial literacy, particularly among underserved and vulnerable populations.

6. Explore the Relationship Between Financial Literacy and Financial Stability: To investigate how financial literacy and awareness contribute to personal financial stability, reduced financial stress, and long-term wealth-building, with an emphasis on the role these factors play in mitigating economic risks.

7. Provide Policy Recommendations for Financial Education Initiatives: To offer policy recommendations for governments, financial institutions, and educational bodies to improve and integrate financial literacy programs into public education systems, workplace initiatives, and community outreach programs.

By achieving these objectives, the study will contribute to a deeper understanding of how financial education affects investor behavior and decision-making, and will provide actionable insights for improving financial literacy on a global scale.

Objective: To study financial literacy index of selected equity investors.

Instrumentation and Approach

The financial literacy index was developed to assess the financial literacy. The financial literacy index (FLI) is calculated using the following steps.

- 1) The questions are weighted equally. Here there are 9 questions. Hence the weight for each question is (1/9).
- 2) If the question has sub-questions, they are further weighted. If it has sub-questions k (say), then the sub-questions are weighted as (1/k).
- 3) The financial literacy is calculated using the formula $Financial\ Literacy\ Index = (1/9) * (Response\ for\ Q1/3) + (1/9) * (Response\ for\ Q2/3) + (1/9) * (Response\ for\ Q3/3) + (1/9) * (Response\ for\ Q4/3) + (1/9) * (Response\ for\ Q5/3) + (1/9) * (Response\ for\ Q6) + (1/9) * (Response\ for\ Q7/3) + (1/3) * (1/9) * (Response\ for\ Q8.1) + (1/3) * (1/9) * (Response\ for\ Q8.2 /5) + (1/3) * (1/9) * (Response\ for\ 8.3) + (1/3) * (1/9) * (Response\ for\ Q9.1) + (1/3) * (1/9) * (Response\ for\ Q9.2) + (1/3) * (1/9) * (Response\ for\ Q9.3)$
- 4) The Responses of the questions under consideration are coded as given below.

Questions	Responses				
1. Which of the following statements describes the main function of	The stock market helps to predict stock earnings.	The stock market results in an increase in the price of stocks.	The stock market brings people who want to buy stocks together with those who	None of the above	Do not know

the stock market?			want to sell stocks.		
Code	2	1	3	0	0
2. Which of the following statements is correct? If somebody buys the stock of firm B in the stock market	He owns a part of firm B	He has lent money to firm B	He is liable for firm B's debts	None of the above	Do not know
Code	3	1	2	0	0
3. Which of the following statements is correct? If somebody buys a bond of firm B.	He owns a part of firm B.	He has lent money to firm B.	He is liable for firm B's debts.	None of the above	Do not know
Code	2	3	1	0	0
4. Normally, which asset displays the highest fluctuations over time?	Savings accounts	Bonds	Stocks	Do not know	
Code	2	1	3	0	
5. When an investor spreads his money among different assets, does the risk of losing money.	Increase	Decrease	Stay the same	Do not know	Refusal
Code	1	3	2	0	0
6. Stocks are	TRUE	FALSE	Do not know	Refusal	

normally riskier than bonds. True or false?					
Code	1	0	0	0	
7. If the interest rate falls, what should happen to bond prices?	Rise	Fall	Stay the same	None of the above	Do not know
Code	3	1	2	0	0
8. (i) Do you know the term Fundamental analysis?	YES	NO			
Code	1	0			
(ii) If yes then, choose one of the following options which precisely describe the Fundamental Analysis?	Financial Analysis of a company	Balance sheet analysis of a company	Analysis of economic, financial, other qualitative and quantitative factors of company	Statistical Analysis of a company	Profit and loss analysis of a company
Code	4	2	5	3	1
(iii). Do you use fundamental analysis while making investment in stock market?	YES	NO			
Code	1	0			
9. (i) Do you know the term	Yes	No			

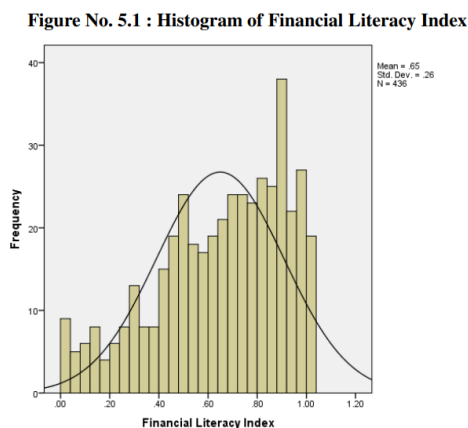
technical analysis?					
Code	1	0			
(ii). If yes then, choose one of the following options which precisely describes the Technical Analysis.	Uses price movement of security to predict future price movements.	Analysis of different technologies of a company	Analysis of technical issues in the market trading	Technological advances of the company	None of the above
Code	1	0	0	0	0
(iii). Do you use technical analysis while investing in stock market?	YES	NO			
Code	1	0			

Surveys and Sample Analysis:

To verify the normality of the data set, three statistical tools have been used:

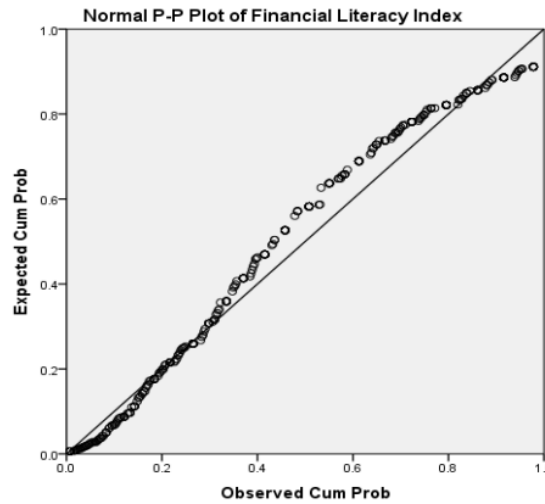
- 1) Histogram
- 2) Skewness & Kurtosis calculation
- 3) Probability plot

The histogram for the Financial Literacy Index along with the skewness& Kurtosis and Probability plot are as given below:



The histogram shows that the distribution of the financial literacy index is approximately normal.

