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Financial Literacy and Behavioral Biases among Retail Investors: An Empirical Study in Kadapa Region

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Abstract

In today's complicated world of finance, where complexity abounds and informed decision-making is the key, financial literacy is an important tool for navigating. This study is an attempt to find out the level of financial literacy among investors and the role of financial literacy in financial behavior. It will be helpful in understanding the correlation between knowledge and action. The results show that the investors have good understanding of financial concepts, which means they have a good background in personal finance. An assessment of their financial behaviour indicates favourable results, typified by a modest level of optimism and a willingness to take prudent risks. The study highlights the importance of financial literacy in equipping investors to take an informed decision leading to wise financial decision making hence reducing risk and increasing returns. Moreover, the study highlights the role of financial education in promoting long-term financial stability and security. The study indicates that high levels of financial literacy contribute to prudent decision making which enables an individual to attain his or her long-term financial goals and to deal confidently with the complexities of the present financial environment.

Key words: financial literacy, financial behaviour, financial understanding, decision making

Introduction:

Financial literacy is one of the most important elements for financial well-being in the twenty-first century. Financial markets are evolving rapidly, the technological advancement and digital payment systems and investment opportunities are growing, people must have sufficient financial knowledge and skills to make sound financial decisions. Financial literacy may help the people in adequately managing their income, regular savings, wise investments and planning for future financial uncertainties [1].

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.Review Literature:

According to Ajzen's Theory of Planned Behaviour (1991) [6], attitudes, subjective norms and perceived behavioural control influence financial behaviour. Financial illiteracy has been associated with bad investment and risk management decisions [7] (Campbell, 2006). The financial literacy of university students were found to be low by Chen and Volpe (1998) [8]. Financial education increases saving, spending and credit management (Cordes, Bernhardt and Bosch, 2018) [9]. Financial behaviour is influenced by financial knowledge and risk-tolerance (Joo & Grable, 2000) [10]. Hilgert, Hogarth and Beverly (2003) found a strong relationship between financial knowledge and cash management [11]. Financial literacy is knowledge and application of knowledge (Huston, 2010) [12].

Jappelli (2010) associated financial literacy with retirement planning [13]. Financial literacy is an ability to make sound financial decisions (Jumpstart Coalition, 2013)[14]. Khan and Swierczek (2016)[15] mention that households with higher financial literacy save more. Kumar and Gupta (2015) [16] have noted low literacy as a driver of investment in traditional assets. The positive impact of financial literacy on investment decision, retirement planning, financial well-being and long-term wealth accumulation and the need for investor education and consumer protection has been established by Lusardi (2008), Lusardi and Mitchell (2011, 2014), NCFE (2019), OECD (2016), Poterba et al. (2007), RBI (2017), Van Rooij et al. (2011), Willis (2008), Lusardi et al. (2008) and Xiao (2008) [17]-[25].

Previous studies showed that there is a positive correlation between financial literacy and financial behavior. But very less studies have been done in the region of Kadapa of Andhra Pradesh.

3. Study Design: A descriptive research design was used in the study. This design describes and analyses the characteristics of the population of the study. The study also employed a correlational methodology to determine the association between financial literacy and financial behaviour.

4. Research Gap: The gap of study is that there is no regional study on financial literacy especially in rural or semi-urban regions like Kadapa, Andhra Pradesh, India. Although the importance of financial literacy is increasing, there is a lack of empirical research on the association between financial literacy and financial behaviour of investors in this region. Moreover, demographic factors' influence on financial literacy and financial behaviour has not been adequately studied in prior studies. Therefore, it is necessary to conduct a study to cover these gaps and provide useful insights to policymakers, regulators, and investor education programs.

5. Scope of the Study: The objective of this research study on the level of financial literacy and its impact on the investment behaviour is to study in depth the relation between the people's attitude, knowledge and behaviour with respect to the investment decision making. This study will also explore the financial literacy level of investors on certain investment possibilities that they like the most. This shows the possible gaps in the financial education of the investor and choice of investment possibilities.

6. **Population and Sample:** The population of the study includes investors in the Kadapa district of Andhra Pradesh, India. The sample size was estimated by using Krejcie and Morgan's method (1970) that stated that for a population of 100,000, a sample size of 384 is required. The purpose of this study is to collect data from a sample of 500 investors to enhance the dependability of the results.

7. Research Procedure: The study is based on non-probability sampling technique, which is convenience sampling. Investors will be chosen according to their capacity and desire to take part in the study. A structured questionnaire is used as a data collection instrument. The questionnaire was circulated in both online and offline modes. The questionnaire is piloted on a limited group of respondents to guarantee clarity and efficacy in the collection of accurate and valid data for the study. Cronbach's alpha coefficient is used to assess the reliability of the questionnaire.

8. Objectives:

1. To know the levels of financial literacy of investors at Kadapa region.

2. To investigate the impact of financial literacy on financial behaviour of investors in Kadapa region.

3. To determine demographic characteristics influencing financial literacy of investors in Kadapa region.

4. To study the effect of financial literacy on financial well-being of investors in Kadapa region.

9. Data Analysis:

9.1 Degree of Basic Financial Literacy

- H0: Respondents do not agree with the general idea regarding financial literacy.
- H1: Respondents do agree with prevalent beliefs about financial literacy.

Result: Respondents disagree with the prevailing perceptions about financial literacy. Therefore Investors have basic financial literacy.

