

Assessing the Financial Literacy Level and its Impact on Investment Decision ‘An Empirical Analysis among the Individuals of Indore’

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ABSTRACT

In today's financial world it has been very difficult to live a financially secured life for financially unsophisticated individuals. Due to rapid complexity in the financial markets it is pretty difficult for consumers to manage their money on their own in a precarious environment. Due to present tough market conditions, multifaceted features of financial products, technological up gradation and increase in financial scams and crimes, financial literacy has been as burning issue. Policy makers around the world have recognized financial literacy as an essential life skill. Without having the best level of financial literacy it is rather impossible for an individual to navigate the financial world tactfully. In this paper the researcher took an attempt to assess the level of financial literacy among the individuals of Indore (M.P) by a well drafter questionnaire that includes various questions on basic and advanced financial literacy topics. To examine the impact of financial literacy on investment decision various questions on various regarding investment was asked to the respondents understudy. The results of the study found that the individuals possess adequate level of financial literacy, however individuals also lack various concepts regarding basic and advanced financial literacy topics. The results further indicates that various factors influences the investment decision of individuals and the top influencing factors include Family/ Relatives opinion, Friends and Co-workers Recommendations, Condition of Financial Statements, Brokers/ Financial advisors Recommendations and Past performance of firms stock. Finally, the results found that there is a significant positive impact of financial literacy on investment decision of individuals. The research finally ends-up by several suggestions to various stakeholders for improving the level of financial literacy.

Key words: - *Awareness, Investment, Financial Literacy, Individuals, Financial Wellbeing.*

INTRODUCTION TO FINANCIAL LITERACY

In today's financial world it has been very difficult to live a financially secured life for financially unsophisticated individuals. Due to rapid complexity in the financial markets it is pretty difficult for consumers to manage their money on their own in a precarious environment. Due to present tough market conditions, multifaceted features of financial products, technological up gradation and increase in financial scams and crimes, financial literacy has been as burning issue. Policy makers around the world have recognized financial literacy as an essential life skill. Various consumers around the world hold lesser level of knowledge of financial concepts and products. They also face greater difficulty in making financial decisions and selecting lucrative financial products that match their needs. This poses a negative impact not only for individuals & households future financial wellbeing, but also on the long-term stability of financial and economic system. To respond to these concerns an individual should possess the level of best understanding and that level is otherwise known as level of financial literacy. Without having the best level of financial literacy it is rather impossible for an individual to navigate the financial world tactfully.

Literature witnesses diversified definitions of financial literacy. Primarily "Financial Literacy" is the management of personal finance to improve the overall financial wellbeing of an individual and to avoid distress in matters that are financial. Moreover, financial literacy refers to the knowledge and understanding of financial concepts there by resulting in the ability to make informed, confident and effective decisions regarding money. The basic financial issues such as inflation and interest calculation, advanced questions about operational structure of financial markets, bonds, t-bills, stocks, time value of money and asset diversification is used to measure the level of financial literacy among investors. We all spend money, but how many of us really know how to properly manage our money? Having this skill is referred to as "financial literacy" and the otherwise would be financial illiteracy—in the same manner as "literacy" gauges how well a person can read. Where people make decisions about what to buy, how to pay for what they buy, and how they should spread financial commitments over time, financial literacy is crucial for social welfare. Financial literacy refers to knowledge required for managing personal finance in a way that affects a person's financial wellbeing. Financial Literacy is concerned with money management problem. Financial literacy is an understanding of money and financial products that people can apply to financial choices in order to make informed decisions about how to handle their finances. It encompasses an understanding of how to use savings, credit, investment, budgeting, borrowings, insurance and expenditure. Financial literacy is a guiding tool for an investor as how to take effective financial decisions. Financial literacy is the life blood of Investment and the barometer of a nation's prosperity. An adage in our classic language Sanskrit says "*Dhanam Moolam Idam Jagat*". Freely translated, this means Money is centre of this universe. But how many of us are real money managers is dogged by financial literacy. Financial literacy is one of four key factors, along with sufficient income, access to

suitable and affordable financial products and appropriate regulation, identified as necessary for individuals to achieve positive financial outcomes and secure financial wellbeing (ASIC, April, 2013).

Organization for Economic Co-operation and development (OECD) defines financial literacy as “*A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.*” So, this lucid definition covers almost all the aspects necessary for financial literacy including financial Knowledge of an individual, financial skills, financial attitude and financial behavior necessary for investment decision making.

(RBI, 2007), Reserve Bank of India, defines financial literacy as “the familiarity and well understanding of financial market and products, risks and return so as to make informed choices. Further, it related financial literacy with personal financial education which enables an individual to improve the wellbeing and avoid distress in matters that are financial in nature”.

(Lusardi A. , 2007), defines financial literacy as, “knowledge of most basic concepts and financial terms to make a better investment and saving decisions”.

(PACFL, The President Advisory Council on Financial Literacy, Annual Report to the President., 2008), The U.S. presidents Advisory Council on Financial Literacy (PACFL-2008), defines financial literacy as the “ability of an individual to use knowledge and skills to manage financial recourses effectively so as to ensure financial wellbeing”.

(Margaret Miller, February, 2009), in their study concludes that financial literacy is the combination of consumers’/investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

(CBF, 2004), Commonwealth Bank Foundation reported that financial literacy is the ability of an individual to balance a bank account, prepare effective budgets, to take care of future by saving, and to adopt a sound ploy to avoid debt.

(Tufano, 2009), relates financial literacy with debt literacy and defines it as the ability of an individual to make simple decisions regarding debt contracts and also the ability to calculate the interest to achieve financial choices.

(Hogart, 2002), defines financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect material wellbeing. It includes the ability to discuss financial choices,

discuss money and financial issues despite discomfort, plan for the future and respond completely to the life events that affect everyday financial decisions including events in the general economy. Hence financial literacy includes knowledge and understanding of basic financial concepts and ability to use these to plan and implement financial decisions.

Thus from the above definitions, it can be concluded that financial literacy is nothing but the use and management of money, management of personal finance, understanding the functions of money, understanding credit and borrowing, maintaining budget, making wise investments, effectively access and interpret financial information and advices, to understand risk and reward, to stay informed about financial frauds and scams. Further, it can be said that financial literacy and its importance have increased massively over the past two decades. It has gained the interest of policy makers, economist's, researchers, academicians, employers, community and many other organizations in the recent years. It's the ability of an individual to deal with the money more effectively and to take lucrative advantage of it. Financial literacy is the understanding of the basic financial products and the ability to take wise investment decisions.

REVIEW OF LITERATURE

A large number of researches have been conducted so-far documenting financial literacy around the world. In this study the researcher has analysed the host of previous studies as presented below:-

- ❖ (JumpStart, 2017), The JumpStart Coalition defines financial literacy as “the ability to use knowledge and skills to manage one’s financial resources effectively for lifetime financial security’. JumpStart coalition, a diverse financial education stakeholders who strives to ensure long life financial success, not only defines financial literacy on the basis merely having the knowledge of financial recourses but focuses hard to use that knowledge and skills to effectively to manage the personal finance so as to ensure ultimate financial wellbeing.
- ❖ (Medury, 2013), Suggested that respondents lack financial literacy to the great extend. Financial literacy level gets affected by gender, education, income, nature of employment and place of work. Further, study revealed that government employees were less level of financial literacy than private employees and geographical region is insignificant to level of financial literacy.
- ❖ (Jariwala, 2013) , in her thesis entitled ‘to study the level of financial literacy and its impact on investment decision- An in depth analysis of investors in Gujarat state’ did a commendable work to assess the level of financial literacy among the retail investors of Gujarat state, India. The study revealed

that the majority of individuals were found having lesser level of financial literacy. The study further confirmed that financial literacy has a significant impact on investment decision of the individuals.