Figure No. 5.2 : Normal Probability Plot of Financial Literacy Index



The deviation of points from central line is considered as the deviation from normality. As the points lie close to the central line, the Probability plot suggests the normality of the data.

Table 5.1 : Descriptive Statistics of Financial Literacy Index

			Financial Literacy Index
	N	Statistic	436
Descriptive Statistics	Range	Statistic	1.00
	Minimum	Statistic	0.00
	Maximum	Statistic	1.00
	Mean	Statistic	.6494
	Std. Deviation	Statistic	.26016
		Std. Error	.117
	Skewness	Statistic	-.657
		Std. Error	.117
	Kurtosis	Statistic	-.424
		Std. Error	.233

We can assume normality if skewness is in the range of -0.8 to 0.8 and kurtosis is in the range of -3.0 to 3.0.

Here skewness = -0.657 & kurtosis = -0.424; the distribution of the ratio can be considered 79 as normal.

Further, the respondents are categorized further into four groups as Highly Illiterate, Illiterate, Literate & Highly Literate.

The Financial literacy index lies between the interval [0, 1]. Hence it's range is 1.

Table 5.2: Financial Literacy Criteria

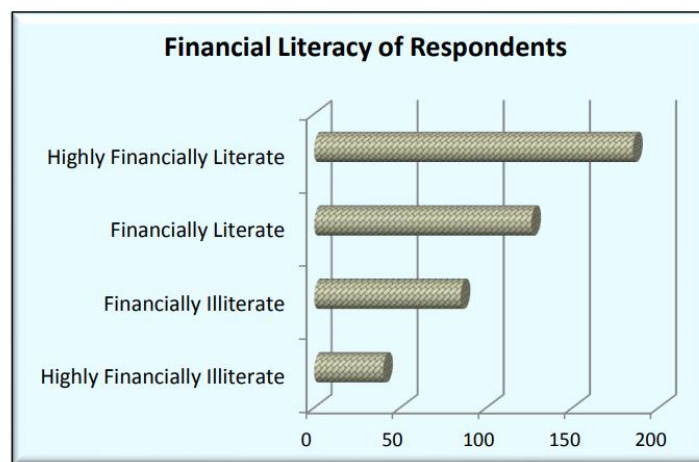
Criteria	Groups
$0 \leq \text{F.L.I.} < 0.25$	Highly Illiteracy
$0.25 \leq \text{F.L.I.} < 0.5$	Illiteracy
$0.5 \leq \text{F.L.I.} < 0.75$	Literate
$0.75 \leq \text{F.L.I.} < 1.00$	Highly Literate

The frequency distribution of respondents according to groups is given below along with its bar graph.

Table 5.3: Frequency distribution of respondents

Groups	Frequency	Percent
Highly Financially Illiterate	40	9.2
Financially Illiterate	85	19.5
Financially Literate	126	28.9
Highly Financially Literate	185	42.4
Total	436	100.0

Figure 5.3: Financial Literacy of Respondents



The bar diagram suggests that there are more financial literate respondents than financial illiterate respondents in the sample. This indicates that those who are in stock market are more literate compare to others. HFL 42.4% and FL 28.9% is indicative of majority of participants are financially literate. As financial literacy is primary step in stock market participation, it is already achieved in Indian scenario.

1. Findings and Discussion

Findings:

1. 9.2% of stock market participants are Highly Financially Illiterate.
2. 19.5% of stock market participants are Financially Illiterate.

3. 28.9% of stock market participants are Financially Literate.
4. 42.4% of stock market participants are Highly Financially Literate.

Discussion: It has been observed that literacy levels are high. Investor does have the knowledge about highest fluctuating asset, portfolio diversification and risk association with conceptual information of stock market including fundamental analysis. But as the complexity of question rises, financial literacy level reduces. Stock market participants are not very clear about interest rates, bond prices working and Technical Analysis. If statistics to be referred, highly financial literate are only 42.4%, which means near about 60% population needs to be focused, with concentrated efforts to improve financial literacy. Considering the risk associated with stock market participation, investor's financial literacy should be high. As the basic financial literacy levels are good, advanced financial literacy levels have to be improved. Further it is observed that participant's perception of financial literacy and actual financial literacy (basic with advanced) differ a lot. (Ref. Table 5.3). Above statistics suggest that, there are significant differences in financial literacy levels of selected equity investors.

2. Conclusion

Financial literacy has many dimensions but in the context of the research it has been considered in two stages as basic and advanced. It can be concluded from this research that in Indian context of stock market participation, need of hour is promoting awareness about different attributes of advanced financial literacy by knowledge base, educational facilities, proper models for awareness which will attract attention of investors and will create positive attitude towards stock market investment. Financial education policies should be more inclusive for all sections of society as different income groups from today's society are financially capable to invest small amounts in stock market. These policies should be implemented from higher education, graduation streams and vocational training institutes also.

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