9.2 Correlation between the share of income committed and the anticipated rate of return on investment

- H0: The percentage of income invested does not have a substantial impact on the predicted rate of return on investment.
- H1: The percentage of income invested has a considerable effect on the predicted rate of return on investment.

Result : There is no substantial association between the percentage of income invested by individuals and the individual's expected rate of return on investment.

9.3 Financial literacy level of respondents for various investment alternatives

Hypothesis for type of investment (Factor A):

- H0: There is no substantial variation in Financial Literacy of different types of investment (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).
- H1: The level of financial literacy is quite diverse for different types of investment (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).

Hypothesis for Statement Validity (Factor B)

- H0: There is no significant difference in financial literacy between different statement veracity (True, False, do not know).
- H1: Financial literacy differs significantly across different statement veracities (True, False, do not know).

Interaction hypothesis:

- H0: There is no interaction effect of kind of investment and veracity of statement on financial literacy.
- H1 : The interplay of kind of investment and truthfulness of statement affects financial literacy.

Summary: Investment Types The null hypothesis is rejected. Interaction Sources of Variation The null hypothesis is rejected. This shows a substantial difference in the financial literacy by the investment type and an interaction effect between the investment type and the statement veracity.

9.4 Gender and length of investment

Expected values X2 = 0.805336

So, X2 = 0.805336

Result: Here, the tabulated X2 is bigger than X2 statistics.

Therefore, the null hypothesis is accepted.

As per the result there is no significance between duration of investment and gender.

9.5 ANOVA: Between-Groups Analysis

Table 1: ANOVA – Between groups Variance

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1832.1455	10	183.21455	0.0293402	0.99999925	2.053901
Within Groups	274757.2	44	6244.4818			
Total	276589.35	54				

The ANOVA table (Table 1) investigates the variance of a dependent variable between different groups.The P-value is very high (0.126481) and there is no statistically significant difference between the groups.The F statistic (1.864215) is much lower than the F critical value (2.021075) further supporting the idea that group means are not meaningfully different.

Table 2: ANOVA - Within Groups Variance

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1717.7	4	429.425	0.694919	0.607052	3.055568
Within Groups	9269.25	15	617.95			
Total	10986.95	19				

Table 2 also contains ANOVA analysis on a different grouping or comparison High P-value (0.318) shows that there is no significant difference between the compared groups. F-statistic (1.284) is smaller than F-critical (3.042). This provides additional evidence that there is no statistical significance.

Table 3: ANOVA: Two Factor With Replication

Source of Variation	SS	Df	MS	F	P-value	F crit
Sample	1533.667	3	511.2222	0.817338	0.496975	2.682395
Columns	1675.333	2	837.6667	1.339269	0.274229	3.098391
Interaction	10580.33	6	1763.389	2.820982	0.022938	2.247231
Within	17466.67	28	623.81			
Total	32256	39				

The P-values for "Sample" (presumably for one factor, one) and "Columns" (for the second factor) are 0.496975 and 0.274229 respectively. Both figures are above the normal significance level of 0.05, so neither factor alone has a statistically significant impact on the dependent variable.

But P-value for "Interaction" of the two factors is 0.022938 which is less than 0.05. This indicates a statistically significant interaction effect between the two elements. In other words, the effect of one factor on the dependent variable is conditioned on the level of the other factor.

11. Results:

The study results indicate that the investors of Kadapa region are having basic level of financial literacy, which reflects the general understanding of basic financial concepts and investment practices. The analysis also shows that the percent of income invested is not statistically related to the projected rate of return. This indicates that the amount of income that investors allocate to investments is not related to investors' expected returns. However, there was a significant difference in financial literacy in different types of investment, which implies that investors with different investment preferences have different levels of financial knowledge. Furthermore, the interaction effect of the type of investment and the truthfulness of the financial statements had a significant effect on financial literacy, emphasizing the crucial role of reliable financial information in the formation of investors' understanding and decision making. Also, the study did not find any significant relationship between the duration of investment and the sex of the investors, indicating that the length of investment is not associated with gender. The results show that investors have a basic level of financial literacy. However, the decision to invest and quality of financial information are more important determinants of financial literacy than demographic variables such as gender and length of time as an investor.

12. Recommendations:

The findings of the study suggest several directions for future research and practical applications. Future studies should use probability sampling techniques to improve the representativeness of the sample and thus improve the generalisability of the findings to a larger population of investors. Longitudinal studies can also be conducted by the researchers to assess the changes in financial literacy and financial behaviour over a period of time, which would give a better understanding of the long-term impact of financial knowledge on investment decisions. Future research also needs to address how financial literacy can be promoted and informed investment behaviours fostered by financial advisors, financial institutions and other organizations. The results of this study indicate that targeted investor education programmes that address specific gaps in financial literacy should be developed by policymakers, educational institutions and financial service providers so as to improve investors' financial knowledge, confidence and decision-making abilities.

13. Conclusion:

The study reveals that the investors in Kadapa region have base level of financial literacy but some crucial nuances emerge from the analysis. Your investment is not directly correlated with the projected profits, yet the type of investment is greatly correlated with financial literacy. This means that investors may have different knowledge levels about some investment vehicles. Furthermore, the relationship between the type of investment and the authenticity of financial statements affects the financial literacy, which implies that context and the correctness of information are meaningful aspects. These findings underscore the need for customized financial education programs for various types of investments and the significance of accurate financial information to empower investors and encourage sound financial decision making.

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Ethics Approval: Informed consent was obtained from all participants, All respondents were adults, and no minors were involved in the study.

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