- ❖ (Annamaria Lusardi P. T., 2015), conducted a study among Americans regarding debt literacy, financial experience and judgment about the extent of their indebtedness and found that the individuals who possess lesser level of debt literacy has to bear the cost in the manner of high cost of borrowing and high transaction fee.
- ❖ (Chen, 2002), in their combined study entitled “Gender difference in personal financial literacy among college students” found that knowledge of insurance and personal finance is mostly found among males than females.

OBJECTIVES OF THE STUDY

- ❖ To assess the level of financial literacy among the individuals of Indore
- ❖ To identify the most influential factors that affect the investment decisions among the individuals of Indore
- ❖ To examine the impact of financial literacy on investment decision

RESEARCH QUESTIONS

- 1- Do the individuals belonging to the age group of 18-85 years possess adequate level of financial literacy?
- 2- What are the most influencing that affect the investment decision of individuals?
- 3- Is there any impact of financial literacy on investment decisions of individuals?

DATABASE AND METHODOLOGY

The database used for the study has been drawn from both primary and secondary sources as explained below:

PRIMARY DATA

This research used primary data for data collection. A well drafted questionnaire was framed, pre-tested and finally administered to the respondents.

SECONDARY DATA

This study also used secondary data to support the primary data. Secondary data in the form of books, research papers, online sources etc was used.

SAMPLE AND SAMPLING UNIT

For this study, individuals who fall between the age group of 18-85 years were considered as the target population hence sample is an '*Individual*' and all those *households* of Jammu and Indore who invests in financial instruments were considered as the sampling unit for this study.

Only those individuals who fall between the age group of 18-85 years were considered for the purpose of the study because of the reason that all the bits and pieces are present among the individuals of this age group. This group is not confined to only one particular segment but includes both young educated youths who are otherwise known as the cream of the society, parents, businessmen, employees, unemployed and retirees. The individuals who fall between this age group would live a financial secured life if they do possess the better understanding of financial concepts. This has undoubtedly far reaching consequences for the betterment of the economy. The financial literacy may help in the development of the whole economy if the individuals who fall between the age group of 18-85 years are particularly focused. Hence the target population for the present study comprises of those individuals who falls between the age group of 18-85 years of age.

SAMPLE SIZE AND SAMPLING TECHNIQUE

For this study the researcher has taken the sample of 200 respondents from each location. In other words we can say that the total number of 400 respondents, 200 from Jammu and 200 from Indore, comprises the sample size for the present study. Further, the researcher has chosen the non-probability purposive sampling technique. This sampling technique was chosen because only those respondents were selected who belong to the age group of 18-85 years of age.

RESEARCH INSTRUMENT

The questionnaire was divided into four sections. The first section was designed to assess the 'Basic financial literacy' of the individuals. The second section of the questionnaire was designed to assess the 'Advanced financial literacy' of the individuals. The third section of the questionnaire was intended to know the investment decision of the individuals and the last section i.e., fourth section deals with the demographic characteristics of the individuals.

Both basic and advanced financial literacy questions were asked to the respondents to assess their level of overall financial literacy. The total numbers of fifteen questions were designed to assess the basic financial literacy of the survey respondents and the total numbers of ten questions related to advanced financial literacy were asked to the survey respondents to assess the advanced financial literacy. To know the investment

decision of the individuals various questions related to the investment decision of the individuals were asked. The seventh question of this section of the questionnaire was designed to know the various factors that influence the investment decision of the individuals.

The respondents were asked to answer the questions according to their knowledge and thus the performance was rated on the basis of their correct answers to all of 25 questions. Each question carried 1-marks and if the respondent answered correctly he/she was awarded 1 marks to that a particular question. No marks was assigned to those who responded incorrectly or don't know. *In-order to know the overall financial literacy among the respondents, they were sub-grouped on the basis of two dimensions using the median percentage of correct answers of the sample (Lyons, 2007). Those individuals who score above median were classified as individuals with highly financial literates and the respondents with score less than median were classified as the individuals with low level of financial literacy.* To validate the questionnaire the views from various academicians and experts was sought out. The inaccurate and complex questions were modified accurately and the language of the questions was made simpler so that it may be easy to understand by the respondents. Their suggestion and valuable judgments were incorporated in the questionnaire.

DATA ANALYSIS TECHNIQUES

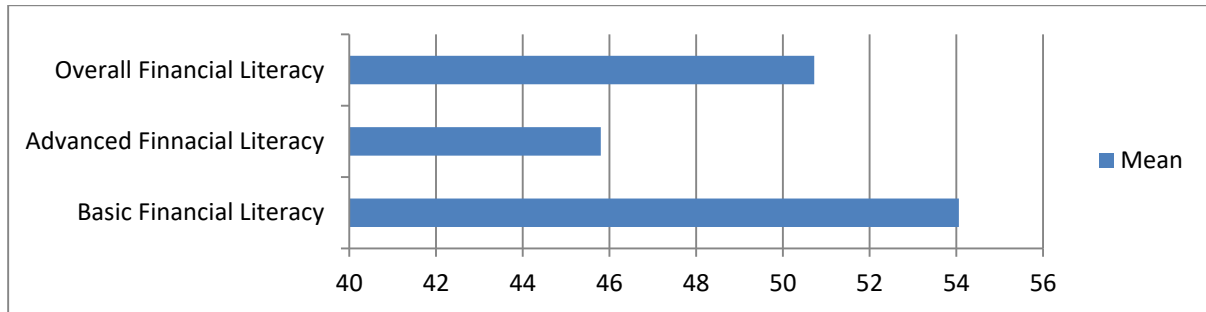
In-order to meet the predetermined objectives the raw data so collected needs to be analyzed properly. For this the researcher used different data analysis techniques depending on the objectives of the study. Taking due cognizance of the objectives of the study the researcher used frequency distribution, mean, mode, median, standard deviation, pie- charts, bar-charts, correlation, factor analysis and Regression analysis. This analysis has been carried out with the help of Microsoft Excel and SPSS version-21.

RESULTS AND DISCUSSIONS

This research study covers two main dimensions to assess the level of financial literacy among the individuals. The very first dimension includes basic financial literacy that covers 15 questions basic questions related to finance. The second dimension covers 10 questions covering little bit difficult questions of finance. The descriptive statistics of the variables was calculated by using SPSS version-21. The mean, mode, median, standard deviation, minimum and the maximum marks obtained by the respondent was calculated on the basis of the correct scores obtained by the respondents on both basic as well as advanced financial literacy topics. A combined statistics was calculated of both basic as well as advanced financial literacy in order to know the status of overall financial literacy. The descriptive statistics of Basic, Advanced and overall financial literacy is given in the **table 1 and figure 1**. While having introspection to the **table 4.3 and figure 4.1**, it was found that

for overall financial literacy on an average each individual answered 50.72% (mean= 12.68) of the questions correctly with 21.12% (5.28) standard deviation, median= 48% (12) and mode of 44% (11). The minimum correct score obtained is 0 and the maximum correct score obtained is 100% i.e., 25 correct answers.

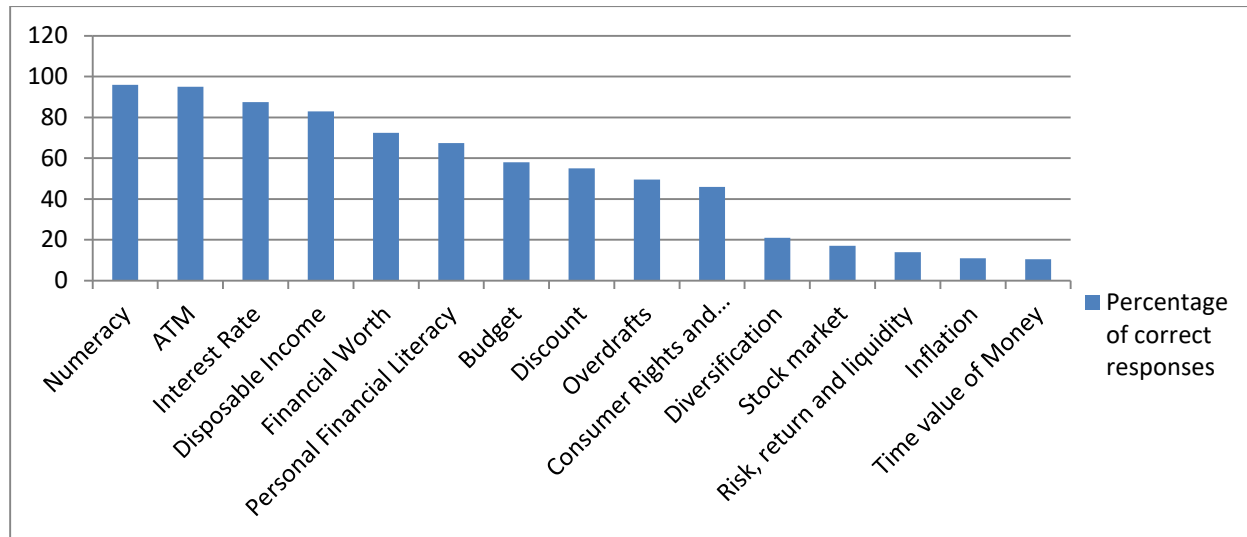
Figure 1- Mean percentage of correct scores



Source: Primary Survey conducted by the researcher

PERFORMANCE OF INDIVIDUALS ON VARIOUS BASIC FINANCIAL LITERACY QUESTIONS

The performance of the respondents towards 15 questions of basic financial literacy is reported in **Table-2 and Figure-2**. The second column of the table shows the percentage of respondents who answered each question correctly. On this percentage sorting was done for all the questions and accordingly ranks were assigned to each question. The results suggest that the respondents earned highest rank i.e., Rank-1 on the question of Numeracy, suggesting that the understudy individuals of Indore know this concept well. This finding is in tune with the findings of (Jariwala, 2013) and (Aabida Akhter S. , 2015). The other questions having correct score above median i.e., 48 % include ATM Knowledge (95%), interest rate (87.5%), disposable income (83%), financial worth (72.5%), personal financial literacy (67.5%), budgeting concept (58%), discounting (55%), overdrafts (49.5%). The questions on which the respondents scored less than median are Consumer Rights and Responsibilities (46%), diversification (21%), stock market awareness (17%), Risk, return and liquidity (14%), inflation (11%) and time value of money (10.5%). These findings suggests that the understudy individuals do not hold sufficient knowledge about the concept of Consumer Rights and Responsibilities, diversification, stock market awareness, Risk, return and liquidity, inflation and time value of money. These concepts needs to be given special focus as these individuals may face several problems in dealing with the financial world. There is equal probability of them to be the victims of financial scams and discomfort.

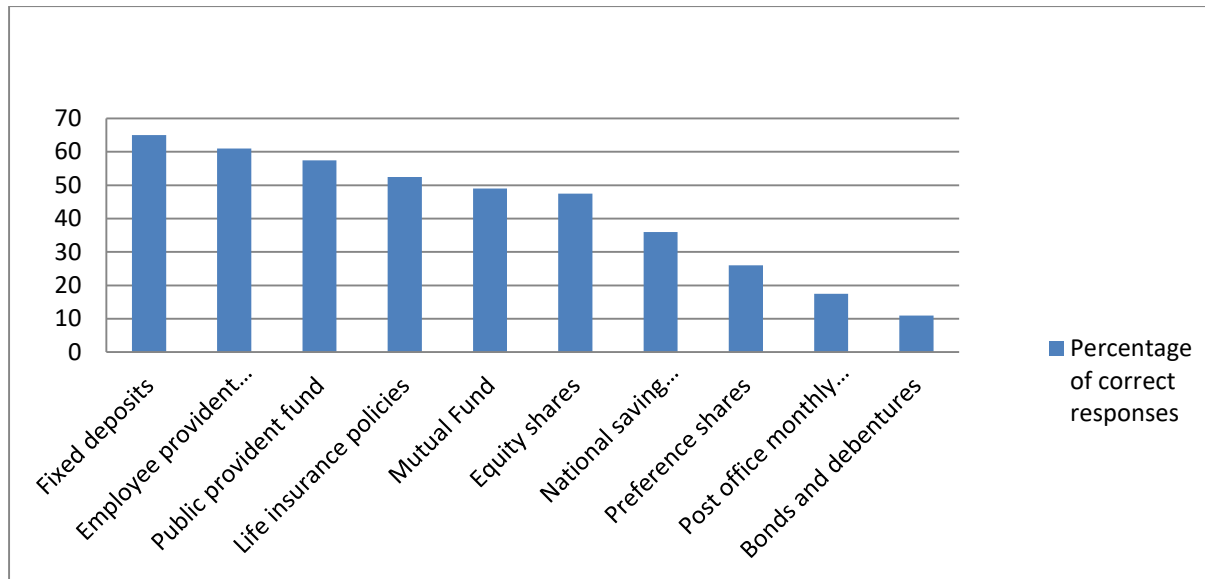
Figure-2 Percentage of respondents responded correctly on Basic Financial Literacy Questions

Source: Primary Survey conducted by the researcher

PERFORMANCE OF INDIVIDUALS ON VARIOUS ADVANCED FINANCIAL LITERACY QUESTIONS

The performance of the respondents towards 10 questions of advanced financial literacy is reported in **Table-3 and figure-3**. It was found that the respondents earned highest rank i.e., Rank-1 on the question of fixed deposits (54%) suggesting that the respondents know this concept very well. The other questions having scores above median percentage i.e., above 48% include Employee provident fund (61%), Public provident fund (57.5%), Life insurance policies (52.5%) and Mutual Fund (49%). This suggests that the understudy respondents know these concepts well. The questions having correct scores below median include Equity shares (47.5%), National saving certificates (36%), Preference shares (26%), Post office monthly income scheme (17.5%), Bonds and debentures (11%). Hence it is suggested that the concepts having correct scores below median must be focused in particular as the individuals may face several financial problems if not focused at proper time.

While comparing the results of basic and advanced financial literacy questions it is found that the understudy respondents are more knowledgeable about basic financial literacy concepts than advanced financial literacy concepts. These findings are in tune to the findings of various previous studies including (Jariwala, 2013), (Aabida Akhter S. , 2015) and (Al-Tamimi, 2009).

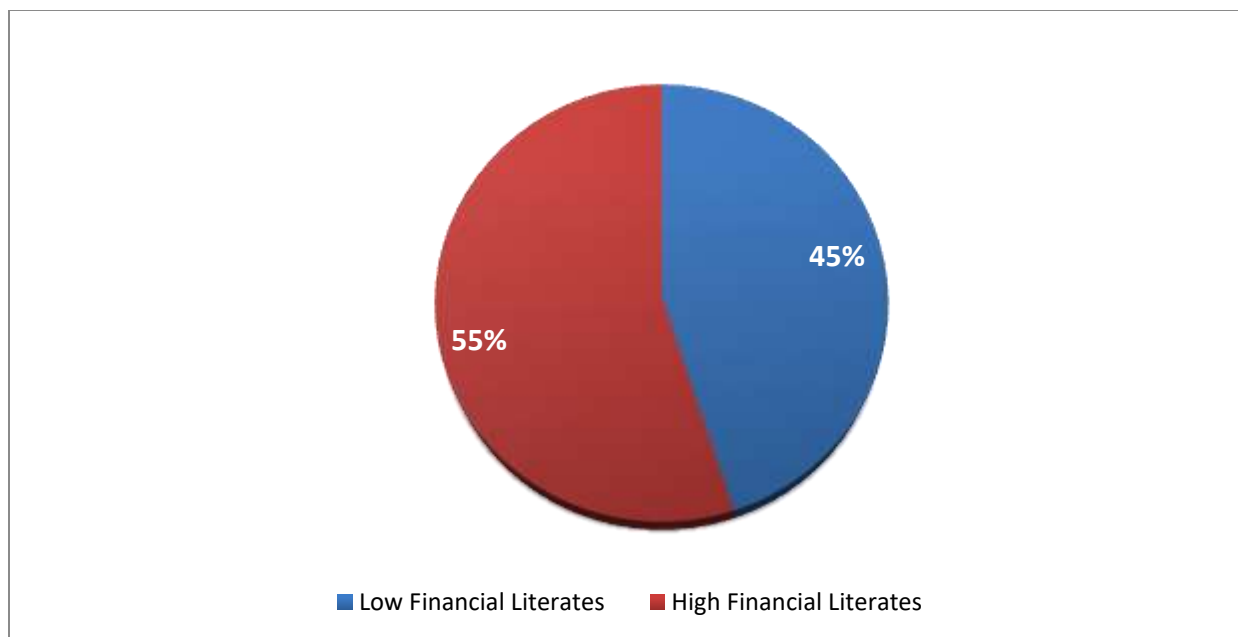
Figure-3 Percentage of respondents responded correctly on Advanced Financial Literacy Questions

Source: Primary Survey conducted by the researcher

CLASSIFICATION OF RESPONDENTS ON THE BASIS OF LOW & HIGH LEVEL OF FINANCIAL LITERACY

The performance of the respondents on financial literacy questions was assessed by a well drafted questionnaire on the basis of Basic and Advanced financial literacy concepts. The respondents were asked to answer the questions according to their knowledge and thus the performance was rated on the basis of their correct answers to all of 25 questions. Each question carried 1-marks and if the respondent answered correctly he/she was awarded 1 marks to that a particular question. No marks was assigned to those who responded incorrectly or don't know. In-order to know the overall financial literacy among the respondents, they were sub-grouped on the basis of two dimensions using the median percentage of correct answers of the sample (Lyons, 2007) as already discussed above. Those individuals who score above median were classified as individuals with highly financial literates and the respondents with score less than median were classified as the individuals with low level of financial literacy. The overall results as depicted in **table 4 and figure 4** of the study suggests that maximum number of individuals i.e., 55% (total 200) possess sufficient financial knowledge while as 45% (total 200) as depicted in figure-4 possess low level of financial awareness.

Figure 4.4- Pie chart of classification of respondents



ANALYSIS OF VARIOUS FACTORS THAT INFLUENCES THE INVESTMENT DECISION OF INDIVIDUALS

An attempt has been made to analyze various variables that influence the investment decision of individuals of Indore. The total number of 20 variables was selected to know the influence of these variables in persuading the investment decision of individuals. A five point Likert scale was adopted to collect the responses of individual investor. The mean score and standard deviation was calculated in- order to get an in-depth idea about the influence of various variables on investment decision. Ranks were assigned to the variables on the basis of mean scores. The variable having highest mean was assigned the rank-1 and the variable having lowest mean was assigned last rank as depicted in **table-5**.

TOP FIVE INFLUENCING VARIABLES ON INVESTMENT DECISION

An introspection of the **table- 5** reveals that almost all the variables influences the investment decision of individuals. However, some of the variables have a very high influence and some other have low influence on investment decision of individuals. It is being observed from the same table that the highest rank i.e., **Rank-1** was attained by 'Family/ Relatives opinion' with highest mean score= 3.63 suggesting that this is the most influencing variable for investment decision among the understudy individuals. Further, from the same table it can be found that the other top four factor influencing the investment decision are Friends and Co-workers Recommendations (**Rank-2**), Condition of Financial Statements (**Rank-3**), Brokers/ Financial advisors Recommendations (**Rank-4**) and Past performance of firms stock (**Rank-5**) with mean score 3.58, 3.53, 3.52,

3.50 respectively. This suggests that these variables are the most important variables that have the highest influence on the investment decision of individuals.

LEAST FIVE INFLUENCING VARIABLE ON INVESTMENT DECISION

Out of total number of 34 variables that influences the investment decision of individual as depicted in **table-5**, the least variable that influences the investment decision of individuals is Expected bonus shares (**Rank-34**) with mean smallest mean score = 1.84. the other four variables having least influence on the investment decision are Retirement plan intensions (**Rank-33**), Interest Rates (**Rank-32**), Firms CSR role (**Rank-31**) and Change in pension scenario (**Rank-30**) with mean scores= 2.45, 3.63, 2.64 and 2.65 respectively. This suggests that these variables have least role in influencing and motivating the individuals in investment decisions.

FACTOR ANALYSIS OF THE VARIABLES THAT INFLUENCES THE INVESTMENT DECISIONS

Factor analysis is the dependency elimination/ interdependence technique aiming to define the underlying structure among the attributes in the analysis (Hair, 2007). It is a technique in which large data is explained in smaller number of dimensions (Everitt, 2004). This technique enables us to limit the large data into a set of dimensions known as factors. Factor analysis was used in this study to reduce the number of attributes that influences the investment decision of individuals and to club them into different factors in- order to carry on the further analysis. Total number of 34 variables was clubbed in eleven factors.

KAISER- MEYER- OLIKIN TEST (KMO)

The Kaiser- Meyer- Olikin (KMO) Measure for Sampling Adequacy is a test to measure the sampling sufficiency of the study, the correlation between the variables and the conformity of the factor analysis (Cengiz, 2007). The appropriateness of factor analysis by and large depends on the KMO. The value of KMO varies between 0 and 1. If the value is 0 then the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations and hence factor analysis is likely to be inappropriate. A value close to 1 (i.e., 0.5- 01) indicates that the pattern of correlation is relatively compact and hence indicates that the factor analysis is appropriate (Field, 2009). Further, (Kaiser, 1974) also recommends that the KMO value greater than 0.05 is appropriate. In this study it can be seen from the **table-6** that the KMO value is 0.588 which falls in the range of 0.5-01 and is greater than 0.05. Hence our conditions got satisfied and our factor analysis is appropriate.

NAMING OF FACTORS

On closely scrutinizing the **table-7**, it is being clearly reflected that factor analysis have extracted total of eleven factors. The loading was identified and the names were assigned accordingly as depicted in the **table-7**.

As depicted in the **table-7**, that the variables were clubbed in total of eleven (11) factors, names were assigned to different factors on the basis of factor loading. On the basis of the similar peculiarity of the variables a single name was assigned that represents all the variables included in that factor. The factor wise explanation is given in below paragraphs.

First factor was named as '**Economic Market Factors**' which consists of five variables viz. 'Inflation rates', 'Interest rates', 'Stock market performance' Change in pension scenario' and 'GDP of an economy'. All these factors have a great influence on the investment decision of the individual investors. This extracted factor explains the highest variance i.e., 8.8%.

The **second factor** consists of four variables viz. 'Current ratio of the company', 'earning per share of the company', 'Stock price per share' and 'return on equity'. All these variables have been named as '**Company Quantitative factors**' as these variables enables an investor to know the financial health of the company in quantitative terms. This factor explains 8% of the variance.

The **Third factor** was assigned the name of '**Accounting and Financial Information**' which consists of four variables viz. 'The result of technical analysis', 'Condition of financial statements', 'Past performance of firms stock' and the result of fundamental analysis. These variables were assigned the name of 'Accounting and financial information' because these variables are closely related to the accounting and the financial aspect of the company that influences the investment decision making of an individual investor. These variables explain 7.13% of the total variance.

The **fourth factor** comprises total of three variables viz. 'Expected relevant schemes of the company', 'Expected bonus shares' and 'Expected corporate earnings' and these variables were assigned a single title known as '**Monetary Expectations**' as all these attributes are related to the expectations of the individuals regarding money. This factor explains 6.7% of the variance.

The **fifth factor** entitled '**Advocate Recommendations**' comprises total of three attributes namely- 'Friends and co-workers recommendations', 'Family/ relative opinion' and Brokers/ financial advisors recommendations. These factors were named as 'Advocate recommendations' because here an individual investor depends on recommendations given by various parties. This factor explains 63% of the variance.

The **sixth factor** is embedded in three attributes namely 'perceived ethics of the firm', 'Firms CSR role' and 'Firms product/ service quality'. The single name assigned to all these three variables is '**Firms Image**' as all these variables identify the image of the firm which thereby enables and influences the individuals to invest. This factor explains 6% of the variance.

The '**Operations of the firm**' is the **seventh factor** identified by factor analysis involving three attributes viz. 'firms international operations', 'firms status in industry' and firms local operations. These variables were assigned the name of 'operations of the firm' because all the three variables are associated with the operations of the firm that influences the investment decision of an individual investor. This factor explains 5.9% of the variance.

There are three attributes identified under **factor eight** namely- 'Get rich quick', 'tax consequences' and diversification needs and these attributes were named as '**Personal Financial needs**' as all these three variables involves the personal motives that influences the investment decision of individual investors. This factor accounts for 5.6% of the variance.

The **ninth factor** was entitled as '**Neutral Information**' involving total of two variables namely- 'Coverage in the press' and 'Online investment portal of the company'. This factor explains 5.00% of the variance.

The **tenth** and **eleventh** factor was named as '**Promptness**' and '**Psychological factors**' respectively. Two attributes are included in each factor involving 'Prompt payment on maturity' and 'Excellent distribution network' included in tenth factor i.e., 'Promptness' and 'Risk preference' and 'Retirement plan intensions' included in eleventh factor i.e., 'Psychological factor'. The tenth factor was named as 'Promptness' because all the variables included in this factor identifies the efficiency of the company that influences the investment decision making among the individuals. The last factor i.e., factor-11 was assigned the name of Psychological factor with the reason that all the variables included in this factor are related to the psychology of an individual investor. These factors explain 4.92% and 4.7% of the variance respectively.

SIMPLE LINEAR REGRESSION MODEL FOR PREDICTING THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISION

Simple Linear Regression Model was used to predict the impact of financial literacy on Investment decision. The same model was used by (Al-Tamimi, 2009) & (Jariwala, 2013). A bi- Variate statistical technique generally known as linear regression is used to model the relationship between a single dependent variable 'Y' and a single predictor variable 'X'. It examines the relationship between a single independent variable and single dependent variable. Further, it is used when we want to predict the dependent variable by known

independent or explanatory variable. Independent variable is used to predict the value of other variable known as dependent variable or predictor variable which is selected by the researcher. In this study financial literacy level is independent variable and all eleven factors that influence the investment decision among the individuals of Jammu and Indore are considered as dependent variable. The mathematical relationship between financial literacy and investment decision can be written as follows:-

$$Y = \alpha + \beta X + \epsilon$$

X= Independent Variable (Financial literacy)

α = It is the value predicted for the response variable when the explanatory variable takes the value zero and is generally known as Intercept parameter or constant.

β = It denotes the coefficient of variable E (financial literacy level) and is actually a change in the response variable predicted when the explanatory variable is increased by one unit.

ϵ = Residual term

In consonance with one of the broad objective of this study i.e., ‘**To analyze the impact of financial literacy on investment decision among individuals**’ the hypothesis as mentioned below were formulated and simple linear regression model was used accordingly.

A = H₀:- There is no significant impact of financial literacy on investment decision among the individuals of Indore.

B = H₁:- There is a significant impact of financial literacy on investment decision among the individuals of Indore.

REGRESSION ANALYSIS: IMPACT OF FINANCIAL LITERACY LEVEL ON SUM OF INVESTMENT FACTORS

To examine the impact of ‘financial literacy level’ on investment decision, sum of investment factors is considered as the dependent variable and the overall score of the financial literacy as an independent variable. **Table-8** exhibits the correlation between ‘financial literacy level’ and ‘sum of investment factors’. It is revealed by the same table that the correlation between financial literacy and sum of investment factors is positive and significant. The correlation coefficient is= **0.145** and **P<0.05**. Therefore, it can be said that there exists a significant positive relationship between financial literacy level and ‘sum of investment factors’. Hence the researcher may go for regression analysis. **Table 9** depicts the value of ‘R’ which shows the relationship

between ‘financial literacy level’ and ‘Sum of investment decision factors’ among the understudy individuals of Indore. The coefficient of determination i.e., ‘R²’ indicates that how much of the total variation in the response variable i.e., ‘Financial literacy level’ can be explained by an explanatory variable i.e., ‘Sum of investment decision factors’. In this case the ‘R²’ is ‘.021’, suggesting that financial literacy level of an individual accounts for only 2.1% variation among the individuals of Indore. Further, model fit is demonstrated by the ‘ANOVA table’ i.e., **table 10** where the ‘F’ value is= 4.230 with P< 0.05 suggesting that model provides a good fit and thus is appropriate for further analysis.

Table- 11 reveals that financial literacy as an independent variable makes a significant contribution to the model with t-test value= 2.057 and P<0.05. Since the sig. value is less than 0.05 hence we may conclude that financial literacy level is the significant predictor of ‘Sum of investment decision factors’. In- addition the result show significant positive effect of financial literacy on ‘Sum of investment decision factors’ with beta coefficient=.145 suggesting that financial literacy is positively related to sum of factors that influences the investment decision. From the same table the following regression line can be derived

Sum of factors that Influences the investment decision = 2.720+ 0.172 (Financial Literacy Level)

Hence, after having enough empirical evidence it may be concluded that financial literacy has a significant impact on the investment decision among the understudy individuals of Indore. So, our null hypothesis in this regard i.e., ‘*There is no significant impact of financial literacy on investment decision among the individuals of Indore*’ gets rejected with P<0.05 and our alternate hypothesis gets accepted.

ADDRESSING RESEARCH QUESTIONS

| Research Question | Answer | Remarks |
|---|--------|--|
| Do the understudy individuals belonging to the age group of 18-85 years possess adequate level of financial literacy? | Yes | Majority fall in the high financial literacy level category. |
| What are the most influencing that affect the investment decision of individuals? | - | ‘Family/ Relatives opinion’, Friends and Co-workers Recommendations, Condition of Financial Statements, Brokers/ Financial advisors Recommendations and past performance of firms stock. |

| | | |
|---|-----|--------|
| Is there any impact of financial literacy on investment decisions of individuals? | Yes | P<0.05 |
|---|-----|--------|

SUGGESTIONS AND CONCLUSION

The findings of the study revealed that the understudy individuals of Indore hold sufficient level of overall financial literacy with majority of individuals i.e., 55% scored above median percentage of correct scores. It was further revealed that although the individuals hold higher level of financial literacy on various basic financial literacy questions including Numeracy, ATM Knowledge, interest rate, disposable income, financial worth, personal financial literacy, budgeting concept, discounting and overdrafts but various other basic financial literacy awareness in lacking on the issues of Consumer Rights and Responsibilities, diversification, stock market awareness, Risk, return and liquidity, inflation and time value of money. Regarding advanced financial literacy questions the respondents hold higher level of financial understanding on the concepts of fixed deposits, Employee provident fund, Public provident fund, Life insurance policies and Mutual Fund. On various other advanced financial literacy questions respondents hold lesser level of financial understanding which includes Equity shares, National saving certificates, Preference shares, Post office monthly income scheme and bonds and debentures. The results indicate that various factors influences the investment decision of individuals and the top influencing factors include Family/ Relatives opinion, Friends and Co-workers Recommendations, Condition of Financial Statements, Brokers/ Financial advisors Recommendations and Past performance of firms stock. The implication of this finding is that the individuals usually depend on these factors while taking an investment decisions and there is every probability for financially unsophisticated individuals that they may be the victims of financial scams and frauds. The least influencing factors include Expected bonus shares, Retirement plan intensions, Interest Rates, Firms CSR role and Change in pension scenario and hence these factors rarely induces the investment behaviour of individuals. Finally, it was found that financial literacy has a significant impact on investment decision. The implication of this finding is that financial literacy must be enhanced so as to encourage the investment possibilities in the country.

To further enhance the level of financial literacy and to fill the gap it is recommended that financial education must be inculcated among the students in the early age. It must be made compulsory for to have a separate subject on '**Personal Financial Concepts**' in school curriculum. This subject must be divided into different chapters which should includes various **basic financial concepts** like budget, saving, interest, discount, internet banking, numeracy, consumer rights and responsibility, inflation, stock market so on and so forth for lower classes. For higher classes **advanced financial literacy** concepts such as shares, bonds and debentures, mutual

fund, Time value of money, insurance policies, Investment decision, and provident fund etcetera must be included in different chapters. Vast awareness through media must be made by all the policy holders to upgrade the level of financial literacy. . Further, it is recommended that the people residing at **outskirt areas** must be brought into the mainstream of financial literacy. Different incentives must be given to those who wish to achieve financial understanding regarding various concepts. ‘**Award and Reward strategy**’ should be made for those who participate in financial education programmes so as to encourage the nonparticipants. Finally, I want to suggest that it must be made mandatory for all companies to spread financial education in tune of ‘**Corporate Social Responsibility**’ and the performance of every corporate must be monitored by government authenticate bodies.

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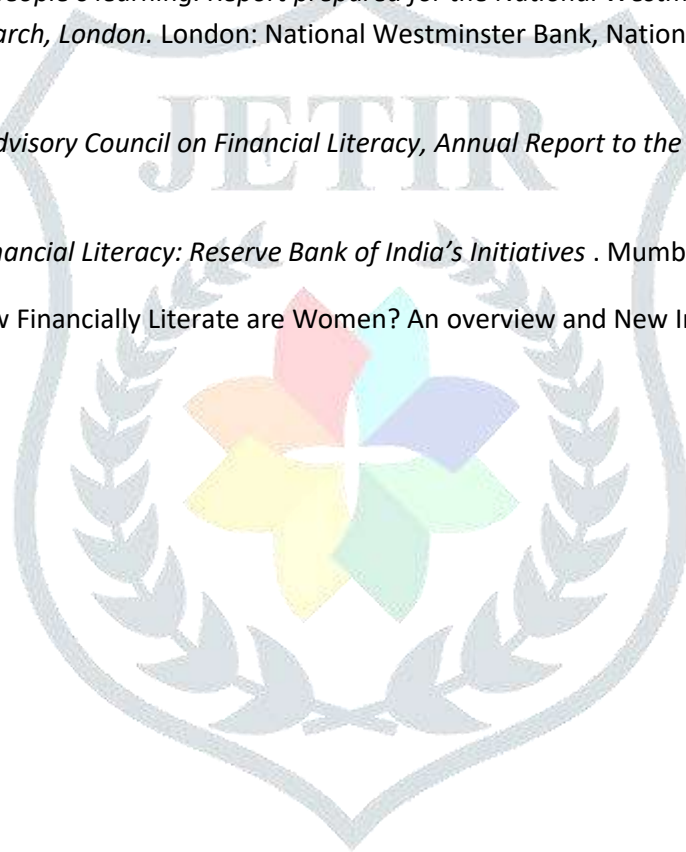
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| Variables | Mean | Median | Mode | S.D | Min. | Max. | N |
|-----------------------------|-----------------|-----------------|--------------|-----------------|----------|-------------|-----|
| Basic Financial Literacy | 8.11 (54.06) | 8.00 (53.33) | 9 (60) | 3.19 (21.26) | 0 (0) | 15 (100) | 200 |
| Advanced Financial Literacy | 4.58 (45.8) | 4.00 (40) | 2.00 (20) | 2.71 (27.1) | 0 (0) | 10 (100) | 200 |
| Overall Financial Literacy | 12.68 (50.72) | 12 (48) | 11 (44) | 5.28 (21.12) | 0 (0) | 25 (100) | 200 |

Table2- BASIC FINANCIAL LITERACY

| Rank | Question | Question Subject | Number of respondents responding correctly | Percentage of respondents responding correctly | Number of respondents responding incorrectly | Percentage of respondents responding incorrectly | Number of respondents given answer of don't | Percentage of respondents giving answer of don't know |
|------|----------|--------------------------------------|--|--|--|--|---|---|
| 1 | 03 | Numeracy | 192 | 96 | 05 | 2.5 | 03 | 1.5 |
| 2 | 07 | ATM | 190 | 95 | 08 | 04 | 02 | 01 |
| 3 | 05 | Interest Rate | 175 | 87.5 | 22 | 11 | 03 | 1.5 |
| 4 | 04 | Disposable Income | 166 | 83 | 32 | 16 | 02 | 01 |
| 5 | 01 | Financial Worth | 145 | 72.5 | 30 | 15 | 25 | 12.5 |
| 6 | 02 | Personal Financial Literacy | 135 | 67.5 | 32 | 16 | 33 | 16.5 |
| 7 | 08 | Budget | 116 | 58 | 45 | 22.5 | 39 | 19.5 |
| 8 | 09 | Discount | 110 | 55 | 66 | 33 | 24 | 12 |
| 9 | 10 | Overdrafts | 99 | 49.5 | 89 | 44.5 | 12 | 06 |
| 10 | 14 | Consumer Rights and Responsibilities | 92 | 46 | 99 | 49.5 | 09 | 4.5 |
| 11 | 13 | Diversification | 42 | 21 | 98 | 49 | 60 | 30 |
| 12 | 06 | Stock market | 34 | 17 | 94 | 47 | 72 | 36 |
| 13 | 12 | Risk, return and liquidity | 28 | 14 | 97 | 48.5 | 75 | 37.5 |
| 14 | 15 | Inflation | 22 | 11 | 107 | 53.5 | 71 | 35.5 |
| 15 | 11 | Time value of Money | 21 | 10.5 | 134 | 67 | 45 | 22.5 |

Table 3- ADVANCED FINANCIAL LITERACY

| Rank | Question No. | Question Subject | No. of respondents responding correctly | Percentage of respondents responding correctly | No. of respondents responding incorrectly | Percentage of respondents responding incorrectly | Number of respondents given answer of don't | Percentage of respondents giving answer of don't know |
|------|--------------|-----------------------------------|---|--|---|--|---|---|
| 1 | 01 | Fixed deposits | 130 | 65 | 58 | 29 | 12 | 6 |
| 2 | 08 | Employee provident fund | 122 | 61 | 32 | 16 | 46 | 23 |
| 3 | 05 | Public provident fund | 115 | 57.5 | 53 | 26.5 | 32 | 16 |
| 4 | 10 | Life insurance policies | 105 | 52.5 | 52 | 26 | 43 | 21.5 |
| 5 | 07 | Mutual Fund | 98 | 49 | 43 | 21.5 | 59 | 29.5 |
| 6 | 02 | Equity shares | 95 | 47.5 | 72 | 36 | 33 | 16.5 |
| 7 | 04 | National saving certificates | 72 | 36 | 95 | 47.5 | 33 | 16.5 |
| 8 | 09 | Preference shares | 52 | 26 | 82 | 41 | 66 | 33 |
| 9 | 06 | Post office monthly income scheme | 35 | 17.5 | 77 | 38.5 | 88 | 44 |
| 10 | 10 | Bonds and debentures | 22 | 11 | 92 | 46 | 86 | 43 |

Table 4- OVERALL CLASSIFICATION OF RESPONDENTS BASED ON LOW AND HIGH LEVEL OF FINANCIAL LITERACY

| Financial Literacy Level | Number | Percentage |
|--------------------------|--------|------------|
| Low Financial Literates | 90 | 45% |
| High Financial Literates | 110 | 55% |
| Total | 200 | 100 |

TABLE 5- RESPONSE ON VARIOUS VARIABLES THAT INFLUENCES THE INVESTMENT DECISION OF INDIVIDUALS

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| No. | Variables | 1= Least Influence | 2= Influence | 3= Neutral | 4= Significantly Influence | 5= Most significantly Influence | MEAN | RANK |
|-----|--|--------------------|--------------|--------------|----------------------------|---------------------------------|-------------|----------|
| 01 | Change in pension scenario | 43 (21.5) | 58 (29) | 48 (24) | 28 (14) | 23 (11.5) | 2.65 | 30 |
| 02 | Firms local operations | 23 (11.5) | 87 (43.5) | 36 (18) | 33 (16.5) | 21 (10.5) | 2.71 | 28 |
| 03 | Retirement plan intensions | 41 (20.5) | 75 (37.5) | 48 (24) | 24 (12) | 12 (6) | 2.45 | 33 |
| 04 | Risk preference | 24 (12) | 36 (18) | 68 (34) | 43 (21.5) | 29 (14.5) | 3.08 | 14 |
| 05 | Prompt payment on maturity | 29 (14.5) | 75 (37.5) | 42 (21) | 35 (17.5) | 19 (9.5) | 2.70 | 29 |
| 06 | Fair Grievance redressal policy of the company | 23 (11.5) | 35 (17.5) | 39 (19.5) | 60 (30) | 43 (21.5) | 3.32 | 7 |
| 07 | Family/ Relatives opinion | 14 (7) | 18 (9) | 51 (25.5) | 62 (31) | 55 (27.5) | 3.63 | 1 |
| 08 | Friends and Co-workers Recommendations | 17 (8.5) | 32 (16) | 31 (15.5) | 58 (29) | 62 (31) | 3.58 | 2 |
| 09 | The result of technical analysis | 18 (9) | 37 (18.5) | 61 (30.5) | 50 (25) | 34 (17) | 3.22 | 11 |
| 10 | The result of Fundamental analysis | 17 (8.5) | 29 (14.5) | 45 (22.5) | 69 (34.5) | 40 (20) | 3.43 | 6 |
| 11 | Brokers/ Financial advisors Recommendations | 23 (11.5) | 17 (8.5) | 47 (23.5) | 59 (29.5) | 54 (27) | 3.52 | 4 |
| 12 | GDP of an Economy | 31 (15.5) | 61 (30.5) | 41 (20.5) | 44 (22) | 23 (11.5) | 2.83 | 21 |
| 13 | Interest rates | 41 (20.5) | 68 (34) | 38 (19) | 30 (15) | 23 (11.5) | 2.63 | 32 |
| 14 | Inflation rates | 39 (19.5) | 52 (26) | 53 (26.5) | 29 (14.5) | 27 (13.5) | 2.76 | 27 |
| 15 | Coverage in the press | 33 (16.5) | 36 (18) | 31 (15.5) | 69 (34.5) | 31 (15.5) | 3.14 | 13 |
| 16 | Stock market performance | 24 (12) | 34 (17) | 60 (30) | 42 (21) | 40 (20) | 3.20 | 12 |
| 17 | Condition of Financial Statements | 10 (5) | 27 (13.5) | 46 (23) | 80 (40) | 37 (18.5) | 3.53 | 3 |
| 18 | Past performance of firms stock | 13 (6.5) | 22 (11) | 58 (29) | 66 (33) | 41 (20.5) | 3.50 | 5 |
| 19 | Online investment portal of the Company | 19 (9.5) | 38 (19) | 49 (24.5) | 56 (28) | 38 (19) | 3.28 | 9 |
| 20 | Relevant schemes of the Company | 25 (12.5) | 28 (14) | 54 (27) | 54 (27) | 39 (19.5) | 3.27 | 10 |
| 21 | Expected bonus shares | 47 (23.5) | 49 (24.5) | 40 (20) | 36 (18) | 35 (17.5) | 1.84 | 34 |

| | | | | | | | | |
|----|--------------------------------|--------------|--------------|--------------|--------------|--------------|------|----|
| 22 | Expected corporate earnings | 48 (24) | 45 (22.5) | 26 (13) | 23 (11.5) | 58 (29) | 2.89 | 19 |
| 23 | Firms status in Industry | 49 (24.5) | 58 (29) | 25 (12.5) | 23 (11.5) | 45 (22.5) | 2.78 | 25 |
| 24 | Firms international operations | 20 (10) | 56 (28) | 58 (29) | 32 (16) | 34 (17) | 3.02 | 15 |
| 25 | Excellent distribution network | 38 (19) | 54 (27) | 45 (22.5) | 36 (18) | 27 (13.5) | 2.80 | 24 |
| 26 | Perceived ethics of the firm | 46 (23) | 49 (24.5) | 39 (19.5) | 37 (18.5) | 29 (14.5) | 2.77 | 26 |
| 27 | Firms product/ service quality | 25 (12.5) | 71 (35.5) | 40 (20) | 42 (21) | 22 (11) | 2.90 | 18 |
| 28 | Firms CSR role | 50 (25) | 43 (21.5) | 55 (27.5) | 33 (16.5) | 19 (9.5) | 2.64 | 31 |
| 29 | Transparency in Transactions | 56 (28) | 43 (21.5) | 21 (10.5) | 39 (19.5) | 41 (20.5) | 2.82 | 22 |
| 30 | No Hidden cost | 33 (16.5) | 51 (25.5) | 45 (22.5) | 33 (16.5) | 38 (19) | 2.96 | 16 |
| 31 | Earnings per share | 44 (22) | 44 (22) | 42 (21) | 38 (19) | 32 (16) | 2.85 | 20 |
| 32 | Current ratio | 42 (21) | 34 (17) | 44 (22) | 39 (19.5) | 41 (20.5) | 3.30 | 8 |
| 33 | Stock price per share | 48 (24) | 33 (16.5) | 41 (20.5) | 36 (18) | 42 (21) | 2.95 | 17 |
| 34 | Return on equity | 35 (17.5) | 58 (29) | 44 (22) | 35 (17.5) | 28 (14) | 2.81 | 23 |

Table 6- KMO & BARTLETT'S TEST OF SPHERICITY

| | | |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.588 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 5597.781 |
| | Df | 561 |
| | Sig. | 0.000 |

TABLE 7- NAMING OF FACTORS

| Serial no. | Factor | Item code | Item Name | Factor Loading |
|------------|--------|-----------|-----------|----------------|
|------------|--------|-----------|-----------|----------------|

| | | | | |
|----|------------------------------------|-------|---|------|
| 01 | Economic Market Factor | FID14 | Inflation rates | .758 |
| | | FID13 | Interest rates | .721 |
| | | FID16 | Stock market performance | .673 |
| | | FID1 | Change in Pension scenario | .576 |
| | | FID12 | GDP of an economy | .556 |
| 02 | Company Quantitative factor | FID32 | Current ratio of the company | .826 |
| | | FID31 | Earnings per share of the company (EPS) | .793 |
| | | FID33 | Stock price per share | .769 |
| | | FID34 | Return on Equity | .434 |
| 03 | Accounting & Financial Information | FID19 | The result of technical analysis | .755 |
| | | FID17 | Condition of financial statements | .668 |
| | | FID18 | Past performance of firms stock | .654 |
| | | FID10 | Result of fundamental analysis | .577 |
| 04 | Monetary Expectations | FID20 | Expected relevant schemes of the company | .782 |
| | | FID22 | Expected bonus shares | .641 |
| | | FID21 | Expected corporate earnings | .623 |
| 05 | Advocate Recommendations | FID8 | Friends and co-workers recommendations | .573 |
| | | FID7 | Family/ Relative opinion | .731 |
| | | FID11 | Brokers/ Financial advisors recommendations | .617 |
| 06 | Firms Image | FID26 | Perceived ethics of firm | .798 |
| | | FID28 | Firms CSR Role | .589 |
| | | FID27 | Firms Product/ service Quality | .585 |
| 07 | Operations of the Firm | FID24 | Firms international Operations | .779 |
| | | FID23 | Firms status in Industry | .620 |
| | | FID2 | Firms local operations | .534 |
| 8 | Personal financial needs | FID30 | Get rich quick | .756 |
| | | FID6 | Tax consequence | .650 |
| | | FID29 | Diversification purpose | .515 |

| | | | | |
|----|----------------------|-------|---|------|
| 9 | Neutral information | FID15 | Coverage in the press | .735 |
| | | FID9 | Online investment portal of the company | .679 |
| 10 | Promptness | FID5 | Prompt payment on maturity | .749 |
| | | FID25 | Excellent distribution network | .499 |
| 11 | Psychological Factor | FID4 | Risk preference | .736 |
| | | FID3 | Retirement plan intensions | .662 |

Table 8- CORRELATION BETWEEN FINANCIAL LITERACY AND SUM OF INVESTMENT DECISIONS

| | | Financial Literacy level | Sum of Investment decision Factors |
|------------------------------------|---------------------|--------------------------|------------------------------------|
| Financial Literacy Level | Pearson Correlation | 1 | .145* |
| | Sig. (2-tailed) | | .041 |
| | N | 200 | 200 |
| Sum of Investment decision Factors | Pearson Correlation | .145* | 1 |
| | Sig. (2-tailed) | .006 | |
| | N | 200 | 200 |

**Correlation is significant at the 0.01 level (2- tailed)

*Correlation is significant at the 0.05 level (2- tailed)

Table 9- MODEL SUMMARY

| Model | R | R Square | Adjusted R square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .145 ^a | .021 | .016 | .59201 |

Predictors: (Constant), Financial Literacy Level

Table 10- ANOVA^a

| Model | Sum of Squares | df | Mean square | F | Sig. |
|------------|----------------|-----|-------------|-------|-------------------|
| Regression | 1.482 | 1 | 1.482 | 4.230 | .041 ^b |
| Residual | 69.395 | 198 | .350 | | |
| Total | 70.877 | 199 | | | |

a- Dependent variable: Sum of Investment decision Factors

b- Predictors: (Constant), Financial Literacy Level (Indore)

| Table 11- COEFFICIENT ^a | | | | | |
|------------------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | Unstandardised Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 2.720 | .133 | | 20.487 | .000 |
| Financial Literacy Level | .172 | .084 | .145 | 2.057 | .041 |

Dependent variable: Sum of investment decision factors

Note1:- Source of all these tables Primary survey conducted by the researcher

Note2: - S.D. = Standard deviation, Min. = Minimum score obtained, Max. = Maximum Score obtained.

Note 3:- Figures in parenthesis represents the percentage of total.